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EGYPT - ACTION PLAN

1989

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FY 1989 ACTION PLAN

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INTRODUCTION

The Action Plan is a little different than usual. Frequently Plans are descriptive and comprehensive. This one is comparative and issues-oriented which should focus attention directly on the issues.

As a first attempt at this approach it should not be surprising that there have been a few false starts and some exaggerated expectations. On the other hand, analysis of the indicators and the formulation of issues show that (1) there has been considerable progress for which A.I.D. has been directly and indirectly involved, and (2) we are on the right track in our approach to supporting development in this country.

Finally, while this document is the main determinant of the AID/W Program Week agenda during the month of March, it does not cover all the topics for which discussions and meetings will be held. The reader should review STATE 337954 of October 30, 1987 and CAIRO 3155 of February 8, 1988 for those issues (e.g., donor coordination, management and administration) to be dealt with outside of or loosely in conjunction with the Action Plan.

MACROECONOMIC ISSUES

I. Validity of CDSS/Action Plan Targets

In the year since the CDSS was drafted, the GOE embarked upon a program of macroeconomic reforms. The initial economic measures implemented have not been of the magnitude or pace we envisaged. Furthermore, the GOE is unlikely to achieve all the objectives specified in the CDSS. Nonetheless, we believe the proposed reform program contains the economic measures most needed by the Egyptian economy. We retain most the objectives stated in the CDSS for two reasons:

A. They provide us with firm and clear targets against which to measure progress. Many span several years. Delays in their achievement during the first year do not justify changing them.

B. The need for Egypt to continue an even stronger program of economic reform is unchanged. The reform targets we established in the CDSS are still required. It would be inappropriate to lower them, as this would indicate a lowering of the priority we place on them. Without these measures, Egypt will have great difficulty in coping with its debts. Egypt's total debt grew from \$40 to \$44 billion during the first year of rescheduling. It is expected to grow by similar annual increments throughout the rescheduling period. Though Egypt took some important policy actions in 1987, particularly with respect to exchange rate reforms, they were short of what is needed to put the economy on a sound footing.

The sectoral strategies laid out in the CDSS were based on the assumption that macroeconomic and sectoral policy objectives would be met. We do not believe that the slower-than-expected progress on the macroeconomic front invalidates any of the sectoral objectives. Encouraging growth in agriculture and private enterprise investment for example remains the best road to increasing productivity of the economy.

The sector most affected by the macro-policy environment is industry. Partial unification of the exchange rate has benefitted private enterprises needing foreign exchange, but the impact has been to an extent negated by the credit ceiling and central bank limitations on foreign exchange availability for letters of credit/guarantees. (This is discussed further in the macroeconomic goals and objectives sector.) The major factors constraining private sector investment are uncertainty of the investment environment, foreign exchange controls, impact and investment restriction, discriminating pricing and, the bureaucratic hurdles involved in obtaining business and

import licenses. The private enterprise sector program planned for FY 89 will provide mechanisms for quick-disbursing assistance and a sector support program with a policy agenda to encourage needed changes. This private sector strategy, progress and plans are covered in section IV of this narrative.

The CDSS stated that once exchange rates were unified and interest rates were brought to market levels, there may not be need to continue the CIP. Now that the CIP has been brought up to market rates, however, it is clear that there is a continued need for foreign exchange financing through the streamlined private sector CIP process. The resources provided by the private sector CIP enable the banks to meet firms' demand for import financing, thus lowering the pressures for further currency devaluation. A stable currency and a freely accessible foreign exchange market are major factors affecting the business climate.

The sectoral issue most affecting macroeconomic policy performance is the price of energy, because of the importance of energy tariffs and the implicit energy subsidy in achievement of Egypt's budget deficit reductions. The CDSS makes capital assistance to the energy sector conditional upon significant price increases.

In other areas, sectoral policy progress is proceeding satisfactorily, and we expect to be able to achieve most sectoral goals. In agriculture, particularly, good progress has been made not only to implement decontrols, but also to improve research and extension.

A major macroeconomic policy concern affecting our programs in these sectors is the need for budget deficit reduction. To the extent that our programs add public infrastructure to be maintained and public employees to be paid and trained, they are reducing the Government's ability to reach its budget targets. For this reason, USAID is increasingly concerned with shifting services, where possible, to the private sector, and with introducing cost recovery into government programs. Our efforts to address the recurrent cost question are described in section V below.

II. Need for Cash Transfer and Its Role in the Policy Dialogue

USAID's \$115 million cash transfer for FY 88 will not be disbursed in the absence of meaningful economic measures.

USAID intends to use its cash as well as other parts of the FY 1988 program to encourage the GOE to implement its comprehensive program of economic reforms. In response to significant policy improvements, we are prepared to implement a shift toward quicker disbursing assistance. We agree with the urgency of following the actions outlined in the IMF Standby Arrangement (they are similar to the actions USAID had been urging the GOE to adopt for several years prior to the Fund agreement). Furthermore, we believe that compliance with the IMF is essential for attracting the level of foreign resources needed by the GOE to support economic growth. Of special importance is a potentially large increase in World Bank funds in support of sectoral reforms and development projects. Release of these sectoral funds is seen within the context of a Fund agreement.

Our short run strategy is to encourage a multi-donor effort concentrated on the improvement of Egypt's economic reform program. Cash and other quick-disbursing aid will be utilized to help the GOE over some of the most difficult hurdles needed to keep up the momentum of reforms and to muster additional donor support.

We believe that a liberalized and unified foreign exchange regime is the single most important issue impeding a timely improvement in Egypt's economic performance. It is also one of the areas most in need of a breakthrough in the IMF negotiations. USAID is prepared to consider a cash disbursement in support of meaningful progress in this area. At this time it is especially important that the GOE liberalize the newly established free market exchange rate-- that is, opening up the rate to all users and floating it to a greater degree against the dollar. Some limited progress has been made in this direction recently through permitting the use of commercial bank foreign exchange resources for foreign exchange debt repayment. We are also prepared to support the unification of the Central Bank exchange rate with the free market rate.

III. Policy Dialogue Agenda and Performance

A. Selectivity in the Policy Dialogue

Though the range of issues discussed by the U.S. with Egyptian officials appears comprehensive, it is focused on the key policies (and prices) which must be changed to carry out a genuine structural adjustment of Egypt's highly distorted economy. Due to the high degree of interdependency among each

of the elements in the economic reform program, the range of discussions between USAID and the GOE is necessarily broad. It would be ineffective for the Mission to push for major economic reforms in certain areas without knowing how these measures will affect other parts of the economy. Complementary actions must often be taken at the same time.

We have been flexible in shifting our policy emphasis toward areas where the GOE could take immediate action. Over time these areas change and the Mission is prepared to modify its emphasis accordingly.

Performance-based disbursements were important in encouraging policy reforms in the agriculture sector and offer similar promise for other sectors. Particularly encouraging at the present time is the possibility of utilizing performance-based disbursements to assist the GOE overcome projected shortages in electrical generating capacity in return for raising electricity rates toward its economic cost.

B. Policy Dialogue Agenda

Over the past several months the GOE has requested a change in the mix of the AID Program. Their objective is to increase the amount of quick disbursing assistance.

The GOE White Paper, delivered in Dec 1987, requested a change in the FY 88 and out years programs' as follows:

Cash	\$ 350 Million
CIP Public Sector	\$ 150 Million
CIP Private Sector	\$ 200 Million
Projects	\$ 200 Million
PL480	-

Prior to and during President Mubarak's visit to Washington in January, Atef Ebeid, Minister of Cabinet Affairs, requested AID to shift up to \$ 1 billion of the program to quick disbursing assistance. A portion of this level would come from obligating a greater part of the FY 88 program in CIP and other fast disbursing activity. The balance would come from deobligation/reobligation of part of the pipeline. This fast disbursing assistance would be used for food imports, general CIP procurement, emergency installation of electricity generating capacity and some form of rapid introduction of HYV vegetables.

USAID has told the GOE we would consider changing the program mix to more quick disbursing assistance within the context of continued and strengthened economic reform. A strengthened reform program requires progress in the following areas:

Foreign Exchange Rate

- Complete the unification of the old Commercial Bank rate (LE 1.35 = \$1) with the new Commercial Bank rate (approx LE 2.23 = \$ 1.00); liberalize the uses of the new rate to include the payment of old debt and invisibles; and adjust the rate to clear the market.
- Unify the Central Bank rate with the new Commercial Bank rate. (A price pass through would not be required).

Interest Rates

- Introduce measures which would more accurately price capital.

Budget

- Continue progress in reducing the budget deficit.

Energy Prices

- Implement real increases in energy and electricity prices to close the gap between domestic prices and world prices

Agriculture Reform

- Continue decontrol of agriculture including:
- Permitting the private sector to handle inputs;
- Reducing the tax on cotton and permitting the importation of items (such as red meat) which are economically inefficient for Egypt to produce domestically.

Private Sector

- Encourage greater participation of the private sector in the economy by eliminating barriers to investment, production and export.
- Create a more competitive environment by reducing the unfair competitive advantage now given to the public sector.

While the GOE may not be able to move in all areas simultaneously, we believe the GOE must undertake sufficient movement in key reform areas such that continued debt rescheduling is possible. The key reform areas include foreign exchange rates, energy pricing and deregulation of agriculture.

In the context of reform, USAID would consider the following shifts in FY88:

- Expand private sector CIP, through a \$100 million new project for Policy Reform Support.
- Increase the Agricultural Production and Credit Project obligation to \$90 million* (subject to appropriate needs for local currency)
- Undertake an emergency energy project in support of energy reforms. FY88 obligation could be \$103 million.
- Release the earmarked Cash Transfer of \$115 million
- Review the pipeline for opportunities to increase disbursement rates (particularly in CIP)

These changes could infuse approximately \$.5 billion in quick disbursing assistance into the program.

* This would require a PP Amendment

IV. Private Sector Strategy

A. Summary Strategy

The Industry Sector program supports a broader goal of development of a free market economy as the driving force for increased productive output and employment to meet the basic needs of the Egyptian people. The FY 89 CDSS for industry continues to be relevant. The strategy for implementation carries a theme of "partnership" between the Egyptian government and private sector which takes advantage of: (1) policy as stated in the GOE Five Year Plan which calls for major private sector investments to meet economic and social objectives; and (2) growing government support for privatization. The first provides the basis for engaging the GOE on policy to free-up market forces to encourage the required private investment; the second provides an action program to test commitment and strategies and to demonstrate the benefits of private ownership.

The programs described below focus on:

- improving the investment climate;
- improving access to financial resources; and
- developing investment and export opportunities.

Small and micro enterprise development is emphasized.

B. Programs and Progress to Date

1. Investment Climate

a. The Private Enterprise Sector Project, now under development, will address serious structural problems which discourage new private investment. USAID is drawing on the support of private associations for analysis of the critical constraints and development of an agenda of priority policy reforms. Analysis and negotiations will determine type and level of assistance to be provided against costs or dislocations of reforms. USAID will encourage private sector efforts to engage in sustained policy dialogue with the GOE on measures required to improve the climate for private investment in Egypt. However, given GOE attitudes, this will be a very difficult process, subject to extensive negotiations.

b. The positive interest and support for privatization initiatives provides opportunities to move the dialogue ahead through seminars and conferences discussing the range of issues, including debt and equity financing.

2. Debt and Equity Finance Resources

Access and timely availability of finance in the appropriate form (debt/equity) for all sizes of private industry continues to be a key constraint to growth of the private sector. Domestic resource generation is seriously constrained by weakness in capital markets policy, legislation and procedures -- a policy reform agenda item.

a. GOE policy directives on privatization provide the basis for broad equity resource generation. USAID's "Partnership in Development" (privatization trust fund) program, under design, will initially work at the governorate level to develop procedures for valuation, financing and marketing of state-owned enterprises to "widen the ownership base". USAID is designing programs which we hope will: establish the first Egyptian employee stock ownership trust; organize a venture capital company; facilitate the first Egyptian debt-equity swap. Within the agriculture sector, we are working on privatizing the agriculture input and distribution system.

b. To date, about \$138 million has been disbursed to private firms under two CIP projects and \$17 million under the Private Investment Encouragement Fund. The efficient private sector Commodity Import Program will become the primary USAID-financed term credit vehicle. Credit terms, levels and other changes are being modified to expand access for all sizes of enterprise including small and micro enterprise and public sector industries who agree to restructure to limit government equity to 30 percent or less. This change is now being negotiated with the GOE.

c. Pilot small-scale credit programs have begun in two governorates with plans for national expansion. A second pilot micro-scale credit effort has been tested under an urban upgrading project. Building on these experiences, a discrete urban Small and Micro-Scale Enterprise project is under development using various private institutions as conduits for credit. The Small-Scale Credit Guarantee program now in final design complements this project.

3. Investment and Export Promotion

a. The U.S. Investment Promotion Office assisted Egyptian entrepreneurs identify about 50 potential joint venture opportunities in 1986-87. Funding for this project will continue through the However, progress in further developing these joint venture opportunities under the

Feasibility Studies project has been slow. Under USAID assisted projects, to date, only five have reached an implementation phase. The bureaucratic constraints and controls on investments will be addressed under the Private Enterprise sector program. Investment promotion and feasibility study resources will be reorganized under a private Business Development Center to expand the process of identifying and developing investment and export opportunities, to conduct studies and to develop a market data base.

b. The large and successful International Executive Service Corps technical assistance program will complement this effort and will be expanded to assist small and micro-scale enterprise and exporters. In 1987 IESC volunteers worked with 72 private sector companies as against 35 planned.

V. Cost Recovery and Institutional Self-Sufficiency

For a program the size and scope of this one, an Action Plan statement cannot do this subject justice. The presentation here is only a brief summary of USAID's current efforts to address institutional self-sufficiency. The reader is referred to other documents for more information, specifically the performance indicators in Part Three of the Action Plan, the recent study by Bob Zimmerman on recurrent costs, and the design document for Cost Recovery in the Health sector.

This presentation looks at two aspects of institutional self-sufficiency: operation and maintenance (O&M) and coverage of recurrent costs.

USAID's interest in the issue grew first in response to our concern over the GOE's ability to sustain the large infrastructure investments which USAID has helped to finance, particularly in water/wastewater and power generation. In water/wastewater, this concern led to the development of annual benchmarks, flowing from the 1984 Memorandum of Understanding for our assistance in the sector, which set goals for improved O&M and institutional capabilities of the implementing agencies, and for water use rate increases. We have tracked progress against these benchmarks and reviewed them with the Minister of Housing and Public Utilities each year, and incorporated covenants and CPs into all projects to support them.

Progress has been short of what the benchmarks called for. Water rate increases have been slower than expected, though some cities have achieved coverage of 100 percent of O&M costs. It has become clear that O&M goals cannot be met without additional inputs from USAID. Still, this is the sector where our knowledge of the issue is most complete and our discussions with the government on the subject best institutionalized.

In power generation, our concerns are less pronounced, because with current low input prices of petroleum products and natural gas the Egyptian Electricity Authority (EEA) covers its financial costs fully through user fees. As the CDSS pointed out, however, the government has placed emphasis on new generation rather than conservation, rehabilitation or O&M. As a result, electric power losses are over 20 percent. Savings of 10 to 30 percent on industrial oil, gas and electricity use could be realized with little capital investment through improved operating and maintenance procedures. But the first

step in stimulating energy conservation, rehabilitation and O&M is rational energy pricing. The current pricing structure does not encourage efficiency. For this reason, we are working very hard, in conjunction with the World Bank, to support significant energy price increases. This is the rationale for the proposed Energy Sector Program.

Outside of major infrastructure, our concern with issues of cost recovery and O&M is of more recent vintage, and our dialogue with the GOE is less formalized. However, there appears to be increased willingness by our government counterparts to consider ways of dealing with these issues, perhaps partly due to their awareness of shrinking budgetary resources to cover their programs' costs.

In sectors where the GOE's basic assumption has traditionally been that services must be free for all, there is increasing willingness to consider fees for services. This applies especially to health and education. In addition, the Government has begun contracting out some maintenance services to private sector firms, and has even begun to consider selling some assets to the private sector.

There is a long way to go. Were we to terminate our program to Egypt now, many of our past investments would certainly deteriorate. However, we do see some progress.

The recent study of recurrent cost issues and options in agriculture, health and education, prepared by Bob Zimmerman, identified a number of areas in which the Government was, on its own, considering ways to make its programs more financially self-sufficient. As he pointed out, however, Egypt's long tradition of provision of a broad range of services, free of charge, to all Egyptians has developed into a "social contract". Any appearance of renegeing on this contract is politically difficult for the government. As in all other areas, the GOE moves only with extreme caution into fee-for service activities.

Our strategy is to continue to hammer away with every project agreement to ensure adequacy of O&M and financial sustainability. We will take advantage of opportunities as they arise to support Government initiatives to improve these areas.

The points below summarize the major events and issues of institutional self-sufficiency by sector:

Water/Wastewater:

- Based on a weighted average of costs and charges for water services by area, average prices of water for all consumers exceed their O&M cost, though large volumes of treated water still do not generate income due to leaks and illegal uses.
- O&M activities have been built into all projects in the sector, through both the construction and the TA contracts.
- We plan a major evaluation of the O&M training component of the Cairo Wastewater project this spring, which we hope will publicize the importance of such training throughout the sector.

Energy:

- USAID expects to approve new energy conservation and energy manpower training projects to support efficient energy use.
- The status of the policy dialogue on energy pricing will be discussed at Program Week, and is the subject of the proposed Energy Sector Program.

Local Development:

- Legislation is now being drafted to allow for increased fiscal decentralization to local government units.
- The GOE and local governments each contribute 5 percent to every USAID matching grant which can be contributed to O&M costs.
- The GOE now budgets annually funds for O&M of local government projects constructed under this program. However, we have set back our target dates for local government collection of fees to pay for local O&M costs.
- Nine governorates have prepared comprehensive O&M funding plans. Bids are out for pilot maintenance system contracts in four governorates.
- A rural water project assessment now underway will lead to implementation changes to improve reliability of project-financed water systems.
- A major wastewater study now underway will provide a model for comprehensive rural wastewater systems.

Agriculture and Irrigation:

- Studies of water user organizations are underway now, the first step in developing proposals for instituting water charges to cover O&M costs of the on-farm system.
- The pilot irrigation district preventive maintenance project is nearing completion, and will serve as the basis for a nationwide expansion.
- The GOE is exploring the potential role of private sector intermediaries to expand the extension function.
- The recurrent cost study (Bob Zimmerman) has suggested other possibilities for introducing cost recovery into the agricultural research system such as, land or rice tax surcharges and research centers responding directly to farmer commodity group requests for scientific research on a fee for service basis.

Health:

The proposed Cost Recovery in Health projects supports four interventions to improve both quality of medical services and cost recovery, including an initiative of the Minister of Health to introduce fees for services in GOE hospitals.

- The Suez Community Health Project has successfully introduced group practice programs and other fees for service activities which could be replicated.

Education:

- The Ministry of Education has agreed to obtain community contributions for school maintenance equal to ten percent of the cost of construction.
- The Ministry is considering other ways of introducing cost recovery without adversely affecting educational opportunities for the poor. Innovative ideas include selling advertising on book covers and collecting part of teachers' tutoring fees to cover costs of the system. Both of these proposals are controversial.
- The cost recovery study offers several other recommendations for USAID's consideration.
- Some governorates are considering setting up special funds from the contribution of parents for school maintenance and minor rehabilitation. Damietta has several such funds in place and actually funding maintenance.

SECTORAL ISSUES

I. Agricultural Extension

USAID has experimented with a variety of models for agricultural extension over the years through the Small Farmer Production Project and several of the agricultural research projects. These experiments provided convincing evidence that an effective system on agricultural development system requires:

- coordinated promotion of technology, inputs and credit;
- continuous development of improved technology packages;
- training of extension workers to disseminate the technology packages; and
- feedback from the farmers.

Until recently, however, USAID was unwilling to engage in a project directly with the GOE extension service for several reasons:

- The policy environment placed extension agents in the role of enforcers of agricultural controls;
- Even in the absence of such policies, USAID questioned whether the poorly paid, motivated and trained extension agents could ever effectively transfer technology; and
- The Ministry of Agriculture was itself undecided as to the proper relationship between the extension service and the research system.

Several events in the past year have set the stage for USAID to begin looking at ways of providing support to agricultural extension.

First and foremost, the GOE has taken major steps to reduce the controls on agriculture, and plans to continue this program. Government rules now clearly state that extension workers are not to be involved in regulatory activities.

Secondly, in 1987 the GOE approved eight principles to strengthen agricultural extension. One reactivates the Supreme Council on Agriculture Extension, with participation of government officials, non-governmental organizations, and farmer representatives. A second establishes Governorate Extension Councils with similar representation to develop and manage decentralized extension programs. Others are establishment of closer links between research and extension, strengthened training at all levels, and increased use of mass media.

Thirdly, there is a growing realization by the GOE that intermediary groups other than the extension service--such as village banks, cooperatives, PVOs, farmers associations, private companies, schools, and the media -- can play an enhanced role in extending agricultural technologies.

Finally, the Ministry has resolved the issue of the relationship between extension and research. The extension service now falls under the Agricultural Research Council, for a closer relationship with the research centers.

Even with these changes, it is still an open question whether the MOA's extension service can effectively transfer technologies to farmers. However, in light of the dramatic changes in Ministry policy and attitudes towards the extension function, we are willing to take some risks. Here are the activities which are already ongoing, or will begin soon:

Agricultural Production and Credit: Based on the success of the SFPP, USAID agreed with the MOA to expand the extension program under the APCP to eight governorates. The project primarily funds training for extension workers, and the same team relationships hold between extension agents, subject matter specialists, and branch bank loan managers as characterized the SFPP, but this time, extension agents report to the extension service rather than to the project.

Private Voluntary Organizations: USAID is increasing its funding for PVO extension activities. For example, USAID is in the process of registering the largest Egyptian PVO, the Coptic Evangelical Organization for Social Services (CEOSS), and has just approved three new CEOSS agricultural extension activities, which will focus on getting farmers to identify their own technology problems, and improving contact between national agricultural development institutions and the farmers. The National Agriculture Research Project (NARP) amendment now being designed includes \$5 million specifically for PVO extension activities.

Governorate Programs: Through the NARP, USAID plans to support the MOA's efforts to decentralize agricultural extension to the governorate level, starting in six governorates, to make it more responsive to local needs and to improve its delivery. Governorate councils, with representation from farmers and private organizations as well as public agencies, will develop, review and approve yearly governorate extension plans. These plans can use other intermediaries besides the extension service, and should develop closer links between researchers, farmers, and extension workers. USAID plans an evaluation after two years of implementation, to determine whether further support for this program is warranted.

Mass communications: USAID is in final negotiations with ACDI for a grant to begin a pilot agricultural education television series (approximately L.E.1.4 million), to create and televise a series of short messages on better farming technologies to be shown on prime time. The NARP amendment will also finance \$2 million of mass media activities, and will set aside further funding for agricultural education through farmer groups, community development associations, cooperatives, and self-help groups.

Private sector programs: USAID's private sector program finances capital expansion and imports of agricultural inputs for private firms. Many of these firms also engage in extension to support their own sales. The NARP will make funds available for innovative programs for organizations like these to contribute to a better understanding of the technology adoption process.

Agricultural universities: The NARP will also finance grants to these institutions to strengthen their ability to plan, develop, and expand extension activities to provide farmers feedback to researchers and practical training to students.

Irrigation: Both the NARP and the Irrigation Management Systems project provide funds to train extension personnel (both government and non-government) in water management techniques. Moreover, senior officials from the MOA and Ministry of Public Works and Water Resources are currently developing a Memorandum of Understanding to ensure that the extension programs of both are coordinated.

II. Private Sector

A. Are there ways the Mission might encourage the private sector by assisting the development of small and micro enterprise?

Discussion: The Mission's small and micro scale initiatives are being expanded on several fronts:

1. A pilot small-scale credit program is underway for two governorates working with the National Bank for Development. If successful, the program will be expanded through the NBD regional banks to other governorates;

2. A grant will be given to Catholic Relief Services to undertake technical assistance to small and micro businesses;

3. An urban micro-scale credit project has been integrated into a USAID-assisted urban upgrading program;

4. The IESC is now marketing its services to small and micro businesses through the cooperatives;

5. The revised terms and conditions of the CIP will finance importation of machinery and equipment for small and micro enterprise through traders. Information programs, credit, and technical assistance directed through the cooperatives will assure access to the trader imports;

6. A project now under development will create a new private institution to provide credit and other support to urban small and micro enterprises. This will be the first institution of its kind in Egypt.

7. USAID is assisting a group of business leaders in Alexandria in the creation of the first private enterprise foundation in Egypt, which will develop and implement a small business lending program.

8. The credit programs will be complemented by a small-scale credit guarantee fund involving six banks for broad outreach.

B. Are there other ways to address the private sector beyond policy dialogue and credit access?

Discussion: The Private Enterprise Sector Project's primary focus is on policy, legislative and procedural reform to improve the private investment climate. Four operational programs will be initiated in FY 88-89.

1. Privatization provides an excellent vehicle for expanding the dialogue by providing actual field laboratory (projects) for discussion and resolution of constraints to expand free market forces. The related information and education programs undertaken by USAID on debt equity, employee stock ownership, build, operate and transfer, and venture capital operations have gained a wide audience at many levels of government. A USAID-assisted GOE-sponsored international privatization conference planned for early spring, 1988, is to be opened by the Prime Minister. It will provide a forum for discussion of private sector issues and will contribute to development of policy consensus on the importance of private sector expansion and liberalization of the economy.

2. In FY 1989, USAID plans to launch a private sector-managed Business Development Center (BDC) with a primary objective of investment and export promotion. Grant resources will also be available to undertake policy related studies and develop an information and analysis capacity to further assist all sizes of industry, including small and micro business. The BDC will be closely coordinated with the ongoing International Executive Service Corps (IESC) technical assistance program.

3. The IESC has proven to be extremely successful and will be expanded in scope to assist small and micro enterprise as well as BDC investment and export development effort.

4. The cumbersome and inefficient term credit program, Private Investment Encouragement Fund, will be de-emphasized in favor of an expanded private sector Commodity Import Program operating more broadly to service all sizes of enterprise. The implementation process relies on the commercial banking sector as opposed to the government approval process under the PIEF.

III. Quality of Education

While both USAID and the Ministry of Education maintain their commitment to infrastructure development to improve access to schools, the current Minister of Education and his senior advisors also wish to use AID resources for qualitative improvement in the system.

In past years, USAID's opportunities to assist in educational reform and curriculum development were very limited. The GOE has always considered content of its educational programs to be an internal matter and has not welcomed foreign involvement. For this reason USAID has approached the subject cautiously. The technical assistance component was designed to respond to specific GOE educational concerns on a work order basis, so that the initiative for research on questions of education reform would come from the GOE.

We are delighted by the government's interest in involving USAID in an area which was previously taboo.

In a November 3, 1987 letter from His Excellency Fathy Serour, Minister of Education, addressed to the Director of AID's Office of Education and Training, the Minister stated explicitly, "I am grateful to your willingness and commitment to support our reform plan especially those related to the development of certain qualitative measures designed to relieve bottlenecks and increase the efficiency and the effectiveness of the educational system".

During the latter part of 1987 and early 1988 USAID has responded to specific requests from the Minister for assistance in the design of a national curriculum development center, a review of textbook and publishing issues, and the design of systems to enhance educational planning and decision making ability within the Ministry. The Minister and his staff have engaged USAID in a dialogue dealing with the critical issues of educational reform and expressed the hope that the current assessment and design process will lead to long term technical assistance from AID. These activities are all consistent with the purpose of the Basic Education process, which was to address efficiency of education as well as access.

We expect that such an assistance, within the functional areas mentioned above, will be focused first and foremost at the basic education level. USAID believes that the time has come and the situation calls for our involvement in the qualitative improvement of Egyptian education, the door for which has been opened widely by the Minister.

IV. Energy

USAID representatives at the program week review will be carrying with them documentation on the proposed Energy Sector Program to begin in FY 1988. The reader is referred to this document for a discussion of USAID's strategy in the energy sector.

I. SUMMARY STATUS OF GOALS AND OBJECTIVES:

This section of the Action Plan provides an updated status of sector goals and objectives as established in last year's CDSS and accompanying Action Plan. In most all cases the goals and objectives are identical to those established last year, but in some cases (Private Sector and Education) the goals and objectives have been modified to more accurately reflect realistic targets.

Of a total of 89 Mission Objectives, 43 are considered on schedule, 5 partially on schedule and 17 behind schedule. Those labeled partially on schedule refer to those objectives that may have more than one component and only one of the components is progressing as planned. The objectives listed as unable to judge (22) refer to those that may be newly established or for which sufficient and accurate data is not yet available to make a sound judgment. Those appearing in the modified column are objectives that are newly established or were changed in order to make them more realistic or more measurable. The objectives included under the private sector account for 8 of the 19 modified objectives.

Overall, more than half of the objectives are judged to be on schedule or partially on schedule. Of the 22 labeled unable to judge, sufficient data/information is not available because the target dates are 1992 or 1993. All objectives that appear in the modified column are in parentheses. This indicates they are also included in one of the other columns and should not be counted in the total number of objectives.

Two objectives have been dropped. In one case, (Education) it was discovered that the objective was based on data that is not available and would be impossible to obtain. A second objective was dropped in the water/wastewater sector. The objective referred to the Port Said water treatment plant. Since the objective was established, it was decided we would not become involved in this effort.

A chart summarizing the extent of progress by sector is included on the following page. The subsequent pages present the status of individual objectives within each sector. To the extent possible the information has been quantified to assist in making fair and accurate judgments.

S U M M A R Y S T A T U S O F O B J E C T I V E S

<u>S E C T O R</u>	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
MACROECONOMIC		2	3	1	(3)	
WATER & WASTEWATER	9		1	3	(4)	1
LOCAL DEVELOPMENT	7		3		(1)	
AGRICULTURE	10	1	3	3	(1)	
PRIVATE SECTOR	1	2	1	5	(8)	
SCIENCE & TECHNOLOGY	7		1			
POPULATION	2		1	2		
HEALTH	5			7		
EDUCATION	2		4	1	(2)	1
T O T A L	43	5	17	22	(19)	2

MACROECONOMIC SUPPORT

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
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Goal: Promote long run economic viability and growth

Objectives:

- | | | | | | | |
|--|---|--|---|---|-----|-----|
| a. A GOE reform program resulting in a standby Agreement with IMF | X | | | | (X) | |
| b. Unify foreign Exchange Rates | X | | | | | |
| c. Permit cost of and return to capital to rise to domestic market determined levels. | | | X | | | |
| d. Reduce GOE budget deficit | | | X | | (X) | |
| e. Increase average electricity tariffs | | | | X | | (X) |
| f. Reduce electricity price differentials between public and private sector enterprises. | | | X | | | |

II. MACROECONOMIC SUPPORT

A. Strategic Goals and Intermediate Objectives

1. Strategic Goal: Promote long run economic viability and growth by assisting the GOE undertake structural economic reform.

- a. Intermediate Objective: (P/M)

A GOE reform program that results in a Standby Agreement with the IMF in FY 1987 and subsequent years, thereby allowing Egypt to reschedule its externally held debt and to gain access to \$600 million to a billion in World Bank resources, of which \$450 million would be quick disbursing, and leading towards formation of World Bank consultative group.

Note: The original intermediate objective has been changed to include the phrase "...and subsequent years,". The IMF Standby Agreement and rescheduling are expected to last the next four years.

Baseline and Status:

- A Standby Arrangement with the IMF was signed in FY 1987 (May). Egypt drew down the first tranche of the Fund's credit permitted by the Standby but has been ineligible for drawings scheduled after that month.
- Total Paris Club debt rescheduling is expected to be about \$7 billion with additional rescheduling expected for debts owed to bilateral donors not affiliated with the Paris Club.
- Bilateral negotiations have been completed with the U.S. and several other Paris Club members, but agreements still have not been reached with more than half the 18 member nations of the Paris Club. The IMF expected these negotiations to be completed in the Fall of 1987.
- The strengthening of the Standby Arrangement called for during the Fall of 1987 was not achieved. Negotiations are continuing between the GOE and IMF for a possible new standby.
- Due to the World Bank's concerns about Egypt's creditworthiness, discussions are stalled on important sector loans. The Bank is unlikely to approve any of these without a new agreement between the GOE and the Fund.

- Even if no sector loans are made, the Bank may support individual projects. It is particularly interested in financing a portion of the Damietta Power Plant (probably between \$200 and \$250 million) but only if satisfactory progress is achieved in raising energy rates. The bank is also looking at a fertilizer sub-sector loan.

b. Intermediate Objective: (P)

Unify foreign exchange rates as specified in an agreement that was reached with the IMF in FY 1987. At this point USAID expects that agreement will call for: (1) moving all transactions that currently take place at the \$1.00 = LE 1.35 rate to the free market rate during FY 1988, (2) setting a schedule for moving all transactions that currently take place at the \$1.00 = LE 0.70 rate.

Baseline and Status

- In 1985, there were more than four exchange rates, the most important of which were the LE 0.70, LE 0.83, LE 1.35 and a "free" rate. During April 1984 to June 1986, an increasing range of transactions was moved from the LE 0.83 to the LE 1.35 rate. The LE 0.83 = \$1.00 rate was eliminated in mid 1986.
- However, the Central Bank rate continued to apply to a limited number of key public sector imports (basic food items) and exports (oil, Suez Canal, petroleum, cotton). It is also applied to servicing of the public sector debt.
- The Standby Arrangement, which took effect in May 1987, called for measures similar to the two specified in the intermediate objective.
- In May 1987, as agreed with the IMF, the GOE established a new bank rate at LE 2.17 = \$1.00 -- slightly above the then prevailing "free" market rate. Since its establishment, the new bank rate has fluctuated in a narrow range, gradually declining to LE 2.25 = \$1.00. The change since May represents a depreciation of less than 4 percent of the pound's value against the dollar.
- Also in May 1987, the GOE passed approximately 40 percent of the transactions previously conducted at the 1.35 rate to the new bank rate. An additional 40 percent were officially moved in November. Most of the balance of the imports and exports formerly taking place at the 1.35 rate are also now using the new rate.

- In addition, the exchange rate in the old commercial bank pool is being adjusted on an agreed schedule along a path aimed at completely unifying it with the new free market rate by June 1988. It currently (as of early February 1988) stands at LE 1.94 = \$1.00. This rate is being used to assess customs duties.
- In the Fall of 1987, a deficit on a commitment basis began to appear in the new bank rate. This deficit refers to bank approval of applications for letters of credit (LCs) without issuing the LCs until the money is available. Thus there is a waiting period between bank approval of an LC and its issuance. Although the deficit on a commitment basis grew throughout the latter part of 1987, the value of the pound did not fall, thus, price was not used to find an equilibrium between the supply and demand for foreign exchange.
- On February 14, the GOE relaxed previous prohibitions on private sector access to bank FX for the payment of old debt.
- An understanding on a schedule for the unification of the Central Bank rate with the new bank rate was not reached during the Fall 1987 performance review specified by the IMF Agreement. GOE/IMF discussions are continuing.

c. Intermediate Objective: (B)

Permit cost of and return to capital to rise closer to domestic market-determined levels over the next five years. (Note): This objective was modified to lengthen the time horizon)

Baseline and Status:

- Prior to the Standby Arrangement, maximum and minimum interest rates on loans were 11 to 13 percent for agriculture and industry, 13 to 15 percent for services and 16 percent with no maximum for commerce. Low LE deposit rates, and uncertainty about price and availability of foreign exchange further encouraged Egyptian preferences for dollar accounts. The latter now exceed half the value of deposits in the banking system. Low interest rates on LE deposits also encouraged depositors to seek the higher returns offered in informal credit markets and Islamic finance companies.
- As part of the IMF agreement reached in May 1987, rates were increased by one percentage point on loans with a maturity of more than one year and by two percentage points for loans with a maturity exceeding two years.

- During the first review of the Standby Arrangement, the GOE and Fund failed to agree upon a schedule for bringing interest rates to real positive levels competitive with yields on foreign currency instruments.
- Interest rates and dividends in the informal market and in Islamic financial institutions are well above the legal bank rates. Thus informal financial intermediaries (and perhaps equity investments as well) are capturing an increasing share of the market for savings and capital investment.

C O M M E N T:

It appears unlikely that this objective will be met in the form of a change in legal interest rate ceilings for bank loans and savings. Citing religious grounds, the GOE steadfastly resisted any further rises in interest rates during the Fall review of the IMF program. However, other vehicles such as Islamic financial institutions are effectively moving up the cost of and return to capital thereby constituting potential solutions for attaining this target.

d. Intermediate Indicator: (B/M)

Reduce the GOE budget deficit to approximately 13% of GDP in 1987/88, progressively declining to approximately 4% of GDP in 1991/92.

Note: The intermediate objective was rephrased and an error eliminated (the target deficit in 1987/88 was erroneously listed as 18% instead of 13%).

Baseline and Status:

- The budget deficit was above 20% of GDP in 1984/85 and 1985/86.
- The Standby Agreement called for a budget deficit not to exceed 16% of GDP in 1986/87 and 13% in 1987/88. After the latter year, it is targeted to steadily decline to a maximum of 4% of GDP in 1991/92.
- As presented to Parliament, the 1987/88 budget was below the deficit target stipulated by the IMF.
- However, there are indications that the 1987/88 target is unlikely to be met. The IMF now considers a 16% figure more realistic.

C O M M E N T

The 1987/88 objective is unlikely to be met because of delays in introducing adequate measures to raise revenues. However, this is not an absolute objective. It requires give and take to compensate for the effects of other reforms, such as subsidy reductions through exchange rate reforms. Based on the current status of efforts, the Mission considers a target deficit of 13-15 percent by FY 1989 to be a more realistic objective.

e. Intermediate Objective: (U/M)

Increase average electricity tariffs by 10 to 15 percent above inflation in FY 1988, on a path towards elimination of the implicit subsidy by FY 1994. Petroleum products, since they are used in electrical generation should increase proportionately. This objective should be pursued in coordination with the World Bank.

Baseline and Status:

- Energy pricing is one of the most sensitive political issues one in which the President himself makes the final decisions. Clearly, this is as much a political as an economic issue.
- Electricity prices were raised by an average of 29% in May 1987. However, in real terms, these increases resulted in lower tariffs than those prevailing in July 1985, the date of the previous tariff increments. Since July 1985, the consumer price index produced by CAPMAS increased by about 42 percent.
- The GOE has moved back its earlier objective of bringing electricity prices up to their economic value by the end of the current Five Year Plan (June 1992).
- Electricity tariffs are expected to increase in 1988, but the level of increase is not yet known.
- The nominal prices of fuel oil, gas oil, kerosene and natural gas were raised by about 66% (36% in real terms) in May 1987. This still leaves their prices at less than 20% of their economic values. A 40 percent real increase in petroleum prices is not likely to take place in 1988.
- No agreement is known to have been reached with the World Bank for energy price increments in 1988/89.
- The Standby Arrangement called for an understanding on energy price increases during 1988/89 to be reached at the first review of performance (scheduled for the Fall of 1987). The Fund deferred to the World Bank on this issue, but to date, no agreement has been reached.

C O M M E N T

This objective has been revised downward to make it more realistic.

f. Intermediate Objective: (B)

Reduce electricity price differentials which now favor public sector over private enterprises over five years.

Baseline and Status:

- The average price for electricity is 3.0 piasters per Kwh compared to an estimated economic price (long run marginal cost) of about 13 piasters. Electricity prices vary tremendously by user. Certain public sector firms pay only about 1.6 piasters per KWH, while others pay close to the average rate for private sector firms, about 13 piaster. The Law 43 joint venture firms pay the highest rate of 18 piasters.
- The 1987 tariff rate made a small adjustment towards equalizing tariff rates to similar classes of user.
- Rates for joint venture companies in Free zones are adjusted for difference in fuel price between international price and subsidized priced.
- The Minister of Electricity and Energy has advised that a decree is being prepared which when enacted will eliminate the electricity price differential between public sector and private sector.

C O M M E N T

USAID is proposing to the GOE an alternative approach on energy pricing by avoiding a full pass through of the impacts of higher prices. This could be accomplished by creating a special fund based on the proceeds of higher rates. The fund could be used to explicitly subsidize public sector firms unable to pay the full cost of energy -- this is similar to the mechanism frequently suggested to avoid the full pass through of the pricing impacts of an exchange rate devaluation. Such a proposal would have the advantage of clearly identifying the costs of energy resources. At the same time, it would offer at least a temporary respite to enterprises unable to pay the full cost of their energy inputs. This approach permits the GOE to move quickly toward more efficient energy pricing, while avoiding some of the politically most damaging implications of higher rates.

W A T E R & W A S T E W A T E R

On Partially Behind Unable to
Schedule on Schedule Schedule Judge Modified Dropped

Goal 1. Improve Egyptian Capability to manage water & Wastewater Systems.

- Objectives:**
- a. Recurrent costs for Water & Wastewater collected. X
 - b. All new projects include O&M component. X

Goal 2. Water & Wastewater System Completed

- Objectives:**
- a. Cairo West Bank sewerage collection system completed by 1994. X
 - b. Rehabilitate Cairo West Bank wastewater treatment plant and construct new plant by 1993. X
 - c. Improve effluent drains and provide sludge handling facilities for two treatment plants by 1993. X
 - d. By 1994 rehabilitation and expand Rod El Farag water distribution system. X
 - e. In the three Provincial cities build new water treatment plants. X

X

W A T E R & W A S T E W A T E R (Cont'd)

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
f. Expand wastewater collection nets in the three cities	X				(X)	
g. Complete expansion of Alexandria wastewater collection system by 1992.				X		
h. Rehabilitate two Alexandria wastewater treatment plants by 1990.				X		
i. In the canal cities complete ongoing expansion of water treatment and distribution facilities.	X					
j. Increase the raw water supply to the Port Said water treatment plant by 1994.						X
k. Construct a wastewater treatment plant in each of the canal cities.				X		
l. Complete expansion of sewerage collection systems in the three cities.						X

III WATER & WASTEWATER

A. Strategic Goals and Intermediate Objectives

1. Strategic Goal: Improve Egyptian Capability to manage water and wastewater systems.

a. Intermediate Objective: (0)

100% and 50% coverage of recurrent costs for water and wastewater respectively by 1991 through user charges, from an average of 40% in 1986 (for water organizations) and 10% (for wastewater organizations).

Baseline and Current Status:

- Prior to 1986, there was no wastewater surcharge. Pre-1986 information for water is not available.
- The new Water Tariff Bill provides for revenue retention at the governorate level. Governors already are retaining funds for O&M purposes.
- Recurrent costs are defined as operation and maintenance costs (O&M) and debt service. Best estimates are that both portions of the objective will be met. Recurrent costs are estimated at 10 piasters with 6.5 piasters going for O&M and 3.5 piasters for debt service. As of now the average prices of water for all consumers countrywide is 7.8 piasters which exceeds the O&M cost. This is projected to go to 13.4 piasters in 1991 which should meet O&M costs, debt service and inflation.
- Meeting this objective could be jeopardized by the large volume of treated water that does not generate income due to leaks, theft or non-payment of bills. Whereas in greater Cairo, Port Said and Suez 100% of treated water generates income, in the Provincial Cities (Beni Suef, Minia and Fayoum) only 73% of treated water generates income, and in Ismailia and Alexandria the ratio goes down to 60% and 52% respectively.

b. Intermediate Objective: (O)

Build into all new projects start up and operation and maintenance elements to ensure the smooth transfer of newly constructed or rehabilitated facilities from construction contractors to operating units. Develop transitional O&M plans for completed or nearly completed facilities. By the end of 1989 all completed facilities will have on-the job training programs in operations and maintenance.

Baseline and Status:

All on going and future AID water and wastewater construction contracts will include a provision for the U.S. construction contractor to operate and maintain the facilities he builds for a transitional period of at least two years. During this period, the contractor will ensure that these facilities run smoothly and that Egyptians are trained in operating them. The contractor will turn the O&M responsibility to the owning Egyptian organization gradually so that the organization will have complete responsibility by the end of the transitional period.

2. Strategic Goal: Complete construction and rehabilitation of urban water treatment and distribution systems and wastewater collection and treatment networks by 1994.

a. In Cairo

1. Intermediate Objective: (B/M)

Complete the Cairo west bank sewerage collection system by 1994. Expand the service area to 1.5 million inhabitants and provide enough excess capacity to serve the 3.5 million inhabitants who will occupy the area by the year 2000 (U).

Baseline and current Status:

- Project has been delayed approximately 18 months due to contractor problems. Problems have been resolved and progress is now evident but delays have placed progress behind original target. Completion date has been changed from 1993 to 1994.

2. Intermediate Objective: (O)

Rehabilitate an existing wastewater treatment plant and construct a new plant by 1993 to handle all the wastewater collected on Cairo's West Bank.

Baseline and Status:

- This is the second year working toward the stated objective which will take six years to achieve. As of this date it appears the objective is on schedule.

3. Intermediate Objective: (O)

Improve the effluent drains and provide sludge handling facilities for the two wastewater treatment plants by 1993.

Baseline and Status

Based upon consultant reports objective is still sound and achievable.

4. Intermediate Objective: U/M

Complete the rehabilitation and expansion of the Rod El Farag water distribution system by 1994, providing a dependable potable water supply to more than three million inhabitants.

Baseline and Status:

- Achievement of this objective is dependant on available funding to start the project. The project paper is completed and is a shelf item. The target date has been changed from 1993 to 1994 pending the availability of funds.
- Progress toward the objective cannot be judged until the project is implemented.

b. In the Provincial Cities (Beni Suef, Minya and Fayoum):

1. Intermediate Objective: (O)

Build new water treatment plants, storage reservoirs and intake structures in the three provincial cities by 1991.

Baseline and Status:

- Construction Bids for the above facilities were open in January.
- The contract is expected to be signed in March.
- Although still in the contracting process, progress towards this four year objective can be considered on schedule.

2. Intermediate Objective: (O/M)

Expand wastewater collection nets and rehabilitate existing wastewater treatment plants in the three cities by 1991, thus improving and upgrading service to 600,000 people.

Baseline and Status:

- Construction is underway in two cities with construction completed in the third city.
- Objective was changed from 1990 to 1991. With this change progress towards reaching the objective is on schedule.

c. In Alexandria:

1. Intermediate Objective: (U)

Complete expansion of Alexandria's wastewater collection system by 1992.

Baseline and Status:

- Project is in its initial stage of development and is considered on target.

2. Intermediate Objective: (U)

Rehabilitate two wastewater treatment plants by 1990 and construct sludge disposal facilities by 1992.

Baseline and Status:

- Treatment plant construction started in FY 1987.
- Sludge disposal facilities construction to start in FY 1988.
- Political decision concerning sludge disposal site could delay 1992 target date.

d. In the Canal Cities (Suez, Ismailia, Port Said).

1. Intermediate Objective: (O)

Complete ongoing expansion of water treatment and distribution facilities in the three canal cities by 1987 expanding service to 500,000 additional people.

Baseline and Status:

Objective was achieved in FY 1987 and resulted in expanding service to 500,000 additional people.

2. Intermediate Objective: (D)

Increase the raw water supply to the Port Said water treatment plant by FY 1994, expanding service to 200,000 additional people. .

Baseline and Status:

USAID will not be directly involved in this effort and therefore it will be dropped as of one objectives.

3. Intermediate Objective: (U)

Construct three wastewater treatment plants, one in each of the cities.

Baseline and Status:

This effort is currently in the design stage and it is too early to determine extent of progress.

4. Intermediate Objective: (O/M)

Complete expansion of the sewerage collection systems in the three cities by GOE-financed contractors by 1989 expanding service to 500,000 additional people.

Baseline and Status:

Objective target date was changed from 1988 to 1989. Considering this change the objective is on schedule.

LOCAL DEVELOPMENT

On Schedule Partially on Schedule Behind Schedule Unable to Judge Modified Dropped

Goal 1: Improve Capacity of Local governments and NGOs to plan and implement basic services

Objectives:

- a. Develop a government wide commitment to decentralization of government services X
- b. Introduce a system of central-local government revenue sharing X
- c. From 1987-1989 disburse 100 million annually to construct 3,000 basic service projects X
- d. O&M policy and procedures established to collect and return revenues to support basic services X (X)
- e. Establish O&M system for governorate infrastructure and equipment X
- f. Establish nationwide system of matching grants to support low income communities X
- g. Initiate a program of training block grants for elected and executive local officials X
- h. Improve the quality and reduce costs of basic services X

LOCAL DEVELOPMENT (Cont'd)

	<u>On</u>	<u>Partially</u>	<u>Behind</u>	<u>Unable to</u>	<u>Modified</u>	<u>Dropped</u>
	<u>Schedule</u>	<u>on Schedule</u>	<u>Schedule</u>	<u>Judge</u>		

i. Construct 24 wastewater projects in 2 rural governorates by 1989. X

j. Start a credit program for small enterprises in two governorates. X

IV LOCAL DEVELOPMENT

A. Strategic Goals and Intermediate Objectives

1. **Strategic Goal:** To improve the capacity of local governments and non-governmental organizations to plan, finance, implement, operate and maintain locally chosen basic services projects.

- a. Intermediate Objective: (0)

Develop a government-wide commitment to the GOE's stated policies of administrative and fiscal decentralization of government services. By the end of FY 1989 the Local Development Technical Secretariat routinely conducting policy analysis and securing inter-ministerial commitment of fiscal and administrative decentralization.

Baseline and Status:

- In 1986 there was no central body in the GOE to coordinate between ministries participating in the Local Development II Program and serve as a forum for discussion of decentralization and local economic development policies.
- The Local Development Technical Secretariat (LD II Amana) is now an established and recognized advocate of local development issues and programs in the GOE. Meeting once each month, the Amana now routinely addresses and makes or refers to appropriate ministries policy decisions related to local resource mobilization, operation and maintenance of local basic services facilities and privatization. The Amana is at present participating in the drafting of an amendment to the Law of Local Government allowing for increased fiscal decentralization. The Amana also addresses issues of concern to other ministries and USAID offices such as privatization, credit and land use management.

- b. Intermediate Objective: (0)

Introduce a system of central-local government revenue sharing. The Ministries of Finance and

Planning will provide annually to local governments, on a matching basis, discretionary capital and recurrent cost financing equivalent to 30 percent of AID's annual capital contribution to the Local Development Program. This system will be established by the end of FY 1989 and continued through 1992.

Baseline and Status:

- Under the Basic Village Services (BVS), Neighborhood Urban Services (NUS) and Development Support Fund (DSF) activities, the central government contributed 10 percent of the USAID grant to cover the costs of operations and maintenance for facilities financed through the program. No contribution was required from local government units.
- The FY 1987 amendment to LD II, which added a USAID contribution of \$75 million, also added \$19.17 million from the GOE, for a total GOE contribution of 26 percent. The proposed \$75 million FY 1988 amendment, currently under negotiation, will add \$26.2 million from the GOE, or 35 percent.
- These amendments will bring the GOE's total contribution to \$94.2 million, or 31 percent of USAID's \$306 million commitment. This intermediate objective has been reached ahead of schedule.
- LD II is now in its second annual planning cycle using the matching block grant system. The system of "revenue sharing" is being implemented by the GOE as an effective means of decentralizing government authority and responsibility to the local level. Each local unit contributes 5% of the cost of each project and this is matched by a grant (5%) from the Ministry of Planning.

c. Intermediate Objective: (O)

Annually disburse, during FY 1987, 1988 and 1989, approximately \$100 million to construct approximately 2,000 locally chosen basic services projects per year.

Baseline and Status:

- Average annual expenditures during the first ten years of the program were US \$60 million. During FY 1985 and 1986 expenditures were \$63 million and \$36 million respectively.

- During FY 1987 the Local Development Program (which includes BVS, NUS and DSF) disbursed \$80.6 million to fund 1,992 local projects and 145 heavy equipment items. In FY 1988 a total of 219 local projects have been funded at a total cost to USAID of \$12.4 million. Total expenditures for FY 1988 are projected at \$104 million. In FY 1989 we anticipate expenditures of \$122 million.

d. Intermediate Objective: (B/M)

By the end of FY 1988 secure policy determinations and implementation procedures enabling local governments to collect and retain revenues to support sustained operation and maintenance of basic services. By the end of FY 1989 convert all AID financing for local water and sanitation projects from grants to GOE loans to governorates or village councils.

Baseline and Status:

- Under BVS and the provincial component of LD II to date, local water and sanitation projects have been and continue to be funded on a grant basis.
- The Local Resource Mobilization (LRM) Sub-Committee of the Amana is currently drafting language to be considered for inclusion in a proposed 1988 amendment to the Law of Local Government allowing for a more explicit delegation of authority to the governorates to collect and retain fees to cover the operation and maintenance costs of local basic services facilities. The proposal to convert financing of water and sanitation projects to a loan basis is being actively discussed with GOE counterparts and 1992 is a more realistic target for this initiative.

C O M M E N T S

The target date of 1988 and 1989 have been changed to the more realistic date of 1992. As such this objective is rated as behind schedule.

e. Intermediate Objective: (B)

Establish a comprehensive operation and maintenance system for governorate infrastructure, equipment and municipal services. By the end of FY 1987 begin construction of four privately managed O&M centers and make \$11 million in recurrent cost financing available from the Ministry of Finance to the governorates for operations and maintenance. By the end of FY 1989 establish 15 privately managed governorate maintenance centers and have in place a comprehensive maintenance management and finance system for all 26 governorates.

Baseline and Status:

The process of evaluating bids and selecting a contractor for the four pilot maintenance systems, including considerable private participation, is underway, with award scheduled in April, 1988. By the end of FY 1987 the Ministry of Finance had committed a total of \$49.5 million in incremental recurrent cost financing for O&M costs in the governorates. Significant progress has been made in establishing a nationwide comprehensive maintenance and management and finance system as evidenced by preparation of O&M funding plans in 9 provincial and six urban governorates.

C O M M E N T

Although there is apparent progress toward reaching the stated objective construction of the four privately managed O/M pilot centers is approximately six months behind schedule. As such progress toward reaching this objective is considered behind schedule.

f. Intermediate Objective: (O)

Establish a nationwide, locally managed system of matching grants to support provision of basic services to low income communities through private voluntary organizations. Finance 200 PVO activities by the end of FY 1987 and an additional 1,500 by the end of FY 1989.

Baseline and Status:

- This program is now firmly in place, with 215 projects funded as of the end of FY 1987 and 569 as of 1 January 1988 at a total cost to USAID of \$1.7 million. In addition to this amount, the governorates themselves contributed 5 percent of each project's total value. Orientations for project implementation and the second annual planning cycle are now underway. It is anticipated that more than 1,600 additional new projects will be undertaken and \$2.6 million disbursed during the balance of FY 1988.

g. Intermediate Objective: (B)

By the end of FY 1987 initiate in nine rural and four urban governorates a program of training block grants for elected and executive local officials in planning, managing and financing local development. By the end of FY 1989 expand the training block grant program to all participating provincial and urban governorates.

Baseline and Status:

- This program is behind schedule due to delays in establishment by the GOE of a training sub-committee for the LD II Amana. This sub-committee, and its staff, will be responsible for reviewing drafts of guidelines (already prepared) for the governorate training plans, as well as for monitoring the program as a whole. The GOE has informed us that the Training Sub-Committee will be established in the second quarter of FY 1988, with disbursement of block grant funds to all 26 governorates totaling about \$1.2 million taking place prior to the end of the fiscal year.

h. Intermediate Objective: (O)

Introduce projects and new technologies to improve the quality and reduce the costs of basic services. By the end of FY 1989 introduce at least two urban upgrading activities managed and financed at the governorate level.

Baseline and Status:

A pilot wastewater activity is underway in 24 sites in three provincial governorates to test the applicability and appropriateness of several new technologies. Under the urban component of LD II, the contractor will be working to establish Land Management Units in each of the six urban governorates which will have the capacity to undertake urban upgrading programs managed by the governorates themselves and maximizing the participation of private sector land developers.

i. Intermediate Objective:

Implement 24 appropriate technology wastewater projects in two rural governorates by the end of FY 1987 and complete these by the end of FY 1989.

Base and Status:

All 24 sites are underway. This objective is progressing on schedule.

j. Intermediate Objective:

In early FY 88 start through the NBD a pilot commercial credit program for small private enterprises in selected villages in two governorates.

Base and Status:

Program is on schedule with first loans expected in March or April, 1988.

A G R I C U L T U R E

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
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Goal 1: Increase Agriculture production by reducing controls

- | | | | | | | |
|--|---|---|---|--|-----|--|
| Objectives | X | | | | | |
| a. Move price for cotton to at least 50% of world mark price | | X | | | (X) | |
| c. Remove most procurement quotas | X | | | | | |
| d. Remove most mandated area controls | X | | | | | |
| e. Eliminate restrictions on imports of red meat | | | X | | | |

Goal 2: Increase Agriculture Production, research, extension and agriculture credit

- | | | | | | | |
|--|---|--|--|--|--|--|
| Objectives: | X | | | | | |
| a. Provide increased credit | X | | | | | |
| b. Provide loans to at least 500,000 small farmers by 1992 | X | | | | | |

Goal 3: Strengthen Private Sector capacity to market farm outputs

- | | | | | | | |
|--|---|--|---|---|--|--|
| Objectives: | | | | | | |
| a. Increase loans to agriculture businesses | | | X | | | |
| b. Privatize government owned/operated farm supply systems | X | | | | | |
| c. Eliminate farm input subsidies | | | | X | | |

A G R I C U L T U R E (Cont'd)

	<u>On</u>	<u>Partially</u>	<u>Behind</u>	<u>Unable to</u>	<u>Modified</u>	<u>Dropped</u>
	<u>Schedule</u>	<u>on Schedule</u>	<u>Schedule</u>	<u>Judge</u>		

Goal 4 Improve Overall Water Use Efficiency

Objectives:

- | | | | | | | |
|--|---|---|--|--|--|---|
| a. Develop system for maintenance of irrigation system | X | | | | | |
| b. Rehabilitate irrigation delivery system | | X | | | | |
| c. Charge fees to cover 100% of irrigation O&M costs. | | | | | | X |

V. AGRICULTURAL DEVELOPMENT:

A. Strategic Goals and Intermediate Objectives:

1. Strategic Goal: Increase agricultural production by removing controls on production and allowing prices of inputs and outputs to move to market levels.

a. Intermediate Objective: (O)

Remove farm price controls on all crops except cotton, sugarcane and quota rice in FY 87.

Baseline and Status:

- Removal of farm price controls for all crops except cotton, sugarcane and quota rice was announced in mid-1986. The MOA-U/AES is now implementing a survey to verify that price controls have been eliminated at the farm level. The findings of the survey are expected to be completed by June, 1988. Early indications are that the price controls have been removed, except for non quota rice.

b. Intermediate Objective: (P/M)

Move procurement price for cotton, and prices for cotton by-products and animal feed to at least 50 percent of their world market price equivalents by FY 1988.

Baseline and Status:

- Procurement price for cotton (Giza 75) has dropped from 41 percent of world price in November 1985 to 29 percent of world price in November 1987.

- Increases in official procurement price of cotton by LE 20 per Kentar for 1987 and LE 30 per Kentar announced for 1988 exceed slightly the economy-wide rate of inflation.

- The price of subsidized imported corn has been raised from less than one third of the world price in 1986 to about 70 percent of the world price in January 1988. A further increase may occur by mid-1988. Other subsidized feed components (cotton seed cake, wheat bran, finished livestock feed mixes) have been increased significantly in price but are still less than half of world price equivalents.

c. Intermediate Objective: (0)

Remove procurement quotas on all crops except cotton, sugarcane and quota rice during FY 1987.

Baseline and Status:

- Before 1986, GOE mandatory procurement quotas were imposed on a large number of crops that included wheat, beans, lentils, onions, groundnuts and sesame.
- Removal of all procurement quotas on all crops except cotton, sugarcane and a portion of rice production was announced in January 1987 by Ministerial decree. Cotton and sugarcane are still 100% procured by the GOE. About 50% of the rice crop is government procured.
- MOA is currently conducting a farm survey to verify that government procurement quotas have been removed. Early indications are that mandatory procurement has been eliminated except for the three controlled crops and possibly for soybeans.

d. Intermediate Objective: (0)

Remove mandated area controls on planting for all crops except cotton, sugarcane and rice during FY 1987.

Baseline and Status:

- Before 1986, mandated area controls were applied to many crops, including wheat, beans, lentils, onions, groundnuts and sesame.
- In 1987, the GOE issued a Ministerial decree removing area controls on all controlled crops except cotton, sugarcane and rice. As a result, freed up (non-mandated) crops now include wheat, corn and broad beans in addition to uncontrolled fruits and vegetables. MOA is currently conducting a farm survey to verify that farmers no longer face acreage controls. Initial results from farm surveys indicate farmers no longer face controls.

e. Intermediate Objective: (B)

Eliminate restrictions on imports of red meat in order to reduce local prices for red meat toward world market levels and to induce farmers to shift cropping pattern away from fodder crops to crops with higher economic value.

Baseline and Status:

- Before July 1986, a government "import rationalization committee" controlled the volume of import licenses for private sector imports of red meat, and local meat prices were about twice world price equivalents.
- Import rationalization committees were abolished in July 1986. However, import volumes appear not to have increased and local prices of red meat have drifted higher at a rate similar to economy-wide inflation. Restricted availability of bank letters of credit under the "free foreign exchange market" appear to be hampering private imports of meat. Mission and MOA staff are collecting further information to assess the problem.

2. Strategic Goal: Increase national agricultural production through the generation, extension, and adoption of improved technologies and through the increased availability of production credit to farmers.

a. Intermediate Objective: (O)

Provide increased credit and improved banking services to small farmers through over 350 village branches of the Principal Bank for Development and Agricultural Credit (PBDAC) by FY 1992.

Baseline and Status:

- Under the Small Farmer Production Project, 9 village branches of the Principal Bank for Development and Agricultural Credit (PBDAC) provided increased credit and improved banking services in 1980. In 1981, 27 branches provided increased credit and services followed by 75 branches in 1986. A total of 202 village banks have now been trained in the new system.

b. Intermediate Objective: (O)

Provide loans to at least 100,000 small farmers and rural entrepreneurs by the end of FY 1988 and to 300,000 by FY 1992 through the Small Farmer Production Project and the Agricultural Production and Credit Project.

Baseline and Status:

Over 90,000 farmers have received loans from PBDAC through the SFPP. The longer term objective of making more loans available is achievable. However, the PBDAC reporting system will not separate project from non project loans.

c. Intermediate Objective: (U)

Upgrade, equip and strengthen 15 research institutes and laboratories and 31 research stations throughout the Agricultural Research Center, Ministry of Agriculture by the end of FY 1993.

Baseline and Status:

- There are 31 agricultural research stations throughout Egypt, 13 institutes and 3 central laboratories.
- The ongoing NARP project has been amended to include this objective. It is therefore too early to be able to judge progress toward the objective.

d. Intermediate Objective: (U)

Extension and adoption of 5 NARP project related technical packages in six (6) governorates by FY 1991.

Baseline and Status:

- There are a total of 26 governorates in Egypt.
- This is a new objective under the NARP project and cannot be judged at this time.

e. Intermediate Objective: (U)

Annual average increases in yield of approximately 3 percent in non-controlled crops in three (3) governorates.

Baseline and Status:

- Price controls have been removed on all crops except cotton, sugarcane, and quota rice.
- This is a new objective.

3. Strategic Goal: Strengthen the private sector by increasing its capacity to market farm outputs and inputs through:

- deregulation of trade,
- divestment of public operations,
- promotion of private businesses, and
- reduction of GOE subsidies for commodities sold by public sector suppliers.

a. Intermediate Objective: (B)

Increase loans to agriculturally related private businesses to 10 percent of PBDAC loans by the end of FY 1992.

Baseline and Status:

- In 1986, 1% of PBDAC loans went to agriculturally related private businesses. No further progress has been made at this time.

b. Intermediate Objective: (O)

Privatize government owned or operated farm input supply systems by FY 1992.

Baseline and Status:

- Currently, the GOE has a monopoly in this area. There appears to be a trend towards acceptance of privatization measures, but no systems have yet been privatized. In 1986, the Minister of Agriculture authorized the PBDAC to investigate means of privatizing the Bank's input supply function.

- Study Terms of Reference has been developed collaboratively with PBDAC, MOA, and USAID. Study will address issues concerning the privatization of government owned input supplies, constraints to privatization, recommend procedures for privatization and estimate benefits to be gained. Study is expected to be completed by 8/1/88.

c. Intermediate Objective: (B)

Eliminate government farm input subsidies by FY 1991.

Baseline and Status:

- Fertilizer prices are less than half of world price. In March 1987, the GOE agreed not to increase the nominal level of subsidies above the FY 1986 level.
- Fertilizer prices were raised 10-15 percent in February 1988 (the first general increase since 1983). Further price increases may occur in July 1988.
- Study Terms of Reference has been developed collaboratively with MOA and USAID. Study will address issues concerning the economic impact of input subsidies on the agricultural sector. Study is expected to be completed by 8/1/88.

4. **Strategic Goal:** Improve the overall water use efficiency in the irrigation distribution system by 8 percent between FY 1986 and FY 1991 and develop mechanisms for cost recovery.

a. Intermediate Objective: (0)

Develop and implement an integrated system for upgrading maintenance of the irrigation system. Make the maintenance system operational in 5 irrigation directorates by 1993.

Baseline and Status:

- There are 19 irrigation directorates in Egypt.
- No formal preventive maintenance system is currently being implemented in any area of Egypt. A preliminary survey of maintenance requirements for one directorate (Gharbia) began in 1983. Currently, the Gharbia preventive maintenance system is operational. If this pilot area continues to be successful, it will be expanded to two more directorates in 1989.

b. Intermediate objective: (0)

Rehabilitate the irrigation delivery system down to the farm level, complete design and feasibility analysis on 11 canal service areas, and improve productivity on 300,000 feddans by 1992.

Baseline and Status:

- There are six million feddans under irrigation.
- Currently, feasibility work (by AID and UNDP) is on-going for 200,000 feddans. Feasibility and design analysis for the 11 canal service areas began in 1987. To date 8 areas are being finalized with UNDP assistance. The final design and construction of the eight UNDP areas will be finalized by AIDF.

c. Intermediate objective: (0)

Begin charging fees to cover 100 percent of irrigation O&M costs in rehabilitated areas in FY 1992.

Baseline and Status:

Currently there is no systematized fees structure in place. By 1989, farmers will have the option to have their small communal canals and on-farm improvements carried out with GOE TA and at farmers cost. During the LOP a cost recovery system will be developed to recover the appropriate share of the total O&M cost of the system by the farmers.

d. Intermediate objective: (0)

Improve staff capabilities through the establishment of a National Irrigation Training Institute and by training 2,500 people in-country annually by 1993.

Baseline and status:

The training program started in FY 1982 and 2700 people have been trained to date, including approximately 900 in FY 1987.

P R I V A T E S E C T O R

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
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Goal 1: Improve Investment Climate

Objectives:

- a. Establish institutional mechanisms for sustained dialogue. (X)
- b. Benefits of privatization made known. (X)

Goal 2: Strengthen Private Sector capability to Identify/develop export and Investment Opportunities

Objectives:

- a. Expand private sector managed investment and export promotion program. (X)
- b. Expand TA for small and micro enterprises (X)
- c. Establish investment banking institutions involvement in sale of government-owned enterprises. (X)

Goal 3 Expand access of Institutional Finance for Private Industry

Objectives:

- a. Expand terms and conditions of private sector CIP to provide FX for all size enterprise (X)

P R I V A T E S E C T O R (Cont'd)

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
b. Develop financial mechanism, to expand private sector investment and ownership				X	(X)	
c. Expand Governorate small scale credit	X					
d. Alexandria foundation for small scale credit enterprise established.				X	(X)	

VI. PRIVATE SECTOR:

A. Sector Goal: Increase Private Sector Investment and Productivity

1. Strategic Goal:* Improve the investment climate to encourage new private investment. (Free-up market forces.)

- a. Intermediate Objective: (B/M)

Establish institutional mechanisms/forums for sustained dialogue between private and public sector on policy, legislation and procedures.

Indicators

In 1988-1989, six seminars organized to discuss key issues with Government and private sector leaders; in-depth studies completed on ten key issues and reports prepared recommending strategies for resolution. Agenda giving form and timing for implementation of key reforms completed in late 1989, e.g., four recommended actions completed to improve the business climate each year through 1992 (end of GOE 5-year plan).

* Previous Strategic Goal stated as: "Increase private industrial output by 8% annually through 1993". Comment: USAID program's direct linkage/impact on "industrial output" tenuous and impossible to quantify. USAID's reassessment concludes that investment climate improvement (previously given as intermediate objective) is the Strategic goal to focus attention; therefore, strategic goal and intermediate objectives modified.

Baseline and Status:

USAID has analyzed issues paper prepared by Egyptian Businessmen's Association and opened discussions with other private sector organizations on priorities. The Mission is working with the Ministry of Cabinet Affairs to create a small, high-level GOE Private Sector Commission to identify, analyze and solve problems related to the investment climate.

b. Intermediate Objective: (UM)

Expand information and education program on benefits of privatization.

Indicators

National Privatization Conference opened by key government official in FY 88; seminars and conferences held in all major governorates by 1989; at least 15 senior GOE officials sent to conferences and training seminars in Europe and the U.S. in FY88 and FY89. Structured long-term information, education and action plan to evolve out of privatization project experience.

Baseline and Status:

There has not been an open discussion on privatization in Egypt. USAID consultant is working with GOE officials in organizing the Conference. In 1987, 15 GOE officials were sent to privatization-related conferences and workshops in London and the U.S.

2. **Strategic Goal:** Strengthen the Private Sector's capability to develop export and investment opportunities. (Support services.)

a. Intermediate Objectives: (P/M)

Expand private sector managed investment promotion and export promotion program.

Indicators

Business Development Center (BDC) staffed and organized by June 1989; 50 investment and export promotion prospectuses marketed annually in 1988 and 1989; 100 in 1990; 150 per year in 1991 and 1992.

Baseline and Status:

The BDC concept has been promoted by USAID since 1986. The joint U.S.-Egyptian Business Council endorsed the concept in their 1987 meeting. Private associations in Cairo have agreed to explore cost-share financing by membership; in 1987, the USAID-assisted USIPO helped prepare and market 35 prospectuses in the U.S.

b. Intermediate Objective: (U/M)

Expand TA to target on small and micro enterprises and companies with export potential.

Indicators:

Establish, with cooperatives serving small and micro business and IESC, scopes of work to recruit experts in various areas; working with BDC develop scopes of work to recruit experts for selected companies with export potential. 100 TA projects completed in FY88, 150 per year in 1989-1992.

Baseline and Status:

USAID's assistance to small micro business is a new activity; in 1987 the IESC completed 70 projects working with medium-larger scale private enterprise. In 1988, IESC will extend its outreach to work with cooperatives serving small-micro enterprises.

c. Intermediate Objective: (P/M)

Establish investment banking institutions' involvement in valuation, packaging and sale of government-owned enterprises.

Indicators

Complete bank appraisals and sale to private sector of 10 governorate-owned companies in FY 89, 15 in FY 90 and 30 per year thereafter for a total of 150; in FY 88-92, assist in the appraisal and restructuring of two state-owned enterprises per year through ESOP or debt-equity swap.

Baseline and Status:

In early 1988 the concept of privatization of governorate companies was successfully promoted through the local government council (AMANA) and funding was approved to conduct pilot appraisals of 30 companies by an investment bank. USAID is working with the GOE, National Investment Bank and a tire company to structure the first ESOP in Egypt. As a result of this experience, generic procedures will be developed for other ESOP's being proposed; the concept of debt-equity is being promoted with government officials. All agree that there are opportunities for use of this mechanism.

3. Strategic Goal: Expand access and timely availability of institutional finance (debt-equity) for all sizes and types of private industry to support new investment. (Mobilize resources.)

- a. Intermediate Objective: (U/M)

Expand terms and conditions of private Sector-CIP to finance commodity imports for small, medium and large scale enterprises.

Indicators:

New circular outlining to participating banks terms and conditions issued by March 1988; expanded information program on CIP developed and launched by April 1988, including seminars organized for cooperatives serving small and micro business to facilitate their involvement. L/C applications approved reaching a level of \$5.0 million per month by June 1988 and increasing to \$8.0 million in 1989 and thereafter.

Baseline and Status:

CIP program activity substantially decreased in May 1987 as a result of exchange rate unification. L/C applications approved now running at \$1.0 million per month as compared to \$6.0 million before May 1987. New terms and conditions (e.g., opening up access to traders, more liberal financing, increased transaction limits) being suggested to GOE will increase demand; expanded information and education programs, combined with trader operations and new credit facilities are new initiatives aimed at expanding access to smaller clients.

b. Intermediate Objective: (U/M)

Develop various financial mechanisms to expand private sector investment and ownership. It is anticipated that these will include one venture capital company in FY 89, two debt conversion transactions in FY 89, and four debt conversion transactions per year in FY 90 through 92; facilitate debt-equity transactions by providing TA to GOE and by conducting seminars periodically.

Indicators:

Establish Privatization Trust in FY 89 to assist in the transfer to private ownership 10 governorate projects in 1989 and increasing each year; assist in establishing two ESOPs by FY 89, four in FY 90 through 92.

Baseline and Status

Venture capital institutions, Privatization Trust, ESOPs, and Debt-Equity are all new initiatives with significant potential.

c. Intermediate Objective: (O)

Expand governorate small-scale credit program.

Indicators:

Implement pilot program in two governorates by mid-88; evaluate in early FY 89 and develop plan for expansion as appropriate by end of FY 89 with expansion to all 16 regional banks by 1992.

Baseline and Status:

The first governorate programs are to begin in March 1988.

d. Intermediate Objective: (U/M)

Establish urban credit and credit guarantee facilities for small and micro-scale enterprises.

Indicators

Credit program initiated in Cairo and Alexandria through new private foundations and private institutions by early FY 89. Credit guarantee facility procedures developed and agreements

signed with six banks by early FY 89. Urban small and micro-scale credit and guarantee programs providing service to 200 clients in 1989, 400 in 1990, 800 in 1991, and 1000 in 1992.

Baseline and Status:

The lessons of the pilot governorate credit program will be incorporated in the design of the new urban small-micro enterprise credit program. New institutions and foundations to assist small and micro enterprise financing are being organized. PVO's and existing cooperatives will participate. The credit guarantee program is in final design. Six banks have agreed to participate. The guarantee program would be available for expanding micro enterprise, "graduating" from micro-scale credit programs.

SCIENCE & TECHNOLOGY

On Schedule Partially on Schedule Behind Schedule Unable to Judge Modified Dropped

Goal 1: Support Technology Transfer activities to resolve development problems

Objectives:

- a. Introduce energy efficient technologies. X
- b. Improve analytical capability in energy areas. X
- c. Introduce enhanced oil recovery technologies. X
- d. Institutionalize DOE's energy policy and planning capability. X
- e. Demonstrate renewable energy applications. X
- f. Complete training of approximately 1600 people by 1994. X

Goal 2. Support selected research and development activities.

Objectives:

- a. Complete research on construction materials and industrial chemicals X
- b. Extend S & T information system to two regional universities. X
- c. Begin research on Schistosomiasis vaccine. X

VII. SCIENCE AND TECHNOLOGY:

A. Strategic Goals and Intermediate Objectives:

1. Strategic Goal: Support technology transfer activities to resolve specific development problems and improve productivity.

- a. Intermediate Objective: (B)

Introduce energy efficient technologies to conserve energy in the industrial sector. Begin the first 10 energy efficiency activities by early FY 1989, and another 10 each for FYs 1990 through 1995.

Baseline and Status:

- Design of Energy Conservation and Energy Manpower projects completed, and project papers approved by Project Review Committee.

- b. Intermediate Objective: (O)

Improve the analytical capability in the minerals, petroleum and groundwater fields through improved reserve assessments. Complete establishing a resource information system in petroleum and groundwater in FY 1989.

Baseline and Status:

- Information generated by MPGAP project seismic and aeromagnetic activities purchased and currently being used by at least four U.S. oil companies.
- Improved analytical capability in mineral sector has led to successful negotiations with two private sector firms for gold and sulphur exploration.

- c. Intermediate Objective: (O)

Introduce enhanced oil recovery technologies in the Bakr field. Oil production at test wells increased by 15 percent in FY 1990.

Baseline and Status:

- Contract has been negotiated and is awaiting signature.

d. Intermediate Objective: (O)

Institutionalize the GOE's energy policy and planning capability at the Organization for Energy Planning. Complete four energy policy studies, with recommendations in FY 1988, and start two new studies in FY 1989.

Baseline and Status:

- Energy policy analysis and planning capabilities improved, and four policy studies -- macro economic energy model, national energy balance, petroleum pricing and energy data management -- are currently underway.

e. Intermediate Objective: (O)

Demonstrate renewable energy applications in wind and photovoltaics at two field sites in FY 1988, and another two applications in FY 1989.

Baseline and Status:

- Completed eight assessments of renewable energy technology potential, and construction or contracting for four field tests underway.

f. Intermediate Objective: (O)

Complete training of 50-60 trainees in petroleum exploration and production and electricity management in mid FY 1989 and approximately 1600 by 1994.

Baseline and Status:

- Plans for training are progressing as scheduled.

2. Strategic Goal: Support selected research and development activities and increased coordination among seasoned Egyptian research institutions.

a. Intermediate Objective: (O)

Complete S&T research activities in two selected problem areas such as construction materials and industrial chemicals and minerals in Egyptian universities and research centers in late FY 1989.

Baseline and Status:

- S&T Cooperation Agreement was signed in early FY 1989.

b. Intermediate Objective: (0)

Extend S&T Information System to two additional regional universities in FY 1989.

Baseline and Status:

- S&T Information System extended from the original five information modes to two regional universities. Suez Canal, Alexandria, and Ministry of Housing and Reconstruction added to the system.

c. Intermediate Objective: (0)

Set-up biological materials center and begin research on a schistosomiasis vaccine and improved immunodiagnostics by early FY 1989.

Baseline and Status:

- Schistosomiasis Research project paper completed. Initial analyses completed on all six project components and 64 research projects identified.

POPULATION

On Partially Behind Unable to
Schedule on Schedule Schedule Judge Modified Dropped

Goal 1 Increase modern contraceptive prevalence in Egypt

Objectives

- a. Increase private sector sales of contraceptives X
- b. Increase the number of MIRA served by the MOH from 600,000 in 1987 to 1,000,000 by 1990 X
- c. Increase MIRA served by EFPA from 100,000 in 1987 to 160,000 in 1989 X
- d. Strengthen National Population council capacity to carry out family planning programs X
- e. Increase knowledge and use of family planning methods X

VIII. POPULATION

A. Strategic Goals and Intermediate Objectives:

1. Strategic Goal: Increase modern contraceptive prevalence in Egypt from 31 percent in 1986 to 40 percent in 1993, thus supporting to GOE's target for reducing the population growth rate from the current 2.7 percent to 2.1 percent in 2001.

- a. Intermediate Objective: (O)

Increase private sector contraceptive sales by Family of the Future by 10 percent annually in FY 1987, 1988, and 1989.

Baseline and Status:

- Contraceptive prevalence rates were 24% in 1980 and 31% in 1986. Egypt's population growth rate increased from 2.75% in 1980 to 2.95% in 1986. The 1988 contraceptive prevalence survey will have preliminary results by early 1989.
- The Family of the Future in 1987 exceeded the 10% target in IUD sales (11%), oral contraceptive sales (15%) and condom sales (20%)

- b. Intermediate Objective: (U)

Increase the number of married women of reproductive age (MWRA) served through Ministry of Health service delivery programs from 600,000 in 1986/87 to 800,000 in 1988/89 and 1,000,000 in 1989/90.

Baseline and Status:

- No reliable service statistics are available to indicate whether the target increase was achieved, since the new MOH family planning project is only just getting underway. However, the new project will implement a management information system which will provide service statistics by which we can measure progress.

c. Intermediate Objective:

Increase the MWRA served by the Egyptian Family Planning Association from 100,000 in 1986/87 to 160,000 in 1988/89.

Baseline and Status:

As this project commenced in 1988, increases in MWRA are very modest and data not yet available. However, the project MIS system will provide such data.

d. Intermediate Objective: (B)

Strengthen the capacity of the National Population Council to develop and carry out effective family planning programs and to coordinate the work of family planning service delivery agencies.

Baseline and Status:

- A new Institutional Development Project was initiated in late 1987. The first annual implementation plan is being developed and next year the project will be able to quantify activities.

e. Intermediate Objective: (A)

Increase accurate knowledge and proper use of modern family planning methods through informational activities by the State Information Service, Family of the Future, outreach workers, and health professionals.

Baseline and Status:

- Baseline surveys to determine levels of knowledge about modern family methods will be carried out in 1988. Impact information on individual campaigns and activities will be available in FY 89 and broader impact data will be available in FY 90 and FY 94.
- This is a new objective and as such progress cannot be judged.

C O M M E N T

- Overall, the goal is somewhat behind schedule due to difficulties in rapid initiation of major national service delivery projects which have important consequences for institutional change on the part of the implementing agencies. However, no serious problems are foreseen at this stage in ultimately reaching planned objectives.

H E A L T H

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
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Coal 1: Reduce Infant Mortality

Objectives:

- | | | | | | | |
|--|---|--|--|---|--|--|
| a. By 1989, 80% of Egyptian mothers using ORT. | X | | | | | |
| b. 60% of children under 5 vaccinated with series of 6 mandatory vaccines | X | | | | | |
| c. Expand programs for diagnosis and treatment of ARI | X | | | | | |
| d. Increase mothers awareness of foods needed for weaning | X | | | | | |
| e. Increase awareness of relationship between excess fertility and mortality of infants and children | | | | X | | |

Coal 2: Establish a rational Health financing system

Objectives:

- | | | | | | | |
|--|--|--|--|---|--|---|
| a. Increase number of government facilities | | | | X | | |
| b. Increase use of private health insurance | | | | X | | |
| c. Expand private medical practices | | | | X | | |
| d. Initiate trend for GOE health expenditures to shift from curative to preventive care by 1993. | | | | | | X |

IX. HEALTH

A. Strategic Goals and Intermediate Objectives:

1. **Strategic Goal:** Reduce the infant mortality rate to 51/1000 and the child mortality rate to 7/1000 by 1993 through support for child survival interventions.

a. **Intermediate Objective:** (O)

80 percent of Egyptian mothers to use Oral Rehydration Therapy correctly and as needed by FY 1989.

Baseline and Status:

- Over 75 percent of Egyptian mothers report ever having used ORS, 61 percent report using it consistently, and 84 percent of users mixed it correctly.
- The original objective of 90% of Egyptian mothers using ORT is considered unrealistic to achieve and maintain over the long term. An 80% useage level that is maintained will result in significant progress in treatment of dehydration and reduction of infant mortality.

b. **Intermediate Objective:** (O)

Vaccinate 60 percent of children under five with full series of six mandatory vaccines and provide 60 percent of pregnant women with two tetanus immunizations by FY 1989.

Baseline and Status:

- In 1987, more than 80 percent of children under five received a full series of DPT (82%) and Polio (88%), while 72% received BCG and 76% received Measles. The Tetanus Toxoid campaign for pregnant women is scheduled for 1988.

c. **Intermediate Objective:** (O)

Expand and improve significantly programs for diagnosis and treatment of acute respiratory illnesses (ARI) in five governorates by FY 1989.

Baseline and Status:

- Governorate personnel from 3 of the 5 sentinel governorates have received training in ARI's through Child Survival Programs in the U.S. An ARI Task Force is working on plans for ARI training in Egypt.
- This is a long term target in terms of obtaining measurable results. 1989 may not be long enough period to reach this objective.

d. Intermediate Objective: (0)

Increase awareness among mothers of the basic foods needed for weaning from 5% to 75 percent by FY 1990.

Baseline and Status:

- Planning is underway for surveys of weaning practices to obtain information for media awareness programs in weaning nutrition. Programs are scheduled to begin in mid 1988.

e. Intermediate Objectives: (0)

Increase from 20 percent (estimated) to 80 percent by FY 1990 awareness of the adult population of the relationship between excess fertility and mortality of infants and young children, and the role of contraceptives in child spacing for health.

Baseline and Status

- Media messages prepared by the State Information Service for Population/Family Planning are scheduled for testing in early 1988. Consumer survey information of these messages will be used for further media education as well as to measure project effectiveness.

2. Strategic Goal: Establish a rational health financing system to expand cost-effective investments for health services. The system should emphasize cost recovery and allow government health service to shift emphasis from curative to preventive care.

a. Intermediate objective: (U)

Increase the number of government health facilities charging fees for service by 5 percent in FY 1989.

b. Intermediate Objective: (U)

Increase utilization of private health insurance, health maintenance organizations, preferred physician organizations, and other prepaid health service by 5 percent in FY 1989.

c. Intermediate Objective: (U)

Expand private medical practices by five percent in secondary cities and rural areas in FY 1989.

d. Intermediate Objective: (U)

Initiate trend for GOE health expenditures to shift from curative to preventive care by 1993.

Baseline and Status

These are only proposed intermediate objectives. The final objectives will be developed during project design. At the same time baseline indicators will be developed against which to measure progress.

- There is no statistical data available to accurately measure progress in the above objectives. The time required to reach objectives a, b and c was lengthened to 1990 and the 5 percent figure is only a target. If even 3% is reached in each case, this would mean considerable success in each area.

E D U C A T I O N

	<u>On Schedule</u>	<u>Partially on Schedule</u>	<u>Behind Schedule</u>	<u>Unable to Judge</u>	<u>Modified</u>	<u>Dropped</u>
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Goal 1: Increase rural enrollment in basic education

Objectives:

- a. Build 150 schools in 1987 and 400 more by 1989
- b. Improve Retention Rates
- c. By 1991 consolidate curriculum development
- d. By 1992 establish data management and planning capability

X

X

X

(X)

Goal 2. Improve Skills:

Objectives:

- a. Train 1,000 participants per year in the US by 1993
- b. By 1989 train 900 Egyptian in management practices
- c. Train 1500 students in English by the end of 1988
- d. Complete 365 research linkages by the end of 1988

X

(X)

X

X

X

X. EDUCATION

A. Strategic Goals and Intermediate Objectives

1. Strategic Goals: Increase rural enrollment in basic education and increase MOE capabilities in planning and service delivery.

a. Intermediate Objective: (B)

Improve access in underserved areas by building 150 new rural schools in FY 1987 and 200 per year in FYs 1988 and FY 1989.

Baseline and Status:

- Accurate baseline data with reference to school enrollment is not yet available.
- In 1987, 122 schools were completed, 215 contracts let and 444 sites selected. This is 28 schools less than the target of 150. It is expected that the construction target of 200 schools in FY 1988 and 1989 will be met.

b. Intermediate Objective: (D)

Improve retention rates for both boys and girls by one percent each year through 1989.

Baseline and Status

- Available data is not disaggregated by gender.
- This objective will be dropped. There is no way progress can be measured.

c. Intermediate Objective: (U)

By 1991, consolidate curriculum development functions within a cohesive unit of the MOE in order to achieve qualitative improvement in curricula being used throughout Egypt.

Baseline and Status

A curriculum development contract team is to arrive in Cairo to work with the MOE on the first phase of this effort. As this is a newly established objective, there is no measurement of progress.

d. Intermediate Objective: (B/M)

By 1992 establish an effective data management and planning capability in the Ministry of Education in key areas such as retention, import rates, gender distribution, etc. as the basis for objective decision making.

Baseline and Status:

- A TA design team will arrive in early 1988 to develop a more comprehensive approach to the problem, building on limited progress to date made under the Bridges project.
- The objective was originally scheduled to be achieved by 1988. It has now been changed to a more realistic date of 1992. The fact that the target date was changed to four years later is a function of taking a more comprehensive approach to the problem than was originally envisaged. While there is movement toward the objective, it is considered behind schedule.

C O M M E N T:

- The goal established in last year's plan of a 90% enrollment in the upper grades by 1993 was and remains a statistical impossibility. There is no reliable way progress toward that goal can be measured. The above goal has been modified and broadened in an attempt to make it more realistic.
- Because objective (a) is behind schedule, objective (b) has been dropped, objective (c) has been delayed 4 years and objective (d) has been added progress towards this goal is listed as behind schedule.

2. Strategic Goal: Improve essential technical, managerial and scientific skills through training and research.

a. Intermediate Objective: (B/M)

Train approximately 1,000 new participants in the U.S. each year from 1987 through 1993 with 200 each from Peace Fellows and non-project training and 600 from projects throughout the Mission.

Baseline and Status:

- The number of new participants was 544 in 1980, 1,213 in 1984 and 599 in 1986. The reason for the sharp decline in the number of participant trainees is MIC's reluctance to finance the foreign exchange costs of overseas training.
- New starts for 1987 totaled 459 due to major implementation delays. The number of participants will accelerate in 1988 but the full objective will probably not be achieved until 1989.
- Work on the data base indicates significant numbers of participants have not been counted against the total. Improved systems and relationships in the Mission are expected to provide reliable and accurate information on participant training.
- The number of project participants Programmed under the non-project component of Development Training in FY 1988 will increase from 51 in 1987 to over 200.

b. Intermediate Objective: (B)

Provide in-country management training to 200 Egyptians in 1987, 300 in 1988 and 400 in 1989.

Baseline and Status:

Program has been delayed a year and a half. Trainers are now undergoing training in the U.S. Training is not expected to start until early 1989. The training schedule will be delayed accordingly.

c. Intermediate Objective: (O)

Increase the number of Egyptian students enrolled in AID-supported intensive English language training from 520 in 1986 to 700 in 1987 and 800 in 1988.

Baseline and Status:

- Objective exceeded in 1987 with 840 trained. Given language requirements of participant pool, total for 1988 may fall slightly below intermediate objective.

- Although the number of participants trained may not meet the established target, overall progress towards reaching the objective is considered to be on schedule.

d. Intermediate Objective:

Complete the 365 research linkages approved under the University Linkages Project by 1988. (0)

Baseline and Status:

- 336 linkages have been completed. The remaining linkages are expected to be completed by the target date.

C O M M E N T:

Two objectives under this goal are progressing on schedule and two objectives are reported behind schedule. With this being the case progress toward reaching the goal is reported as favorable.

EVALUATION STRATEGY

FY 88 to FY 90

The thrust of the Mission's evaluation strategy is to provide better data and analysis for project design, closer monitoring of project progress and strengthening the link between project outputs and achievement of CDSS goals. To achieve this, the FY 88/89 Evaluation Strategy continues last year's emphasis on providing information on project performance and impact through:

- incorporating monitoring and evaluation (M & E) plans in new projects to provide for on-going data collection and analysis;
- implementing data collection and analysis programs at the start-up of project activities; and
- using rapid, low cost studies and focused evaluations to answer specific management questions and assess project impact.

I. Project Level Data Collection and Analysis Systems

Development and implementation of these systems is critical for improved measurement of project impact, particularly for cornerstone projects with the potential to have a major sectoral impact. USAID has placed considerable emphasis on developing monitoring and evaluation plans for projects designed during the last several years. Priority now is to implement these plans as project activities start and to improve these systems in on-going projects. Key areas for FYs 89 and 90 are agriculture, education, and population.

Under the Agriculture Production Credit Project, a series of surveys to measure progress in policy reform are already underway. The National Agricultural Research Project, which will strengthen management, research capacity, and technology transfer, is developing baseline information and a monitoring system for training. Progress in developing management capacity will be measured annually against benchmarks developed by the Agriculture Research Center. In FY 89 and 90, emphasis will be placed on developing baseline data on farmer's access to new technology as well as assessing the current role of private input suppliers.

In education, an important target is to develop more reliable information systems for Ministry of Education planning to provide information on MOE school construction, school enrollment, grade repetition, and dropout rate. USAID will have much better data on the impact of the Basic Education Project.

In population we are now designing an improved information system to measure progress on service delivery. To assess the effect of population media programs, an impact evaluation is underway. This will provide a baseline with which to measure the effect of soon to be released media programs which go beyond general awareness of the population issue to provide much more focused information on modern family planning methods and child spacing.

For most projects, particularly small, pilot efforts, better monitoring and evaluation systems will demonstrate measurable progress and impact of project interventions, but impact on the overall sector may not be quantifiable. Data on impact, particularly when large surveys are required, will not be available on an annual basis, but will be measured periodically.

II. Sectoral Assessments

During the last three years, the mission has completed sectoral assessments on water/wastewater, energy and population. These studies were global in scope and documented USAID/Cairo's experience. Sectoral assessments currently underway or planned are more focused on particular issues of concern both to USAID and the GOE and will be used as the basis for discussion about ways to change policies and develop programs for specific sectoral needs. For example, USAID and the Ministry of Education are completing a series of studies on textbooks, curriculum and planning that will assist in developing a strategy to improve the quality of education. For the private sector program, USAID has developed a scope of work for studies and seminars to assist a joint government and private sector task force in addressing factors which inhibit growth of the private sector and new investment.

III. Feasibility and Impact Studies

During the last five years, the emergence of several private Egyptian consulting firms has enhanced our ability to collect detailed information needed for project design and assess project impact at a reasonable cost. Many impact and feasibility studies are now done either entirely by local consultants or in collaboration with external consultants.

A number of studies are planned to address specific information needs. Examples are

- the feasibility of establishing venture capital firms through a joint venture with an Egyptian investment bank,
- surveys of weaning practices to improve nutrition education programs, and
- the impact of price increases on urban and rural consumption of major foodstuffs.
- An assessment of USAID's in-country training activities.

A detailed list of activities planned will be included with the Annual Budget Submission.

The strategy outlined above will provide better information for project management and will measure project impact. However, extensive research to link project outputs and impact to CDSS goals is not planned for most sectors. Such research is often fraught with methodological complexities, requires expensive technical assistance and consumes a great deal of staff time.

USAID will have to be selective about the areas chosen for detailed data collection and analysis. In other sectors, our emphasis will be on more limited, lower cost alternatives.