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EGYPT  
ACTION PLAN FY 1988-89

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USAID/EGYPT

FY 1988-1989 ACTION PLAN

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## I. INTRODUCTORY OVERVIEW

### A. STRATEGIC GOALS AND PROGRESS

USAID/Egypt developed the FY 1989 Country Development Strategy Statement and this Action Plan concurrently. The goals for the program are the same in both documents. All twenty-three strategic goals are presented and progress assessed in Part II of this document. A few highlights are as follows:

#### 1. Macroeconomic Support

Bad public policy continues to be a fundamental constraint to increasing Egyptian productivity and achieving self-sustaining economic growth. USAID's goal is to promote long run political stability and economic viability and growth by assisting the GOE to undertake structural economic reform.

The Mission continues to increase the attention and resources it puts into the policy dialogue, and the Egyptian Government's process of policy analysis and reformulation has come a long way in the past year. In August 1986, the GOE completed its first comprehensive economic reform plan. Current negotiations with the IMF and the World Bank may lead to significant economic reforms and allow the GOE to reschedule its foreign-held debt.

Still, very few reform measures were actually implemented during the past year. The most important that did occur were the customs reform of August 1986, removal of procurement quotas on certain crops, and continued increases in agricultural procurement prices. Macroeconomic performance continued to be weak, however, and productivity remained low.

While Egypt goes through a difficult period of economic adjustment, USAID will assist the government to finance its budgetary and balance of payments deficits with commodity imports, cash financing, and agricultural commodities. Non-project support for Egypt was greater in FY 1986 than ever before. We obligated \$794 million and expended \$837 million under CIPs, cash transfers, and PL 480 Title I.

#### 2. Infrastructure Development

Rehabilitation and expansion of major economic infrastructure is no longer a top Mission priority. Mission goals are now to:

- Complete the construction of urban infrastructure already underway;
- Expand electricity supply only if the GOE increases electricity prices substantially and regularly;
- Improve GOE capacity to manage water/wastewater utilities and the energy sector; and

- Improve the capacity of local government and non-governmental organizations to plan, implement, operate, and maintain local infrastructure and other service projects.

Construction of major urban water and wastewater systems and of power plants has proceeded well, although behind schedule in some cases. The Rod el Farag water treatment plant is now complete, and the Alexandria wastewater project is finally moving again.

Progress in the management area has been mixed. Electricity prices and urban water tariffs were not increased in FY 1986. USAID expects a 29 percent increase in electricity prices early in 1987; but such an increase would be less than the general rate of inflation since the last price hike. Projects in Water/Wastewater Institutional Support and Energy Policy Planning went nowhere in FY 1986, although new GOE management, in both cases, seems more interested in implementing them. On the brighter side, on-the-job training in operations and maintenance of water, wastewater, and electric utilities has proceeded successfully.

The Local Development program continues to improve local management capabilities and make resources available for development at the governorate and community level. Significant accomplishments this year were:

- adoption of a central local government revenue sharing formula;
- tripling of recurrent cost budgets of all governorates for FY 1987; and
- initiation of a pilot maintenance program in four governorates.

Implementation progress and disbursements slowed in FY 1986, however. A key problem was the government's inability to provide full-time middle level managers and field staff to administer the program.

### 3. Improving Productivity

USAID's most important goal for agriculture is to increase production by removing acreage controls and allowing prices of inputs and outputs to move to market levels. The GOE made real progress in this area in 1986 when it:

- removed procurement quotas and farm price ceilings from all crops except cotton, rice, and sugar cane;
- doubled the sale price of yellow corn; and
- raised procurement prices for rice, onions and cotton by 37, 25, and 20 percent, respectively, and prices of other important crops by lesser amounts.

The program made satisfactory progress in the past year toward goals in the areas of technology transfer, agricultural credit, and improved irrigation.

- Small Farmer Production Project banking systems have now been installed in 79 village banks and have made loans to over 60,000 small farms. The GOE has approved a major expansion of the system under the new Agricultural Production and Credit project.
- Agricultural research activities have developed high yielding varieties, which contributed in 1986 to a 5 percent increase in rice yields and an 18 percent increase in rice acreage over 1985. Maize and wheat demonstration plots yielded 50 percent more than national farmer averages in 1986.
- Approximately 6,000 irrigation structures have now been replaced under the Irrigation Management Systems project, increasing efficiency of the national system by one percent.

USAID hopes that Egypt's private industry will increase production by eight percent annually through 1993. Over the past five years, that production has increased at between 3 and 8 percent annually. And private sector investment is growing faster than public sector investment. Furthermore, the GOE is developing plans to divest some public enterprises managed at the governorate level.

The Mission is optimistic about expanding institutional finance for private industry. While utilization of the P.I.E. Fund was disappointing in FY 1986, recent approval of an increase in the number of participating banks and relaxation of lending criteria will make the Fund more accessible and attractive to potential borrowers. Two small scale credit activities, one to be implemented through village banks, have recently been approved by the GOE for implementation later this year.

The main goal of USAID's science and technology program is to support R & D and technology transfer activities to resolve specific development problems aimed at improving productivity. Design of the sub-projects comprising the Mission's second generation of S&T activities is nearing completion. Among the older S&T projects, Mineral, Petroleum and Groundwater Assessment has been a particular success, directly leading to new private sector investments.

#### 4. Human Resources

USAID's population goal is to increase modern contraceptive prevalence in Egypt from 31 percent in 1986 to 40 percent in 1993. This rate was 30 percent in 1985. The successful element of this program has been Family of the Future, which has now expanded its contraceptive retail sales program to virtually all Egyptian pharmacies and to a significant percentage of private physicians. Government programs have made very little progress. The Mission has nearly completed work with the Egyptian Family Planning Association and the Ministry of Health to design major new family planning service delivery programs.

The Mission's most important goal for health is to reduce infant mortality to 51/1000 and child mortality to 7/1000 by 1993 through child survival interventions. Infant mortality has fallen from 101/1000 in 1980 to around 90/1000 in 1986, concurrent with the dramatic success of the USAID-supported ORT program. USAID support for the other elements of the child survival program is just beginning.

In education, the Mission aims to increase enrollment in rural schools (grades 1-9) to 90 percent by 1993, with the majority of this increase among girls. 115 new schools were constructed under the Basic Education project in FY 1986, and the project has built 360 to date. School enrollment in the project area increased from 86.38 percent in 1985/86 to 88.51 percent in 1986/87. The project has now been expanded from 10 to 24 governorates.

B. PROPOSED NEW PROGRAM ELEMENTS

1. Macroeconomic Support

- Cash transfers will be directly linked to implementation of policy reforms, not to progress in the analysis and reformulation of policies.
- Tax Administration II (263-0209) will begin in FY 1987. It will provide \$5 million in technical assistance to the Ministry of Finance to rationalize income, customs, and excise taxes which now adversely affect productivity.

2. Infrastructure

- Canal Cities Water and Sewerage II (263-0174) is due to begin in FY 1988. The project will build wastewater treatment plants in Port Said, Ismailia, and Suez and increase the water supply for Port Said, thus completing the systems already under way in the three canal cities.
- Cairo Water II (263-0193) is a shelf project for possible funding in FY 1988 or 1989. The project would improve and expand the distribution network in the area served by the Rod El Farag water treatment plant.
- Alexandria Wastewater System Expansion (263-0100) will be amended in FY 1987 to add a final \$50 million.
- USAID will fund new power projects only if the GOE increases electricity prices substantially and regularly. Leading shelf candidates for FY 1989 or later are:
  - Distribution Capacitors (263-0207)
  - Thermal Power Plant Rehabilitation (263-0208)
- Local Development II (263-0182) will be amended in FY 1987 to extend the program for two years. A major new component will provide credit for small scale enterprises through village banks.

- Urban Development Support (263-0199) is a shelf project for possible funding in FY 1988 or 1989. The project would expand, at the Governorate level, the pilot community upgrading program successfully tested in Helwan.

### 3. Productivity

- Irrigation Management Systems (263-0132) will be amended in FY 1987 to increase LOP funding from \$139 million to \$339 million.
- The Fertilizer Supply project (263-0186) appears unlikely to begin in FY 1987. The case has not yet been made for adequate availability of gas to the Kima plant at Aswan. Neither has a good case been made for an adequate demand for nitrogen fertilizer at market prices. These issues may kill the project altogether.
- The five components of the S&T for Development Project (263-0140) are under design.
  - S&T Cooperation, Industrial Energy Conservation and Energy Manpower Development will begin in FY 1987.
  - Schistosomiasis Research and Land Use Planning will begin in FY 1988.

### 4. Human Resources

- The Population project (263-0144) will be amended in FY 1987, extending the project and adding two new family planning service delivery programs.
- Control of Diarrheal Diseases (263-0137) will be amended in FY 1987 to extend the project for three years and add \$10 million.
- Cost Recovery Systems for Health (263-0170) will begin in late FY 1987.
- USAID will develop concept papers in FY 1987 and 1988 for possible development of education projects in:
  - in-service teacher training;
  - materials development, storage, and distribution; and
  - science education.The first two could be new components to the Basic Education project. It is too early to develop New Project Descriptions for AID/W.

### C. PROGRAM MANAGEMENT ISSUES

Problems constraining achievement of USAID's program objectives are set forth in the narratives of the ten sector action plans in section II. A handful of these problems are common and worth special mention.

Foremost among them are the constraints to implementing policy reforms. The Egyptian Government believes reform could be disruptive and unacceptable to the population at large. The GOE is hesitant to decontrol the exchange rate (which will result in inflation), reduce consumer subsidies, push family planning programs, and divest public enterprises for this reason. The constraint is real and needs to be dealt with sensitively. It is also independent of the GOE's judgment that a particular reform may make good economic sense.

Another problem is the GOE's inability to make timely decisions. The urban wastewater programs have been delayed because implementing agencies have been unwilling to approve IFBs and award contracts. Delays in appointing staff to mid-level management and field positions is seriously slowing implementation of the local development program.

An issue that is bound to continue is the insufficiency of the operating budgets of some of the GOE implementing organizations. Inadequate funds limit the impact of the agricultural research system, for example. Unless the government increases these budgets, the Ministry of Agriculture will be unable to utilize fully the research facilities recently completed.

Attaining Mission goals for the private sector depends on the willingness of the government and the public to see the private sector increase its share of the pie. Support for a broad public sector role in Egyptian society is an enduring legacy of the Nasser era. Pro-public sector forces in the government will continue to oppose divestiture of public industries, reduced controls on production, movement of factor and product prices to market levels, and a greater role for private dealers in the marketing of agricultural inputs. The philosophy of government as the provider of social services may also be an obstacle to promotion of private systems for financing curative care.

Bad relations between GOE implementing agencies and American contractors on infrastructure projects have resulted in the formation of an American Contractors in Egypt (ACE) group. USAID and the new Minister of Public Utilities are working with ACE to improve contracting procedures and to deal with the contractors' complaints.

A final problem that will always be with us to some extent is an imperfect coincidence of priorities. Current issues include:

- the program mix. The GOE wants a large increase in the cash portion of the FY 1987 program. USAID will support economic reform but generally believes that project assistance provides more lasting development impact than straight resource transfers.
- PL 480. The GOE does not want to see the Title I program phased down, as A.I.D. has planned. The government is loathe to give up highly concessional loans, which provide balance of payments support above the Congressionally earmarked ESF level.

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- science and technology. The GOE accords lower priority to building research and development capacity than A.I.D. does. The Egyptians are preoccupied with more urgent, short-term priorities. The Mission may face difficulty in negotiating large obligations for the S&T program in FYs 1988 and 1989.
  
- training. The Mission did not achieve A.I.D.'s goal of a 50 percent increase in participant training in the U.S. over two years. The GOE's aim has been to eliminate unnecessary overseas training. However, training will continue at about 1,000 U.S. participants per year.
  
- family planning. Many GOE policy makers see decreases in population growth as the inevitable result of Egypt's economic development. USAID sees family planning as a necessary basis for that development.

## II. PERFORMANCE AND PLANS

### A. MACROECONOMIC SUPPORT

#### 1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Promote long run political stability and economic viability and growth by assisting the GOE to undertake structural economic reform.

Intermediate Objective: A GOE reform program that results in a Standby Agreement with the IMF in FY 1987, thereby allowing Egypt to reschedule \$10 billion in externally held debt and to access up to \$600 million in short term World Bank resources.

Intermediate Objective: Unify foreign exchange rates as specified in an agreement to be 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, and
- (2) moving all transactions that currently take place at the \$1.00 = LE 0.70 rate to the free market rate by the end of FY 1989.

Intermediate Objective: Equalize effective interest rates for public and private sectors at positive real levels by the end of FY 1989 or allow them to move to market-determined levels.

Intermediate Objective: Reduce the GOE budget deficit from 23 percent of GDP in 1985/86, to 13 percent in 1987/88. (Much of this reduction will result from raising prices for industrial products and from reducing subsidies on some food products.)

Intermediate Objective: Increase electricity tariffs and petroleum product prices on a path toward total elimination of implicit GOE subsidies by 1992. See Section II.C below for details.

Intermediate Objective: "Free up" agriculture to market forces. See Section II.E below for details.

- b. Strategic Goal: Promote political stability and economic viability in the near term by assisting the GOE to finance its budgetary and balance of payments deficits with commodity imports, cash financing, and agricultural commodities.

Intermediate Objective: Assist private sector producers and government services to import essential commodities with \$200 million in CIPs annually in FY 1987, 1988, and 1989.

Intermediate Objective: Assist the GOE to close its balance of payments gap with cash transfers in FYs 1987, 1988, and 1989, based on GOE performance in policy reform and USAID's assessment of the GOE's needs for foreign exchange.

Intermediate Objective: Help the GOE to finance its imports of essential agricultural commodities with \$169 million in PL 480 Title I assistance in FY 1987, \$150 million in FY 1988, and \$125 million in FY 1989.

## 2. Impact Achieved

### a. Economic Reform

The last year has been an extremely important one for the GOE's macroeconomic reform efforts. USAID has continued to increase the attention and resources it puts into the policy dialogue, and the Egyptian Government's process of policy analysis and reformulation has come a long way.

Factors contributing to the redoubling of the GOE's efforts have included:

- a worsening of the balance of payments crisis;
- negotiations with the IMF on a standby agreement that would allow the rescheduling of external debt;
- renewed interest of the World Bank in making substantial short term credits available if economic policies are improved;
- Congress linking A.I.D. cash transfers to policy reform; and
- technical assistance for policy analysis funded by USAID.

In August 1986, the Government completed a comprehensive economic reform plan. While lacking in detail, especially regarding implementation, the plan represented the GOE's best effort to date to deal with the need for comprehensive policy reform. Since then, the GOE has developed its ideas considerably further in the course of negotiations with the IMF. USAID has provided policy analysts to help the government examine issues regarding:

- exchange rates,
- interest rates,
- subsidies,
- agricultural policies,
- the fiscal impact of reform, and
- the effect of the reform program on macroeconomic performance.

Although most of the progress of the past year was in improving processes of reform, the GOE did actually implement some economic reforms. Chief among them was the customs reform of August 1986, in support of which USAID disbursed \$110 million in cash transfer. This reform ended most customs exemptions and introduced new minimum rates of 1 and 5 percent.

Other economic reforms of the past year include:

- increasing gasoline prices by 5 piasters/liter;
- doubling the price of imported corn;
- allowing the private sector to import more food items, previously restricted to the public sector;
- increasing prices for miscellaneous non-essential consumer goods;
- raising telephone service charges;
- increasing procurement prices for several agricultural crops (see section II.E, below)
- eliminating the L.E. 0.80 = \$1.00 exchange rate and moving transactions that took place at that rate to the L.E. 1.35 = \$1.00 rate.

Conspicuously missing from the list of FY 1986 reforms were increases in tariffs for electricity, some petroleum products, and water/wastewater services, which USAID had expected. The issue of pricing for these services is discussed in Sections II.B and II.C below.

Egypt's macroeconomic performance was weak over the past year. Preliminary figures for 1985/86 show a continuing rise in the budgetary deficit and subsidy burden. The balance of payments deficit has continued to widen. A slowdown in economic growth also occurred, resulting from reduced foreign exchange earnings (particularly from oil exports) and the contractionary effects of years of poor economic policies. These policies also kept productivity at low levels.

b. Program Support for the Balance of Payments

USAID's non-project support for Egypt was greater than ever before in FY 1986 (in \$ millions):

	<u>Obligated</u>	<u>Expended</u>
Government C.I.P.	155.4 *	229.1
Private Sector C.I.P.	50.0	19.0 **
PL 480, Title I	228.9	228.9
Cash Transfers	<u>360.1</u>	<u>360.1</u>
	794.4	837.1

\* includes \$5.4 million reobligated from prior year funds

\*\* expended under the Private Sector Production Credit Project, predecessor to the current Private Sector C.I.P.

3. Major Programmatic and Management Actions for FY 1987-89

- In the policy dialogue, place increasing emphasis on implementation of reforms, rather than concentrating exclusively on economic analysis and the development of political consensus. Disbursements of cash transfers will be linked directly to implementation of reform measures.
- Continue to provide top quality consultants to assist the GOE in the analysis, formulation, and implementation of policy reforms.
- Encourage the GOE and the other donors to convene regular donors' meetings, under World Bank auspices, beginning in FY 1988.
- Encourage the GOE to shift CIP resources from public to private sector. In FY 1986 the public sector program got 75 percent of total CIP funds. We are negotiating for a 50/50 split in FY 87 and perhaps an even larger share for the private sector in FYs 1988 and 1989.
- Design and obligate the Tax Administration II Project in FY 1987 to rationalize income, customs and excise taxes which now adversely affect the private sector.

4. Constraints to Program Success

Policy reform will continue to be a difficult process. The Government moves especially slowly on price reform because of fear of political reactions by consumers and public sector enterprises that will suffer income losses. There is also ideological division within the government regarding the role of the public and private sectors. Reaching policy consensus is a difficult process for the GOE but a necessary step before key decisions are sent to the President for his approval. The GOE has made progress in this regard during the past year.

Adequate information and data are lacking on the economy and on the GOE's performance. The dearth of good information makes it difficult to establish meaningful economic benchmarks and impedes the timely and accurate evaluation of the GOE's movement on economic reform.

In the past, the GOE has looked on the ESF program, and especially the cash transfer portion, as an entitlement, because of Congressional earmarks. Those earmarks, requiring A.I.D. to obligate the funds each year, diminished USAID's leverage in effecting policy reform. That constraint was eased in FY 1987 when ESF funds were appropriated on a two-year basis and the USAID was given discretion to shift program funds to cash in support of further significant policy reform.

MPIC still resists shifting CIP funds from public to private sector. They also favor a subsidized exchange rate for public sector enterprises using the C.I.P.

The GOE does not want to see the PL 480 Title I program phased out, as A.I.D. has planned to do. The Government is loathe to give up these highly concessional loans, which provide balance of payments support above the Congressionally earmarked ESF level.

## 5. Management of Resources

### a. Funding

U.S.A.I.D. has sufficient budgetary resources to support the policy dialogue. Congress's appropriation of two-year funds and the flexibility contained in the current legislation have augmented the Mission's ability to encourage economic reform.

### b. Staffing

The provision of technical economic guidance to Mission management as the basis for the economic policy dialogue requires intensive staff analytical work and constant consultation with GOE officials. Generating the information that underpins this dialogue also requires the constant monitoring of macroeconomic developments and of prices and policies in key sectors. This work requires 75 percent of the time of the five USDE economists, three FSN economists, and three FSN secretaries in PPP/E. It also demands about 30 percent of the time of the Associate Mission Director for PPP and his USDE secretary. The fifth USDE Economist position was established in FY 1987 in support of this increasing need for economic analysis. The rest of the PPP/E workload is in support of projects and economic reporting and does not appear in the table below.

The staff that runs the Government CIP in IS/CMT was reduced by one USDE in the FY 1985. There will be a slight shift in staff from the Government CIP to the Private Sector CIP (see table in Section II.F.5) over the planning period. The Tax Administration project is also managed in the IS directorate.

PROJECTED MACRO-ECONOMIC SUPPORT STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDI</u>	<u>FSN</u>	<u>USDI</u>	<u>FSN</u>	<u>USDI</u>	<u>FSN</u>
Policy Dialogue	2.3	1.5	2.3	1.5	2.3	1.5
Economic Monitoring	1.7	3.0	1.7	3.0	1.7	3.0
PL 480 Self-Help	0.3	1.5	0.3	1.5	0.3	1.5
Government CIP	5.0	15.3	4.7	15.0	4.5	14.8
Tax Administration	<u>1.0</u>	<u>0.1</u>	<u>1.0</u>	<u>0.1</u>	<u>1.0</u>	<u>0.1</u>
	10.3*	21.4**	10.0*	21.1**	9.8*	20.9**

\* Includes 0.6 for the Associate Director PPP and his secretary and 0.5 for the Associate Director IS, his secretary and the Deputy Associate Director IS.

\*\*Includes 0.2 for the secretary of the Deputy Associate Director IS.

B. WATER AND WASTEWATER

1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Improve Egyptian capability to manage water and wastewater systems.

Intermediate Objective: Increase urban user tariffs to cover 50 percent of operation and maintenance costs by 1987 and 100 percent by 1990.

Intermediate Objective: 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.

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

In Cairo:

Intermediate Objective: Complete the Cairo west bank sewerage collection system by 1993. 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.

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

- improve services to 600,000 people,
- expand service to 1.5 million additional people, and
- provide an excess capacity to meet year 2000 population levels estimated at 3.5 million.

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

Intermediate Objective: Complete the rehabilitation and expansion of the Rod El Farag water distribution system by 1992, providing a dependable potable water supply to more than three million inhabitants. (This is a shelf item, to be undertaken if funding becomes available.)

In the Provincial Cities (Beni Suef, Minya and Favoum):

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

- improving service,
- meeting per capita needs of 600,000 people, and
- providing capacity to meet year 2000 requirements.

Intermediate Objective: Expand wastewater collection nets and rehabilitate existing wastewater treatment plants in the three cities by 1990, thus improving and upgrading service to 600,000 people.

In Alexandria:

Intermediate Objective: Complete expansion of Alexandria's wastewater collection system by 1992, expanding service to 800,000 additional people and improving existing services to 2.5 million people.

Intermediate Objective: Begin rehabilitation of two wastewater treatment plants in 1987 to be completed by 1990. Initiate construction of the sludge disposal facilities in 1988 to be completed in 1992.

In the Canal Cities (Suez, Ismailia, Port Said):

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

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

Intermediate Objective: Complete expansion of the sewerage collection systems of the three cities by GOE-financed contractors by 1988, expanding service to 500,000 additional people.

Intermediate Objective: Initiate construction of wastewater treatment facilities in the three cities in FY 1989 and complete the facilities by FY 1994.

- c. Strategic Goal: Improve the quality and reduce the cost of water and wastewater services in Egyptian towns and villages by introducing new technologies through the Local Development program.

Intermediate Objective: Implement 24 appropriate technology wastewater projects in two rural governorates by the end of FY 1987.

Intermediate Objective: Introduce 30 slow sand filtration water treatment plants and associated distribution systems in 15 governorates by the end of FY 1989.

2. Impact Achieved

In Cairo:

- The Rod El Farag Water Treatment Plant was completed in October 1986, providing potable water to several million people in Cairo.
- Rehabilitation of pumping stations and force mains under Cairo Sewerage I was completed in September 1986, substantially completing the project and eliminating the previously chronic sewage flooding of Cairo's streets.
- Four major construction contracts were awarded under Cairo Sewerage II during 1986, and construction began. The contracts cover sewage collection on Cairo's West Bank (northwest collectors, culverts, pumping stations, and Giza relief main).
- The selection of an engineering design firm for Cairo Water II was completed in December 1986. Negotiations are under way with this firm.

In the Provincial Cities (Beni Suef, Minya and Favoum):

- Detailed plans and construction specifications for a design-build contract for three new major water treatment plants and assorted water and wastewater facilities were completed and issued to prequalified contractors in November 1986.
- Major expansion and rehabilitation of the water and wastewater systems for the three cities has been completed under approximately 300 subprojects.
- Host Government approval of a direct AID contract for construction management services to supervise the design-build effort was obtained in October 1986. Selection of a firm to provide these services is under way.

In Alexandria:

- Construction of seven major sewerage pumping stations and associated (tunnel) force mains is 75 percent complete. Two of these stations were completed and accepted in November - December 1986, and tunnel construction has accelerated.
- The construction contract for the rehabilitation of two major wastewater treatment plants was bid in September 1986 and awarded in January 1987.

- Right-of-way and land acquisition problems were resolved, so that planning for sludge contracts (to handle outflow from treatment plants) can be completed.

In the Canal Cities (Suez, Ismailia and Port Said):

- All AID funded wastewater construction (pumping stations, collectors, force mains) in the three cities was completed July, 1986.
- Construction of associated wastewater collector facilities financed with Egyptian pounds is 65 percent complete as of January, 1987.
- Canal Cities water facilities (treatment plants, distribution systems) construction is virtually completed except for minor activities as of January 1987.
- A major work order for training was initiated in mid-1986. It should improve operation and maintenance of these newly constructed facilities.

In Rural Areas:

- 200 village potable water projects were completed in 1986, bringing the total funded by the Local Development Program to 2,000.
- 20 pilot wastewater projects were designed and initiated in 1986 to test appropriate technologies for village wastewater systems.

3. Major Programmatic and Management Actions for FY 1987-89

- Complete design of the Cairo Water II shelf project by early FY 1988. If funding is available, the Mission will undertake this follow-on project to upgrade and rehabilitate distributing nets for treated water in the command area of the Rod El Farag water treatment plant.
- Terminate the Cairo Water Supply project at the end of FY 1987.
- Increase water tariffs and rationalize rates so that operation and maintenance costs are met without overly burdening the poorer, minimum quantity users. Gradual increases of the rates of certain users will continue through 1990.
- Amend the Alexandria Wastewater System Expansion project in FY 1987, adding funds to finance sludge treatment facilities. This amendment will include new and innovative approaches to operation/maintenance, training, and institutional development, such as twinning with sister utilities in the U.S. and on-the-job training in operating utilities in the U.S.

- Design the Canal Cities Water and Wastewater II project in FY 1987. This follow-on project will finance wastewater treatment facilities for the three canal cities and expansion of Port Said's water system.

#### 4. Constraints to Program Success

Ineffective GOE management of contractors (particularly expatriate contractors) hinders the construction of major urban water and wastewater projects. Adversary relationships between contractors and government entities have resulted in delayed decisions regarding routine change orders and in an overly zealous scrutiny of payment vouchers that has caused delays and aggravated the contractors. A related problem has been the reluctance of GOE entities to accept and put in use completed projects. This problem has left completed projects in contractor hands after all the work is done, inspiring contractor protests and causing friction and sometimes claims.

Institutional and human resource problems are serious constraints to the implementation of construction projects as well as to the proper operation and maintenance of water/wastewater infrastructure. Typical of these problems are:

- Lack of decision making. GOE decision making is characterized by procrastination, management by committee, complex concurrence/clearance, minimal delegations of authority to subordinates, and a reluctance to resolve problems at the proper level of authority, instead pushing them upward;
- Inadequate collaboration and coordination with other ministries, particularly the Ministries of Finance (customs) and Social Affairs (insurance), to resolve implementation problems.
- Inadequate technical proficiency, particularly in the provinces, due to lack of supervision, standard operating procedures and hands-on training.

#### 5. Management of Resources

The challenge of meeting A.I.D.'s obligation in the urban water/wastewater sector is illustrated by the magnitude of funding involved:

- \$1.1 billion obligated to date,
- \$804 million projected for future obligations, and another \$100 million on the shelf.
- over \$524 million expended to date, and
- major construction projects underway in eight cities covered by the program.

USAID's emphasis will continue to shift toward the need to operate and maintain the infrastructural elements of the program as construction is completed. This emphasis involves dealing with the sector's basic policy and

institutional issues through a continuing dialogue with all levels of the GOE. Annual sector reviews provide a major forum for dialogue with the GOE on these issues. But opportunities for such dialogue also exist in daily contacts, in the project development and approval process, and in meetings dealing with contract problems.

Against this background, effective management of sector resources is imperative. The lack of institutional depth of GOE entities makes effective management of resources on the Egyptian side difficult. To alleviate this problem, technical assistance and training are provided under each project to assist all sector organizations in improving their operations, maintenance, financial and training capabilities. The Water and Wastewater Institutional Support project will begin providing sector-wide technical assistance and support to key institutions by 1988.

USAID's Development Resources (DR) Directorate is responsible for the design and implementation of the Water/Wastewater portfolio, and for most of the policy dialogue in the sector. Primary responsibility within DR rests with the Office of Urban Administration and Development (DR/UAD), with considerable support provided by the Office of Project Support (DR/PS) in the areas of specialized engineering skills, project development and training. The rural water and wastewater program is managed by the Office of Local Development and Administration (DR/LAD), again with technical support from DR/PS.

DR/UAD manages its water/wastewater portfolio through the Director's office, four management units with project management and contract monitoring responsibilities, and a secretarial staff. The management units include the Cairo, Alexandria, Canal Cities, and Provincial Cities. The Director's office is staffed by one USDH and one FSN secretary. The management units are staffed with 4.5 USDH, eight FSN engineers, two FSN secretaries and one FSN program assistant. (A fifth management unit, with 2 FSN engineers and half the time of a USDH Project Officer and an FSN secretary, manages the Helwan Housing project and is designing a shelf follow-on project for implementation under the Local Development Program.) UAD manages twenty-two large U.S. contracts with eight new contracts to be under way by 1988.

Although the Mission plans to phase out urban water/wastewater programs after current programs are completed in the eight cities, the workload will continue to be heavy for several more years. A shift to direct AID contracting, adoption of a design-build approach in several new contracts, and the extra effort needed to monitor complex construction projects will require a constant level of effort through at least 1990. In addition, two project papers and a PP amendment will be completed by early FY 1988. Nevertheless, it is not anticipated that additional USDH will be needed, although UAD will depend on considerable backstopping from the Office of Program Support. As the second phase of the Canal Cities project unfolds, two additional FSN engineers may be required. The Mission expects to reassign them from the Office of Infrastructure Development (DR/ID), as other infrastructure projects are completed.

As on-going projects are completed, GOE entities are facing substantial claims that will require quick resolution to terminate the contracts involved. The Mission is considering options for improving this process, including increased use of third party mediation and perhaps even adding a PSC claims specialist to the staff.

PROJECTED WATER/WASTEWATER STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>
<u>A. By Function</u>						
1. Administration, policy, and Instl. Developmt.	2.6	2.8	2.5	2.8	2.5	2.8
2. Cairo Projects	2.8	3.5	2.6	3.4	2.5	3.4
3. Alexandria Projects	1.1	1.5	1.1	1.5	1.1	1.5
4. Provincial Cities Projects	1.2	3.6	1.2	3.6	1.2	3.6
5. Canal Cities Projects	1.6	1.8	1.6	1.8	1.5	1.7
6. Rural Programs	0.6*	-	0.8*	-	0.8*	-
	-----	-----	-----	-----	-----	-----
TOTALS	9.9	13.2	9.8	13.1	9.6	13.0
<u>B. By Office</u>						
1. AD/DR	0.6	-	0.6	-	0.6	-
2. DR/UAD	5.5	10.5	5.5	10.5	5.5	10.5
3. DR/PS	3.5	2.7	3.4	2.6	3.2	2.5
4. DR/LAD*	0.3	-	0.3	-	0.3	-
	-----	-----	-----	-----	-----	-----
TOTALS:	9.9	13.2	9.8	13.1	9.6	13.0

\* 0.3 USDH Project Officer double counted in the staffing table for the Local Development Program in Section II.D.5.

C. ENERGY

1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Increase electricity tariffs and petroleum product prices on a path toward total elimination of implicit GOE subsidies by 1992.

Intermediate Objective: Increase electricity tariffs at least 29 percent in mid 1987 and by 30 percent above inflation annually from FY 1988 through FY 1992.

Intermediate Objective: Eliminate electricity price differentials favoring public sector over private enterprises by early FY 1989.

Intermediate Objective: Increase real prices for domestic petroleum products 40 percent annually in FYs 1987, 1988, and 1989.

- b. Strategic Goal: Improve GOE capability to manage the energy sector.

Intermediate Objective: Improve significantly the GOE's energy policy and planning capability. Complete supply/demand analysis and prepare policy recommendations for energy pricing, systems rationalization and conservation for Cabinet review by FY 1988. Complete GOE investigation of the feasibility of using coal instead of oil or gas to fuel future electric power generation by FY 1988.

Intermediate Objective: Complete assessments of renewable energy potential by the end of FY 1989.

Intermediate Objective: Train 80 persons in oil production and electricity management by FY 1989.

- c. Strategic Goal: Increase the supply of electrical power to meet demand by 1993 through expansion of new generating capacity, rehabilitation of existing generating capacity, and/or conservation - whichever means proves to be most cost effective. (USAID will pursue this goal through new projects only if electricity tariffs are adequately increased.)

Intermediate Objective: Complete construction of the Abu Sultan (Ismailia) power generation plant in FY 1987, the Shoubrah El Kheima plant in FY 1988, and the Talkha Combined Cycle plant in FY 1989.

Intermediate Objective: Reduce distribution losses by 10 percent in Alexandria by the end of FY 1989. Reduce distribution losses in the national grid by 20 percent by FY 1991 - if electricity prices are increased and if funding becomes available - through the installation of distribution capacitors.

Intermediate Objective: Begin technical assistance for a rehabilitation program to improve the efficiency of existing generating plants by the end of FY 1987. If funding becomes available and if the GOE increases electricity prices adequately, this activity could be expanded into a full power plant rehabilitation project by FY 1989.

2. Impact Achieved

- Following the major price increases implemented in 1984 and 1985, the GOE has not instituted any further increases in electricity prices. (Gasoline prices were increased again by 5 piaster/litre in 1986, however.) It is understood that significant electricity price increases proposed by MOE and EEA during 1986 were not approved by the GOE cabinet. Nevertheless, USAID expects that the GOE will approve a 29 percent increase in electricity tariffs early in 1987.
- Construction was begun in 1986 on the fourth and final 315 mw generating unit of the Shoubrah El Kheima Thermal Power Plant.
- The fourth 150 mw unit of the Ismailia Thermal Power Plant was completed and made available for testing.
- In August 1986, USAID authorized and obligated \$65 million for the 110 mw combined cycle add-on at the Talkha gas turbine plant.

3. Major Programmatic and Management Actions for FY 1987-89

- Complete evaluation of USAID power sector program in FY 1987.
- Provide technical assistance to EEA to carry out a rehabilitation program of Egypt's power plants.
- Initiate a project in FY 1988 or 1989 for the installation of capacitors on the 11 KV distribution system, if the GOE makes substantial progress in increasing electricity charges and if funding for this shelf item becomes available.
- Within legislative limits, USAID will consider providing support for training GOE personnel in the construction, operations and maintenance of the El Dabaa Nuclear Power Plant, assuming the American bidder is awarded the construction contract. In addition, USAID may also consider supporting specific site works peripheral to the main power plant facility.

- Terminate the Ismailia Thermal Power Plant project (263-0009) in FY 1987.
- Terminate the Shoubra El Kheima Thermal Power Plant project (263-0030) in FY 1989.
- Terminate the Energy Policy Planning Project (263-0123.1) in FY 1989.
- Terminate the Renewable Energy Field Testing Project (263-0123.2) in FY 1989.
- Terminate the Talkha Combined Cycle project (263-0196) in FY 1989.

#### 4. Constraints to Program Success:

The Ministry of Electricity and Energy recognizes the need to raise energy prices to reduce demand, to reduce burdensome subsidies, and to create financially viable utilities. The government is highly sensitive, however, to the political dangers of raising prices too quickly. The pace of tariff reforms and the allocation of price hikes for the various energy products will be constrained by the Government's considerations of equity and by its judgment of what is politically feasible.

The Egyptian Electricity Authority (EEA) needs to give priority attention to improving the operation of Egypt's power generating facilities. Less than 80 percent of the system's total rated name-plate generating capacity is available to meet demand requirements. Because of the need to use these plants to meet its demand, EEA has not been able to carry-out planned maintenance of generating units. Because of shortages of foreign exchange needed to purchase replacement parts, plant reliability and output have also suffered. Furthermore, Egypt's transmission and distribution system experiences inordinately high energy losses resulting in system-wide low voltage. Obsolete and undersized equipment is subjected to overloads, resulting in frequent equipment failure. Without any major increase in system capability - through conservation, rehabilitation, and creation of new generating capacity - Egypt's existing facilities will continue to work under a severe strain, leading to equipment breakdowns and interruptions in service.

#### 5. Management of Resources

##### a. Funding

EEA has requested the donor community to finance huge increases in new generating capacity to meet substantially increased demand for electricity in the year 2000. USAID believes that this projected demand will be reduced through increased tariffs and that improved efficiency in the generating, transmission, and distribution systems can significantly augment the power supply. The Mission agrees, however, that further investments in additional base-load facilities may still be necessary over the next several years.

Given USAID's large commitments in other sectors, however, the Mission cannot be the major financier of the expansion of Egypt's power generating capacity. Other donors, probably the World Bank, will have to take the lead, if the policy environment is encouraging enough. If electricity prices are raised substantially and regularly, however, USAID would make funding available for a "least cost" program to add capacity, beginning with power factor correction (distribution capacitors) and power plant rehabilitation. In support of continued price reform, the Mission would also consider participating in a donor consortium to build new base thermal generating capacity.

b. Staffing

The Mission expects to gradually reduce the amount of staff resources devoted to energy projects, unless progress in tariff reform justifies new project activities. Current plans are to merge the DR/UAD and DR/ID offices at the end of FY 1987.

Monitoring and analysis of the GOE's progress in raising electricity prices will require ten percent of the work time of one FSN engineer in DR/ID and the close attention of one senior USDH electrical engineer and the DR/ID Office Director. This information will permit PPP/E to carry out the Mission's overall monitoring of energy prices, which will require 15 percent of the time of a USDH economist and 30 percent of an FSN economist.

DR/ID's current electrical engineering staff (2 USDH and 2 FSN) is adequate to design any potential power sector projects during the FY 1987-89 planning period. Extensive support by one of the Project Development Officers assigned to the DR/ID Office is also planned during FY 87. DR/ID relies on feasibility studies performed by contractors to provide much of the information needed for project design.

The DR/ID engineering staff is also adequate to monitor the implementation of ongoing projects in electricity generation and distribution, assuming continued satisfactory performance by the supervising engineering firms contracted under each project. The Mission's Renewable Energy project is managed by one full-time USDH engineer in the S & T Office.

PROJECTED ENERGY STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDB</u>	<u>FSN</u>	<u>USDB</u>	<u>FSN</u>	<u>USDB</u>	<u>FSN</u>
A. <u>Administration</u>	2.0*	-	1.2*	-	1.0*	-
B. <u>Project Management</u>						
1. Ismailia Thermal Power Plant	0.2	0.4	0.1	0.2	-	-
2. National Energy Control Center	0.1	0.2	0.1	0.2	-	-
3. Shoubrah Thermal Power Plant	0.4	-	0.4	0.1	0.4	0.1
4. Urban Electric Distribution	0.2	0.4	0.2	0.4	0.2	0.4
5. Talkha Combined Cycle	0.1	0.7	0.1	0.7	0.1	0.6
6. Aswan Dam Rehabilitation	0.2	-	0.3	0.1	0.2	0.2
7. Energy Policy Planning and Renewable Energy Field Testing**	1.0	0.7	1.0	0.4	1.0	0.4
C. <u>Project Design</u>	0.6	0.2	0.7	0.2	0.3	0.4
D. <u>Monitoring and Analysis of     Electricity Prices</u>	0.1	0.1	0.1	0.1	0.1	0.1
	<u>4.9*</u>	<u>2.7</u>	<u>4.2*</u>	<u>2.4</u>	<u>3.3*</u>	<u>2.2</u>

\* Includes 0.3 of Associate Mission Director for Development Resources and 0.3 of his secretary and excludes DPPE/PAAD monitoring of energy prices. (See staffing table for Macro-Economic Support).

\*\* This staff responsibility is also listed in the S&T staffing table in Section II.G.5

D. LOCAL DEVELOPMENT

1. Strategic Goals and Intermediate Objectives

- a. 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.

Intermediate Objective: 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.

Intermediate Objective: Introduce a system of central-local government revenue sharing. By the end of FY 1989 the Ministries of Planning and Finance routinely providing to local governments, on a matching basis, discretionary capital and recurrent cost financing equivalent to 30 percent of A.I.D.'s annual capital contribution to the Local Development Program.

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

Intermediate Objective: 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 A.I.D. financing for local water and sanitation projects from grants to GOE loans to governorates or village councils.

Intermediate Objective: 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 incremental recurrent cost financing available from the Ministry of Finance to the governorates for operations and maintenance. By the end of 1989 establish 15 privately managed governorate maintenance centers and have in place a comprehensive maintenance management and finance system for all 26 governorates.

Intermediate Objective: 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.

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

Intermediate Objective: 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.

Objectives for promoting private sector business expansion through the rural banking system appear in Section II.F. Objectives for improving rural water and wastewater services appear in Section II.C. Both of these programs will be implemented under the Mission's Local Development program.

## 2. Impact Achieved

The Local Development Program was confronted in FY 1986 with a number of changes in senior Ministry of Local Government personnel, including the Minister, which seriously affected the pace of program implementation. However, the program has made steady progress on both the policy and program implementation fronts, although at a slower pace than anticipated in the FY 1986 Action Plan. Senior personnel changes notwithstanding, the Mission is encouraged by the fact that the GOE's commitment to the program, and to the important policy reforms embodied in it, appears to be growing. Specific recent achievements are as follows:

- The Local Development Technical Secretariat has now become an effective interministerial forum and advisory body for the program's decision-makers. For the first time since the 1960 enactment of the Local Government Code, an institution exists with a mandate to coordinate and rationalize the Government's decentralization policy with the highly centralized policies and procedures of the sectoral ministries. A major technical assistance effort has recently been approved to support the further development of the Secretariat.
- The central-local government revenue sharing formula proposed under the Local Development II Program has been accepted by the GOE and is now fully operational.
- USAID disbursed the first \$26 million under LD II in January, 1987, in support of the GOE's central-local government revenue sharing program.
- USAID and the Ministries of Finance and Local Government have agreed on a program of research and policy reform focused on local resource mobilization. A team of public finance specialists will begin work with the Ministry of Finance in April, 1987.

- USAID and the GOE have agreed on a program to help local governments operate and maintain basic services and associated equipment. The GOE has tripled the recurrent cost budgets of all governorates for FY 1987. A pilot maintenance program is underway in four governorates. It will establish a comprehensive management and finance system for basic services maintenance, emphasizing private sector management of governorate maintenance centers.
- Financing for Special Projects, designed to introduce appropriate technologies, was incorporated into the Local Development Program in 1986.
- Guidelines and procedures for the LD II FVO Program were designed and approved in 1986. GOE field staff have not yet been assigned to implement the program in the governorates. Initial disbursements are planned before the end of June, 1987.
- All procedures have been approved to begin the Local Development Training Program. GOE field staff have not yet been assigned, however.

### 3. Major Programmatic and Management Actions for FY 1987-89

- Terminate the Development Decentralization I, Basic Village Services, Decentralization Support Fund, and Neighborhood Urban Services projects in FY 1987.
- Amend the Local Development II program in FY 1987, extending it for an additional two years. The amendment will include initial financing for a new small scale enterprise credit activity, the goals and objective for which are in Section II.E.1 (Industry) of this Action Plan.
- Terminate the Sector Development and Support project in FY 1989.

### 4. Constraints

The past year has seen the resolution of two major constraints confronting the program. The Mission and the Government have come to terms on the issue of technical assistance, and the program will shortly have in place an adequately staffed technical assistance program. The government has likewise provided the program with able leadership in all key policy positions.

The key constraint presently facing the program is the Government's inability to provide full time, middle level managers and field staff to administer the program. Many of the delays encountered over the past year stem from delays in translating policy and program guidance into implementation procedures for the field. The inability of the Government to provide staff is partly attributable to the absence of staff incentive payments under the LD II Program. The GOE commonly provides such payments to other programs, and it has budgeted funds for incentives in the LD II program; but regulations for their use have not

yet been approved. The staffing problems are also partly attributable to the unique nature of the program, which requires secondment of staff from several participating ministries. These issues are being addressed but will take some time to resolve.

### 5. Management of Resources

#### a. Funding

Attainment of the Local Development Program's objectives will require the sustained commitment of resources by A.I.D. and the central government over the GOE's Second Five Year Plan period (1987-1991). Over this period, A.I.D.'s annual funding of dollar and LE costs should be maintained in the range of \$65 - 100 million annually. The GOE's contribution to the program would be expected to expand considerably to enable the program to grow in real terms. The GOE has demonstrated its commitment to pick up an increasing share of the program's costs. Direct GOE cash contributions to the Local Development II Program constitute 39 percent of total program costs, compared to the GOE's 10 percent contribution to the first phase program.

#### b. Staffing

The Local Development Program is presently managed by a USDB staff of five and a direct hire FSN secretarial and professional staff of five. The USDB staff reflects a three person reduction from the 1985 staffing level. The Office of Local Administration and Development (DR/LAD) has recently absorbed the responsibility for backstopping all future Mission urban development activities. A Housing and Urban Development Project Officer is presently -- being recruited to give the office added depth in this functional area.

Under this reduced staffing pattern, implementation performance will have to be closely monitored and appropriate reductions made in the program's scope and geographic coverage if implementation continues to slow, as it did during FY 1986.

PROJECTED LOCAL DEVELOPMENT STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDE</u>	<u>FSN</u>	<u>USDE</u>	<u>FSN</u>	<u>USDE</u>	<u>FSN</u>
<u>A. Administration</u>						
- DR/LAD & Program Management	0.6		0.6	1.5	0.6	1.5
- Policy Dialogue	0.2	--	0.4	--	0.4	--
<u>B. Program Management</u>						
<u>1. Local Institution Devl. (LIDs)</u>						
- Policy analysis, support for technical Secretariat program management	0.4	0.5	0.6	0.5	0.6	0.5
- Local Resource Mobilization Activity	0.2	0.2	0.2	0.2	0.2	0.2
- FVO Activity	0.1	0.1	0.1	0.1	0.1	0.1
- Sakkara Training Center and governorate training program	0.2	0.2	0.2	0.2	0.2	0.2
<u>2. Provincial Development Section</u>						
- Program mgt/implementation	0.5	0.4	0.7	0.4	0.7	0.4
- Pilot program supervision	0.2	0.3	0.2	0.3	0.2	0.3
- Program monitoring	0.2	0.5	0.2	0.5	0.2	0.5
<u>3. Urban Development (UDS)</u>						
- Program mgt/Implementation	0.5	0.4	0.7	0.4	0.7	0.4
- Pilot program supervision	0.1	0.2	0.1	0.2	0.1	0.2
- Program monitoring	0.2	0.5	0.2	0.5	0.2	0.5
<u>4. Operation and Maintenance (O&amp;M)</u>						
- Program mgt/Implementation	0.5	0.2	0.7	0.2	0.7	0.2
- Pilot program supervision	0.3	--	0.3	--	0.3	--
- Program monitoring	0.1	--	0.1	--	0.1	--
- Procurement	0.1	--	0.1	--	0.1	--
<u>5. Program Design</u>						
	0.6	--	0.6	--	0.6	--
<hr/>						
TOTAL	5.6*	5.0	6.6*	5.0	6.6*	5.0

\* Includes 0.3 for Associate Mission Director for Development Resources and 0.3 for his secretary.

E. AGRICULTURE

1. Strategic Goals and Intermediate Objectives

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

Intermediate Objective: Remove farm price controls on all crops except cotton, sugar cane and quota rice in FY 1987.

Intermediate Objective: Move cotton, cotton by-products and feed stock prices to within at least 50 percent of world market price equivalent by FY 1988.

Intermediate Objective: Remove procurement quotas on all crops except cotton, sugar cane and quota rice during FY 1988.

Intermediate Objective: Remove mandated area controls on planting for all crops except cotton, sugar can and rice during FY 1988.

- b. 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.

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

Intermediate Objective: 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.

Intermediate Objective: Increase yields of non-GOE controlled crops by 5 percent annually in at least 3 governorates,

Intermediate Objective: Operate all 13 national agricultural institutes and all 31 research stations with a focus on research planning and management by 1989; provide continuous flows of improved field crop and aquaculture technologies to farmers.

c. 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.

Intermediate Objective: Increase, loans to agriculturally related private businesses to 5 percent of PEDAC loans by the end of FY 1992.

Intermediate Objective: Meet farmer demands for high quality seeds through private seed companies by FY 1989.

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

Intermediate Objective: Eliminate government farm input subsidies by FY 1991.

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

Intermediate Objective: Replace 9,500 irrigation structures through FY 1989.

Intermediate Objective: Develop and implement an integrated system for upgrading maintenance of the irrigation system. Make the maintenance system operational in one agricultural directorate in FY 1988 and in three additional directorates per year thereafter.

Intermediate Objective: Establish the methodology and begin a program in FY 1987 to rehabilitate the irrigation delivery system down to the farm level based on the needs of the farmers. Complete rehabilitation of the first 300,000 feddans of system by 1991.

Intermediate Objective: Establish a policy and mechanism for recovery of 100 percent of the capital costs of mesqwa improvements by FY 1988 and implement the program in FY 1990. Begin charging fees to cover 100 percent of irrigation O&M costs in rehabilitated areas in FY 1992.

## 2. Impact Achieved

### a. Price reform and production controls

- A.I.D. and the GOE signed the Grant Agreement for the \$120 million Agricultural Production and Credit Project in September, 1986. This project links performance payments to agricultural policy reforms.

- In October, 1986, the Minister of Agriculture publicly announced removal of procurement quotas on all crops except cotton, rice and sugar cane.
- The Government doubled the sale price of yellow corn from LE 60 to LE 120 per MT in 1986.
- The GOE raised procurement prices for rice, onions, and cotton by 32, 25, and 20 percent respectively in 1986. The government also increased prices for sugar, peanuts, and lentils by smaller amounts.

b. Research and credit

- Small Farmer Production Project banking systems have now been installed in 79 village banks and have made loans to over 60,000 small farmers. The GOE has begun extension of those systems into 8 additional governorates.
- Research and training facilities funded under the Rice Research and Training, Major Cereals, Agricultural Management Development, and Aquaculture projects were dedicated and put into use in the past year.
- The Rice Research and Training Project resulted in development of high yielding varieties, which contributed in 1986 to a 5 percent increase in rice yields and an 18 percent increase in rice acreage over 1985.
- A peat-based innoculum developed under the EMCIP resulted in a 3-4 million dollar savings in imported nitrogen fertilizer for the 1985-86 growing season.
- Under the Major Cereals Improvement Project (EMCIP), maize and wheat demonstration plots yielded 50 percent more than national farmer averages in 1986.

c. Private sector

- The Principal Bank for Development and Agricultural Credit has started development of a plan to divest the sale of agricultural inputs to the private sector.

d. Irrigation

- Approximately 6,000 irrigation structures have now been replaced under the Irrigation Management Systems project, increasing efficiency of the overall irrigation system by one percent. Where irrigation structures have been replaced, delivery efficiencies of canals have improved by eight to eleven percent.

- The work plan for the irrigation preventive maintenance organization was developed and approved in the Gharbia Directorate and equipment has been ordered to begin implementation of the model unit.
- Methodologies have been developed and a program begun to rehabilitate the first major canal command.

### 3. Major Programmatic and Management Actions for FY 1987-89

- The Small Farmer Production Project will end in FY 1987. Successful banking concepts introduced by that project will be continued and expanded under the Agricultural Production and Credit Project.
- In FY 1987, USAID and the GOE will negotiate policy changes to be made in return for performance payments under the Agricultural Production and Credit Project.
- A major amendment of the Irrigation Management Systems Project is scheduled for March 1987 to improve the capabilities of the GOE to effectively plan, design, operate, maintain, and manage the irrigation system.
- Four projects will end in FY 1987 - Data Collection and Analysis, EMCIP, Rice Research and Training and the Aquaculture Development - continuing the consolidation of the agriculture portfolio begun last year.
- The National Agriculture Research Project will be amended in FY 1987 to incorporate successful activities begun under recently terminated projects and to include new agricultural extension activities.

### 4. Constraints to Program Success

Policy changes to be negotiated will affect constituents who receive and have become accustomed to government subsidies. Many are vocal and politically powerful. These include large poultry and cattle operators who profit from subsidized feed, farmers who receive subsidized credit and input

Inadequate operating budgets continue to limit effectiveness of the MOA and constrain its ability to utilize fully the research facilities recently completed.

Government regulations discourage enthusiastic participation by Ministry of Agriculture staff in project activities. These include:

- inadequate travel funds and per diem to support field travel;
- delays in providing salary incentive payments to project staff;
- low government salaries that don't attract the best quality staff.

## 5. Management of Resources

### a. Funding

USAID funding will not be a constraint to achieving program objectives. The Mission is keen to program dollar resources into the agriculture sector and will do so to the extent that the projects need them. The biggest unknown in this regard is the Agricultural Production and Credit Project. If the GOE makes substantial progress in reforming agricultural policies, USAID will increase performance payments, if the banking system needs additional liquidity for farmer credit.

GOE resources, on the other hand, are inadequate to support operating costs of a fully functioning research and extension system. Unless the GOE increases operating budgets, there is a real risk that the extensive network of A.I.D.-financed research facilities will be substantially under-utilized. The Mission will encourage the GOE to increase these operating budgets.

### b. Staffing

The consolidation of the agriculture portfolio to fewer, bigger projects and the increased emphasis on policy analysis has necessitated some staffing shifts within the USAID. The agricultural reform program envisioned under Agricultural Production and Credit will require substantial analytical support from the Office of Economics, PPP/E. The Mission intends to hold staffing in the Directorate of Agricultural Resources to current levels. The one area that may require a staff increase in FY 1988 or 1989 may be the Office of Irrigation and Land Development. If USAID and the GOE agree to increase the size and scope of the Irrigation Management Systems Project, it may be necessary to add one USDH engineer to that staff to support the major institutional development effort.

PROJECTED AGRICULTURE STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	USDE	FSN	USDE	FSN	USDE	FSN
A. <u>Office Administration</u>	4.0	5.0	4.0	5.0	4.0	5.0
B. <u>Project Management</u>						
1. Irrigation Management Systems	0.7	1.8	2.0	2.0	2.0	2.0
2. Small Farmer Production Project	0.4	0.4	-	-	-	-
3. Agricultural Production Credit	0.4	1.4	0.8	1.8	0.8	1.8
4. Project Close-Out	0.8	0.2	-	-	-	-
5. Implementation/Financial Planning	0.5	0.3	1.0	0.4	1.0	0.4
6. Research Management	0.4	0.5	0.4	0.5	0.4	0.5
7. Construction Planning/Implementation	0.1	0.3	0.1	0.3	0.1	0.3
8. Participant Training Planning/Implementation	0.2	0.4	0.3	0.5	0.3	0.5
9. Procurement Planning/Implementation	0.3	0.5	0.4	0.5	0.4	0.5
10. Technology Generation/Transfer	0.1	0.2	0.2	0.2	0.2	0.2
11. Crop Protection	0.1	0.2	0.1	0.2	0.1	0.2
12. Mechanization	0.1	0.1	0.1	0.1	0.1	0.1
13. Monitoring/Evaluation	0.1	0.1	0.2	0.2	0.2	0.2
14. Extension Management	-	-	0.2	0.1	0.2	0.1
C. <u>Project Design</u>						
1. National Agricultural Research	0.3	0.2	-	-	-	-
2. Irrigation Management Systems	0.3	0.2	-	-	-	-
D. <u>Other</u>						
1. Computer and Data Management	-	0.2	-	0.2	-	0.2
2. Economic Analyses	0.2	-	0.2	-	0.2	-
	<u>11.0</u>	<u>12.0</u>	<u>11.0</u>	<u>12.0</u>	<u>11.0</u>	<u>12.0</u>

F. INDUSTRY

1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Increase private industrial output by eight percent annually through 1993.

Intermediate Objective: Increase the private sector share of industrial investment from 15 percent in 1986 to 30 percent in 1988 and 50 percent in 1993.

Intermediate Objective: Improve the business climate by removing restrictions on business, relaxing controls and allowing the private sector to compete with the public sector on market terms.

Intermediate Objective: Develop procedures to divest industries owned by local governments. Divest enterprises to private sector in FY 1988 and 12 in FY 1989.

- b. Strategic Goal: Improve private industry productivity and management practices through business service and support institutions.

Intermediate Objective: Improve access to market information through a Business Development Center. Offer business services to 100 firms in FY 1988 and 150 firms in FY 1989. Locate 30 partners for joint ventures in FY 1988 and 40 in FY 1989.

Intermediate Objective: Develop 3 key institutions by 1989.  
(1) Introduce uniform standards of accounting. (2) Permit banks to provide full service facilities, particularly open market transactions in foreign exchange conversions. (3) Promulgate a new capital market law favorable to the issuance and trading of new capital market instruments.

Intermediate Objective: Reduce government intervention in exports (e.g., inspection of quality), decrease procedures and costs of processing exports, and increase tax and other incentives to exporters by 1989.

Intermediate Objective: Establish a private sector company to take the lead in expanding tourism through tourism promotion, management of convention centers, etc. by FY 1988.

- c. Strategic Goal: Expand access and availability of institutional finance for all sizes and types of private industrial needs.

Intermediate Objective: Equalize effective interest rates for public and private sectors at positive real levels by the end of FY 1989 or allow them to move to market-determined levels.

Intermediate Objective: Establish a credit guarantee fund by FY 1988 to service 500 small scale industries by 1993.

Intermediate Objective: By the end of FY 1988, establish the feasibility and policy commitment of Egyptian banking authorities to privatize the regional development banks. By the end of FY 1989 establish a system of AID capital subscriptions to selected regional development banks to match paid-in capital from private sources that replaces government equity.

Intermediate Objective: In early FY 1988, initiate through the National Bank for Development a pilot commercial credit program for small scale private enterprises in selected villages in two governorates.

Intermediate Objective: Establish a nationwide enterprise credit program operating through 16 autonomous regional banks associated with the National Bank for Development by the end of FY 1989.

## 2. Impact Achieved

- Private industrial production has increased at between 3 and 8 percent annually over the past five years. Private sector investment in industry is growing faster than the public sector's investment. The GOE is investigating ways to continue this trend so that 50 percent of total investment comes from the private sector, as targetted in the new Five Year Plan.
- The business climate was considered quite bad in the first half of CY 1986 but has improved since the introduction of the customs reforms in mid-1986. The recent removal of restrictions on the production of a number of crops and GOE efforts to streamline investment, export and import processes have helped the business climate. Tourism has rebounded from last year's low and has reduced Egypt's sense of economic isolation. Finally, the expectation that the GOE will reach agreement with the IMF, the IERD and donors on debt rescheduling has contributed to a mild sense of optimism in the private sector.
- The GOE continues to plan for divestiture of governorate-owned enterprises. Eight specific enterprises are now identified and private/public sector committees are developing the implementation details.

- The GOE has agreed in principle to the idea of a private sector Business Development Center but has not agreed to allocate appropriate start-up funding from USAID. The GOE has tightened the requirements for USAID-supported feasibility studies. There has been no dramatic increase in the number of joint ventures established.
- The Accounting Syndicate has finally hired the staff to develop accounting standards. There is still a lot of talk about permitting banks to trade at their "own" exchange rate. But the GOE has not yet issued the permission. The Capital Market has initiated actions to hire experts needed to reform the rules and procedures governing the stock market.
- There is considerable study of the problems of exporters, but few concrete steps have been implemented to resolve the problems.
- The private sector has been given a greater role in building and owning tourist facilities. Efforts to partially divest the principal GOE-owned tourist facilities were less successful than planned. The GOE only permitted more management contracts for premier hotels rather than the sale of part of the equity.
- Interest rates remain fixed below inflation, and no progress is expected until after agreement with the IMF.
- The Small Scale Credit Guarantee Fund has been established in principle, but its implementation awaits GOE approval for consultants needed to establish operating procedures.
- A non-subsidized small scale credit program was designed in FY 1986 for implementation in villages through the National Bank for Development. The Local Development Technical Secretariat has approved implementation in the first two governorates on a pilot basis.

3. Major Programmatic and Management Actions for FY 1987-89

- Identify and design assistance efforts for selected private sector initiatives in tourism and export promotion by early FY 1988.
- Continue to assist the GOE divest governorate owned enterprises. This may result in a new project activity. Seek opportunities to expand the interest in privatization of companies owned by the national government.

- Begin implementation of the small scale commercial credit program and credit guarantee fund in FY 1987.
- Develop a detailed private sector policy agenda for the Mission, Directorate and project level policy dialogue by early FY 1988.

#### 4. Constraints to Program Success

The most important constraint to private sector industrial development is GOE anxiety over possible adverse public reaction to economic reforms. The GOE's delay in initiating needed reforms negatively affects the business climate in several ways. First, it perpetuates the private sector's belief that the GOE is not genuine in its pro-private sector pronouncements. Second, it continues the conditions which hold a substantial portion of the private sector at a competitive disadvantage to the public sector and to foreign competition.

A second constraint is the residual disdain for the private sector by some high government officials and members of the bureaucracy. The legacy of Nasser socialism is not dead. Also, the visible affluence of the private sector elite is not helpful in assuaging the popular view that the private sector extracts excess profits and is not as genuinely dedicated to Egypt's development as the public sector.

A third constraint is the difficulty in programming substantial assistance to the private sector without introducing new market distortions or replacing alternative, existing private sector sources of services. In the absence of GOE economic reforms, large quantities of donor assistance can be made available to the private sector to counter the unfair public sector competition arising from government subsidies and other forms of official favoritism. However, the discount pricing and non-market distribution of donor funds risks encouraging private investment in enterprises and production factor mixes that would be uneconomic in an unsubsidized setting. Given Egypt's location and traditional trade relationships, the procurement rules associated with AID funds will make them relatively less attractive to the private sector in a post-reform environment than free foreign exchange. Even smaller programs that provide technical assistance and technology transfer risk damaging fledgling private sector enterprises that are trying to market these same services.

In a post-reform environment, AID funds may not be easily programmed directly for specific private sector initiatives. Rather, macroeconomic resource transfers may help the private sector indirectly by mitigating the inflationary effects of rapid growth and by slowing down the depreciation of the Egyptian Pound. Simple resource transfers at market prices, however, do not satisfy the interests of AID, the U.S. Congress or the U.S. private sector in having an identifiable private sector portfolio with appropriately earmarked funds.

A fourth constraint is the unavailability of information that the private sector needs to make sound business decisions. The GOE also lacks the information it needs to assess its policies vis-a-vis the private sector. The problem of information gaps within the private sector has been less noticeable than the information gap within the government because the general scarcity of goods has benefitted private sector producers even when they had no data upon which to base their investment decisions.

However, as the private sector expands to fill the domestic market and seek export opportunities, considerable resources will be misinvested unless there are better data on products, production technologies, and markets. The general lack of information also affects AID. Problem identification and project design are constrained by our inability to obtain accurate information on industries not represented in organized fora such as the American Chamber of Commerce, the Egyptian Businessmen's Association and the Egypt-U.S. Joint Business Council.

## 5. Management of Resources

### a. Funding

Funding plans for industry and the private sector are uncertain in the out-years of our CDSS planning period. Support for private sector businesses is one of the Mission's very highest priorities. We will program as much funding as this sector can productively use. However, all program allocations must be negotiated with the GOE, which isn't as bullish as A.I.D. is on the private sector. Also, the attractiveness of some USAID resources (e.g. the Private Sector CIP) is dependent on unpredictable market forces, like the exchange rate.

### b. Staffing

The staffing strategy for industry and the private sector has changed somewhat from last year. The Mission still relies on the commercial banks to handle the bulk of the implementation of term credit and the private sector CIP activities. USAID continues to phase down and close out the residual public sector industry portfolio. However, the business community was too engaged in its own activities to dedicate the time and resources needed to establish the Business Development Center in 1986. While this may come to fruition in 1987, experience shows that a greater AID staff involvement is required--hence, the relatively high level of staff projected for 1987 under this heading.

Simultaneously, USAID's institutional development efforts in the capital markets, accounting and bankers' training have significantly increased. The greater responsiveness of GOE counterparts has required the allocation of more USAID staff to these efforts. The activities are worthwhile, and the Mission plans for adequate staffing to continue their present pace of implementation.

Privatization became a new staff responsibility in FY 1986. Based on our initial activity with the GOE, we anticipate that privatization will place an increasing demand on staff time. It is intrinsically staff-intensive, because it is a sensitive issue which requires a lot of negotiations. Nevertheless, the Mission plans to allocate the staff required because of the fundamental importance of privatization to the Agency's private sector objectives.

Export and tourism promotion have replaced clay bricks and fertilizer as areas of special concern. Private sector interest in investing in desert clay brick factories collapsed in 1986 when the GOE failed to enforce its ban on the use of Nile River clay for bricks. Movement on the Kima Fertilizer project has also slowed because the GOE has not established the extent of gas availability. Export and tourism promotion, on the other hand, have active GOE counterparts and a supportive GOE policy commitment.

PROJECTED INDUSTRY STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>
<u>Portfolio Management Activity</u>						
CIP (Private Sector)	1.7	8.0	2.0	8.3	2.2	8.5
Business Promotion/ Term Finance (a)	4.5	1.6	3.1	1.9	3.1	2.0
Institutional Development (b)	1.5	2.5	1.8	2.5	1.8	2.3
Privatization	1.4	1.2	2.5	1.5	2.5	2.5
Export/Tourism Promotion	1.0	.6	1.5	.8	1.3	1.0
Small Scale Enterprise	.9	1.6	1.1	1.6	1.5	1.8
Residual Public Sector Industry	1.7	3.8	1.0	3.0	.8	1.7
<b>TOTAL</b>	<u>12.7</u>	<u>19.3</u>	<u>13.0</u>	<u>19.6</u>	<u>13.2</u>	<u>19.8</u>

Notes: This table includes 2.2 USDH for the Associate Director IS and his secretary and the Deputy Associate Director IS. It also includes 0.7 for the DAD's FSN secretary. IS Directorate staff for the Government CIP and the Tax Administration projects are listed in the Staffing table of section II.A.5 on Macroeconomic Support.

- (a) Includes PIE Fund, Feasibility Studies, USIPO, and general contact with the private sector.
- (b) Includes Capital Markets Authority, Accounting, IESC, and Bankers' Training. Does not include Tax Administration Improvement.

G. SCIENCE AND TECHNOLOGY

1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Support selected research and development and technology transfer activities to resolve specific development problems aimed at improving productivity.

Intermediate Objective: Improve energy conservation and production through planning, manpower development, and introduction of energy efficient technologies. Begin the first 15 industrial energy conservation activities in FY 1988.

Intermediate Objective: Increase FY 1989 investments in mineral and petroleum production 15 percent over the previous year largely as a result of improved assessments of reserves and improved analytical capability in the mineral resources sector.

Intermediate Objective: Improve significantly the GOE's energy policy and planning capability. Complete supply/demand analysis and prepare policy recommendations for energy pricing, systems rationalization and conservation for Cabinet review for FY 1988.

Intermediate Objective: Complete assessments of renewable energy potential by FY 1989.

Intermediate Objective: Complete initial epidemiologic and social analyses on schistosomiasis and begin research on a schistosomiasis vaccine by early FY 1989.

Intermediate Objective: Begin S&T activities in water/wastewater, construction materials, and soil analysis in Egyptian universities and research centers by the end of FY 1988.

- b. Strategic Goal: Increase coordination among the most seasoned Egyptian research institutions.

Intermediate Objective: Coordinate research efforts among six regional universities and five research centers by FY 1988.

Intermediate Objective: Extend S&T Information Systems to three additional universities in FY 1988.

2. Impact Achieved:

- The Applied S&T project has significantly improved the capabilities of 20 national research centers. Six hundred scientists have received training in 35 specific scientific areas and research management. The project will end in March, 1987.
- The Scientific and Technical Information system is now connected to five ministries and five universities, processing 3,000-4,000 requests annually. The network is now also linked to international systems.
- The Ministry of Petroleum and Mineral Wealth adopted a new mineral development agreement in 1986. Increased dissemination of information on mineral resources attracted investments in gold and sulphur exploitation.
- New discoveries of ground water in the Eastern Desert are changing development plans for agriculture and mineral production in the area. Also, generation of new geotechnical information in Eastern Desert led to increased oil concessions and exploration activities in 1986.
- Enhanced oil recovery (EOR) feasibility studies are indicating tremendous potential. Estimated recovery ratios of 4 to 20 times can be seen in most EOR efforts in the Gulf of Suez.

3. Major Programmatic and Management Actions for FY 1987-89:

- Complete design of the five components of the S&T for Development Project (263-0140). S&T Cooperation, Industrial Energy Conservation, and Energy Manpower Development will be designed by the end of FY 1987. Designs for the Schistosomiasis Research and Land Use Planning activities will be completed in FY 1988.
- Complete special studies on energy policy pricing, supply/demand analysis, and electrical energy rationalization in FY 1988.
- Begin schistosomiasis vaccine research in FY 1988.
- Terminate projects in Energy Policy Planning (263-0123.1), Renewable Energy Field Testing (263-0123.2), and Mineral, Petroleum and Groundwater Assessment (263-0105) in FY 1989.

4. Constraints to Program Success:

The concept of applied research to meet end-user needs continues to be supported by the S&T community and is receiving growing attention both in and out of the government. Nonetheless, top government management continues to lack a full appreciation of the need for a strong and effective research and development capacity. This lack of top GOE commitment will influence implementation of all S&T efforts.

In the individual projects, planned funding should be adequate, but there is still a need for increased coordination among research groups. Design efforts for the components of the S&T for Development Project have already demonstrated potential strain in this area and have surfaced some conflict between generations of scientists. The S&T Office staff will have to concentrate on helping Egyptian researchers get used to the competitive award of research contracts.

5. Management of Resources:

a. Funding

LOP funding for the first generation of S&T projects will be completed with the final \$ 3.5 million for Energy Policy Planning in FY 1988. Budget resources for the new S&T for Development project should be sufficient for all planned activities. The only possible problem may be the GOE's reluctance to program significant resources for the sector.

b. Staffing

Project management duties will shift in the S&T Office in FY 1988 to begin successful implementation of new projects and timely close-out of older projects. One USDH and one FSN professional will have principal project management responsibility. An additional PSC or USDH (check table) will be required to manage the schistosomiasis vaccine program. It has not yet been decided, however, whether he/she will be OE or project-funded. The FSN technical/support staff will remain at three. The Office Director will maintain overall responsibility for technical guidance, portfolio supervision, continuing policy dialogue and direct coordination of the new S&T project components. This staffing pattern will remain sufficient for FY 1989.

PROJECTED SCIENCE AND TECHNOLOGY STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	USDE	FSN	USDE	FSN	USDE	FSN
A. <u>Office Administration</u>	0.7	1.2	0.75	1.1	0.8	0.8
B. <u>Project Management</u>						
1. Applied Science & Technology	-	0.05	-	-	-	-
2. Minerals, Petroleum and Groundwater Assessment	-	0.5	-	0.3		0.2
3. Seismic Studies - Aswan Dam	-	0.05	-	0.05		0.1
4. Energy Policy Planning*	0.3	0.3	0.35	0.2	0.3	0.2
5. Renewable Energy*	0.7	0.4	0.65	0.2	0.7	0.2
6. Science and Technology for Development	0.1	0.1	0.15	0.15	0.15	0.1
a. Schistosomiasis Research	-		0.1	0.2	0.1	0.2
b. Land Use Planning	-	0.1	0.05	0.3	0.05	0.4
c. Industrial Energy Conservation	-	0.1	0.1	0.3	0.1	0.5
d. Energy Manpower Development	-	0.1	0.1	0.4	0.1	0.6
e. Science and Technology Cooperation	-	0.3	-	0.6	0.1	0.7
C. <u>Project Design</u>						
1. Schistosomiasis Research	0.1	0.1	0.15	0.2	-	-
2. Land Use Planning	0.05		0.2	-	-	-
3. Industrial Energy Conservation	0.1	0.2	-	-	-	-
4. Energy Manpower Development	0.1	0.2	-	-	-	-
5. Science and Technology Cooperation	0.05		0.3	-	-	-
	2.4*	4.0	2.4*	4.0	2.4*	4.0

\* These staff inputs also appear in the Energy Staffing table in Section II.C.5

\*\* Includes 0.2 input in FY 1987-1989 by Associate Mission Director and 0.2 by his secretary.

H. POPULATION

1. Strategic Goals and Intermediate Objectives

- a. 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.

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

Intermediate Objective: 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.

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

Intermediate Objective: 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.

Intermediate Objective: Curtail support for population programs that have only a marginal relationship to fertility reduction and emphasize those that have the greatest impact on contraceptive acceptance.

2. Impact Achieved

Egypt's contraceptive prevalence rate increased from 30 percent in 1985 to 31 percent in 1986. The one program that is working well is the Family of the Future's contraceptive retail sales program, which now operates through virtually all Egyptian pharmacies and a significant percentage of private physicians. Government family planning programs have gone nowhere. However, a number of significant developments have taken place over the past several months which lay the groundwork for progress in fertility reduction in the years ahead. These include:

- Design of major clinical family planning service delivery programs with the Ministry of Health (MOH) and the Egyptian Family Planning Association (EFPA).

- Expansion of private contraceptive sales to virtually all pharmacies and to a significant percentage of private physicians.
- Agreement with the National Population Council (NPC) to design a comprehensive project to strengthen its institutional capabilities in policy formulation, program planning and coordination.
- Initiation of work on the redesign of a comprehensive contraceptive logistics management system.
- A refocusing and expansion of the efforts of the State Information Service (SIS) to increase awareness/motivation through new initiatives such as social drama.
- Completion of the decennial population census on schedule in December, 1986.

3. Major Programmatic and Management Actions for FY 1987-89

- Finalize and implement the new MOH and EFPA clinical service delivery projects in FY 1987.
- Finalize and implement in FY 1987 the new support package for the NPC in policy, program planning and coordination.
- Terminate the Family Planning project (263-0029) in FY 1987. Amend the Population Project (263-0144) in FY 1987, extending it through 1993 and increasing life of project funding to cover planned multi-year service delivery programs. Focus the amended project on fertility reduction activities.
- Complete analysis of the 1986 census data and issue reports in FY 1989. Issue preliminary report on major findings by the end of FY 1987.

4. Constraints to Program Success

The major constraint to the rapid expansion of family planning services is the sensitivity with which population/family planning programs are perceived by the Egyptian Government, despite the GOE's supportive rhetoric at the highest levels. The GOE is fearful of political set-backs to the program, should there be careless presentation of family planning messages or introduction of what may be perceived as inappropriate contraceptive technologies. Consequently, the GOE is very slow to approve innovative proposals.

Important implementation constraints include:

- a lack of commitment to family planning in the Ministry of Health,
- weak leadership at mid-management levels,
- underdeveloped service delivery systems in the MOH,
- a lack of effective coordination among major service providers, and
- weak linkages with community leaders.

USAID is addressing all of these issues through the Population project.

5. Management of Resources

a. Funding

USAID will make available to the GOE as much funding as can be productively used. The precise level of funding for FYs 1988 and 1989 will depend upon the pace of project implementation in FYs 1987 and 1988. The GOE contribution is thus far inadequate to ensure eventual program self sufficiency.

b. Staffing

Because of the design of expanded service delivery activities in late 1986, the Population Office is now hard pressed to properly manage its project. If the newly designed service delivery activities with the MOH and the EFPA begin implementation as scheduled, the Mission will reestablish the third USDH position that was eliminated in FY 1986. The Population Office also continues to consolidate disparate project activities and streamline project management. A workforce of 3 USDH and 5 FSNS should be sufficient through the FY 1989 planning period.

PROJECTED POPULATION STAFF LEVELS

	<u>FY 1987</u>		<u>FY 1988</u>		<u>FY 1989</u>	
	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>
A. <u>Office Administration</u>	.7*	1.4	.8*	1.4	.8*	1.4
B. <u>Project Design</u>	.4	.8	.2	.6	.2	.6
C. <u>Project Management</u>						
1. Contraceptive procurement/ Logistics	.1	.5	.1	.6	.1	.6
2. Private sector Social Marketing (FCF)	.2	.3	.3	.3	.3	.3
3. Family Planning Services (MOH, EFPA, CHO, PVCs)	.5	.9	1.2	1.2	1.3	1.4
4. Information, Education, Communication	.1	.4	.2	.2	.1	.1
5. Demographic surveys biomedical and social science research	.1	.3	.3	.3	.2	.2
6. Policy/Program Planning and Coordination (NPC)	.2	.1	.2	.2	.3	.2
7. Pop. Intermediaries technology transfer	.1	.3	.1	.2	.1	.2
<b>Totals</b>	<b>2.4</b>	<b>5.0</b>	<b>3.4</b>	<b>5.0</b>	<b>3.4</b>	<b>5.0</b>

\* includes 0.2 for Associate Director for Human Resources and 0.2 for his USDH secretary.

I. **HEALTH**

1. Strategic Goals and Intermediate Objectives

- a. 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.

Intermediate Objective: Teach 90 percent of Egyptian mothers to use oral rehydration therapy correctly by FY 1989. *achievable*

Intermediate Objective: 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. *already achieved*

Intermediate Objective: Expand and improve significantly programs for diagnosis and treatment of acute respiratory illnesses in five governorates by FY 1989. *with measles DPT*

Intermediate Objective: Increase awareness among mothers of the basic foods needed for weaning to 75 percent by FY 1989.

Intermediate Objective: Increase to 80 percent by FY 1989 the awareness of the adult population of the relationship between excess fertility and mortality of infants and young children.

- b. 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 services to shift emphasis from curative to preventive care.

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

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

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

Intermediate Objective: Shift GOE health expenditures significantly from curative to preventive care by 1993.

- c. Strategic Goal: Develop an effective vaccine against schistosomiasis.

Intermediate Objective: Complete the first epidemiologic and social analyses and begin research on the vaccine by early FY 1989.

## 2. Impact Achieved

Infant mortality has fallen from 101/1000 in 1980 to around 90/1000 in 1986. The most dramatic achievement in the Mission's health portfolio continues to be in the Oral Rehydration Therapy (ORT) program conducted under the Control of Diarrheal Diseases Project (263-0137). Usage of ORT by mothers for treatment of diarrhea increased from 67 percent in 1985, to 82 percent in 1986, and ORS production has increased from 3.5 million sachets in 1982, to 75 million in 1986. Approximately 60 percent, or 45 million sachets, are sold through commercial pharmacies, and the remaining 40 percent of the production is used by the Ministry of Health (MOH) for free services. Hospitals and clinics in 3,000 health facilities throughout Egypt report significant decreases in the number of severely dehydrated children treated and in hospital deaths from dehydration. Surveys conducted by the project show decreases of 25 percent to 33 percent in diarrhea mortality. (These data require further analysis to confirm this conclusion, however.) ORT continues to be promoted primarily through national television, using social marketing techniques. wise

The Urban Health Project, (263-0065) is increasing efficiency and effectiveness of maternal-child health services in poor neighborhoods in Cairo and Alexandria. Clinics built or improved under the project will serve approximately 30 percent of Egypt's mothers and children by late 1987. They will continue to be major MOH focal points for Child Survival activities such as OPS and immunizations. A Training and Research Center for Social and Preventive Medicine (CSPM) has also been established at Cairo University. By the end of this project a MOH/CU program will be training health professionals in improving services to mothers and children.

The Suez Canal University Medical School Project (263-0136) has developed the first community physician curriculum in Egypt. This curriculum is now influencing changes in the curricula of the other nine, more traditional medical faculties, where it is strengthening their preventive medicine programs. It is also being used as the model for a new medical faculty under development in Menoufia. The curriculum has received international recognition and has attracted the interest of other developing countries concerned with improving the effectiveness and relevancy of training for physicians.

## 3. Major Programmatic and Management Actions for FY 1987-89

- Terminate the Rural Health Delivery Project (263-0015) in March, 1987, and the Urban Health Project (263-0065) in September, 1987.
- Extend the Control of Diarrheal Diseases (CDD) Project (263-0137) in FY 1987 for 3 years and an additional \$ 10 million. This extension will allow completion of data analysis and provide for a smooth transition while the MOH and the Child Survival Project assume responsibility for the ORT program. 2.100

- Design the Cost Recovery Programs for Health Project (263-0170) by August 1987.
- Terminate the Suez Area Medical Education and Health Services Development Project (0136) in FY 1988.
- Begin the expansion of the Child Survival Program from five sentinel governorates to 15 other governorates in FY 1988 and to all 26 governorates in FY 1989.

#### 4. Constraints to Program Success

The GOE health system remains overextended, underfunded, underutilized, and oriented toward curative care. These problems constrain the progress of effective preventive health programs and cost effective curative services in Egypt. The MOH does aggressively support programs that emphasize preventive measures, such as Child Survival, and cost recovery programs at a policy level. Implementation is more difficult, however, due to long-standing regulations and procedures that favor the public sector and a personnel system that does not reward performance. The MOH also lacks sufficient numbers of senior and mid-level administrators, and as a result its administrators are overextended in management of ongoing MOH programs and externally funded projects.

#### 5. Management of Resources

USAID will continue to manage the health and nutrition program within the current USDH and FSN work force levels of four USDH technical advisors and four FSN technical/support staff through FY 1989. USAID has shifted duties within the Office of Health to achieve the level of effort necessary for design and implementation of the two new projects and timely and effective close-out of older projects, as well as to cover the Office Director position, expected to be vacant for eight months. Staff resources will be strained during this period, as the Acting Director also shares project management responsibilities.

Under the full staffing pattern, the Office Director will maintain overall responsibility for technical guidance, supervision of the project portfolio, and continuing policy dialogue with GOE officials.

A second USDH will have overall implementation responsibility for child survival activities and will be assisted by one FSN. The prime contractor for the Child Survival Project is currently being selected and is expected to be on board in mid-1987 to provide technical assistance to the GOE. A five year PASA has been approved to provide epidemiology training in the Child Survival Project.

The third USDH will be primarily responsible for developing and implementing the Cost Recovery Programs for Health project, phasing-out urban health activities (FY 87) and assisting with the implementation of child survival activities. The design of the new Cost Recovery Project will be carried out under the direction of the USDH project officer using other USAID Cairo personnel, TDY assistance from AID/W, and external experts as required.

The fourth USDH will maintain prime responsibility for the phase-out of rural health (FY 87) and medical education programs (FY 88) and has assumed implementation responsibility for the control of Diarrheal Diseases Project.

A senior FSN manages the Joint Working Group activities and two paramedical training activities.

PROJECTED HEALTH STAFF LEVELS

	FY 1987		FY 1988		FY 1989	
	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>	<u>USDH</u>	<u>FSN</u>
A. <u>Office Administration</u>	1.5*	2.0	1.1*	2.0	1.5*	2.0
B. <u>Project Management</u>						
1. 0015 Rural Health	0.1		-	-	-	-
2. 0065 Urban Health	0.6	0.1	0.1	-	-	-
3. 0136 Suez Medical Education	0.4	-	0.4	-	0.2	-
4. 0137 Diarrheal Diseases	0.4	0.1	0.4	0.1	0.8	0.2
5. 0170 Cost Recovery Programs	-	-	0.8	0.1	0.8	0.2
6. 0203 Child Survival	0.8	0.6	1.5	1.5	1.2	1.4
7. Joint Working Group	0.2	0.6	0.2	0.2		
8. Other (e.g. AID/W funded)	0.2	0.4	0.1	0.2	0.1	0.2
C. <u>Project Design</u>						
1. 0170 Cost Recovery Programs	0.4	-	-	-	-	-
	4.6	4.0	4.6*	4.0	4.6*	4.0

\* Includes 0.3 for the Associate Mission Director for Human Resources and 0.3 for his USDH Secretary.

J. EDUCATION AND TRAINING

1. Strategic Goals and Intermediate Objectives

- a. Strategic Goal: Increase rural enrollment in basic education (grades 1-9) to 90 percent by 1993, with the majority of this increase among girls.

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

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

Intermediate Objective: By 1988 establish an effective planning office in the Ministry of Education.

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

Intermediate Objective: Train 1,000 new participants in the U.S. each year from 1987 through 1993.

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

Intermediate Objective: 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.

Intermediate Objective: Complete the 325 research linkages approved under the University Linkages Project by 1988.

2. Impact Achieved

a. Increasing access and retention

- 115 new rural schools were constructed under the Basic Education Project in FY 1986, exceeding the target by 15 percent. The project has now built 370 schools.
- School enrollments in the Basic Education project area rose to 88.51 percent in 1986.
- The Basic Education project was amended in FY 1986 to expand from 10 to 24 governorates.

- A cooperative agreement was signed in 1986, establishing a program to improve the education data base and improve planning in the Ministry of Education.

b. Improving essential technical, managerial and scientific skills

- 1052 Egyptian participants went to the United States for training in FY 1986. This number exceeded the previous year's participation by 39 percent and apparently reversed the decline in U.S. training that USAID had predicted would result from the GOE's 1985 restrictions on overseas training.
- 325 university research linkages were initiated in FY 1986, exceeding the year's target by 20 percent.
- The GOE provided significant budget support for the Development Research and Technological Planning Center and for the University Linkages program in 1986. This commitment of financial support was a significant step toward institutionalizing the programs.

3. Major Programmatic and Management Actions for FY 1987-89

- Commence school construction in an additional 14 governorates in FY 1987.
- Commence management training in the new Center for Administrative and Management Development in FY 1987.
- Terminate the Vocational Training for Productivity (0090:2) and Technology Transfer and Manpower Development III (0026) projects in FY 1987.
- Terminate the Peace Fellowships project (0110) in FY 1988. (Activities continue as a component of the Development Training Project (0125).)
- Complete concept papers in FY 1987 for possible new activities in in-service teacher training and in materials development, storage, and distribution. These activities could be developed as new projects or as new components of the Basic Education project.
- Develop a concept paper in FY 1988 for a science education project.
- Initiate training in residential English Language Training Center in FY 1988.
- Terminate the Development Planning Studies (0061) and University Linkages (0118) Projects in FY 1988.

#### 4. Constraints to Program Success

##### a. Program Problems

Unless the GOE successfully addresses the quality issue in basic education, an unacceptable percentage of the students will continue to drop out before learning to read and write. This will happen even though over 90 percent of all 6-7 year olds in Egypt enroll in first grade. Problems include overcrowding, poor teacher training and pay, and a lack of educational materials.

We do not anticipate attaining the Administrator's goal of a 50 percent increase in the number of Egyptians going to the U.S. for training. Our current goal is a 32 percent increase, from 758 in FY 1985 to 1,000 this year. The GOE's 1985 restrictions on overseas training make planning for training difficult, however.

##### b. Management Problems

The GOE has not yet assigned adequate qualified staff to the implementation unit of the Development Training Project.

The Ministry of Education has not assigned or hired qualified personnel to manage the Peace Fellowship Program. Management responsibilities of the Egyptian Educational and Cultural Bureau in Washington have increased as a result of the more limited role agreed to for the U.S. contractor. The new phase of Peace Fellows under the Development Training Project (0125) has not yet got off the ground for lack to MOE personnel to develop a training plan.

#### 5. Management of Resources

USAID will manage the education and training program through with the current USDE, PASA and FSN work force of five U.S. technical advisors and fourteen FSN technical/support staff. Duties are being shifted within the Office to achieve the level of effort necessary to:

- close out older projects in an effective manner;
- implement the new comprehensive training project;
- design new projects; and
- implement the expanded Basic Education project.

Staff and funding are adequate to achieve objectives. The Office Director will maintain overall responsibility for supervision of the project portfolio, coordinate the work of the technical advisors and will monitor and lead the policy dialogue with GOE officials at various levels. He will direct the dialogue on improving the quality of education. All training activities, policies and projects (U.S. non-project, U.S. project and in-country) have

become the management responsibility of the new Supervising Development Training Officer. The Training Officer will also be responsible for implementing the audit recommendations on training, which the Mission has agreed to. A significant portion of the time of another USDH will be devoted to phasing out university applied R & D activities and to project design and evaluation. All office staff will also participate in new project development.

In summary, HRDC/ET has the resources to achieve its objectives, but success will be hindered if GOE policies, personnel, and administrative procedures are not modified.

PROJECTED EDUCATION AND TRAINING STAFF LEVELS

	FY 1987			FY 1988			FY 1989		
	<u>USDH</u>	<u>PASA</u>	<u>FSN</u>	<u>USDH</u>	<u>PASA</u>	<u>FSN</u>	<u>USDH</u>	<u>PASA</u>	<u>FSN</u>
<u>Office Admin</u>									
Education	.5	-	3.0	.5	-	3.0	.5	-	3.0
Training	.5	-	2.0	.6	-	2.0	.6	-	2.0
A/D	.6 *	-	-	.6 *	-	-	.6 *	-	-
Sub-total	<u>1.6</u>	<u>-</u>	<u>5.0</u>	<u>1.7</u>	<u>-</u>	<u>5.0</u>	<u>1.7</u>	<u>-</u>	<u>5.0</u>
<u>Project Activities/MGMT</u>									
Tech Trans. & Mnp. Dev. III	.2	-	2.0	-	-	-	-	-	-
Participant Trg. Activities	.2	-	1.0	.3	-	2.5	.2	-	2.5
English Language Training	.2	-	1.8	.2	-	1.8	.2	-	1.8
Peace Fellows	.4	-	1.2	.5	-	1.2	.4	-	1.2
Voc. Trng. for Prod.	-	.5	.3	-	-	-	-	-	-
AALC	-	.4	.5	-	.4	.8	-	.4	.5
Basic Education	.7	-	.6	.7	-	.5	.7	-	.6
Univ. Linkages	-	-	.1	-	-	-	-	-	-
Dev. Planning Studies	.1	-	-	-	-	-	-	-	-
Other Dev. Training	.2	-	.5	.2	-	1.0	.2	-	1.0
Ed. Planning	.3	-	.4	.3	.2	.4	.1	.2	.1
Science Education	-	-	-	-	-	-	.4	-	.5
Sub-total	<u>2.3</u>	<u>.9</u>	<u>8.4</u>	<u>2.2</u>	<u>.6</u>	<u>8.2</u>	<u>3.1</u>	<u>.6</u>	<u>8.2</u>
<u>Project Design</u>	.7	.1	.6	.7	.4	.8	.7	.4	.8
<b>TOTAL</b>	<u>4.6*</u>	<u>1.0</u>	<u>14.0</u>	<u>4.6*</u>	<u>1.0</u>	<u>14.0</u>	<u>4.6*</u>	<u>1.0</u>	<u>14.0</u>

\*Includes 0.3 for Associate Director for Human Resources and 0.3 for his secretary.

### III. SPECIAL CONSIDERATIONS

#### A. FINANCIAL ISSUES

##### 1. Pipeline

The USAID's pipeline of obligated but unexpended funds stood at \$2.3 billion at the end of FY 1986. From 1982 through FY 1985 the pipeline decreased each year from a peak of \$2.7 to \$2.2 billion at the end of FY 1985. In FY 1986, project expenditures fell sharply, with a consequent net increase in the pipeline of \$97 million. The Mission projects a major increase in expenditures for FY 1987, decreasing the pipeline to \$2.1 billion and further reductions in the pipeline in FY 1988 to \$1.7 billion. This overall reduction will take place while maintaining the same high level of obligations over the period.

The USAID considers the FY 1986 expenditure performance an anomaly that should not be repeated. Project expenditures dropped from \$549 million in FY 1985 to \$474 million due to several factors. The major cause was weak GOE project contract management for construction and procurement. An additional cause was a temporary slowdown in contract review, negotiation and processing by the Mission, due to the reassignment and home leave of members of the contract and financial management staffs and delays in their replacements. A third, but lesser, cause was the revision of the \$-L.E. exchange rate, which reduced dollar purchases of Egyptian pounds for local project costs during the final quarter of the fiscal year.

The Ministry of Planning and International Cooperation (MPIC) held a series of reviews with GOE managers in December and January to review expenditure performance of major projects with significant discrepancies between actual and planned FY 1986 expenditures. The Ministry will follow up as necessary to maintain planned implementation schedules and expenditure rates for FY 1987. The Mission also will insist that all projects have up-dated annual implementation plans, and progress will be reviewed semi-annually. In FYs 1987 and 1988 expenditures should rise to \$995 million and \$1.18 billion respectively. The possibility of increases in cash transfer in these two years could raise total expenditures even higher. Expenditures in the agricultural sector are projected to increase from \$46 million in 1986 to \$118 million in 1988, in infrastructure (including water and wastewater program) from \$221 million to \$456 million and in industry from \$30 million to \$138 million.

Use of deob-reob authority continues to aid the USAID to reallocate funds from problem or slow-disbursing programs to faster moving activities. Through FY 1986 the USAID has reallocated \$141 million to cash or projects. In FY 1987 an additional \$17 million may be deobligated.

2. Mortgage

Out of a total annual program of \$815 million for FY 1987 and 1988, \$315 million is set aside by congressional mandates for cash transfer and commodity import programs, leaving \$500 million for project activities. That amount could be reduced in order to increase cash transfers.

Because each year's OYB must be spent over a large portfolio, USAID must incrementally fund its projects. In FY 1987 only \$30 million will finance new project starts' (\$80 million in 1988). The balance will be for incremental obligations for projects begun in prior years.

The USAID maintains somewhat more flexibility than this might imply. The huge Cairo Sewerage II project is authorized only for one or two years at a time. The Local Development II program has also been designed for maximum funding flexibility, with an authorization for two years of funding. Such flexibility must be maintained in order to respond to policy initiatives emerging from the policy dialogue for new project or program funding on short notice.

3. Deobligation - Reobligation for FY 1987

The Mission has no major deob - reob plans for FY 1987. Having deobligated and reobligated \$141 million in recent years to pare down the pipeline, USAID does not need to go through a major reallocation of obligated funds this year. The Mission has, however, identified \$17.4 million that will likely be available for deobligation from activities due to end in FY 1987. These amounts (identified in 1985 Cairo 29715) could be made available to reobligate as part of increased cash transfers, if necessary, later this year.



B. EVALUATION PLAN

1. Evaluation Schedule

USAID is not including an updated evaluation plan for FY 1987 and 1988 at this time. USAID plans to hold a series of short evaluation workshops in March, 1987 to address problems in the way evaluation is currently used and perceived in the Mission. A key objective of the workshops is to improve the evaluation planning process. The workshops should encourage the use of evaluation and empirical data as tools for improved program management. Specifically, they should result in the elimination of unnecessary evaluations from the evaluation plan and the addition of data collection efforts where they are needed and lacking.

USAID will submit a revised evaluation plan in April-May 1987. Delaying submission of the evaluation plan until after the workshops should result in a plan that is more responsive to the information needs of Mission management.

2. Recently Completed and Ongoing Evaluations

a. Completed FY 1986 Evaluations

Irrigation Management Sysytems (263-0132)  
Basic Education Second Annual Evaluation Report (263-0139)  
Development Planning Studies (263-0061)  
CRS Nutrition Education (263-0042 Subactivity)  
Population Assistance Assessment (263-0029 & 263-0144)  
Agricultural Management Development (263-0116)  
Mineral, Petroleum and Groundwater Assessment (263-0105)  
Strengthening Rural Health Delivery (263-0015)  
English Teacher Training Program (263-0026 Subactivity)\*  
Neighbourhood Urban Services (263-0161.05)\*  
Controlling Diarrheal Diseases (263-0137)\*

b. Completed or Ongoing FY 1987 Evaluations

Production Credit Project (263-0147): Profile of User Firms\*  
Electric Power Assessment\*\*  
Beni Suef Family Planning Project (263-0029 Subactivity)\*\*  
Basic Education Third Annual Evaluation Report (263-0139)\*  
Agriculture Research Assessment (Based on PACR's for all "first generation" agricultural research projects.)

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\* Evaluation Report Completed, but Evaluation Summary still in process.

\*\* Evaluation curently ongoing.

C. PL 480

1. Title I

a. Relationship to Mission Strategy and Program.

PL 480 Title I assistance to Egypt serves two main functions, both of which are central to the Mission's development strategy. First, it provides balance of payments support during a period when foreign exchange reserves are clearly inadequate to meet Egypt's needs for food imports. Secondly, the Title I program provides a raison d'etre for an expanded bilateral dialogue on the policies affecting agricultural production. The Title I Self-Help Program addresses the imbalances and inefficiencies in the agricultural sector resulting from extensive government intervention. Implementation of a program allowing market forces to allocate agricultural resources would reduce Egypt's future wheat imports and increase the rates of growth of production and productivity in the Agriculture Sector. Reductions in the budget deficit and the balance of payments gap and increases in rural real income would result.

b. Country Food Situation

i. Production.

Primarily because of the government's inefficient market intervention policies, domestic agricultural production has been growing at only about 2 - 2.5 percent annually during the last decade. The agricultural sector provides a diminishing portion of the country's food requirements. In 1985 domestic production of primary food commodities covered about 56 percent of total consumption, and the preliminary estimate for 1986 is 55 percent. Wheat has one of the lowest self-sufficiency ratios, 22 percent in 1986. Domestic production of wheat was estimated to reach 1.93 million metric tons (MT) in 1985/86, while total consumption is estimated at 9.0 million metric tons in 1986.

ii. Import requirements.

Government pricing policies for wheat encourage consumption while discouraging production. This has resulted in a continued growth in demand for wheat and flour imports. Egypt currently imports about 78 percent of its needs for wheat and flour. In 1986 wheat and wheat equivalent imports were estimated to reach 7.15 million metric tons. About one third of Egyptian wheat and flour is imported from the U.S.

iii. Ability to import commercially.

Egyptian wheat imports are primarily financed through concessionary credit. Due to the recent fall in oil revenues and workers' remittances, the country faces a very tight foreign exchange situation. Foreign exchange reserves have been declining, and ability to import commercially is limited. The PL-480 program is considered a crucial element for financing wheat and flour imports and providing balance of payments support.

c. Country Policies and Activities in the Food Sector.

The primary objectives of the GOE food policy are the promotion of social equity, price stabilization, and maintenance of adequate nutritional standards for the population. To achieve these objectives, the government operates an extensive, nationwide subsidy scheme, under which food is sold at prices below its international equivalent value. In addition, the government controls the marketing and distribution of a number of essential foods, which are distributed through ration cards held by about 80 percent of the population.

Food subsidies currently constitute about 8 percent of the government's current expenditure and about 13 percent of the gross budget deficit. While the present food policy plays an important equity and political role, it constitutes a burden on economic resources. USAID has been encouraging the GOE, through self-help measures, to initiate major reform of its present food policies.

d. Self-help Measures.

The self-help measures provide a very important link between food aid and agricultural development efforts of the recipient government. The self-help program for FY 86 requires the GOE to undertake certain measures to increase agricultural production and reform the price structure of farm inputs and output. In summary, the program stipulates that the government:

1. Improve the structure of prices and farm production incentives by increasing producer prices for major export crops up to world levels.
2. Eliminate subsidies for maize and beef and encourage private importation of these and other agricultural products for which Egypt has no comparative advantage.
3. Eliminate subsidies of fertilizers.
4. Encourage private marketing and distribution of fertilizers and other chemical inputs.
5. Reduce the burden on the treasury by reducing overall food subsidies and channelling them to targeted low income groups.
6. Continue to improve production technologies through research and transfer these technologies to the farmers through extension services.

Those measures reflect the goal of moving the agriculture sector towards a free market structure. The self-help program examines the stated objectives of the GOE in the management of the agricultural sector towards the objective of liberalizing the sector.

During FY 1986 the GOE made progress regarding items 1, 2, 5, and 6. Procurement prices for cotton, wheat, sesame, soybeans, lentils, horse beans, sugar cane, and rice were raised during GOE FY 1985/86. The same year, the GOE doubled the prices of maize and frozen beef to reduce their subsidies.

The total subsidy bill has been reduced by LE 96 million in the 1986/87 budget proposal (from LE 1,996 million to LE 1,000 million) and government's active program of agricultural research has continued to expand. No significant progress has been made on self-help measures 3 and 4. USAID will continue to encourage the GOE to undertake the stipulated reform measures.

e. Use of Proposed Commodities

Imported wheat and flour are processed in public sector mills and distributed by the government. Processed wheat is made available to consumers through public sector bakeries (as bread), cooperatives (as raw flour) and private sector bakeries (as bread and other baked goods).

f. Local Currency Uses

PL 480 agreements require the government to use net sales proceeds for financing the self-help measures and for developing the agricultural and rural sectors. Although USAID does not participate in the programming of local currency sales proceeds, the Ministry of Finance submits an annual report on use of proceeds. FY 1984 report indicated that net proceeds have been incorporated in the government central budget and used to finance food subsidies and development programs in the agricultural sector. The GOE has not yet submitted the FY 1985 and FY 1986 reports. There is no planned 106/108 program in Egypt.

g. Storage and Distribution

A study of storage and distribution systems showed that the primary grain handling and distribution constraints up to the year 2000 will be associated with the handling of imported wheat. Absence of bulk handling facilities increases handling and storage costs. Reported wheat flour losses are about 10-12 percent, resulting from inefficient handling. A major program is underway to increase inland storage capacity. The government recently issued international tenders for the construction of 16 silos throughout the country. This will be a key element of the proposed transition to bulk handling and reduction of losses and costs. In November 1985 two of the AID-financed grain silos started operation, thus raising the country's total storage capacity by 200,000 metric tons.

h. Disincentives to Local Production

The government's price and other intervention policies combine to reduce the economic incentive for local production of wheat and other crops. A recent AID Project Impact evaluation report (no. 45) indicates that "To the extent that PL 480 reduces the cost to the GOE of imports in support of its price policies, it contributes to the implementation of policies that act as a disincentive to farmers". Evidence shows that the GOE increased producer prices for wheat and farmers positively corresponded with increased output, when PL 480 assistance was interrupted between 1967 and 1974. We therefore believe that PL 480 Title I commodities remain a direct disincentive to Egyptian agricultural production.

2. TITLE II

a. Relationship to the Mission Strategy and ESF Program

The PL 480 Title II program in Egypt has supported USAID's health and nutrition goals since 1974, through maternal-child feeding programs, school lunch programs, and selected feeding programs targeted at displaced Bedouin populations in the Sinai. The decision was made in 1984, however, to phase out the Title II feeding programs by 1989, based on two developments: (1) the focusing of USAID's health strategy on the reduction of childhood disease rates and the private sector financing of curative care, and (2) acceptance of the fact that Title II foods were more needed in countries with lower nutrition levels. The School Lunch Program ended in FY 1985; the Other Child Feeding and General Relief program are phasing down toward close-out in FY 1988; and the MCH program will finish in FY 1989.

With the decision to phase out the Title II feeding programs, USAID encouraged U.S. PVO's in Egypt to consider developing proposals to utilize other A.I.D. resources, including local currencies generated by monetization of Title II and section 416 commodities. One PVO has recently submitted a Title II monetization proposal, now under review by USAID, to monetize \$3-5 million in surplus dairy products annually to support food self-reliance projects. Monetization will be a useful tool for supporting PVO programs as they seek ways to mobilize private initiative and resources in Egypt.

b. Capacities of the Cooperating Agencies

As the Title II program is phasing out, the capacities of the Ministries of Health, Education, and Social Affairs to administer the program are no longer at issue. Along with the phase-out, USAID, CARE and CRS had hoped to assist the GOE with some self-reliance measures that could compensate for the phase-out of Title II food. The Ministry of Education and the Nutrition Institute, however, have been slow to implement a program to develop an indigenous nutritious cookie for school lunch programs. Similarly, the Ministry of Health and the Nutrition Institute have been unable for two years to obtain MPIC approval for AID funding to develop an indigenous weaning food supplement for the MCH program.

c. Need for Complementary Inputs

There are only modest needs for complementary inputs between now and the end of the Title II program in 1989. If the Weaning Food Supplement activity gets final GOE approval, USAID may fund technical assistance to support this effort. Similarly, the Mission may fund some technical assistance to help resolve problems of shelf life and packaging of the nutritious cookie.

D. MANAGEMENT AND WORKFORCE ISSUES

USAID's current direct hire workforce level has reached an equilibrium point. In 1985, due to concerns for personnel security at the post, USAID agreed to a reduction of 16 positions (including 1 PASA and 2 IDIs). This reduction was carefully administered with an eye to maintaining the integrity of the program and meeting its development objectives. The current ceiling of 111 USDH (does not include RIG and IDIs) allows the Mission to:

- assure sound and honest management in the implementation of a program that uses large numbers of contractors responsible for multi-million dollar programs. Our current Vulnerability Assessment (1985) gives the Mission's technical directorates an overall medium rating. Reductions in direct hire staff could lower this rating to an unacceptable level of vulnerability for certain management units.
- continue to help the GOE identify and implement needed macro-economic and sectoral reforms through a variety of policy dialogue scenarios. This requires substantial analytical work.
- continue to emphasize institution building to assure that the large infrastructure, agriculture and industry projects deliver their intended development benefits.
- implement a portfolio of projects that will expend \$586 million in FY 1987 and \$777 million in FY 1988.
- implement over fifty programs and projects in FY 1988.

E. GRAY AMENDMENT

1. Review of FY 1986 Gray Amendment Contracting

Contracts and subcontracts issued in FY 1986 to Gray Amendment target firms totalled \$1,211,454, as follows:

- Alexandria Wastewater System (263-0100). Polytech (subcontract). \$327,864 for pipeline engineering services. Contract date: June 1986.
- National Agricultural Research Program (263-0152). ISTI (8a). \$89,830 for data management services. Contract date: May 1986.
- National Agricultural Research Program (263-0152). ISTI. \$435,850 for contract administration and management services. Contract date: September 1986.
- Population (263-0144). Triton. \$107,910. Contract date: July 1986.
- Local Development II (263-0182). The Match Institution (8a). \$250,000 study for small-scale enterprise credit delivery systems for rural Egypt. Contract date: March 1986.

2. FY 1986 Implementation of Gray Amendment

During FY 1986, USAID/Egypt focused attention through the Early Alert System on approximately 20 projects under design, including project paper amendments, to ensure that maximum consideration was given during the planning stages to the utilization of firms, organizations and institutions targeted by the Gray Amendment. In addition, a discussion of Gray Amendment organizations and their utilization has been mandatory in all PIDs and PPs prepared by USAID/Egypt.

In June 1986, the AID/W Minority Business Officer spent 10 days visiting AID/Egypt. The Deputy Director, Associate Directors and selected Office Directors and Project Officers were briefed on Gray Amendment objectives and provided information on achieving those objectives.

USAID/Egypt project officers have been informed of the requirements of the Gray Amendment and have been provided information on 8(a) contracting, small business set-asides and federal regulations requiring sub-contracting plans using small and disadvantaged businesses on direct AID contracts. The Mission has also encouraged project officers to consider subcontracting as a vehicle under host country contracts to promote the use of organizations covered by the Gray Amendment.

The Project Implementation Course conducted by USAID/Egypt for 23 project officers and other AID staff in April 1986 included a presentation on the Gray Amendment and project officers' responsibilities in furthering the objectives of the amendment.

3. FY 1987 and 1988 Gray Amendment Contracting

Contracting during FY 1987 to firms, organizations and institutions targeted by the Gray Amendment is projected to range between \$9.5 - 10.3 million as follows:

- Cairo Sewerage II (263-0173). ~~Subcontracts for West Bank design work~~ estimated at \$6 million.
- Local Development II (263-0182). 8(a) services contract estimated at \$3 million.
- Science and Technology for Development (263-0139). 8(a) contract for management systems contractor estimated at \$500,000 to \$1 million.
- Renewable Energy Field Testing (263-0123). Possible MBE involvement on turnkey contract estimated at \$200,000 - \$500,000.

It is not possible at this stage to make valid projections regarding FY 1988 contracting. However, USAID/Egypt will continue to emphasize and monitor implementation of Gray Amendment objectives in all contracting activities.

F. SUMMARY BUDGET TABLE

	(\$000)	
	FY	FY
	<u>1987</u>	<u>1988</u>
ECONOMIC SUPPORT FUND (GRANT)	815,000*	815,000
PL 480		
Title I	169,100	180,000
Title II	4,096	2,811
	<hr/>	<hr/>
TOTAL PL 480	173,196	182,811
GRAND TOTAL	<u>988,196</u>	<u>997,811</u>

\* include \$ 3,420,000 reserved for operating expenses.