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Egypt Management Development Initiative Assessment

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Executive Summary

This report summarizes a very limited review of the activities carried out under the USAID/Egypt Management Development Initiative between 2002 and 2004. Total expenditures of the project during that period, including management overhead, amounted to about \$2.5 million. The project sought to disseminate best practice in business management in order to increase the international competitiveness of Egyptian businesses, through intensive work with a limited number of firms.

Overall, the activity was highly innovative and extremely successful in achieving important development objectives. The approach taken shows much more promise of concrete results than the more usual approach by USAID to promotion of firm-level competitiveness. The Egyptian experience suggests two things: that some firms can prosper in a generally unfavorable macroeconomic environment; and that some management training is extremely effective in promoting international competitiveness.

These experiences need to be disseminated to other USAID missions. This judgment also implies the urgency of continuing this activity beyond the current termination date of December 2004. More specific findings and recommendations are given below.

Findings

1. The MDI has been an unusually successful program to increase the competitiveness of Egyptian business by providing well-targeted training in modern management concepts. The one activity still being implemented, the Executive Development Program (EDP), appears to be producing substantial direct benefits to Egyptian competitiveness at the firm level.
2. In my judgment, this activity has produced far more positive and concrete results at the firm level than any of the “competitiveness” programs supported by USAID and other donors to use clusters as a tool for this purpose with which I am aware. Neither my several evaluations of cluster programs (Fox and Holt 2002, Fox 2003) nor the broader assessment of USAID cluster work worldwide by The Mitchell Group (2003) has identified any cases that are as successful. The focus in EDP on improving the individual firm’s strategy and productivity, the high quality of the training, and the uniformly high quality and collegiality of the participants were all factors in the program’s success.

3. The key design features included heavy involvement by dynamic young Egyptian entrepreneurs, close attention to market demand, willingness to innovate and adapt in response to experience, and a careful selection process for participants. The latter has produced EDP classes that have been both compatible and synergistic. The participants in both EDP I and EDP II have continued to meet regularly among themselves, and claim important benefits from this continued contact. The EDP also appears to have led to some initiatives to promote competitiveness through business associations and other means not at all connected to USAID.

4. The location of the activities within the human resource development unit of the mission has permitted oversight that draws upon the specialized expertise of that unit in training, but it has limited the connection of the activity with other economic growth programs. The participants in the MDI are achieving important results at the microeconomic level, and can provide important insights to inform USAID's economic policy agenda. In particular, some program participants have been able to achieve rapid growth in exports and employment despite the numerous policy obstacles to success in these areas. Such successes need to be analyzed, and placed in the context of microeconomic, as well as macroeconomic, variables. Economists typically emphasize Egypt's shortcomings vis-à-vis other countries, ignoring its competitive advantages in other respects – some of which may be important.

Recommendations

1. USAID should seek a way to continue key activities – most notably the EDP – for at least one more year beyond the current completion date of December 2004. A longer extension – to complete the four EDPs contained in the original strategy – would be justified. The key consideration is the proper pace for transfer of the EDP to an appropriate Egyptian institution.
2. Synergies with other activities in the economic growth area are considerable. While an immediate shift from the currently very-effective management structure for the activity would be undesirable given the time horizon, there should be some form of more direct involvement of the Economic Growth unit of USAID in the activity.
3. During this period, there should be further progress to reduce the subsidy element of the activities. This can be done in part by raising tuitions for participants, and partly by finding ways to reduce costs. For the EDP, tuitions should be raised at least 50%, and perhaps 100%, so that participants cover at least one-third of the cost of the training. The great success of the first two EDPs should make this feasible.
4. The effort to find an Egyptian institution to carry on the most successful of these activities over the longer term should continue. The Future Generation Foundation appears, on very limited information, to be a promising candidate to manage them, but the Egyptian Junior Business Association (EJB) might also be a possible home for the initiative.

Assessment of the Management Development Initiative With Recommendations for Follow-On Actions

This report is the result of a very limited review of the activities carried out under USAID/Egypt's Management Development Initiative (MDI) from 2002 to the present. It draws upon the extensive documentation produced under the activity, interviews with a few participants in the programs, a review of video interviews with nearly all participants in the first graduating class of the flagship training program under the initiative, and interviews with managers of the activity in USAID and Pal-Tech, the implementing firm.

The purpose of the report is to offer broad judgments on the effectiveness and impact of the MDI, and to offer recommendations for future actions to sustain MDI accomplishments.

I write much of this narrative in the first person, for two reasons. First, my experience with the project is very limited – one week in country after several days of reviewing written material. Second, the story seems to me to be one where named individuals played a key role, and the usual impersonal language of typical evaluation reports – including most written by me – disguises individual roles behind the mask of institutions.

Nevertheless, there are several sections where the discussion lapses into the usual language of economists, in an attempt to put the activity into the impersonal terms favored by that species: terms like incentives, externalities, increasing returns to scale, market forces, and economic rationality in public policy. These are the kind of issues that address the replicability of this success in other countries, at least for economists.

The report is organized as follows: Section I provides a brief history of the MDI initiative (Annex 1 provides a more complete description of the activities under the MDI, for those more interested in the specific elements of the activity). Section II addresses impact of the MDI, including an appreciation of its impact in comparison to other approaches that USAID has used to promote competitiveness of firms in developing countries. Section III describes the management of the activity and the evolution of the specific activities undertaken. Section IV discusses options for the future.

I. Background: The Management Development Initiative

The Management Development Initiative (MDI) began in August 1999 as one of a number of activities under USAID's Strategic Objective 16 – Growth through Globalization. Implementation was awarded to the firm of Pal-Tech. The emphasis in the activity has been to promote competitiveness of the Egyptian economy by disseminating the latest ideas about competitiveness and the tools developed in recent

years to improve the performance of businesses. The expectation was that this knowledge would allow Egyptian firms to increase their productivity, and, thereby, their participation in the world economy through exports of higher-technology products, leading to increased employment in Egypt.

A year later, a new Strategic Objective 17 – Skills for Competitiveness Developed – was established by USAID. It was believed that the skills development emphasis of MDI would mesh with the new SO, so management responsibility was shifted from the economic growth unit to the education and human resource unit.

During the first two years of the MDI, the program placed heaviest emphasis on improvement in the climate for new ideas about business by bringing high-profile speakers to Egypt. Monthly seminars – typically with 300-500 participants – featured such speakers as Thomas Friedman of the New York Times, Steven Covey, author of *The Seven Habits of Highly Effective People*, Peter Senge, author of *The Art and Practice of the Learning Organization*, José María Figueres, the former president of Costa Rica, and Curtiss Plott, former CEO of the American Society for Training and Development. MDI also sponsored several “training fairs” to promote Egyptian training providers among progressive-minded new clients. The program aimed to stimulate development of the market for management improvement, rather than compete against local training providers. A number of more narrowly-focused workshops were also offered on business issues such as marketing, quality control, human capital investment, information technology, and strategic planning. The activities included 88 seminars and workshops, attracting some 4,600 participants. About \$6 million was spent on these activities over the three-year period.

Besides these high-profile activities, MDI also experimented with other programs, including an executive training program where a group of Egyptian business executives attended one-week courses at the University of Michigan, and promotion of team learning labs. The full range of activities under the MDI is described in Annex 1. But, as suggested below, the MDI should not be considered as simply as a collection of diverse activities. Rather, it should be seen as a series of exploratory efforts. Some of these activities, like the effort to promote the development of the management consulting industry, yielded positive – though possibly modest – payoffs, while others, like the EDP described below, produced spectacular results.

The work under SO 17 was re-focused in 2002, and renamed the Partners for a Competitive Egypt (PfCE). It continued to include numerous activities in several areas, including dissemination of computers and information technology to schools as well as management training. The rest of this report will be concerned only with the management-training part of the PfCE, for which the term MDI continues to be used.

MDI was re-focused away from large-scale consciousness raising events, and toward more focused activities for a much smaller number of firms. Pal-Tech reports that the first phase of the MDI – besides introducing new thinking to Egyptian business and political leaders – identified a smaller group of business executives (mostly young) who

were anxious for much more intensive training programs. A working group including the business leaders most committed to work to improve Egyptian competitiveness was formed to undertake a needs assessment and to develop ideas about specific activities that might be pursued. This group helped USAID design subsequent activities under the MDI.

The most important of these activities, and the flagship of the MDI, was the Executive Development Program (EDP). It targeted senior executives of medium-sized businesses in Egypt, and was modeled after programs in the United States that address executives at similar levels. It has drawn on faculty from leading U.S. business schools and consulting organizations, as well as on the expertise of successful business executives in Egypt. Each EDP consists of 12 sessions conducted on weekends (Thursday evening and all day Friday and Saturday) over a period of 15 months. Participants were selected based on their professional background, position and general attitude towards learning and sharing information. In particular, participants were expected to have ten years of executive experience, a positive view of international markets, excellent English, and a positive, “can-do” attitude about the possibility of Egyptian business competing internationally. While the management training market in Egypt has improved in recent years, the high-quality executive-level training which focuses on strategic issues and leadership is underdeveloped in Egypt. The EDP provides world-class expertise that has not been accessible to most Egyptian small/medium sized companies.

The first EDP, with 32 participants, was completed in 2003. EDP-II has been underway since September 2003, and is to conclude in December 2004. The original design of the MDI contemplated four EDPs, but – for broad considerations of overall USAID Mission strategy – SO17 was terminated. This led to the decision to fund only two of the projected four EDPs, without consideration of the impact of this activity.

A second program, the Leadership Development Program (LDP) (also known as the SEDP) was developed as an adjunct of the EDP. It used the services of the outside expert brought in for an EDP session to provide three-day sessions to middle managers of firms. LDP sessions covered topics just treated in an EDP, but tailored to middle-managers rather than executives. LDP sessions involve about 30 individuals, selected for their skills and commitment. Four LDP sessions are held per year.

Almost all of the activities under the MDI except the EDP and LDP (both now classed together under the name EDP) were phased out by the end of 2003. Modest funding for Team Learning Labs, and for promotion of business internships for business students at the American University of Cairo continued, but only one other major activity – funding of a visit by an expert on the Global Competitiveness Report from the World Economic Forum to address a cross-section of the Egyptian business community – was undertaken.

Funding for the MDI, including estimated overhead by Pal-Tech, was about \$2 million per year during 1999-2001, \$1.7 million in 2002 and 2003, and \$880,000 in 2004, for a total of about \$10.3 million over the six years of activity. Pal-Tech has estimated that the cost of a one-year extension of the activity to allow for an additional EDP would

be \$860,000, less tuition payments of \$150,000, for a net cost of \$710,000, or about \$20,000 per participant, including substantial indirect costs required by USAID. (This calculation ignores the LDP programs that follow about one-third of the EDP seminars, where operational managers receive training from the U.S. academic after his/her weekend with the EDP class. Inclusion of the LDP would lower the per-student costs significantly.

II. Impact of the MDI.

Technically-sound measurement of impact of training or education programs is usually impossible. Two types of problems predominate. The first, called selection bias, typically spoils efforts to compare the subsequent fortunes of participants and non-participants in some training program. Typically, participants will be more motivated than non-participants, so they would have been expected to prosper more after the training than non-participants -- even had they not received the training. The second is attribution error, where actions taken after education or training programs are erroneously attributed to the training itself, and not to other factors that contributed to the observed outcome. In the real world, business decisions will reflect the cumulative effect of a wide variety of factors, including books, magazine articles, discussions with colleagues, and the actions of competitors. The result of these problems is that, as Glewwe (2003) points out in his survey of the literature, there are virtually no scientifically-valid studies of the impact of education programs in developing countries among the thousands of studies done on this topic. Nothing certain can be concluded about the importance of textbooks, teacher quality, class size or other factors in education from a vast literature, because virtually all existing studies are tainted by one of these problems.

Despite the lack of studies of sufficient scientific validity, there is little doubt that education is a powerful tool for improvement in human capability and economic productivity. The fault lies not in the underlying reality of educational productivity, but in our inability to measure correctly.¹

Pal-Tech has made a great effort to produce impact information from each of its interventions. While the effort has been quite energetic, and suggestive of very positive results, it cannot prove impact for the reasons cited above. The effort did produce general findings that firms were thinking in more strategic terms, that they were more focused on exports, and that they experimented with more open and participative management styles. Because EDP participants were key decision-makers in their firms, they often made far-reaching decisions as a result of specific EDP sessions and attributed these decisions to discussions held in the EDP seminars. Concrete findings include:

- Additional Employment of more than 500 in sampled firms.

¹ At the same time, one must recognize that "education" is not a single entity, and that the quality and type of education has a major influence on its productivity. One of the greatest development disappointments has been the lack of evident results from the massive increase in formal education in Africa during the last several decades.

- Increased exports by more than one-third of the companies.
- Increased delegation of authority with two firms hiring general managers to allow the chief executive to focus more on strategy, while others reported having delegated, empowered, and transferred knowledge to subordinates.
- Considerable cost saving by participants from increased employee participation in design, improvements in quality control that reduced waste, and outsourcing.

Participants consistently reported tangible improvements in company performance as a result of participation in the EDP. However, as discussed above, these findings are only suggestive of impact, as it is not possible to know what would have happened to the firms had their executive not participated in the course. Nevertheless, I found two other pieces of evidence for high impact to be very compelling. The first is the enormous enthusiasm of past and current participants in the EDP/LDP. The second is the subsequent conduct of past participants, in continuing to meet, to push on a variety of fronts – mostly independent of USAID – to work to improve the climate and institutions for private sector development in Egypt.

For me the most convincing single piece of evidence was the CD containing snippets of conversation with 29 of the 32 participants in EDP-I. Both the enthusiasm and the evident high quality of the participants were obvious from the interviews. Direct interviews with a few of the participants only reinforced this judgment.

The participants in EDP-I continued to meet monthly after the completion of the course, and claimed that they derived important benefits from doing so. Individuals from EDP-I also were active in other efforts to improve the climate for business in Egypt through work to energize or create business associations. In some cases, this involved building coalitions for such purposes as electing more forward-looking directors to existing business associations. Two cases of new initiatives were brought to my attention: creation of a national competitiveness council and of a national quality control group, the Egypt Quality Forum.

The National Competitiveness Council. MDI supported the Egyptian Junior Business Association (EJB) for four years, and a number of the early MDI advisory group members founded the EJB. The EJB co-sponsored a number of MDI Global Economy Seminars, including presentations on competitiveness rankings in 2000 and 2002 by Carlos Figueres and Richard Cornelius of the World Economic Forum (WEF).

In late 2003, EDP participants convinced the EJB to request that Pal-Tech provide an expert on the *Global Competitiveness Report*, published annually by the WEF. This resulted in a conference in February 2004, where a WEF economist described the methodology and uses of the *Report* and provided advice on how to form a national organization to promote dialog between the private sector and the government toward improving Egypt's economic development. The EJB subsequently decided to establish a competitiveness council under its auspices to monitor Egypt's competitiveness relative to

other developing countries, and to analyze, and promote public discussion, in areas where improvements might be possible. This Council began operating in February 2004. The organization's first report, the *Egyptian Competitiveness Report, 2003-2004*, has now been issued.

The Egypt Quality Forum (EQF). The idea for creation of a national quality control council grew out of a session on quality control of the Leadership Development Program, the junior partner of the EDP. A sub-group of the LDP participants met several times to discuss the creation of such an organization. They concluded that it would be most effective as a sub-committee of the EJB, and discussions are underway on how to do this. The EQF provides leadership in promoting quality management practices, including six-Sigma quality concepts.

The group's current *modus operandi* is to meet in the evening at the office of one of its members. That member makes a presentation on quality control approaches used at that company, with discussion and critique of the approach, followed by discussion of other quality control topics. I participated in one of the monthly meetings, where about 12 people were present -- all quality control managers at their firms. In response to a question about changes in quality control practice in response to the LDP workshop on this topic, about half of the participants identified specific changes they had made as a result of the training.

In its impact – though not in its design – the MDI is closely akin to the efforts by USAID and others to promote “competitiveness” by applying the ideas of Michael Porter of the Harvard Business School. Three recent assessments (Fox and Holt 2002, Fox 2003, and Mitchell Group 2003) have examined the most common approach to creation of the conditions for Porter-type competitiveness used by USAID and other donors, usually built on ideas from Michael Fairbanks' book *Plowing the Sea*. This typically involves promotion of the formation of “clusters,” consisting of related firms along the value chain, supplier industries, educational institutions, and research and service industries whose interaction can create synergies that lead to fierce competition based on innovation and continued productivity growth.

None of the cases examined in the three evaluations cited above or other analyses of actual implementation of “competitiveness” of which I am aware compares to the Egyptian case in either apparent results, in enthusiasm of the participants, or in follow-on activities by participants. This is a surprising – and perhaps important – finding. Why should this very indirect approach, through management training, be more effective than direct assistance to cluster formation and deepening?

One speculation, articulated in my previous work, is that cluster-development activities focus too much on interaction among firms, and too little on the internal processes of the individual companies. Yes, the interactions among firms are important, but not nearly so as the internal efficiency of the individual firms in a sectoral cluster, particularly in developing countries. I guessed in an earlier study that 95% of the effort to promote competitiveness in a developing country needs to be inside the firm, and 5%

comes from collaboration within the sectoral cluster. If true, this would explain why clusters have been much more valuable in developed countries than in poor countries. Existing enterprises in developed countries have already stood severe tests of efficiency, or they would not be in operation. They have been forced to address the 95% that lies inside the firm, and appropriately focus on the external issues.

Myriam Khalifa, the coordinator of the EDP, has offered an additional, and perhaps more compelling, perspective. She believes that the formation of a “cluster group” is likely to inspire competition, rather than collaboration, among the participants. In effect, a “cluster” grouping puts entrepreneurs in an environment where they have an incentive to defend the approach and operation of their firm, while complaining about the inefficiency of other firms in the value chain. Khalifa argues that a training environment, where all the executives are students – not defenders of the current behavior of their enterprise – is more likely to create a bond of trust among the participants. In her view, this bond gradually developed during the first several sessions of each EDP, and became very strong by the end of the course. One aspect of the collegiality among the participants was the tendency, mentioned to me by former participants, to seek greater discussion among the Egyptian entrepreneurs, and less professorial lecturing, as each EDP class progressed.

The Egyptian program has focused primarily on the internal inefficiencies and lack of long-term strategy of the individual firm. This seems appropriate in an economy that historically has been protected from world market forces. By linking to younger, and more receptive to change, executives, the USAID program may have found a receptive, and very important, niche.

More broadly, the obvious high degree of effectiveness of the Egypt EDP in promoting the outcomes that “cluster” promotion projects have sought, but have seldom achieved – must raise the question of why the success has not been recognized and disseminated. This brings to mind Karl Marx’s interesting but neglected concept of “reification.” Reification occurs in this sense when theorists give names to abstract concepts that, while pleasing in theory, hinder an understanding of the underlying reality. The way donors address “business education” and “competitiveness promotion” may be an example of reification. As in the Egypt case, a business education project may have been a highly-effective competitiveness promotion project, but the differing optics used by the economists and the educators in USAID/Egypt prevented movement across a conceptual barrier. The highly-successful project was canceled prematurely because the impacts were not recognized by people in the human-resources part of USAID, and not understood by people in the economic-growth unit.

Finally, it is critical to recognize that this discussion is about *donor support* for cluster development, not about the importance of clusters, *per se*. It is clear that cluster formation and development has been important to the creation of highly-competitive industries in specific places. At the same time, such developments have tended to be gradual over a considerable period of time – 10-20 years, compared to the 2-3 year time

horizon for the typical donor project. At a minimum, this Egyptian case suggests that donors, while seeking the right end, have been using an ineffective means.

III. Management of the MDI.

The MDI has been managed by Pal-Tech without an institutional counterpart on the Egyptian side. The Pal-Tech managers used a group of Egyptian business leaders as an advisory group to help focus the activities under MDI. This collaboration appears to have been both close and effective. The Egyptian advisory group appears to have been very well chosen – a product of the dialogue resulting from the early seminars and workshops. They also appear to have had a major role in shaping the program for MDI Phase 2. USAID staff also was closely involved in the management of the activities undertaken. At least at the micro level, this activity has been well-managed.

Nevertheless, the translation of the project successes to the level of USAID mission strategy has been unsatisfactory. Highly-successful activities should not be held hostage to broad strategic concepts, particularly when they embody a high degree of local ownership.

The success of the MDI has a human face. My limited perspective prevents any identification of those faces in the Egyptian private sector instrumental to it, but two names on the donor side are certain: Myriam Khalifa and Adel Gohar².

Myriam Khalifa used her extensive experience in training executives from Marriott International, and her extensive connections with the Egyptian business community to identify a group of young entrepreneurs that were able to give focus to the MDI. She addressed three key dimensions: the need for visionary Egyptian business leaders to direct and oversee the programs; the need to identify promising candidates for participation in the EDP and LDP; and the need to assure that the training providers – US business-school professors – could provide useful insights.

Adel Gohar provided the support within the USAID mission that made success possible. This involved linking the specific training to business outcomes, and continued encouragement of innovation by project implementers.

The activity appears to combine four key elements. First, the specific activities being undertaken evolved over time in response to demand conditions. Second, USAID gave considerable scope for creative responses by the Egyptian business people involved in the program. Third, there was a very strong emphasis on finding the right people to

² Individuals at Pal-Tech might also be named, but the distribution of praise among various participants is less certain for a short-term consultant. Moreover, it would be unseemly to praise individuals in the organization that paid for my study. Others are better placed to name the names within Pal-Tech who were critical to the success of the activity.

participate in the training. Finally, the trainers selected were of extremely high quality – mostly U.S. business professors with substantial consulting experience.

V. The Future

The discussion below is couched in terms of extending the EDP/LDP series of training sessions. But the activity should also continue to have funding for continued experimentation, and for support of related initiatives. Efforts with good track records should not be forced to stagnate.

As should be apparent, this activity is yielding very high payoffs, and should continue to be supported by USAID. The question is how this should proceed, and at what pace. As Egyptian creativity in adapting the program to local conditions has been an important feature, it is important for it to continue to move away from the USAID “orbit” into an Egyptian one. As elsewhere, too much USAID support for too long can be deadly. An extension of the EDP/LDP in its current state for another year is critical to maintenance of the momentum already created. Greater formalization of the follow-up for past EDP/LDP groups would also reinforce the synergies unleashed by the programs. These activities should be done with the minimum of administrative change. Pal-Tech is providing excellent management of the program, and any change, for a one-year extension, should be avoided. If the source of funding needs to change to SO 16, subcontracting to Pal-Tech from one of the SO 16 activities should be a simple matter.

The year of grace should be used to find an institutional home for the EDP with some Egyptian organization. No exploration of alternatives was done for this study, but there are two obvious candidates. The Future Generations Foundation (FGF) has had discussions with USAID on ways to cooperate to promote the type of business training funded under the Initiative. The FGF is also said to have a very strong reputation among the business community. Work with local for-profit providers of business services should also continue.

A second alternative might be the Egyptian Junior Business Association (EJB), which the MDI has supported for a number of years. Also, many of the participants in MDI training are members of the EJB, and the institution has taken the initiative in two activities closely aligned with MDI goals, as discussed earlier.

Implementers from Pal-Tech have argued that one more year of experience with EDP before transfer to an Egyptian institution would be helpful in fine-tuning the program, and assuring that momentum is not lost because of possible delays in transfer of responsibility. This seems quite reasonable, and would also allow for a long lead time in coming to an agreement with, and working out satisfactory arrangements with, a new institutional counterpart. At the same time, the one-year transition should not be considered sacrosanct. This is a high-impact activity, and bureaucratic issues should not become a factor in its continuation. If USAID needs to finance two additional years of

the EDP to maximize its impact, or to assure a permanent home for the EDP, USAID should not hesitate to provide the resources.

The Subsidy Element

The EDP is heavily subsidized by USAID. Direct costs for each EDP session average about \$30,000, and staff and fully allocated overhead costs might be estimated at 70% of that amount, or \$21,000. For EDP-II, participants paid 12,000 Egyptian pounds, or about \$2,000 each for 12 sessions, or a total of about \$5,300 per session. Thus, only about 18% of the direct costs, or 10% of the fully allocated costs, are borne by the students.

There are two ways to raise the share paid by the students: raising tuition and lowering costs. Let us consider each in turn.

Raising tuition. Interviews with a few participants suggested a willingness to pay substantially more. These limited conversations suggested a willingness to pay at least 50%, and probably 100%, more than the approximately \$2,000 charged in 2004. Of course, this capacity to charge more tuition is the result of the evident high quality of the training, and the reputation it has gained in Egypt. Doubling would raise the share borne by participants to 36% of direct costs or 20% of fully allocated costs.

Lowering costs. There is surely scope for lowering the cost, particularly the indirect cost, of providing training. For a small activity of this sort – never more than \$2 million per year – the administrative superstructure of strategic objective, intermediate results, frequent monitoring reports, and regular (but superficial) reviews of the desirability of the entire approach – is wasteful in both energy and effectiveness. In the space of three years, this activity was shifted from SO 16 to a new SO 17, which was subsequently abolished. While those involved in the project maintained a consistent idea about what to do and how to do it, their overseers engaged in a constant struggle to reconfigure program descriptions to keep up with the buzzwords currently fashionable in Washington.

If USAID were to focus on minimizing overhead costs, contractors would comply. But this does not appear to be a high priority. The one concrete area where I observed a level of effort unlikely to yield commensurate payoff was in monitoring and evaluation. Pal-Tech clearly tried to respond to USAID concerns, but this sometimes involved considerable effort to measure the immeasurable. Only better judgment by USAID can eliminate this problem.

How much should the subsidy be? Economists usually argue that the beneficiary of USAID assistance should bear a substantial part of the cost of programs that benefit individuals or firms directly. A 50-50 sharing has become typical for programs to upgrade technology or to assist firms to break into export markets. For education, higher subsidies have typically been normal in donor supported programs. In U.S. higher education, the student typically pays considerably less than half of the total cost, with the

remainder funded through government (particularly for state institutions) and by endowments. This has often been justified in the name of benefits to the society from the education of its members. I lack familiarity with literature on the socially-desirable level of subsidy of education in donor programs.

Robert Lucas, the Nobel-prize economist, has made stronger case relating more directly to the type of training provided under the EDP. He argues, most recently in Lucas (2003), that education in economically-beneficial areas produces increasing returns to scale, and argues that such increasing returns to scale in education are the primary reason that developing countries have not been able to “catch up” with rich countries, in the manner that economic theory would have predicted. Lucas argues that the increasing returns come from the interaction of numerous individuals trained at a high level, rather than from the education of one or two Einsteins. Such individuals are able to create networks where positive reinforcement takes place, and where the total outcome is larger than the sum of the contributions of the individuals involved. James Surowiecki’s recent book, *The Wisdom of Crowds*, offers support for this speculation.

The conclusion flowing from these considerations is that some – and perhaps a large – subsidy is warranted in education, particularly education that positions countries to better compete in a globalized economy. As my expertise is in economic policy rather than education, I am unaware of current thinking about the proper degree of subsidization for such training. This should be explored further by an education economist. Nevertheless, the above considerations suggest that donors should be willing to provide significant subsidies on a long-term basis for such activities.

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Annex 1

Activities under the Management Development Initiative, Phase 2

The main activities carried out under MDI Phase 2 include the following:

1. Executive Development Program (EDP)

The Executive Development Program (EDP) was the largest single activity. Its target audience is senior executives of medium-sized businesses in Egypt, and is modeled after programs in the US which address executives at similar levels. It draws on faculty from leading business schools and consulting organizations, as well as on the expertise of successful business executives in Egypt. Each EDP consists of 12 sessions conducted on weekends over a period of 15 months. Participants were selected based on their professional background, position and general attitude towards learning and sharing information.

The first EDP, with 32 participants, was completed in 2003. EDP-II has been underway since September 2003, and is to conclude in December 2004. While the original design of the MDI contemplated four EDPs, the termination of SO 17 resulted in the decision to fund only two.

2. Leadership Development Program (LDP)

This program is an adjunct of the EDP, drawing upon the services of a professor brought in for an EDP session. LDP sessions are three-day events covering a specific topic just treated in an EDP, but tailored to middle-managers rather than executives. LDP sessions involve about 30 individuals, selected for their skills and commitment. Four LDP sessions are held per year.

3. Team Learning Labs (TLL)

The Team Learning Labs (TLL) program was designed to work with intact team(s) of up to eight employees in an organization, using the methodology developed by Peter Senge in his work on "learning organizations." Under this methodology, an outside coach works with a group of up to eight individuals from different parts of a business firm during a 3-day workshop to develop skills in collaboration. The teams agree on a specific project for their firm that is geared toward solving an important and pressing business issue where there is some urgency to achieve a better result or to do a process in a better way, to be implemented during the next several months. Follow-up meetings are held with the coach during the next four months to track progress.

The strategy in this area was to stimulate provision of TLL services by private consulting firms in Egypt. Coaches in four firms were trained in the methodology, and the MDI provided initial subsidization of the costs of TLLs offered by these firms. About

10 companies have participated in TLLs, with generally very positive results. USAID support for TLLs ended in 2003.

4. Corporate Development Program (CDP)

The Corporate Development Program (CDP) was a second effort to promote the development of the private consulting and training industry in Egypt. The MDI trained and certified 14 Egyptian coaches in use of an off-the-shelf performance improvement model aimed at business strategy and performance. The MDI then paid part of the cost of CDP programs sold by the consultants, allowing them to offer the product at prices in line with the Egyptian market's willingness to pay.

5. Seminars

Global Economy Seminars (GES) and Topical Seminars (TS) are a full-day seminar presented by international experts on business issues. Four seminars under this program (two in Cairo and two in Alexandria) were held in 2003, when this activity was phased out. These sessions were on broad topics: leadership, investment in human capital, motivation, and key success factors in business success. They were given to broad audiences, averaging about 100 participants.

6. Case Study Development

The MDI sponsored several workshops to promote the use of business cases in university business education. The project developed a series of eight cases based on actual problems of individual Egyptian businesses. Each case was developed by a U.S. academic working with an Egyptian professor. About 20 business school professors participated in workshops to discuss the methodology, analyze cases, and discuss how to introduce them into university courses and executive development programs.