

U S A I D E G Y P T

FY 1990 ACTION PLAN

Cairo, Egypt, March 15, 1989

BEST AVAILABLE

SELECTED ISSUES

I. Agriculture

A. Policy Agenda and Program Direction:

Though the GOE's overall macroeconomic reform program has proven less than adequate to address the problems facing the economy, policy reforms in agriculture have exceeded USAID's expectations.

In June 1986, the Ministry of Agriculture announced a multi-year program to reform the agricultural sector--by reducing public sector controls over crop production and marketing and by phasing out subsidies to, and shifting toward private marketing of, farm inputs. During an initial phase (1986-89), controls over some crops (cotton, sugarcane, quota rice) were to be retained while all others were to be fully liberalized. Subsidies to farm inputs were to be reduced in real terms. Over the past three years, the Government of Egypt (GOE) has substantially completed these objectives, and, by any means of measurement, the reform program has been a real success. The following are the areas of significant progress: the GOE stopped mandatory government procurements on 10 of the 15 crops that were previously subject to either full or partial mandatory procurement. Moreover, the Government has made steady progress toward reducing animal feed subsidies; corn prices have moved from one-third to the full world market price. Prices have also been raised for some of the other food by-products that are combined and sold as subsidized GOE feed mixes. Fertilizer subsidies have been substantially reduced as a result of an 82 percent increase in retail fertilizer prices in two steps during 1988.

USAID will build on this success primarily by deepening and expanding the reform measures already taken. We are currently discussing and negotiating a broadening of the agricultural policy reform agenda. These discussions and negotiations have focused on the continuation of the removal of controls on the three major crops (cotton, sugarcane and rice) still being controlled. In addition, we are discussing medium term goals in the areas of privatizing the Principle Bank for Development and Agricultural Credit (PBDAC) and the inputs distribution system, elimination of subsidies, and involving the Egyptian private sector more broadly in the agricultural sector. This broader agenda is expected to cover a three year period (US FY 1990-1992).

The Agricultural Production Credit (APC) project will be the primary vehicle for pursuing the agenda. The amended APC project will enable us to better support the next phase of agricultural sector policy reforms now under preparation by the Ministry of Agriculture. Previous experience has made clear that specific reform targets must be carefully considered and negotiated between the Ministry of Agriculture and USAID. The process of selecting benchmarks for policy performance disbursements by USAID has contributed to success of the GOE reform program in agriculture and will be continued in the future.

The focus of our efforts will be to make further progress toward the following results:

- Elimination of the current GOE fertilizer subsidy; legalization of private marketing and transport of locally produced fertilizers; completion of initial stage for spinoff or privatization of many of PBDAC's fertilizer marketing activities.
- Absence of any public sector monopolies of the public sector marketing of crop seed; elimination of seed subsidies except for experimental varieties.
- Absence of mandatory farm planting requirements for cotton and sugarcane; administered cotton procurement price to be equal to at least 60 percent of the economic farmgate price.
- Absence of any mandatory procurement of rice; legalization of private milling of rice throughout the year; possible introduction of water charges to cultivators of rice and sugarcane.
- Competitive, nonsubsidized marketing to private and public sector feed mills of all animal feed components (oilseed cake, bran, molasses) that are produced by public sector organizations.
- Absence of any credit or pesticide subsidies by PBDAC.

The National Agricultural Research Project (NARP) and the Irrigation Management Systems (IMS) project are also supportive of the reform agenda. The amended NARP, for example, provides the necessary research and analysis capability to effectively monitor the agriculture sector and analyze the impact of policy decisions. Additionally, the projects emphasis on private sector involvement in technology development and transfer especially development and marketing/distribution of improved seed varieties, strengthens the private sector, promotes competition and reduces public sector monopoly of agricultural input distribution and marketing of crop seeds. The IMS project is also strengthening the private sector and increasing its role in agriculture through contracts for construction and rehabilitation of irrigation structures. This demonstrates the capability of the private sector and contributes to the creation of constituencies in support of reform measures to free up the sector. Also, improved efficiency of water delivery and use increases private sector access to the sector and expands the choices of crops for individual farmers.

B. Program Impact:

The National Agricultural Research Project will measure and illustrate the impact on sector performance of GOE reform measures encouraged and supported by the APC project. The NARP will enable us to closely monitor and evaluate key indicators of sector response to the reforms undertaken. Average annual percentage changes in the yields of selected crops are being maintained and monitored on a computer data base within USAID's Agricultural Resources Directorate while Egypt's Agricultural Research Center monitors average annual yields of crops at the demonstration stage. If unexpected developments arise, e.g., less than anticipated increases in yields, the causes will be identified and measures for alleviation immediately recommended to the GOE. These recommendations might involve such measures as a shift in our agricultural policy agenda or a revision of the scope of the NARP.

It is too early to accurately and definitively measure the quantitative impact of the agricultural reforms on the agricultural sector since we are only in the second year of implementation of major reforms. However, we have begun efforts to get some measure of the sector level impact of the policy reforms completed to date and the potential impact of further decontrol measures. For example, we know that the decontrol of agricultural product prices on all but cotton, sugarcane and quota rice have encouraged an increase in acreage planted and production of decontrolled crops as they are relatively more profitable than the three remaining controlled crops. Domestic farm prices of decontrolled crops increased approximately 7 percent over 1986 prices. Egypt's total agricultural output increased by an estimated 4 percent in 1987. For example, domestic corn production increased by 8 percent to a record 3.9 million tons in 1988 as a result of price policy changes that stimulated increased planted area, higher use of fertilizer and hybrid seed corn. Another example of the positive impact of policy reforms is that of domestic wheat production which appears to have increased strongly in 1987 and 1988. (However, FAS and USAID analysts hesitate to accept the government estimate that average yields increased by 25 percent.) Prior to the changes in the pricing policy, wheat production was stagnant and farmers shifted to higher revenue generating crops as vegetables and clover.

The reduction in government inputs subsidies. i.e. corn, fertilizer, pesticides, and seeds have increased the cost of production to producers and reduced the government's aggregate subsidy for these inputs both in real and nominal terms. Unsubsidized agricultural short term credit to farmers has increased by 12 percent over the 1987 winter crop. Over the past two years, the PBDAC has increased the number of unsubsidized loans and expanded their loan activities to include farm related business (agribusiness activities). This trend is expected to continue.

C. Reasons for USAID's Relative Success with Reforms in the Agriculture Sector:

It is not entirely clear precisely what was responsible for our relative success in promoting and supporting policy reform in the agricultural sector. However, the effective, committed leadership and dedication to the cause of agricultural reform on the

part of the Minister of Agriculture and several other senior level officials contributed greatly to the progress made. For example, since 1986, the Minister has been personally involved in actively pushing proposals to liberalize agriculture and has been able to bring his ideas before the economic cabinet and get cabinet approval. He and other senior officials such as the Undersecretary of Agriculture and the PBDAC chairman were willing and able to devote the necessary time and energy to designing, gaining approval for and implementing the reform measures. The Minister has also become a supporter of privatization efforts and has been willing to demonstrate the benefits of privatization in agriculture. He has agreed to begin to privatize public sector companies at the governorate level with AID assistance under a new project initiative currently being designed.

In addition to exceptional leadership championing policy reform in the agriculture sector, the progress made may also be attributable to the extensive body of research done in the past on the problems in the agriculture sector, most of it initiated or supported by AID. As a result, the case for reform of agriculture may have been more persuasive and compelling to decision-makers than has been true or even possible for other sectors.

If there is a lesson to be drawn from the experience with policy reform in agriculture that might help with policy dialogue in other sectors, it is the importance of dedication to the cause of reform on the part of key senior officials in the sector. Without such senior level willingness to go against the grain and "take the heat", reforms are unlikely because of the potential political fall out associated with such fundamental change. The willingness of senior officials to assert such bold leadership in the cause of reform may depend on the perception that the benefits to important constituents (e.g. in agriculture deregulation of crop markets, higher cotton prices) will outweigh the costs of reforms (e.g. elimination of animal feed and fertilizer subsidies). The two sectors of the economy where reform initiatives have had impressive success over the past three years - agriculture and tourism - have both had committed, bold leadership.

It should be noted too that, in agriculture, the strategy was employed to introduce reforms gradually, in a phased manner so that the more difficult reforms were introduced only after the relatively "easy" or more readily acceptable reforms had been shown to work and a supportive constituency had begun to develop.

D. Prospects for Egypt's Agriculture Sector and the USAID Agricultural Program:

We believe the Government of Egypt will continue to decontrol the agricultural sector. Egypt's Deputy Prime Minister and Minister of Agriculture and Land Reclamation (MOA) has indicated on numerous occasions both publicly and in official meetings a strong desire to decontrol the agricultural sector which includes the three remaining crops, eliminate input subsidies, and involve the private sector in the distribution and marketing of agricultural inputs, and the transfer of technology and information.

The MOA is currently exploring the means of encouraging the private sector to play a larger role in importing, distributing and marketing of corn. Also, the MOA is currently assessing the means by which the PBDAC can divest itself of its inputs distribution and marketing functions to the private sector. This would create a multi-distribution system for agricultural inputs that would promote competition and choice, and ultimately ensure timely and efficient delivery of production inputs, and an increase in farmer incomes and productivity. The USAID assistance program is providing active and substantial encouragement and support for these MOA initiatives. We are encouraged by the progress achieved in the sector so far that our efforts will help inspire further corrective measures and facilitate their implementation.

As has been true for other sectors, private investment in agriculture has not increased as rapidly as GOE officials expected. GOE investments in infrastructure for the agricultural sector have declined over the past years due to the government's stress on industrialization and its overall budget deficit problem. The current agricultural policy changes being implemented by the MOA have not been broad or deep enough to significantly encourage private sector investment. Also, the Government's past heavy involvement in regulating the agricultural sector's resources has destroyed private investor's confidence that the government will honor its announced policies and intentions.

To open the agricultural sector to further private investments will require further price policy changes that will reduce the taxation on agriculture and price distortions. The current price policy changes and the reduction of input subsidies by the GOE are a significant step in the right direction which will encourage both public and private investment. Further progress needs to be made in: decontrolling the three remaining crops, cotton, sugar, and quota rice; eliminating input subsidies; removing distribution controls; reducing heavy taxes on cotton and rice production; and reducing the government bureaucracy and red tape--e.g., ensuring timely approval of import or export licenses and making foreign exchange more readily accessible to private investors.

The primary purpose for improving relative prices is to provide incentives for farmers to seek and adopt improved cultural practices and new varieties, utilize adequate levels of fertilizer, etc., and to provide incentives for the entry of private firms to service agricultural producers and consumers. The elimination of subsidies on agricultural inputs and products would allow private firms to compete fairly with government parastatals in the distribution and marketing of agricultural inputs and the production of agricultural products.

Because of the critical role of women in Egypt's agricultural sector, USAID has been particularly concerned to ensure that they participate in and benefit from the programs we sponsor and support. Our efforts to date have been largely confined to informally encouraging the GOE to employ more women as extension agents, researchers, etc. to promote and otherwise reward them on an equitable basis with men, and to ensure that USAID supported activities do not explicitly favor men.

However, the Mission is currently developing an overall Women in Development (WID) strategy which will specifically identify explicit initiatives to assist women in the agriculture sector. We expect these initiatives to fall in the following general categories:

- (1) Enhancing the effectiveness and capabilities of women extension agents by providing sufficient training, working facilities, and transportation.

- (2) Enhancing the job skills of women agricultural researchers, economists, and seed specialists by providing appropriate training, long and short term and in and out of Egypt. This should improve technologies and policies generated for and affecting women farmers.
- (3) Assisting the PBDAC to target its loan and other services to better meet the needs of women involved in agriculture. PBDAC is currently making a major effort to monitor women farmers obtaining loans. A baseline survey will be conducted in the 3rd quarter 1989 which will include a person to look at the gender issue. As it learns more about the nature and needs of women farmers, it plans to adjust its lending procedures and practices to facilitate further lending to women where possible. The PBDAC has acknowledged that women farmers and women farm labor constitute a large resource that needs to be more effectively utilized if agriculture productivity is to be increased.
- (4) Increasing the number of women employed by PBDAC, particularly at the skilled and professional level.

II. Sustainability

Note: This is an interim response. Diane Ponasik's recurrent cost study will expand on many of the points below and will be submitted to AID/W prior to Program Week.

USAID seeks to sustain its investments in Egypt by: improving the policy environment through dialogue at appropriate levels of government; insuring financial viability through imposition and collection of appropriate user fees and through provision of services by the private sector, where appropriate; supporting institutional development and operation and maintenance training; and providing follow-on operation and maintenance assistance after construction is completed.

A. Policy Environment:

USAID's efforts to assure the sustainability of its investments are complicated by GOE policies, such as guaranteed provision of public services, free of charge, to all Egyptians regardless of income level, and guaranteed employment of all Egyptian college graduates.

One means of securing improvements in the policy environment has been to make funding contingent upon performance. In the electricity sector, funding of new power projects has been conditioned upon progress in raising electricity tariffs to appropriate levels. In the water/wastewater sector, annual funding levels are contingent on progress in meeting annual benchmarks related to institutional issues and recovery of operation and maintenance costs.

Sustainability of basic service systems in rural villages, municipal towns and urban districts/neighborhoods is a priority focus of the USAID assisted Local Development Program. A major constraint to cost recovery efforts are laws which discourage local governments from collecting and retaining user fees at the local level. This constraint is being approached by LD II through ministry level policy dialogue.

Finally, sustainability can be enhanced through restructure and shifting of some services now provided by the government to the private sector. USAID's programs are pursuing greater private sector participation in agricultural extension and seed development, in other Ministry of Agriculture governorate operations, and in curative health services.

B. Recovery of Operating Costs:

Because of Egypt's 35 year tradition of providing a broad range of basic services to all citizens free of charge, there is a great deal of ambivalence on the part of the Egyptian government and people regarding user fees and other cost recovery mechanisms. The economic crisis of recent years has forced

reconsideration of the GOE position on cost recovery, but progress to date in implementing mechanisms to recover operations and maintenance costs has been uneven. For example, substantial progress has been made in recovering costs of family planning and health care services while serious efforts to recover costs of agricultural credit services and on-farm irrigation improvements are just beginning with USAID support. Recovery of all operations and maintenance costs in Egypt must be viewed as a long term process requiring greater GOE commitment and donor encouragement and support.

Achievement of financial viability through continued, regular funding of annual operation and maintenance costs is a major thrust of USAID's sustainability efforts. All infrastructure project agreements include a condition that the organizations receiving funding will charge for their services and will be able to cover their operating and maintenance expenses. The Cairo Water Authority, according to its own estimates, is meeting 114% of its O&M costs from tariffs and is passing on a 10% surcharge to the sewer authority. ARENTO (the Arab Republic of Egypt National Telephone Organization) has been increasing rates as services to customers improve and, at present, is able to meet its operation and maintenance costs, debt service requirements and some investments from user fees.

In the agriculture sector, the Agriculture Production and Credit project (263-0202) is assisting PBDAC to improve its credit system so that the bank can charge a high enough interest rate to recover administrative costs. Irrigation Management Systems (263-0132) funds technical assistance to identify mechanisms to help recover costs related to on-farm irrigation improvement. In addition, one major component of the project is introducing preventive maintenance of irrigation structures at the governorate level.

In trade and investment, the Small and Micro Enterprise Development project (263-0212) is creating intermediate institutions to provide credit to small scale enterprises. These institutions will ultimately be self-financed through user fees.

In human resources, Basic Education (263-0139) collects 10% of the construction costs for preparatory schools from villagers to be used for maintenance purposes once the schools are built. Many components of Population/Family Planning #2 (263-0144) are

recovering costs from the sale of contraceptives and the provision of family planning services. For example, Family of the Future, the oldest revenue generating component currently has L.E. 3 million in its revenue account from the sale of USAID contraceptives to pharmacies and doctors which is being used to pay all L.E. operating expenses. Control of Diarrheal Disease (263-0137) utilizes funds recovered from the sale of oral rehydration salts (ORS to produce, package and distribute ORS and to pay salary incentives. Cost Recovery for Health (263-0170) which was initiated in 1988 will help the Ministry of Health recovers costs through the initiation of a fee-for-service and pre-payment systems within MOH/GOE hospital systems.

C. Institutional Development, O&M Training, and Follow-on O&M Assistance:

The mission is protecting its investment in infrastructure by undertaking a substantial program in operation and maintenance training and institutional development. This effort is characterized by a \$90 million program providing funds under each ongoing water and wastewater project for support of O&M related activities such as training, inventorying, maintenance scheduling and planning. An additional \$50 million has been programmed into project construction contracts to enable firms to stay on after facilities are commissioned to ensure that an adequate Egyptian workforce is trained to operate and maintain these facilities. Since we are aware that even such a sizeable effort may not totally institutionalize the "O&M habit", USAID will also initiate an O&M sector support project. This initiative will assist all water and wastewater organizations to institutionalize regular preventive and corrective maintenance schedules and serve as a means for rapid response to emergency situations. Under Cairo Water Supply II, USAID will take its first steps toward helping the Egyptian government in water conservation. It has been estimated that 40 percent of the water produced is wasted after it gets on premises. To reduce this loss by even 10 percent would represent a considerable reduction in O&M expenditures.

III. DONOR COORDINATION:

The major providers of economic assistance to Egypt will continue to be the International Monetary Fund which provides short-term balance of payments loans, the IBRD which is prepared to offer major sector assistance, and USAID which provides a mix of project and balance of

payments assistance. Most other OECD countries also have a bilateral aid program with Egypt and Japan has increased its presence. With the increasing normalization of relations with other Arab countries, Arab donors are once again becoming active.

A. Policy Coordination:

The IMF, in consultation with USAID and the IBRD, has taken the lead in outlining a policy reform agenda for the Egyptian government which reflects the general agreement of the donor community. The IMF, IBRD, and USAID remain the primary participants in policy discussions with the government because of the level of aid and willingness to attach conditions. Other bilateral donors have been generally supportive but sometimes unwilling to alter the structure of their assistance in response to policy concerns.

USAID will continue to support the initiatives of the IMF and IBRD and maintain excellent contacts with the negotiating teams that come to Cairo. Nonetheless, as outlined in the section on Policy Dialogue, USAID will also seek to use its resources in support of a broader policy agenda that includes supply side measures to improve productivity and create jobs. This effort is complementary to the positions of the IMF and IBRD and will take place in coordination with them.

B. Mechanisms of Coordination:

USAID will continue to attend monthly meetings with the major western bilateral donors. The chief purpose of these meetings is to exchange information and coordinate project efforts to avoid overlap and complement other efforts. Because most bilateral projects address concerns outlined in Egypt's 5-year plan there is some overall coherence to various donor contributions. An emerging concern among bilateral donors is the increased level of ongoing resource requirements created by projects in Egypt given the government's manpower and financial constraints. Though the level does not yet appear to be excessive, USAID is among those who have begun to address the question in the project portfolio.

Direct contact with multilateral donors has not been as formalized but contacts will continue as the policy dialogue proceeds. The early notification system for IBRD and African Development Bank projects has been extremely useful for highlighting policy issues and sharing concerns with other member countries.

PROGRAM PERFORMANCE INDICATORS

I. SUMMARY STATEMENT

The following section presents strategic goals and intermediate objectives, as well as the progress made toward reaching them. Comments relating to last year's review of this section included a suggestion that the number of objectives be reduced. We have, therefore, selected 31 of 86 objectives that are considered to be of greatest interest/importance and will report on them in this section of the Action Plan. All goals and the status of the 86 objectives for all sectors are reported in the table in Annex A of the Plan.

In summary, the table indicates that of 86 total objectives, 36 have been achieved or are on schedule, 42 are considered behind schedule and 8 we are unable to judge at this time. All six of the macroeconomic reform objectives are indicated as being behind schedule. This does not connote failure, but rather, a slow process that can obtain favorable results given time. The same is true for some of the objectives rated behind schedule in the population sector and the private sector.

II. MACROECONOMIC SUPPORT

A. STRATEGIC GOAL

Promote long run economic viability and growth by assisting the GOE to undertake structural economic reform.

(The indicators of macroeconomic performance now being tracked were established in anticipation of the 1987 IMF Standby. They, therefore, closely parallel the IMF agenda. However, as the reform program evolves, there is a need to track key indicators of supply side growth-stimulating measures such as industrial decontrol. Without supply side policy and regulatory reform, the economy cannot respond to the new price signals introduced by IMF suggested reforms. Greater than expected economic contraction results and the government resists further reform. Therefore, along with our new supply side emphasis in the policy dialogue, we plan to introduce new performance indicators in next year's Action Plan.)

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

Status:

- A Standby Agreement with the IMF was signed in May 1987 allowing Paris Club debt rescheduling of about \$7 billion with additional rescheduling expected for debts owed to bilateral donors not affiliated with the Paris Club.
- Strengthening of the 1987 Standby Agreement called for during the Fall of 1987 was not achieved and macroeconomic targets were not met. Negotiations are continuing between the GOE and IMF for a possible new standby.
- The World Bank has deferred discussions on important sector loans pending GOE agreement to the next standby and a Structural Adjustment Loan (SAL).

- If there is no agreement on macro economic reform, the Bank will finance individual projects at an annual level of about \$100 to \$150 million per year. These include initiatives in tourism, land reclamation and agricultural inputs and grain storage. The bank is interested in a sub-sector loan for a fertilizer complex to replace the electrolysis process of the current Kima fertilizer plant.

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

Status

- In May 1987, as agreed with the IMF, the GOE established a new free bank rate at LE 2.17 = \$ 1.00 -- slightly above the then prevailing "free" market rate. Private sector access to foreign exchange at the bank rate for import letters of credit is rationed; the discount of the LE in the "own" market has increased to about 10 percent. The IMF estimates the competitiveness of Egyptian currency has eroded by 20-25 percent since May 1987.
 - During FY 88 the LE 1.35 = \$1 rate was eliminated and all transactions related to importing and remitting profits of joint venture firms (Law 43 firm) were shifted to the New Free Bank Market rate. Other dollar transactions, (e.g. payment of FX denominated debt and travel) occur at the "own" exchange rate.
 - A plan and schedule for the unification of the Central Bank rate with the new bank rate has not been agreed to. GOE/IMF discussion on this issue is continuing on the basis of a GOE proposal made to the Fund in September 1988.
3. Intermediate Objective: Permit cost of and return to capital to rise closer to domestic market-determined levels over the next five years.

Status:

- Prior to the Standby Arrangement, minimum and maximum interest rates on loans were 11 to 13 percent for agriculture and industry, 13 to 15 percent for services and 16 percent with no maximum for commerce. In May 1987 these rates were increased by one percent on loans with one year maturities and by two percent for loans with maturities greater than two years. Low LE deposit rates, (about 8 percent for most time deposits) and a periodically overvalued LE exchange rate further encouraged Egyptian preferences for dollar accounts. The latter now exceed half the value of deposits in the banking system.
- Since May 1987, no real progress has been made on permitting bank interest rates to move toward positive real or market-determined levels. In August 1988, the government gave legal permission to joint venture firms to issue bonds at market rates of interest and legalized the formation of capital pooling companies as a move to control the informal Islamic finance companies.
- It appears unlikely that this objective will be met in the form of a dramatic increase in legal interest rate ceilings for bank deposits. However, competition for deposits by other intermediaries such as mutual funds and leasing companies may eventually lead to reform of deposit interest rates for banks.

3. Intermediate Objective: Reduce the GOE budget deficit to approximately 13 percent of GDP in 1987/88, progressively declining to approximately 4 percent of GDP in 1991/92.

Status:

- The FY 87/88 target deficit of LE 7.1 billion (13% of GDP) was not met. The actual deficit was approximately LE 9.8 billion -- calculated by the World Bank to be about 15.5 percent of GDP. Only a few revenue and expenditure measures were taken over the year. The deficit for FY 88/89 is projected to remain unchanged as a percent of GDP.
- 4. Intermediate Objective: Increase average electricity tariffs by 10 to 15 percent above inflation in FY 1988, on a path towards elimination of the implicit subsidy by FY 1994. Petroleum products, since they are used in electrical generation should increase proportionately. This objective should be pursued in coordination with the World Bank.

Status:

- The average price for electricity is 3.0 piasters per KWH compared to an estimated economic price (long run marginal cost) of about 13 piasters. Electricity prices have not been raised since May 1987.
- Gasoline prices were increased by 25 percent for premium and 33 percent for regular in June 1988. Gasoline prices are approximately equal to pre-tax international prices.
- AID continues to closely coordinate its initiatives in the energy sector with the World Bank.

III. WATER AND WASTEWATER

A. STRATEGIC GOAL: Improve Egyptian capability to manage water and wastewater systems.

1. Intermediate Objective: 100 percent and 50 percent coverage of recurrent costs for water and wastewater respectively by 1991 through user charges.

Status:

- Recurrent costs are defined as operation and maintenance costs (O&M) and debt service. Best estimates are that both portions of the objective will be met. Recurrent costs are now estimated at 10 piasters with 6.5 piasters going for O&M and 3.5 piasters for debt service. As of now the average price of water for all consumers countrywide is close to 10 piasters which exceeds the O&M cost. This is projected to go to 13.4 piasters in 1991 which should meet O&M costs, debt service and inflation.
- Meeting this objective could be jeopardized by the large volume of treated water that does not generate income due to leaks, theft or non-payment of bills. Whereas in greater Cairo, Port Said and Suez 100 percent of treated water generates income, in the Provincial Cities (Beni Suef, Minya and Fayoum) only 73 percent of treated water generates income, and in Ismailia and Alexandria the ratio goes down to 60 percent and 52 percent respectively.

B. STRATEGIC GOAL:

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

Intermediate Objectives:

1. Complete the Cairo west bank sewerage collection system, rehabilitation of a treatment plant, and construction of a second treatment plant by 1994.
2. Build new water treatment plants and associated infrastructure, expand the wastewater collection net, and rehabilitate wastewater treatment plants in the three Provincial Cities by 1991.
3. Complete expansion of Alexandria's wastewater collection system, rehabilitate two wastewater treatment plants, and construct sludge disposal facilities by 1992.
4. Complete expansion of water treatment and distribution facilities in the three Canal Cities by 1987 and expansion of the sewerage collection systems by 1989.

Status:

1. Physical completion of construction on the Cairo west bank is about one third completed and the project is on track for completion by the target date. The Zenein Wastewater Treatment plant rehabilitation should be finished in 1990 as scheduled and the construction contract for the Abu Rawash plant will be awarded this year.
2. In the Provincial Cities, construction has begun on the water treatment facilities. Wastewater subprojects are nearly finished in Fayoum, half are completed in Beni Suef and a third are completed in Minya.
3. Political difficulties in determining the method and site for sludge disposal plus unexpected underground conditions have caused delays in Alexandria. The sewer collection system is 80 percent completed.
4. Canal cities water treatment infrastructure work was completed in 1987. Preliminary engineering work has begun on the wastewater treatment plants and construction of sewerage collection systems should be finished this year.

IV. LOCAL DEVELOPMENT

A. STRATEGIC GOAL: Improve the capacity of local governments and non-governmental organizations to plan, finance, implement, operate and maintain locally chosen basic services projects.

1. Intermediate Objective: Introduce a system of central-local government revenue sharing. By the end of FY 1989 the Ministries of Finance and Planning routinely providing to local governments, on a matching basis, discretionary capital and recurrent cost financing equivalent to 30 percent of USAID's annual capital (Block Grant) contribution under Local Development II.

Status:

- The system of central-local government revenue sharing (Matching Block Grants) established under LD II is now being implemented by the GOE as an effective means of decentralizing government operational authority and fiscal responsibility to the local level. Under this system, the central government (Ministry of Planning) and local governments each contribute 5 percent of USAID's contribution.
- The GOE's financial commitment to recurrent costs for O&M of prior investment under the local development sector program is 23 percent of the total USAID LD II block grant funding.

2. Intermediate Objective: By the end of FY 1992, secure policy determinations and implementation procedures enabling local governments to collect and retain revenues to support sustained operation and maintenance of basic services.

Status:

- The major impediment to this transition in funding approach has been the continuing GOE requirement that user fees collected at the local level be remitted to the central government. To date, the project has not been successful in influencing promulgation by the GOE of the needed reforms. A series of studies, which is looking at various aspects of local resource mobilization, is near completion and should stimulate useful discussion of these issues during 1989.

3. Intermediate Objective: Establish a comprehensive operation and maintenance system for governorate infrastructure, equipment and municipal services. By the end of FY 1989 establish 15 governorate maintenance centers and have in place a comprehensive maintenance management and finance system for all 26 governorates.

Status:

- Progress has been made under LD II in establishing preliminary maintenance management and financial systems in the 26 provincial and six urban governorates. This takes the form of annual maintenance plans financed by the MOP, which are prepared in conjunction with the annual governorate investment plans. By the end of FY 1988 the Ministry of Finance had committed a total of \$62 million to cover O&M costs of program-financed infrastructure in the governorates.
- Following an initial series of delays, the U.S. contractor for the four pilot maintenance systems was selected and is now operational. Construction of the centers is scheduled to begin in mid 1989.
- Activities to achieve this intermediate objective are conceptually on track, although the numeric targets have been revised given (a) the institutional complexity of implementing the new concept in the initial governorates, and (b) the need to develop successful pilots before expanding the program. Various private sector/public sector management arrangements will be tested in the context of the first four pilot maintenance centers.

V. AGRICULTURAL DEVELOPMENT:

- A. STRATEGIC GOAL: Increase agricultural production by removing controls on production and allowing prices of inputs and outputs to move to market levels.

1. Intermediate Objective: Remove farm price controls, procurement quotas, and mandated area controls on all crops except cotton, sugarcane and quota rice in FY 87 and move the procurement price for cotton and animal feed to at least 50 percent of the world market price.

Status:

- A Ministry of Agriculture and Land Reclamation (MALR) survey (June 1988) verified that price and marketing controls had been eliminated at the farm level, except for marketing controls on non quota rice.
- A survey for APC Tranche 2 verified that government procurement quotas and mandated area controls had been removed on all crops except cotton, sugarcane and rice. Cotton and sugarcane are still 100 percent procured by the GOE. About 50 percent of the rice crop is government procured.
- Procurement price increases for cotton have accelerated since 1986, but no progress has yet been made toward world price parity. Animal feed prices have been allowed to rise substantially toward or beyond the 50 percent goal, but no progress has been made on cottonseed oil.

2. **Intermediate Objective:** Eliminate farm input subsidies by FY 1991.

Status:

- Fertilizer prices in 1986 were less than one third of their world economic farmgate values. Fertilizer prices were raised twice during 1988 (the first general increase since 1983) to increase the average price by 82 percent. However, retail fertilizer prices for 1989 still average 50 percent or less of their world economic farmgate value.

- 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.

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

Status:

- PBDAC is providing increased credit and improved banking services per project objectives. A total of 311 village banks are now benefitting from increased training directed at improving banking services. As PBDAC reduces the number of subsidized loans, the number of unsubsidized loans to small farmers have been increasing. For example, a 19 percent increase in unsubsidized loans during the winter season (1987 compared with 1988) represents an increase of LE 105,672,723 (approximately \$45.5 million).
- Over 90,000 farmers have received loans from PBDAC through the Small Farmer Production Project. Data on project-related loans for FY 1988 have not yet been compiled and presented.

C. STRATEGIC GOAL: Improve the overall water use efficiency in the irrigation distribution system by 8 percent between FY 1986 and FY 1991 and develop mechanisms for cost recovery.

1. Intermediate Objective: Rehabilitate the irrigation delivery system down to the farm level, complete design and feasibility analysis on 11 canal service areas, and improve productivity on 300,00 feddans by 1992.

Status:

- Feasibility and design analysis for the 11 canal service areas began in 1987 and is on-going for 200,000 feddans. Final planning design and construction in the eleven areas, including eight areas receiving UNDP assistance will be completed with technical assistance from Morrison Knudson Engineering (MKE). Contracting with MKE was delayed approximately 1 1/2 years causing comparable delays in project implementation.

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

Status:

- Currently there is no systematized fee structure in place. By 1991, farmers will have the option to have their small communal canals and on-farm improvements carried out with GOE technical assistance and at farmers' cost. This date is delayed two years due to implementation delays. During the LOP, a cost recovery system will be developed to recover the appropriate share of the total O&M cost of the system from the farmers.

VI. PRIVATE SECTOR

A. STRATEGIC GOAL: Improve the investment climate to encourage new private investment (free up market forces).

- 1. Intermediate Objective:** Establish institutional mechanisms/forums for sustained dialogue between private and public sector on policy, legislation, and procedures.

Status:

- A formal institutional mechanism was not established in 1988 since no agreement could be reached with GOE counterparts on a basic plan for seminars, forum, participants, and commitment to take action on proposals and recommendations. The Egyptian Businessmen's Association and the Federation of Industries did join in presenting to the GOE an extensive document on production, productivity issues and recommendations on various reforms. Follow-on informal meetings by business leaders have had some limited success in the area of export-import regulations, investment administration and procedures, banking and finance, among others. They have since included the Egyptian Chamber of Commerce and the Federation of Labor in an effort to prepare recommendations on job creation in Egypt.
 - USAID has been successful in organizing the four major private sector associations to sponsor and lobby the GOE for approval of USAID cost-share financing for the Egyptian Business Development Center. The EBDC, now in the process of being chartered, will take on the important analysis and advocacy role for encouragement of reforms.
- 2. Intermediate Objective:** Expand information and education program on benefits of privatization.

Status:

- Privatization activities continue as a centerpiece of the private sector development effort. In July 1988, the Minister of Economy chaired the first open discussion on privatization in Egypt with active participation of other key Ministers, the media and members of Parliament. USAID and GOE officials are organizing an international privatization conference for late 1989. In 1988, 36 GOE officials were sent to privatization-related conferences and workshops in Europe.

- The Minister of Agriculture has agreed to support and promote a USAID assisted pilot governorate privatization project. The three year project, to be initiated in FY 89, will provide technical assistance for field demonstration of processes and benefits to selected governorates. A Phase II broader privatization program, to include an information and education action plan, will be developed as a result of the Phase I experience.

B. STRATEGIC GOAL: Strengthen the private sector's capability to develop export and investment opportunities (support services).

1. **Intermediate Objective:** Expand private sector-managed investment promotion and export promotion programs through establishment of an Egyptian Business Development Center. Market 50 investment and export prospectuses in 1988, 100 in 1989, and 150 in 1990.

Status:

- The EBDC is in the final stages of formation, and staff is being recruited. New investment and export targets will be included in the EBDC Business Plan now being finalized as the basis for a USAID grant. In 1988, the USAID-assisted USIPO (to be integrated as part of the EBDC) helped prepare and market 22 prospectuses in the U.S., and assisted in the promotion of 35 joint venture proposals.

C. STRATEGIC GOAL: Expand access of institutional finance for all sizes and types of private industry to support new investment. (mobilize resources.)

1. **Intermediate Objective:** Establish urban credit and credit guarantee facilities for small and micro enterprises and provide targeted technical assistance.

Status:

- The sector's potential for employment generation and productivity is now accepted and the GOE has agreed to major USAID financing of private sector foundations dedicated to the sector's growth. Two foundations have been legally established and are being staffed. U.S. and Egyptian long term technical advisors are being recruited. Ten banks have agreed to organize and help capitalize a Small Scale Credit Guarantee Corporation and manage the USAID Guarantee Fund.

- The Private Sector CIP now complements efforts to develop small scale enterprise. The CIP can finance transactions valued at as little as \$10,000 and offers other terms which can benefit small scale enterprise.
- Revised objectives include: establishment and staffing of foundation offices in Cairo and Alexandria in 1989 with one satellite branch office established annually for a total of four in each city; 100 TA projects completed in FY 89, 150 per year in 1990-1993; small and micro-scale loan levels reaching \$600,000 in year 1 (1989-90), \$3.6 million in year 2, and \$5.6 million in year 3 of lending; loan guarantees reaching \$5.0 million in year 1 (1990) and increasing to \$12 million in year 2 of lending. (By year 10 loan guarantees should be generating \$300 million in guaranteed loans.)

VII. SCIENCE AND TECHNOLOGY

A. STRATEGIC GOAL: Support technology transfer activities to resolve specific development problems and improve productivity.

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

Status:

- This intermediate objective will not be achieved because GOE requested changing the contribution of participating companies from partial grant to full grant. The change is required because investment funds for companies are far tighter now than when the project was designed. Implementation of this change delayed start-up and will reduce total number activities implemented. Last sentence of objective should be changed to read, "Begin the first 3 energy efficiency activities in early FY 1990, and another 6 each for FYs 1991 through 1995.
2. Intermediate Objective: Improve the analytical capability in the minerals, petroleum and groundwater fields through improved reserve assessments. Complete establishment of a resource information system in petroleum and groundwater in FY 1989.

Status:

- Information generated by MPGAP project seismic and aeromagnetic activities have been purchased and are currently being used by at least five U.S. oil companies.
 - Improved analytical capability in mineral sector has led to successful negotiations with three private sector firms for potassium, sulphur and gold.
 - A Resource Information System has been established.
3. Intermediate Objective: Demonstrate renewable energy applications in wind and photovoltaics at two field sites in FY 1988, and another two applications in FY 1989.

Status:

- Construction for wind application completed and demonstration initiated in FY 1988. Construction started at photovoltaic site in FY 1988; demonstration to start in FY 1989. Design for two industrial process heat applications completed in first half of FY 1989.
- B. STRATEGIC GOAL: Support selected research and development activities and increased coordination among seasoned Egyptian research institutions.
1. Intermediate Objective: Set up biological materials center and begin research on a schistosomiasis vaccine and improved immunodiagnosics by early FY 1989.

Status:

- Intermediate objective essentially achieved. Schistosomiasis Research Project Steering Committee established and project staff being recruited in first half of 1989. Contract signed and center identified for biological materials center. Interim Technical Assistance contract signed and 23 research topics selected in first half of FY 1989.

VIII. POPULATION

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

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

Status:

- Egypt's population growth rate increased from 2.75 percent in 1980 to 2.95 percent in 1986. Preliminary results from the 1988 contraceptive prevalence survey show an increase in prevalence to 38 percent from 24 percent in 1980 and 30 percent in 1984.
- The Family of the Future in 1988 exceeded the 10 percent target in IUD, oral contraceptive and condom sales.

2. 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 1,000,000 in 1989/90 and through the Egyptian Family Planning Association from 100,000 in 1986/87 to 160,000 in 1988/89.

Status:

- No reliable service statistics are yet available to indicate whether the Ministry of Health target increase was achieved. However, the new project will implement a management information system which will provide service statistics by which we can measure progress. Fragmentary indications from selected governorates indicate significant recent increases in MOH family planning acceptors, especially among IUD users.
- As the EFPA Clinical Services Improvement project commenced in late 1988, complete service statistics are not yet available. However, the project MIS system will provide such data.

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

Status:

- A national survey to determine levels of knowledge of modern family methods carried out in 1988 and an impact assessment of individual SIS campaigns and activities indicate a near universal knowledge of family planning methods and availability among the Egyptian population.
- The 1988 Demographic Health Survey for Egypt will also provide important information on knowledge and use of contraception. Preliminary information indicates that overall use has increased, though improper use still results in large numbers of unwanted pregnancies.

IX. HEALTH

- A. STRATEGIC GOAL: Reduce infant mortality rate to 51/1000 and the child mortality rate to 7/1000 by 1993 through support for child survival interventions.

1. Intermediate Objective: 80 percent of Egyptian mothers to use Oral Rehydration Therapy correctly and as needed by FY 1990.

Status:

- Prior to the initiation of the program in 1980, knowledge and utilization of ORT was below 5 percent. By 1988, the utilization had grown to 75 percent of mothers ever having reported using ORS, 84 percent of users reporting using it correctly and 61 percent reporting using it consistently. A national sample is scheduled to be conducted during 1989 to confirm utilization rates.
- 2 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.

Status:

- For 1988 and 1989, the Ministry of Health reported that more than 80 percent of children received the full series of 6 mandatory vaccines and 70 percent of women received tetanus immunizations.

- 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 Objectives:

1. Increase the number of government health facilities charging fees for service by 5 percent by FY 1990.
2. Increase utilization of private health insurance, health maintenance organizations, preferred physician organizations, and other prepaid health services by 3 percent in FY 1989.
3. Expand private medical practices by 3 percent in secondary cities and rural areas by FY 1989.
4. Initiate trend for GOE health expenditures to shift from curative to preventive care by FY 1993.

Status:

- The Cost Recovery Programs for Health Project (263-0170) was signed in October 1988 and represented a major policy dialogue advance for the implementation of cost recovery in the public and private health sector. During the first year, key activities will focus upon MOH mobilization and the development of indicators to measure progress in implementing cost recovery programs. New target dates must be established to accommodate the significant increase in funding and activities related to Component One which resulted in subsequent delays for PID approval and the signing of the project agreement.

X. EDUCATION

A. STRATEGIC GOAL: Increase rural enrollment in basic education and increase Ministry of Education (MOE) capabilities in planning and service delivery.

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

Status:

- Accurate baseline data with reference to school enrollment will be available on a sample basis by the end of 1989 and on a comprehensive basis by the end of 1991.
- In 1988, 233 schools were completed, exceeding the target of 200. The number of completions in 1990 is expected to approach 400, a doubling of the original target.

B. STRATEGIC GOAL: Improve essential technical, managerial and scientific skills through training and research.

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

Status:

- The number of new participants was 544 in 1980, 1,213 in 1984, 599 in 1986, 498 in 1987 and 573 in 1988. The reason for the sharp decline in participant trainees was the government's reluctance to finance the foreign exchange costs of overseas training and delays in implementing major project activities. The number of participants will accelerate in 1989 but the full objective will probably not be achieved.
- The number of project participants Programmed under the non-project component of Development Training in FY 1988 increased from 51 in 1987 to over 200. Peace Fellows and the National Agriculture Research Project are anticipated to send significant numbers in 1989.

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

Status:

- The program has been delayed over two years by the absence of an agreed plan for institutional development to support management training in Egypt. In January 1989 a consultant team provided a detailed plan for management training in three existing institutions, including the Management Development Center for Industry in Agouza that has been renovated and equipped with project funds. Proposed training in the new Agouza center, now scheduled to begin in September 1989, will focus on a 9-month program for a limited number of potential managerial leaders, rather than a larger number of short-term trainees. Targets have been revised in light of delayed start-up and an estimate of revised output plans to provide in-country training to 50 Egyptians in 1990, 200 in 1991 and 200 in 1992.

**IMPACT OF THE U.S. ECONOMIC ASSISTANCE PROGRAM IN EGYPT
1974 - 1989**

I. SUMMARY STATEMENT

The following section pertaining to the impact of the AID program in Egypt was recently completed by the Mission. It is the most accurate, balanced and up-to-date discussion we have relating to impact.

The report covers some 13 different sectors/areas that AID has been involved in over the past 14 years. Although attempts were made to obtain evidence and data to support statements of impact relating to CDSS objectives, we found this to be difficult. However, looking at our objectives over a longer term, there is, in many cases, evidence of impact that is meaningful.

There is evidence of progress being made toward reaching many of our objectives. Although progress may be made in areas such as macroeconomic reform, development of the private sector, reducing the population growth rate and increasing/improving agriculture production, impact in these areas cannot be meaningfully reported on a yearly basis--or even every two years. In those areas where and when accurate estimates, evidence, and data become available to support impact, we will be able to report it.

II. PROGRAM IMPACT OVERVIEW:

A. The Setting: The Egyptian economy was weak when American economic aid was restored in December 1974. During the era of confrontation between Egypt and Israel from 1948 to the mid-'70s, the nation's financial resources and energies had been mainly channelled to the military, leaving very little with which to build a nation. The most obvious of Egypt's economic difficulties was its deteriorating infrastructure. After decades of overuse and neglect, Cairo's water and sewage disposal, telephone and transportation systems were in a state of near collapse. Urban migration aggravated housing problems in Cairo and other large cities. Because water and power systems were inadequate, much of Egypt's industrial plant lay idle or underused.

Underlying Egypt's economic difficulties were the perennial problems of population growth, the costly network of consumer subsidies, and an over-sized government bureaucracy. Fueled by social and religious traditions, Egypt's 2.5 percent annual rate of population growth showed no signs of decline. Largely for political reasons, the Egyptian Government (GOE) clung to a policy of underwriting much of the cost to consumers of basic goods and services such as wheat, salt, fuel, oil and electricity. As beneficial as these subsidies were to Cairo's poor, they distorted the rest of the economy, and in the absence of new sources of national income, cut deeply into other resources, especially investment. The government bureaucracy, which guaranteed employment to all university graduates who could not find work elsewhere, could only maintain this policy of overstaffing by keeping civil service salaries low. The over-centralized state-managed economy, the rigidities of the financial system and the reluctance in some quarters to expand the private sector, all acted as forces to distort investment and other economic decisions.

B. AID's Response: In response to these problems, AID took on a broad and multifaceted program from the outset, initially financed on concessional loan terms. The program included food and commodity aid, large capital projects and technical assistance. Initial priorities centered on Egypt's serious foreign exchange shortage, which AID addressed through the financing of food, industrial raw materials and spare parts. Along with balance of payments support, funds were also provided for the reconstruction of the war-damaged Suez Canal and its immediate area. AID soon extended its concern for infrastructural upgrading, and began to expand power generation across the country, improve port facilities in Alexandria,

raise grain storage capacity, modernize communication systems, and undertake urban water and sewerage system construction projects. Sizable programs began for small farmer credit, health services, family planning and training. AID also moved ahead with plans to strengthen industry, improve productivity and help Egypt expand productive employment.

By the early 1980s, AID projects and commodity financing for Egypt shifted to grants. AID began to build schools and classrooms in rural and underserved areas, to improve Egypt's irrigation systems, and to start to rehabilitate and modernize the Aswan High Dam's defective hydroturbine generators. In 1984, AID began to provide cash transfers for needed balance of payments support, but also to engage the GOE in a serious macroeconomic dialogue about policy reforms to remove the distortions and liberalize the economy. To help the GOE remove agricultural restrictions, AID designed in 1986 its first policy-centered agricultural project providing a performance-based disbursement system for credit in support of the government's implementation of reform measures. Throughout this period, AID has continued its infrastructure investment by expanding and improving water, wastewater and telephone services in urban cities.

C. Impact: It is difficult to measure with confidence the impact of AID's investment of \$14 billion in economic assistance over the past 14 years. The pages that follow attempt to estimate AID's impact by sector of assistance, using project-level data.

Looking at the program as a whole, one has to ask the question: Is the life of the average Egyptian better off for there having been a US assistance program? As this report points out, the answer is "yes" although clearly improvement has been less than optimal. There is no doubt that the US assistance program has made a sizable contribution to rehabilitating and stabilizing Egypt's economy. Dependable electricity, clean water, sewer and telephone systems, vastly improved health care and more schools, as well as easier access to farm credit and high-yielding technologies, are all achievements that have produced a higher standard of living for most Egyptians. However, much more can be done. Policies that limit individuals' incentives to invest in their own economy constrain economic growth and lower productivity despite the stimuli of external aid. Unless it can effectively mobilize its peoples' resources for development, Egypt will be unable to sustain the gains that have been made. While Egypt has begun to take steps to decontrol the economy and allow the market to provide the incentives for growth, major elements of the

economy still remain state-controlled. In addition, the GOE needs to curb government spending and make stronger efforts to encourage fertility reduction. As it takes these steps, the investments AID has made in Egypt's development will begin to pay off even more.

III. SECTOR IMPACT OVERVIEW:

A. MACROECONOMIC POLICY DIALOGUE/CASH TRANSFER/STRUCTURAL REFORMS:

AID's concern about the effect of government policies on Egypt's economic development began in the late 1970s. By then, it was clear that despite the Open Door Policy (Infitah), the economy was not becoming more productive because of a wide range of government policies and economic controls of production in virtually every sector. The GOE's desire to keep consumer prices low to ensure that the poor could afford basic consumer goods and services and to channel production into certain areas led to price distortions and administrative regulations which impeded productivity. Failure of the economy to grow and increase productivity, rapid population increase and maintenance of widespread consumer subsidies resulted in a growing fiscal burden for the GOE.

In 1984, AID began to provide cash transfers to help Egypt with its balance of payments and engage the GOE in serious discussions on macroeconomic reform. So far, AID has disbursed \$927 million in cash transfers to the GOE.

AID now carries on a Cabinet-level dialogue on macroeconomic policy reforms with the GOE. The policy dialogue has assisted the government to clarify the nature of many of the economy's problems and to consider alternative adjustment strategies. It has enabled AID to provide new ideas from technical experts and staff analysis, and in general, to create a more open environment for economic policy formulation.

During the past few years, GOE has implemented several of the measures which AID has advocated as part of its policy dialogue. In 1987, the GOE initiated an economic reform program which led to an IMF standby agreement and paved the way for debt rescheduling; substantial unification of exchange rates including the operation of a new market-based rate within the banking system; increases in nominal interest rates, energy rates, and procurement prices of major agricultural commodities, along with lifting some restrictions on agricultural production and trade. Last year, actions were taken to reduce expenditures on government salaries and food subsidies; reduce controls on interest rates for joint venture company bonds, and increase prices for administratively controlled consumer goods and services (popular cloth, gasoline, cigarettes, public services,

telephone and school fees) and agricultural goods. There has been some movement toward privatization by the sale of public sector hotels to the private sector and selected transfer of management responsibility to private sector contractors.

AID's policy dialogue with the government has been friendly, but not easy. For example, the GOE did not undertake macroeconomic reforms sufficient to justify the annual release of cash transfer in FY 1988. There is still strong resistance to changing policies that have characterized the economy and society for thirty years. There is much insecurity over the possible effect of such fundamental changes. A basic distrust of the market's ability to allocate resources effectively continues to hamper private sector investments.

B. COMMODITY IMPORT PROGRAM (CIP):

In 1975, AID began its Commodity Import Program (CIP) to provide balance-of-payments support through the provision of foreign exchange for import of raw materials, food items and capital equipment. These CIP resources were especially critical in the years immediately following the Camp David accords when Egypt was facing serious foreign exchange shortages after years of high military spending and withdrawal of Arab financial support. Priority was given to imports of raw materials, spare parts and equipment to rehabilitate Egypt's infrastructure, industry and agriculture capacity. The early CIP program included transactions for such programs as the Vessel Traffic Management System (\$23 million), and the Train Traffic Control System (\$67 million). In the early stages, CIP became closely identified as direct support to the public sector since most allocations during the first seven years were to government institutions, including industry and other state enterprises. In later years, as other investment and assistance assets increased, the CIP's effect on balance of payments and foreign exchange has become less apparent. Its role is now more of a "safety net" for Egypt's still tenuous balance of payments situation.

With total contributions of almost \$4.0 billion to date, the CIP is AID's second largest single assistance program in Egypt. A 1984 evaluation of AID's 10 year experience with the CIP concluded that the CIP materially eased the GOE balance of payments deficit in its early years and helped instill confidence in the business and import communities.

Close to 70 percent of total CIP resources have been allocated to production and services rather than consumption. Nevertheless, CIP has played an important role in responding to Egypt's ever-increasing demand for food. From 1975 to 1988, 32 percent of the CIP was used for agricultural commodities. The evaluation concluded

that low-priced food commodities and raw materials provided under the CIP have indirectly reduced the pressure on the GOE short-term subsidy allocation budget, helping the government to pursue its policy of subsidized consumer prices. Although the CIP is not a suitable tool for implementing macro economic policy reforms, individual CIP transactions have supported specific reforms. AID has used the CIP to raise the price of corn to free market levels by conditioning CIP corn imports to incremental price increases.

Until 1981, only 10 percent of all CIP resources were allocated to private industry. The remainder was used for the commodity needs of government ministries, utilities and industries. Unfortunately, government industries, which utilize up to 27 percent of CIP resources, are largely inefficient, restricted by government imposed price ceilings, and consequently heavily subsidized by the GOE budget. Since May 1987, by AID's insistence that importers pay the local currency equivalent at the commercial rate, AID helped impose a greater degree of budgetary discipline on imports to GOE institutions.

C. INDUSTRY:

The industrial sector in Egypt is dominated by public sector enterprises, a legacy of the nationalizations of the early 1960s and a heavy investment program in the 1970s. Policies such as price controls, import/export restrictions, and exchange rate controls, aimed at protecting public sector investments, have not been conducive to productive investments in industry. Consequently, the impact of AID's efforts to increase private sector investment has been rather limited. AID's policy dialogue with the GOE aims at liberalizing the economy for greater private sector capital formation. Some progress has been made toward establishing market-determined interest and foreign exchange rates as well as improving the customs system and other substantive price adjustments.

Because of inadequate allocations to the private sector under the Commodity Import Program (CIP), AID initiated the Production Credit Project in 1982 which financed 582 transactions valued at \$86.5 million. In 1986, this project was superseded by the Private Enterprise Credit Project. Generally referred to as Private Sector CIP, the project is a primary vehicle for the provision of foreign exchange to private industry by enlisting private and public sector banks in the extension of medium term credit for the import of U.S. raw materials and capital goods.

By the end of 1988, the two projects had financed 1,198 transactions valued at \$182.8 million, spread over 450 separate companies. The greatest share (62 percent) of Private Sector CIP allocations has

been for importers of raw materials (68 percent) and capital goods (32 percent). A recent analysis of a sample of firms utilizing the Private Sector CIP indicated that end-users are primarily new, modern, growing, and import-dependent, diverse in size and type of production or service. Over half the user firms are in industry (excluding traders who are primary suppliers of equipment and raw materials to small and micro enterprises), and a quarter are in agriculture. The analysis indicates that the program is helping to encourage more liberal credit terms for new and smaller firms. The share of CIP funds obligated under the Private Sector CIP has, since FY 1987, been 50 percent of the total.

The Private Sector Feasibility Studies project has funded 28 feasibility studies and 45 reconnaissance visits by prospective U.S. investors as well as generated four new long-term investment projects resulting in an estimated \$40 million of new investment. Responsibilities and resources for the project were transferred from the GOE's Investment Authority to the expanded Egyptian Business Development Center which will facilitate the review and approval process.

AID's information and promotional activities over the last two years have had some positive effects on attitudes towards privatization. AID has sponsored a series of orientation visits of government officials and key opinion makers to conferences discussing worldwide experience and privatization techniques including employee stock ownership plans (ESOP). A conference on privatization chaired by the Minister of Economy has provided a public endorsement of the ESOP concept.

The International Executive Service Corps (IESC) has provided technical and managerial assistance to over 265 private sector firms since 1982. IESC volunteer executives have helped these firms improve production techniques, increase sales, and strengthen employee skills and capabilities.

AID has provided \$550 million to expand production and employment in certain key public-sector industries. This includes construction and modernization of facilities for production of calcined gypsum, cement, refractory products, salt, radial tires, PVC irrigation pipes and textiles. Other resources have been provided to finance technical assistance to improve management and technology transfer.

AID is now phasing out of these public sector industry activities. Last year, two large cement plant projects, Suez Cement and Quattamia Cement were completed. The plants fall under private-sector law, but have government majority ownership. Together, the plants are producing almost 25 percent of Egypt's cement. A steel pipe company which began production of export quality pipes is now exporting half of its 60,000 ton production to the U.S. for approximately \$11 million annually. The remaining public sector industry activities financed by AID will be phased out by FY 90.

D. AGRICULTURE AND IRRIGATION:

AID has provided over \$600 million for research, credit, and irrigation system improvements for the agricultural sector in the past ten years. Agricultural research activities have resulted in improved varieties of major crops capable of producing 35 percent more maize, 65 percent more wheat, 50 percent more sorghum, 50 percent more soybeans, and 58 percent more rice both on research plots and in farmers' fields. A new rice variety has been developed which is resistant to the blast disease, is high yielding, and has the cooking qualities demanded by the Egyptians. Until recently, however, the diffusion of the improved varieties and improved methods to most farmers has been slow in many cases.

Agricultural policy reforms have become an increasingly important part of AID's policy dialogue with GOE. Past policies had discouraged and distorted the pattern of agricultural production by holding some crop prices too low, by allowing others to rise too high (e.g., meat and fodder), and by restricting private sector participation in the marketing of agricultural inputs and exports.

In support of agricultural policy reforms, AID has been assisting the GOE since 1986 through the Agricultural Production and Credit (APC) project to implement a multi-year agricultural sector reform program. By the end of 1988, the major accomplishments of the program have been the elimination of price controls, area controls, and crop procurement quotas on 13 crops, elimination of a wasteful \$150 million a year program of animal feed subsidies, and reduction of fertilizer subsidies. (Two of the most important crops, cotton and rice, remain under GOE control and are heavily taxed by the government.)

In addition, the Principal Bank for Development and Agricultural Credit (PBDAC), which provides farm credit and inputs, has expanded its level of nonsubsidized agricultural lending. During 1987/88 winter crop season, PBDAC made two million unsubsidized loans to farmers, increasing the total value of unsubsidized loans by 19 percent from the previous year.

APC is now extending to 202 village banks a farm extension model that provides credit at near market rates, and that introduces improved crop management practices. This program takes the new plant materials and technical applications packages developed under the agricultural research efforts and accelerates their distribution to farmers.

Since 1988, AID has provided approximately \$250 million to the irrigation sector through the Ministry of Public Works and Water Resources (PWWR) to improve research, manpower and physical infrastructure. The Water Research Center, created in 1975, now has

eleven institutes supporting research on irrigation techniques. A program established in 1982 has to date trained 3,000 irrigation staff in design, construction management, quality control, operations and maintenance and water management. A Project Preparation Department established in 1980 produces high quality feasibility studies to meet specific development needs. These studies have led to funding of the Esna Barrage project by a consortium of other donors and World Bank projects in drainage and channel maintenance. A preventive maintenance organization has been established in one irrigation directorate and is being tested as a model for other directorates.

The Water Use and Management project demonstrated the potential for 50 percent increases in crop production by making improvements to the irrigation distribution system such as land leveling, application of fertilizer and water and structural improvements as well as establishment of farmer organizations. Technologies introduced under this project are now being refined and replicated in Middle Egypt.

AID has financed replacement of obsolete and unrepaired irrigation structures such as regulators, steel gates, weirs and bridges that control and regulate water. Of the 22,500 small and medium sized irrigation structures in Egypt, about 8,000 have been rehabilitated with AID assistance. This has improved Egypt's ability to allocate water in accordance with actual crop needs and has resulted in an overall water savings of approximately five percent over the last five years. These savings were especially important in early 1988 when water allocations were substantially reduced because of the reduced water reserves in Lake Nasser.

E. HEALTH:

AID has provided \$133.2 million for improved health services, with major emphasis on Child Survival interventions, immunization, oral rehydration (ORT/ORS), acute respiratory infections, child spacing, nutrition and pre/post natal care. Reflecting the MOE's own concern for social welfare, the program has been phenomenally successful. Coverage rates for ORT utilization have advanced from less than 4 to over 80 percent of Egyptian families in less than six years, and childhood immunization coverage has risen from 40 to 80 percent.

AID's program used television messages to educate Egyptian mothers in the use of ORT. In addition, 97 percent, or 3,219 of Egypt's total 3,292 health services delivery units, now have operational ORT centers treating more than 1.5 million cases per year. Over 18,000 physicians, 10,000 nurses, and 828 pharmacists have been trained in ORT since the project began.

In FY 1988, Oral Rehydration Salts began to be commercially produced and distributed on the basis of locally generated receipts. Average monthly sales of ORS through private sector retailers were approximately 440,000 single-use packets. This represents a major step toward reliance on private sector marketing systems and overall sustainability of the ORT/ORS program.

AID, in cooperation with UNICEF, also helped finance a national immunization campaign, providing immunizations for diphtheria, pertussis, tetanus, (DPT) measles and polio, all of which are associated with young child mortality and morbidity. According to a randomly chosen statistical sample of some 14,223 children in December 1987, 88 percent of all children under five received three doses of oral polio vaccine; 82 percent received three doses of diphtheria, tetanus and pertussis vaccine, and 76 percent of the children sampled were immunized for measles, reflecting an increase of 35 points from 41 percent in 1984. Egypt is the first country in the developing world to achieve such high coverage rates for both ORT and immunizations.

Well-designed studies have confirmed these remarkable changes in attitude, demand and utilization for ORS and immunization. Studies in several Delta villages recently published in Lancet and general mortality trends released by CAPMAS (Egypt's Central Agency for Public Mobilization and Statistics) indicate dramatic decreases in infant/childhood mortality rates. The most recent data from CAPMAS shows that infant mortality has dropped from 88/1,000 live births in 1980 to approximately 50/1,000 in 1987, which most experts attribute primarily to the successful ORT/immunization interventions. Projected on to national population estimates, this reduction in mortality means some 80,000 children's lives saved every year.

Under the Urban Health Delivery System, USAID financed the construction, equipment, and staff training for 37 maternal and child health centers in Cairo and Alexandria and eight large general urban health centers in Cairo were completed. These facilities offer important health services to more than three million women and children.

F. POPULATION:

Rapid population growth is a critical constraint to economic and social development in Egypt. The country's population growth rate of nearly 3 percent (population doubling time of 25 years) is the highest in modern Egyptian history. Rapidly declining infant and child mortality and the age structure of the population make it virtually impossible for Egypt to begin to achieve a sharp reduction in its population growth for several years, even if fertility rates should begin to decline more quickly than they have in the past.

Even the most optimistic projections predict a population of well over 70 million by the turn of the century in a country that is already one of the world's most densely populated (in terms of persons per square kilometer of inhabitable land).

As the largest single donor to Egypt's population program (accounting for about 75 percent of all donor assistance), AID's strategy is to assist the government in establishing effective population policies, overcome constraints to fertility control, and provide technical and monetary support for large-scale family planning information and service delivery programs. AID procures between \$3 and \$5 million worth of contraceptives annually to increase the availability of contraceptives in the local market.

AID-financed information programs have contributed to the general awareness of the need for family planning through media campaigns, commercials and TV spots.

Since 1980, AID has supported the most successful family planning activity in Egypt, the private sector Family of the Future (FOF). Originally a Cairo-based urban program, FOF now operates throughout the country covering virtually all of Egypt's 7,500 pharmacies and most private physicians. FOF has demonstrated that contraceptive social marketing is an efficient and cost-effective means for delivering family planning products to target couples. It now accounts for 40 percent of the total contraceptive prevalence.

The Family Planning Systems Development Project, which supports comprehensive upgrading of the Ministry of Health's family planning service system in 21 governorates, is now working in seven governorates and is expanding rapidly. The Clinical Services Improvement Project with the Egyptian Family Planning Association (EFPA) has upgraded the quality and quantity of EFPA family planning services. So far six out of 18 planned comprehensive family planning clinics have opened in six governorates. Eventually, the project aims at providing services through 258 new and upgraded family clinics in 18 governorates throughout Egypt. However, there are as yet no data on changes in contraceptive prevalence resulting from these activities.

Looking beyond the current population growth figures, evidence exists for some optimism. The most important fertility measure, the total fertility rate (the number of births a married woman would have at the end of her reproductive period), has declined from over 7 in 1980 to under 5 in 1988. The average age of marriage is increasing as is the contraceptive prevalence rate. Since 1974-75, contraceptive prevalence among married women increased from 26 percent to 35-40 percent in 1988. Recently, Islamic judicial determinations made at the highest level have given full support and sanction to those who wish to limit their family size. The effect of these developments, however, remains to be seen.

G. EDUCATION AND TRAINING:

AID has provided over \$320 million for education and training since 1975. The major focus has been on increasing primary and preparatory school enrollments through construction of schools in rural and underserved areas. In 1987, two new schools were built each week; in 1988, AID's school construction program accelerated to one new school per day. By the end of 1988, 796 schools had been completed under the Basic Education project. At this rate, school construction now provides access to new classrooms to over 400,000 more children each year. This increased access to public schools has had a dramatic impact on children living in remote and rural areas. In the last three years, boys' enrollment in the first grade increased by 15 percent and girls' by 29 percent. Furthermore, as schools are built closer to people's homes, more children tend to stay in school. In 1987, in the sample areas studied, boys' drop-out rates decreased by six percent and girls' by 17 percent, the lowest dropout rate recorded since the project began.

AID's contribution to university education and research has been through the linking of U.S. and Egyptian universities for developmental research activities. Results of applied research are now beginning to have an impact in reducing wastage in the economy and raising productivity. Examples from 340 joint research projects between 11 Egyptian universities and over 80 U.S. universities in 35 states include:

-- Work between Cairo University, the University of California (Berkeley), and the Nagah Hamadi Aluminum Factory resulted in energy and materials savings of over LE 8 million per year.

-- Research by Menoufia University, Virginia Polytechnic, and the El Maco Company reduced production costs of industrial high-voltage transformers (used in many industries) by 62 percent, while at the same time raising their performance characteristics, thus bringing this local product into effective competition with imported transformers.

-- Production of a protein concentrate for cattle feed has been accepted and certified by the Ministry of Agriculture. If produced to maximum possible capacity, this could result in savings exceeding LE 100 million annually.

These projects have strengthened the capability of Egyptian research institutions for applied research. More than 1,800 Egyptian researchers have now received training in applied developmental research.

AID has financed over 8,148 participants to academic and technical training in the U.S. since 1975. Approximately 25 percent received training in agriculture, 25 percent in education, 16-18 percent in public administration and 12 percent in health. A 1983 study on participant training concluded that about 50 percent of those trained are now working in development-related areas such as agriculture, health and population. After a decline in the total number of participants in 1985, AID now expects to train 1,000 new participants annually over the next five years.

The Suez Canal Area Medical Education and Health Services project at the Suez Canal University in Ismailia tested and proved a new approach to medical training, which another university recently incorporated into its own medical training program. The standard Egyptian medical school curriculum provides little exposure to patients or patient care, and none at all to primary health care services. In a significant break with tradition, this project has developed a six-year course of studies that provides exposure to local health needs. First year students are placed in rural health facilities and patient health problems serve as basic learning units. As the students progress, they receive greater patient exposure and, ultimately, responsibility for diagnosing and recommending patient treatment. Out of fifty students who entered the first year, 44 students graduated in 1988. Twenty-two were women.

H. SCIENCE AND TECHNOLOGY (S&T):

Egypt has a substantial foundation of highly trained scientists and engineers in its 260 research laboratories and 12 Egyptian universities. These individuals could be a more positive resource if their skills were applied to national development priorities in production and service sectors. Gaps in expertise, limited experience in applying knowledge to development problems, lack of funds and general entry policies of education and employment that limit management effectiveness, have largely limited the role of S&T to the academic basic research areas.

AID has been the most important donor for supporting research and development, technology transfer and training efforts in Egypt. In the past decade, AID has invested \$250 million in support of technology transfer, institution building and research.

The S&T program has succeeded in establishing a reasonable base of human resources and manpower in S&T research, improving links between research and the productive sector of the Egyptian economy and upgrading the scientific and technological infrastructure.

As a result of AID investments:

- The Mineral, Petroleum and Groundwater Assessment Program has generated new geophysical data to attract private exploration activities in petroleum, minerals and groundwater. This program introduced, for the first time, state-of-the-art computer technology to help organize, retrieve and analyze petroleum exploration and production data so that private sector oil companies could bid on new concessions.
- The Renewable Energy Field Testing Project introduced wind energy as a valuable source of electricity generation in the Red Sea, saving electricity from the grid to be used for other industrial purposes.
- The Egyptian Scientific and Technological Information Network (ENSTINET) is providing information services to 20,000 information users in agriculture, medicine, S&T, industry and energy.
- The Egyptian Remote Sensing Center (ERSC) is providing data processing techniques and mapping to several Egyptian ministries, private and public sector firms for the purpose of agriculture, transportation, urban planning, groundwater and geology exploration.
- The Developmental Research and Technology Planning Center (DRTPC) is now a self sustaining institution and provides detailed engineering and economic studies to governmental agencies and private and public sector enterprises in Egypt.

I. WATER/WASTEWATER:

Urbanization presents a formidable problem for Egypt. In Cairo, the population has more than doubled in the past 25 years while urban infrastructure has expanded only fitfully. Overtaxing of water/wastewater facilities and poor facility maintenance have caused significant deterioration in service. Since 1978 AID has provided more than \$1.8 billion in support of water and wastewater system rehabilitation and expansion in Egypt's major cities. During this period, the GOE has also increased its own investments in the sector dramatically. Nonetheless, further improvements are needed to ensure adequate operation and maintenance to sustain those improvements, and to increase user-fees both to improve cost-recovery and to encourage efficient use of the systems.

In the mid-1970's, over 100 sewerage flooding incidents occurred daily on the streets of Cairo. Flooding was not confined only to streets, but often extended inside people's homes or shops. A recent impact evaluation of the Cairo Sewerage I project found that today, most of Cairo's streets are free of sewerage flooding. Of the 67 chronically flooded neighborhoods before the project, 65% no longer report flooding incidents and 83% have been relieved of any major incidents. This is due to the rehabilitation of 90 pumping stations and improvements in major sewers financed by the project.

The Canal Cities Water and Sewerage project funded eight major wastewater pumping stations, 20 km. of force mains, 16 km. of gravity interceptors, improved water treatment plants and expanded water distribution systems in the Canal Cities of Port Said, Ismailia and Suez. These improvements have increased the availability of clean water, eliminated the raw sewerage flooding that once plagued all three cities, and provided improved access to working sewage collectors and treatment facilities for most of the Canal Cities' two million residents.

Under the Cairo Water I project, AID rehabilitated and expanded the largest water treatment plant in Cairo, Rod El Farag, expanding its treatment capacity from 200,000 cubic meters per day to 650,000. The plant now produces potable water and provides services for some of the poorest and most densely populated areas of central Cairo. Three million people receive more and cleaner water as a result of this project. In the Provincial Cities of Minia, Fayoum and Beni Suef, AID has completed installation of 26 km. of water and sewer lines, rehabilitation of an existing water treatment plant in Beni Suef and construction of a wastewater pumping station in Fayoum, thereby improving water and wastewater services to approximately 140,000 people living in those provinces. Overall, 44 percent of Egypt population in major cities uses clean water and improved sewage disposal resulting from these projects.

J. ELECTRICAL POWER:

Between 1975 and 1988, AID provided more than \$1.1 billion to help the GOE develop its electric power base. Power generation capacity has grown rapidly, from 3,798 megawatts (MW) in 1976 to 9,165 MW in 1988. The baseload generation financed by AID amounts to 2,172 MW or nearly 25 percent of the total installed capacity in Egypt.

Sixty-three percent of our assistance in the power sector has been for construction of new generating facilities at three different power plants. The final construction work on the \$852 million Shoubrah El Kheima Thermal Power Plant was finished last year when the fourth 315 MW generating unit was completed and put into

operation last September. The four generating units provide 1,260 MW -- second only to the Aswan High Dam capacity of 1,750 MW. AID was the primary donor in this remarkable effort which involved 10 donors financing 58 contracts from firms in 10 different countries. The project delivered a state-of-the-art power station which is now connected to the Egyptian Unified Power System and directly benefitting a third of Cairo's population.

Another 13 percent of AID assistance has contributed to the rehabilitation and modernization of existing power systems unable to produce at nameplate capacity due to age and deterioration. AID's total contribution to Egyptian electrical generation involves nearly 2,900 MW or over 30 percent of Egypt's nation-wide generating capacity.

Twenty percent of AID's assistance has contributed to rehabilitation, modernization and expansion of the existing electric distribution system. These projects help reduce low voltages, frequent service interruptions, and energy losses caused by old and deteriorating systems, and provide dependable electrical service of high quality for Egyptian consumers.

Much of the rapid demand for electrical power in Egypt is a result of heavily subsidized energy prices. Egyptian prices for electricity represent less than one fourth of its real economic cost. These subsidized prices have resulted in excessive consumption and encouraged inappropriate use of electrical energy. AID and other donors, including the World Bank, have consistently urged the government to enact substantial increases in energy prices. Both AID and the World Bank have followed the policy of relating funding levels for electricity generation projects to progress on adjustment of electricity rates towards more realistic levels. To date, these efforts have met with limited success. Over the past ten years, energy rate increases have not kept up with inflation, signifying that real energy prices are declining. In May 1987, for instance, electricity tariffs were raised by 29 percent -- the first tariff hike since July 1985 -- however, its real impact was minimal as a 29 percent inflation rate existed throughout the same period.

K. TELECOMMUNICATIONS:

When AID assistance to Egypt resumed in 1974/75, the telecommunication system was completely unreliable. It suffered from insufficient planning and management, inadequate operations and maintenance, and outmoded equipment. In Cairo and Alexandria, only one in a hundred persons owned a telephone and less than 40 percent of attempted calls were successfully completed. The waiting list for a telephone was more than ten years. The inadequacy of the system was more than an inconvenience, it increased the costs and risks of effective administration of both business and government.

Since 1978, AID has provided over \$300 million to improve Egypt's telecommunication system. The National Telecommunication Organization (ARENTO) has received technical assistance in planning, management, finance, and accounting.

AID funded the installation of eleven electronic switching stations, all of which are now operational, as well as the new state-of-the-art fiber optics junction and microwave systems. More than 2,000 engineers and technicians have been trained in the use of computers and telecommunications equipment.

As a result of AID's assistance, over 7 million people in Cairo and Alexandria have a telephone that works. Reliability of the system has improved dramatically; completion of calls is at a par with the U.S. system; long distance direct dial is available, even for international calls; and improvements in the system have allowed for installation of modern business equipment in Egyptian firms such as telephone-computer information links and facsimile transmissions.

The Egyptian press and the public at large have praised the new system which has allowed for a 30 percent increase in the number of telephone lines. The physical improvements as well as the institutional development of the Telecommunications Organization have also made it easier for ARENTO to implement much needed increases in telephone subscription and installation rates over the past five years. ARENTO now collects sufficient revenues to cover its entire operation and maintenance costs.

L. LOCAL DEVELOPMENT PROGRAM (LD II):

The system of responsible, elected local government councils was established in Egypt in 1960. However, due to lack of experience and fiscal resources to get things done, it was not until the 1970s that local government units began to exercise the authority delegated to them. From 1978 to the present, AID has provided \$806.2 million in support of the GOE's shift toward locally initiated and managed development projects in both urban and provincial governorates.

So far, local councils have designed and implemented about 16,000 small infrastructure and service oriented projects. AID has funded more than 2,100 pieces of utility equipment, such as garbage and sewer trucks, graders and fire engines. Over 30 percent of the activities are construction of village potable water projects; 20 percent are village and urban community roads, and the remainder include activities such as sanitary drainage, canal lining and maintenance, expansion and renovations of health clinics and schools, village maintenance centers, street paving, lighting, markets and vocational training workshops. More than 25 million Egyptians use the structures and services financed by the project.

More than 100,000 elected officials and local government staff have been trained in decentralized project planning, management, and operations and maintenance (O&M). The GOE considers O&M of basic services an important element of the overall program, and has provided more than \$93 million for O&M costs of local development investments.

The program also supports activities of indigenous private and voluntary agencies (PVOs) in all 26 provinces. Typical PVO projects include renovation or equipping of local day care centers, health clinics, vocational training centers, youth hostels and homes for the elderly. To date, some 10,000 PVOs have received grants totalling \$19.5 million, allowing them to expand vitally needed services in low income areas.

Linkages between local governments and the private sector have been stimulated through contracts awarded by local authorities to construct basic infrastructure projects. Local councils have also mobilized considerable amounts of their own resources to contribute to the infrastructure improvements financed through the program. They have expanded water and drainage systems, paved dirt roads, and used revenues from local income-generating projects, such as village fish ponds, for further community investments.

There are still problems which must be addressed -- primarily related to sustainability. Local governments need the authority to collect and use revenues from their communities in order to maintain and expand these services. Local officials need both the clear responsibility and the training to operate and maintain local infrastructure such as water systems. These are issues the project will address in the coming years.

M. PUBLIC LAW 480:

TITLE I: AID has provided about \$3.1 billion in PL-480 agricultural commodities over the past 14 years, mainly through Title I. These commodities consist mainly of wheat and wheat flour, with wheat sales primarily supporting Egypt's balance of payments. Egypt's ability to import wheat commercially has been limited because of overextended credit lines, foreign exchange shortages, non-participation of the private sector, and the fact that wheat is resold at highly subsidized prices. In FY 1988, Egypt imported 6.4 million MT of wheat, 75 percent of its wheat consumption. Title I commodities provide 26 percent of total wheat imports.

The long run impact of Title I wheat may be negative. A 1983 evaluation of PL-480 impact in Egypt concluded that to the extent Title I reduces the cost of wheat imports, it helps the GOE to maintain policies that keep producer prices for wheat low and discourage domestic production. Wheat has been grown primarily as a livestock feed, and although both grain and straw are used, farmers prefer to grow traditional varieties rather than adopt new varieties which yield more grain but less straw. A support price system and price increases for wheat to producers has made this less of a problem recently.

More important currently is the effect of controls on consumer prices of wheat products which leads to wasteful use of bread as well as domestically produced wheat grain for animal feed. Since the mid-1970's, the GOE has heavily subsidized bread, flour and macaroni products. These subsidies have contributed to an extraordinarily high level of wheat consumption (over 180 kilos per person per year).

TITLE II: The Title II program has supported AID's health and nutrition goals since 1974, through maternal child health (MCH), school lunch and other child feeding programs targeted at the displaced Bedouin populations in the Sinai. Over the past 14 years, AID has imported 400,000 MT of Title II commodities such as wheat flour, bulgur, vegetable oil, and non-fat dried milk, valued at \$130 million. Since 1975, approximately 25 million recipients have benefitted from the Title II program.

In 1984, AID decided to phase out the Title II program by 1989. This decision was based on the generally high level of food availability in Egypt, the GOE's excellent food distribution system, and AID's conviction that nutrition education will have a greater impact on nutritional status than feeding programs. Nutrition education is being addressed through AID's health programs.

Summary Status of Objectives

<u>Sector</u>	<u>On Schedule</u>	<u>Behind Schedule</u>	<u>Unable To Judge</u>	<u>Achieved</u>	<u>TOTAL</u>
Macroeconomic		6			6
Water & W/W	11	2	2	1	16
Local Dev.	5	4		1	10
Agriculture	4	10	3		17
Private Sect.	4	5			9
Sci. and Tech.	4	4		1	9
Population	1	1		1	3
Health		7	1	1	9
Education	1	3	2	1	7
<u>Total:</u>	<u>30</u>	<u>42</u>	<u>8</u>	<u>6</u>	<u>86</u>

II. MACROECONOMIC SUPPORT

A. Strategic Goals and Intermediate Objectives

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

- a. Intermediate Objective: (B)

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

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

Status:

- A Standby Agreement with the IMF was signed in May 1987. Egypt drew down the first tranche of the Fund's credit permitted by the Standby but was ineligible for subsequent drawings.
- Total Paris Club debt rescheduling was about \$7 billion with additional rescheduling expected for debts owed to bilateral donors not affiliated with the Paris Club.
- Strengthening of the Standby Agreement called for during the Fall of 1987 was not achieved and macroeconomic targets were not met. Negotiations are continuing between the GOE and IMF for a possible new standby.
- The World Bank has deferred discussions on important sector loans pending GOE agreement to the next standby and a Structural Adjustment Loan (SAL).

- If there is no agreement on macro economic reform, the Bank will finance individual projects at an annual level of about \$100 to \$150 million per year. These include initiatives in tourism, land reclamation and agricultural inputs and grain storage. The bank is interested in a sub-sector loan for a fertilizer complex to replace the electrolysis process of the current Kima fertilizer plant.

b. Intermediate Objective: (B)

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

Status

- In 1985, there were more than four exchange rates, the most important of which were the LE 0.70, LE 0.83, LE 1.35 and an "own" rate. During April 1984 to June 1986, an increasing range of transactions was moved from the LE 0.83 to the LE 1.35 rate. The LE 0.83 = \$1.00 rate was eliminated in mid 1986.
- In May 1987, as agreed with the IMF, the GOE established a new free bank rate at LE 2.17 = \$ 1.00 -- slightly above the then prevailing "free" market rate. Private sector access to foreign exchange at the bank rate for import letters of credit is rationed; the discount of the LE in the "own" market has increased to about 10 percent. The IMF estimates the competitiveness of Egyptian currency has eroded by 20-25 percent since May 1987.
- During FY 88 the LE 1.35 = \$1 rate was eliminated and all transactions related to importing and remitting profits of joint venture firms (Law 43 firm) were shifted to the New Free Bank Market rate. Other dollar transactions, (e.g. payment of FX denominated debt and travel) occur at the "own" exchange rate.
- A plan and schedule for the unification of the Central Bank rate with the new bank rate has not been agreed to. GOE/IMF discussion on this issue is continuing on the basis of a GOE proposal made to the Fund in September 1988.

c. Intermediate Objective: (B)

Permit cost of and return to capital to rise closer to domestic market-determined levels over the next five years. (Note): This objective was modified in FY 1987 to lengthen the time horizon).

Status:

- Prior to the Standby Arrangement, minimum and maximum interest rates on loans were 11 to 13 percent for agriculture and industry, 13 to 15 percent for services and 16 percent with no maximum for commerce. In May 1987 these rates were increased by one percent on loans with one year maturities and by two percent for loans with maturities greater than two years. Low LE deposit rates, (about 8 percent for most time deposits) and a periodically overvalued LE exchange rate further encouraged Egyptian preferences for dollar accounts. The latter now exceed half the value of deposits in the banking system.
- Since May 1987, no real progress has been made on permitting bank interest rates to move toward positive real or market-determined levels.
- In August 1988, the government gave legal permission to joint venture firms to issue bonds at market rates of interest. The government still needs to complete the implementation procedures.
- In August 1988, the government legalized the formation of capital pooling companies as a move to control the informal Islamic finance companies.
- It appears unlikely that this objective will be met in the form of a dramatic increase in legal interest rate ceilings for bank deposits. However, competition for deposits by other intermediaries such as mutual funds and leasing companies may eventually lead to reform of deposit interest rates for banks.

d. Intermediate Objective: (B)

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

Status:

- The budget deficit was above 20% of GDP in 1984/85 and 1985/86.

- The FY 87/88 target deficit of LE 7.1 billion (13% of GDP) was not met. The actual deficit was approximately LE 9.8 billion -- calculated by the World Bank to be about 15.5% of GDP.
- Only a few revenue and expenditure measures were taken over the year. The deficit for FY 88/89 is projected to remain unchanged as a percent of GDP.

e. Intermediate Objective: (B)

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

Status:

- The average price for electricity is 3.0 piasters per KWH compared to an estimated economic price (long run marginal cost) of about 13 piasters.
- Electricity prices have not been raised since May 1987.
- Gasoline prices were increased by 25% for premium and 33% for regular in June 1988. Gasoline prices are approximately equal to pre-tax international prices.
- AID continues to closely coordinate its initiatives in the energy sector with the World Bank.

f. Intermediate Objective: (B)

Reduce electricity price differentials that now favors public sector over private enterprises over five years.

Status:

- Electricity prices vary tremendously by user. Certain public sector firms pay only about 1.6 piasters per KWH, while others pay close to the average rate for private sector firms, about 5 piasters. The Law 43 joint venture firms pay a 4 piasters per KWH premium.
- The 1987 tariff rate made a small adjustment towards equalizing tariff rates to similar classes of user. In particular, electricity prices for cement companies were unified.

III. WATER AND WASTEWATER

A. Strategic Goals and Intermediate Objectives

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

a. Intermediate Objective: (0)

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

Status:

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

b. Intermediate Objective: (0)

Build start-up and operation and maintenance elements into all new projects 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. All completed facilities will have on-the-job training programs in operations and maintenance by the end of 1989.

Status:

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

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

a. Intermediate objectives (Cairo):

(1) Intermediate Objective: Complete the Cairo west bank sewerage collection system by 1994. Expand the service area to 1.5 million inhabitants and provide enough excess capacity to serve the 3.5 million inhabitants who will occupy the area by the year 2000. (0)

Status:

- Physical construction is about one third completed. The project is on track for completion by the target date.

(2) 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. (0)

Status:

- The Zenein Wastewater Treatment plant rehabilitation should be finished in 1990 as scheduled. The major construction contract for the Abu Rawash Treatment plant will be awarded during 1989. It appears the objective is on schedule.

(3) Intermediate Objective: Improve the effluent drains and provide sludge handling facilities for the two West Bank wastewater treatment plants by 1993. (0)

Status:

- By the end of FY 89, consultants will undertake both a sludge and effluent drain study to determine the most cost-effective and environmentally sound solution for the waste problem. The objective is still sound and achievable.

(4) Intermediate Objective: Complete the rehabilitation and expansion of the Rod El Farag water distribution system by 1994, providing a dependable potable water supply to more than three million inhabitants. (0)

Status:

- The Cairo Water Supply II Project was signed at the end of FY 88. Construction of the system is scheduled to be finished by the end of calendar year 1992.

b. Intermediate Objectives (In the Provincial cities of Beni Suef, Minya and Fayoum):

(1) Intermediate Objective: Build new water treatment plants, storage reservoirs and intake structures in the three provincial cities by 1991. (0)

Status:

- A construction management contract for the above facilities was awarded in June of 1988 and a construction contract in July, 1988.
- The contractor has mobilized and construction has begun. Progress toward achievement of this objective appears to be on schedule.

(2) Intermediate Objective: Expand wastewater collection nets and rehabilitate existing wastewater treatment plants in the three provincial cities by 1991, thus improving and upgrading service to 600,000 people. (0)

Status:

- The status of subprojects in the Basic Service Needs Plan that addresses this objective is as follows:
 - o All but two of the subprojects in Fayoum are completed.
 - o Half of the subprojects in Beni Suef are finished.
 - o About a third of subprojects in Minya have been completed.
- Progress towards reaching the objective by the revised date of 1991 is on schedule.

c. Intermediate Objectives (Alexandria):

(1) Intermediate Objective: Complete expansion of Alexandria's wastewater collection system by 1992. (O)

Status:

- 79% of the sewers are completed and rehabilitation and construction of pump stations is nearly finished. The project appears to be on track.

(2) Intermediate Objective: Rehabilitate two Alexandria wastewater treatment plants by 1990 and construct sludge disposal facilities by 1992. (B)

Status:

- Treatment plant construction started in FY 1987. Changes in underground conditions will prolong construction - completion date has been revised to 1992.
- Sludge disposal facilities construction has been reprogrammed to start in FY 1990 due to delays in GOE approval of an acceptable sludge disposal site.
- Political decisions concerning sludge disposal site could further delay 1992 target date.

d. Intermediate Objectives (Canal Cities of Suez, Ismailia, Port Said):

(1) 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. (A)

Status:

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

(2) Intermediate Objectives: Increase the raw water supply to the Port Said water treatment plant by FY 1994, expanding service to 200,000 additional people. (O)

Status:

- USAID has agreed to finance U.S. commodities for one 46 km long 1200mm pipeline and pumps for this pipeline in addition to two 1000 mm pipelines locally supplied and financed.

(3) Intermediate Objectives: Construct three wastewater treatment plants, one in each of the Canal Cities. (U)

Status:

- The contract for construction management was awarded in July of 1988. The contractor has begun preliminary engineering work.

(4) Intermediate Objective: Complete expansion of the sewerage collection systems in the three Canal Cities by GOE-financed contractors by 1989 expanding service to 500,000 additional people. (O)

Status:

- Construction in Suez is completed and remaining construction is 85 percent finished with completion expected by the end of the year.

IV. LOCAL DEVELOPMENT

A. Strategic Goals and Intermediate Objectives

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

- a. Intermediate Objective: (O)

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.

Status:

- The design of LD II established a central GOE body to coordinate local development activities among the various participating ministries and to serve as a forum for discussion and the developing recommendations on decentralization issues and policies. The resulting Local Development II Technical Secretariat ("Amana"), established in 1986, is now a recognized GOE forum for local development issues and programs. Meeting approximately once each month, the Amana routinely addresses implementation issues and refers actions to appropriate ministries or agencies.
- The Amana has been less successful as an instrument of policy reform, particularly as regards local resource mobilization and privatization. It is too early to tell whether the Amana can eventually perform this critical role. A 1989 Mid-Term Assessment will review LD II program design, design assumptions, and assess progress in this area.

- b. Intermediate Objective: (A/M)

Introduce a system of central-local government revenue sharing. By the end of FY 1989 the Ministries of Finance and Planning routinely providing to local governments, on a matching basis, discretionary capital and recurrent cost financing equivalent to 30 percent of USAID's annual capital (Block Grant) contribution under Local Development II.

Status:

- Under the Basic Village Services (BVS), Neighborhood Urban Services (NUS) and Development Support Fund (DSF) activities, the GOE contributed, from central sources, 10 percent of the USAID grant to cover the costs of operation and maintenance for facilities financed through the program. No contributions from local government units were required.
- The system of central-local government revenue sharing (Matching Block Grants) established under LD II is now being implemented by the GOE as an effective means of decentralizing government operational authority and fiscal responsibility to the local level. LD II is now entering its third annual planning cycle using the USAID/GOE matching block grant system. Under this system, the central government (Ministry of Planning) and local governments each contribute 5 percent of USAID's contribution.
- The GOE's financial commitment to recurrent costs for O&M of prior investment under the local development sector program is 23 percent of the total USAID LD II block grant funding.
- This intermediate objective has been achieved. The objective will be reviewed in terms of effective use of GOE funds under the LD II Mid-term assessment.

c. Intermediate Objective:

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

Status:

- Prior to FY 1987 the local development sector program disbursed an average of \$40.6 million annually to finance about 730 local projects per year. During FY 1987 the program disbursed \$65 million to fund 2,110 local projects. During FY 1988 the Program disbursed \$84.6 million to finance 4,800 local projects. Disbursements of USAID Block Grant funds for FY 1989 are projected at \$95 million to finance about 4,600 additional local projects. The trend is toward better planned multi-village projects.
- The target for the number of local projects to be funded annually should be revised upward to read "approximately 4,000."

d. Intermediate Objective: (B)

By the end of FY 1992, 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 USAID financing for local water and sanitation projects from grants to GOE loans to governorates or village councils.

Status:

- While under previous local development projects local water and sanitation projects were funded on a grant basis, the design of LD II called for a gradual transition to loan funding as a cost recovery mechanism. The major impediment to this transition in funding approach has been the continuing GOE requirement that user fees collected at the local level be remitted to the central government.
- The Local Resource Mobilization (LRM) Subcommittee to the Amana was formed to examine issues such as these, and to provide information and recommendations for GOE decision makers, ideally leading toward greater liberalization of requirements governing retention of revenues at the local level. To date, however, the Subcommittee and the Amana have not been successful in influencing promulgation by the GOE of the needed reforms. A series of studies, which is looking at various aspects of LRM, is near completion and should stimulate useful discussion of these issues during 1989.
- Given the continuing proscription against local retention of revenues, the proposal to convert financing of water and sanitation projects to a loan basis has been shelved. Both this issue and that concerning the role of the LRM Subcommittee will be examined during a Mid-Term Assessment scheduled for 1989.

e. Intermediate Objective: (B)

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

Status:

- Prior to LD II, there was no systematic approach to maintenance planning covering investments made under the sectoral program, nor was there any significant attempt to involve the private sector in operation and maintenance (O&M) activities. Progress has been made under LD II in establishing preliminary maintenance management and financial systems in the 26 provincial and six urban governorates. This takes the form of annual maintenance plans financed by the MOP, which are prepared in conjunction with the annual governorate investment plans.
- By the end of FY 1988 the Ministry of Finance had committed a total of \$62 million to cover O&M costs of program-financed infrastructure in the governorates.
- Following an initial series of delays, the U.S. contractor for the four pilot maintenance systems was selected and is now operational. Construction of the centers is scheduled to begin in mid 1989.
- Activities to achieve this intermediate objective are conceptually on track, although the numeric targets have been revised given (a) the institutional complexity of implementing the new concept in the initial governorates (b) the need to develop successful pilots before expanding the program. Various private sector/public sector management arrangements will be tested in the context of the first four pilot maintenance centers.

f. Intermediate Objective: (0)

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.

Status:

- Support to indigenous PVOs under the local development sector program began with the now completed Neighborhood Urban Services project (NUS), during which over \$11.4 million in USAID grants was provided to finance 1,300 local PVO projects in Greater Cairo and Alexandria. Under LD II the program has nationwide coverage, with 4,000 projects funded to date at a total cost to USAID of about \$8 million. It is anticipated that more than 2,500 additional new projects will be undertaken during FY 1989 at a total cost to USAID of \$8.6 million.

g. Intermediate Objective: (B)

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

Status:

- Before LD II, individual governorates had no access to significant sources of funding for locally developed and managed training programs. The system of training block grants developed under LD II (which is patterned after the system used for the investment block grants) was designed to address this need, as well as to provide for institutional strengthening of governorate training departments. A handbook outlining the program has been prepared, and orientations have been carried out in eight governorates on planning and implementation. Disbursement of about \$1.1 million total in Training Block Grant funds to the 26 governorates is planned for FY 1989.
- This intermediate objective is approximately one year behind schedule as a result of jurisdictional and procedural conflicts arising between the Ministry of Local Administration and the LD II Technical Amana concerning their respective roles and responsibilities for training programs involving local government personnel. These issues require final resolution prior to disbursement by USAID of Training Block Grant funds.

h. Intermediate Objective: (O)

Introduce new project approaches and new technologies to improve the quality and reduce the costs of basic services. In addition, by the end of FY 1989 introduce at least two urban upgrading activities, managed and financed at the governorate level.

Status:

- The first amendment to LD II added the "Special Project" activity to encourage local government entities to undertake innovative, more cost effective basic services and test new technologies and institutional approaches to resolve local development issues. A total of \$20.6 million has been set aside for "Special Projects". Examples include the \$4.9 million pilot maintenance center program described above and the \$3.5 million wastewater pilot activity described below.
- Under the urban program, Land Management Units (LMUs) have been established in two of the six urban governorates to undertake urban upgrading programs and to encourage private sector land development.

i. Intermediate Objective: (O)

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

Status:

- A pilot wastewater activity drawing on special project funding is presently underway at 20 sites in two provincial governorates to test the applicability and appropriateness of several new wastewater technologies. Four other projects are under implementation as part of the regular investment program. The performance of the technologies will be evaluated in early 1990. The 10th Anniversary of the Egypt-U.S. LD program included the opening of the first pilot village system by the U.S. Ambassador and the Prime Minister in January 1989. This activity is on schedule.

j. Intermediate Objective: (B)

Initiate a pilot commercial credit program for small private enterprises in two governorates in 1988 through the National Bank for Development (NBD).

Status:

- The design of LD II included an activity to test extending commercial credit to small and micro-enterprises in the rural areas based on identified need. The Rural Small Scale Enterprise (RSSE) Credit activity is making \$750,000 available through a private Egyptian bank (NBD) to finance such enterprises in two pilot governorates. Originally scheduled to begin lending operations in FY 1988, the program will now begin during FY 1989.
- This intermediate objective is approximately one year behind schedule.

V. AGRICULTURAL DEVELOPMENT

A. Strategic Goals and Intermediate Objectives

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

a. Intermediate Objective: (O)

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

Status:

- Removal of farm price controls for all crops except cotton, sugarcane and quota rice was announced in mid-1986. A Ministry of Agriculture and Land Reclamation (MALR) survey (June 1988) verified that price and marketing controls had been eliminated at the farm level, except for marketing controls on non quota rice.

b. Intermediate Objective: (B)

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

Status:

Procurement price increases for cotton have accelerated since 1986, but no progress has yet been made toward world price parity:

<u>Cotton Pricing Indicators</u> :	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
		(percent)		
Increase in average procurement Price, in LE, from previous year (MALR data)	+1	+18	+28	+ 41 ³⁴
Procurement price/World farmgate price, Giza 75, g/fg (USAID staff estimates)	35	24	25	25 ²⁷

Animal feed prices have been allowed to rise substantially toward or beyond the 50 percent goal, but no progress has been made on cottonseed oil.

<u>Cotton By Product/Animal Feed</u> <u>Indicators: Local Administered</u> <u>Price As Percent of World Price</u>	<u>June</u> <u>1986</u>	<u>June</u> <u>1987</u>	<u>June</u> <u>1988</u>	<u>June</u> <u>1989</u>
Imported corn (PBDAC)	24	46	100	100
Cottonseed cake (PBDAC)	2	12	11	31
Cottonseed oil (Min of Supply)	n.a	16	14	12

c. Intermediate Objective: (O)

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

Status:

- Before 1986, GOE mandatory procurement quotas were imposed on a large number of crops that included wheat, beans, lentils, onions, groundnuts and sesame. Survey for APC Tranche 2 verified that government procurement quotas had been removed.
- Removal of all procurement quotas on all crops except cotton, sugarcane and a portion of rice production was announced in January 1987. Cotton and sugarcane are still 100 percent procured by the GOE. About 50 percent of the rice crop is government procured.

d. Intermediate Objective: (O)

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

Status:

- Before 1986, it is believed that mandated area controls were applied to many crops, including wheat, beans, lentils, onions, groundnuts and sesame.
- In 1987, the GOE issued a Ministerial decree removing area controls on all controlled crops except cotton, sugarcane and rice. A survey for APC Tranche 2 verified that area controls had been removed for all but excepted crops.

e. Intermediate Objective: (B)

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

6

Status:

- Before July 1986, a government "import rationalization committee" controlled the volume of import licenses for private sector imports of red meat, and local meat prices were about twice world price equivalents. Such high meat prices lead to high prices for livestock fodder and, thus, skew the farm cropping pattern away from high value crops (cotton, rice) toward crops that have lower economic value to the country (long season berseem, maize).
- Import rationalization committees were abolished in July 1986. However, import volumes appear not to have increased and local prices of red meat have drifted higher at a rate similar to economy-wide inflation.
- Restricted availability of bank letters of credit under the "free foreign exchange market" appear to be hampering private imports of meat. Thus bad macroeconomic policy (an overvalued exchange rate and a rationing system for import L/Cs) seems to have prevented any progress toward this sectoral economic reform goal.

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

a. Intermediate Objective: (U)

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

Status:

- Under the Small Farmer Production Project, 9 village branches of the Principal Bank for Development and Agricultural Credit (PBDAC) provided increased credit and improved banking services in 1980.
- PBDAC continues to provide increased credit and improved banking services per project objectives. As of February 1989 a total of 311 village banks are now benefitting from increased training directed at improving banking services. Moreover, as PBDAC reduces the number of subsidized loans, the number of unsubsidized loans to small farmers have been increasing. For example, there was a 19 percent increase in unsubsidized loans during the winter season (1987 compared with 1988) representing an increase of LE 105,672,723 (approx. \$45.5 million).

b. Intermediate Objective: (U)

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 as a result of the Small Farmer Production Project and the Agricultural Production and Credit Project.

Status:

Over 90,000 farmers have received loans from PBDAC through the SFPP. Data on project-related loans for FY 1988 have not yet been compiled and presented.

c. Intermediate Objective: (B)

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

Status:

- There are 31 agricultural research stations throughout Egypt, 13 institutes and 3 central laboratories.
- Progress was not possible last year due to revisions to the project. Revision of project also resulted in a one year delay in achievement of the objective. The target date for achieving the intermediate objective will be revised accordingly to 1994 in the coming year.

d. Intermediate Objective: (B)

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

Status:

- No progress was made on this objective over the past year due to the focus on revision of project.

e. Intermediate Objective: (U/M)

Annual average increases in yield of approximately 3 percent in non-controlled crops.

Status:

- Crop yield increases for 1987 are reported on the national level. The intermediate objective has been modified accordingly to reflect national yield changes. 1987 crop yield increases for the decontrolled crops over 1986 are as follows: wheat (24%), summer corn (7%), lentils (11%), winter tomatoes (6%), summer onions (14%), summer potatoes (19%), groundnuts (-2%), sesame (5%), garlic (20%), groundbeans (8%), and oranges (11%).

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

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

a. Intermediate Objective: (B)

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

Status:

- In 1986, 1 percent of PBDAC loans went to agriculturally related private businesses.
- 1988 PBDAC Summer Season loans for farm related, as well as medium and long term loans constituted 2 percent of their portfolio. Crop loans represented the remaining 98 percent.

b. Intermediate Objective: (B)

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

Status:

- Currently, the GOE has a monopoly in basic N and P fertilizers, livestock feed mixes, and most field crop seed.
- There appears to be a trend toward acceptance of privatization measures (including PBDAC acting as a retail agent for private as well as public seed producers), but no systems have yet been privatized.

- Since 1986, the Minister of Agriculture has stated several times an intention to have PBDAC privatize the Bank's input supply functions and planning studies are underway. A major USAID funded study is in process (December 1988 - March 1989) and a report with recommended options is expected in April 1989.

c. Intermediate Objective: (B)

Eliminate government farm input subsidies by FY 1991.

Status:

- In March 1987, the GOE agreed not to increase the nominal level of subsidies above the FY 1986 level.
- The subsidy for imported maize has been eliminated effective with FY 1988/89, down from an estimated LE 279 million in FY 1985/86. (See objective A.1.b, preceding.)
- Fertilizer prices in 1986 were less than one third of their world economic farmgate values. Fertilizer prices were raised twice during 1988 (the first general increase since 1983) to increase the average price by 82 percent.
- The nominal level of pesticide and fertilizer subsidies in the GOE budget for FY 1987/88 and FY 1988/89 has been frozen at the 1986/87 level (LE 253 million per year); while fertilizer subsidies received indirectly through state fertilizer production companies have been eliminated effective in FY 1988/89. However, retail fertilizer prices for 1989 still average 50 percent or less of their world economic farmgate value; and cotton pesticide charges in 1989 are expected to be only about 12 percent of their estimated economic value.

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

a. Intermediate Objective: (B)

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

Status:

- There are 19 irrigation directorates in Egypt.
- No formal preventive maintenance (PM) system is currently operational in any area of Egypt except in the Gharbia Directorate. A preliminary survey of maintenance requirements for Gharbia Directorate began in 1983 which led to the establishment of a pilot system. This pilot PM system was implemented and evaluated in 1988 with the recommendation that it be replicated in additional governorates. The system is being expanded but is not on schedule due to delays in contracting for technical assistance. It will be expanded to five more directorates by 1991.

b. Intermediate Objective: (B)

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

Status:

- There are six million feddans under irrigation.
- Currently, feasibility work is on-going for 200,000 feddans. Feasibility and design analysis for the 11 canal service areas began in 1987. To date, general feasibility studies have been carried out in 8 areas with UNDP assistance. Detailed feasibility studies were essentially completed in three sub-areas of the Serry Canal in 1988 in El-Minya Directorate and approximately 100 farmer groups were organized to participate in final design, implementation and operation of renovated systems. The final planning design and construction in the eleven areas, including the eight areas receiving UNDP assistance will be completed with technical assistance from Morrison Knudson Engineering (MKE). The contract with MKE was negotiated in 1988 with work beginning in early 1989. Contracting with MKE was delayed approximately one and a half years, causing comparable delays in project implementation.

c. Intermediate Objective: (B)

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

Status:

Currently there is no systematized fee structure in place. By 1991, farmers will have the option to have their small communal canals and on-farm improvements carried out with GOE TA and at farmers cost. This date is delayed two years due to implementation delays. During the LOP, a cost recovery system will be developed to recover the appropriate share of the total O&M cost of the system by the farmers.

d. Intermediate Objective: (0)

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

Status:

The training program started in FY 1982 and 3600 people have been trained to date, including approximately 900 in FY 1988.

VI. PRIVATE SECTOR

A. Sector Goals and Intermediate Objectives

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

- a. **Intermediate Objective:** (0)

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

- 1) **Indicators:**

1988 Action Plan Summary - "...in 1988-89...six seminars to discuss key issues with GOE...ten studies with recommendations on key issues...agenda for implementation of reforms...four actions completed each year through 1992..."

Revised Indicators - Egyptian Business Development Center organized and staffed by June 1989 as primary service institution to identify and analyze policy and regulatory issues and to present them effectively to the GOE. Six (6) policy studies and four (4) workshops conducted annually.

Status:

- Intermediate objective remains valid. A formal institutional mechanism was not established in 1988 since no agreement could be reached with GOE counterparts on a basic plan for seminars, forum, participants, and commitment to take action on proposals and recommendations. The Egyptian Businessmen's Association and the Federation of Industries did join in presenting to the GOE an extensive document on production, productivity issues and recommendations on various reforms. Follow-on informal meetings by business leaders have had some limited success in the area of export-import regulations, investment administration and procedures, banking and finance, among others. They have since included the Egyptian Chamber of Commerce and the Federation of Labor in an effort to prepare recommendations on job creation in Egypt.

- USAID has been successful in organizing the four major private sector associations to sponsor and lobby the GOE for approval of USAID cost-share financing for the Egyptian Business Development Center. The EBDC is now in the process of being chartered, and it will take on the important analysis and advocacy role for encouragement of reforms.

b. Intermediate Objective: (0)

Expand information and education program on benefits of privatization.

1) Indicators:

1988 Action Plan Summary - "...National Privatization Conference opened by key government officials in FY 88 ...seminars and conferences held in governorates... 15 senior GOE officials sent to conferences and training yearly...structured long-term information and education action plan..."

Status:

- Privatization activities continue as a centerpiece of the private sector development effort. Indicators remain valid. In July 1988, the Minister of Economy chaired the first open discussion on privatization in Egypt with active participation of other key Ministers, the media and members of Parliament. USAID is working with GOE officials in organizing an international privatization conference for late 1989 as a follow-on to the Turkey conference. In 1988, 36 GOE officials were sent to privatization-related conferences and workshops in Europe and the U.S. Mission sponsored training will continue.
 - The Minister of Agriculture has agreed to support and promote a USAID assisted pilot governorate privatization project. The three year project, to be initiated in FY 89, will provide technical assistance for field demonstration of processes and benefits to selected governorates. A Phase II broader privatization program, to include an information and education action plan, will be developed as a result of the Phase I experience.
2. Strategic Goal: Strengthen the private sector's capability to develop export and investment opportunities (support services).

a. Intermediate Objective: (B)

Expand private sector-managed investment promotion and export promotion program.

1) Indicators:

1988 Action Plan Summary - "Business Development Center staffed and organized by June 1989...in 1988-91 respectfully, 50, 100 and 150 investment and export promotion prospectuses marketed ..."

Revised (add) - new investment and export programs assisted by EBDC will generate 8,000 jobs and \$130 million in foreign exchange earnings in five years.

Status:

- The interest in export and investment-led economic growth continues as a primary strategy. The EBDC is in the final stages of formation, and staff is being recruited. Four private associations in Egypt will contribute funds and sponsor the Center. New investment and export targets will be included in the EBDC Business Plan now being finalized as the basis for a USAID grant. In 1988, the USAID-assisted USIPO (to be integrated as part of the EBDC) helped prepare and market 22 prospectuses in the U.S., and assisted in the promotion of 35 joint venture proposals.

b. Intermediate Objective: (B/M)

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

Revised - Establish two private sector-managed foundations and Small Scale Guarantee Fund to provide technical assistance and credit to small and micro-scale feeder industries.

1) Indicators:

1988 Action Plan Summary - "...establish scopes of work and recruit experts to assist companies with export potential ...complete 100 technical assistance projects in 1988 and increasing to 150 annually thereafter..."

Revised - In 1989 establish and staff Foundation offices in Cairo and Alexandria. Beginning in 1990, one satellite branch office established annually for a total of four in each city. 100 TA projects completed in FY 89, 150 per year in 1990-1993. Small and micro-scale loan levels reaching \$600,000 in year 1 and \$3.6 million in year 2 and \$5.6 in year 3 of lending. Loan guarantees reaching \$5.0 million in year 1 and increasing to \$12 million in year 2. (By year 10 loan guarantees should be generating \$300 million in guaranteed loans.)

Status:

The sector's potential for employment generation and productivity is now accepted by the GOE, and the expansion objectives of USAID are being supported. The GOE has agreed to major USAID financing of private sector foundations dedicated to the sector's growth. Two foundations have received charters and are being staffed. U.S. and Egyptian long-term technical advisors are being recruited. Twelve banks have agreed to organize and help capitalize a Small Scale Credit Guarantee Corporation and manage the USAID Guarantee Fund.

c. Intermediate Objective: (0)

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

1) Indicators:

1988 Action Plan Summary - "...complete bank appraisals and sale of 10, 15 and 30 governorate-owned companies in FY89, FY90, FY91 respectfully...assist in the appraisal and restructure and two state-owned enterprises annually through ESOPs of debt-equity conversions..."

Revised - In FY90 contract with local institutions and increase local capacities for appraisals and marketing of 7 governorate projects, 14 in FY91 and 30 annually thereafter. In FY89-93 assist in the appraisal and restructuring of 2 state-owned enterprises per year through ESOPs.

Status:

- (See privatization discussion above under Strategic Goal 1.) In early 1988 the local government council (MANA) funded the appraisals of 30 companies by an Egyptian investment bank. Under the FY89 Partnership in Development project, focused on the governorates, local expertise to conduct appraisals and market sale of companies will be enhanced.
- USAID has recently completed design and legal documentation with the GOE, National Investment Bank and a tire company to structure the first ESOP in Egypt. As a result of this experience, generic procedures will be developed for other ESOP's being proposed. The Minister of Industry has formally identified five other government-owned firms as potential candidates for ESOP programs.

3. **Strategic Goal:** Expand access of institutional finance for all sizes and types of private industry to support new investment. (mobilize resources.)

a. **Intermediate Objective:** (0)

Expand terms and conditions of Private Sector CIP to provide foreign exchange for all sizes of enterprises.

1) **Indicators:**

1988 Action Plan Summary - "...CIP circular revised giving new terms and conditions issued by March 1988...expanded CIP information program launched by April 1988...seminars organized for cooperatives serving small and micro enterprise...L/C applications reaching \$5 million by June 1988 and increasing to \$8.0 million in 1989 and thereafter..."

Revised - CIP circular outlining further market-based improvements in terms and conditions to be issued by March 1989; second national publicity campaign on CIP developed and launched by March 1989 to include seminars organized for Chambers of Commerce across the country and participation in USFCS "Come Back to America Days". L/C applications approved and reaching a level of \$9.0 million per month by May 1989.

Status:

- The Private Sector CIP will continue as the primary credit vehicle for support of private sector expansion. The program activity substantially increased during 1988 following the issuance of new operational guidelines, an extensive promotional campaign, and the addition of new participating banks in Cairo and Alexandria. By March 1989, approved L/C applications reached \$7.6 million per month as compared to \$1.0 million in March 1988. Current negotiations with the GOE are expected to further improve the terms and conditions (e.g., more liberal grace periods, increased transaction limits and higher lending limits for trader operations). The modifications will address the needs of all size and types of firms and increase demand to a level which will permit more rapid drawdown of resources. An audit conducted in May 1988 concluded that more small-sized enterprises were participating than ever before, that lending periods equal to or greater than one year increased from 52 percent to 65 percent by value, and the percentage of clients outside the greater Cairo area increased from 37 percent to 53 percent.

b. Intermediate Objective: (B)

Develop various financial mechanisms to expand private sector investment and ownership.

1) Indicators:

1988 Action Plan Summary - "...one venture capital company in FY89...two debt-equity conversion transactions completed in FY90 through FY92...Privatization trust established in FY89 to assist in governorate privatization...two ESOPs by FY89, four in FY90 through FY92..."

Revised - In FY90 complete design of equity/venture capital financing facility (under Private Enterprise Credit Project) to assist in capitalization or expansion of one equity/venture capital firm annually through FY92 and two annually thereafter. Assist in establishing two ESOPs annually beginning in FY 90. Expand terms of Private Sector CIP to provide financing for all sizes and types of firms.

Status:

- PRE Bureau Financial Markets project technical assistance is being accessed to design the equity/venture facility. The concept of a Privatization Trust to finance governorate privatization has been revised to carefully introduce privatization through a phased demonstration program. Phase II of the privatization program may include major financing resources based on the demonstration experience. Local currency financing for ESOPs (LE 80 Million) is being allocated from special account resources.
- As noted above, USAID is now negotiating with the GOE to further modify the Private Sector CIP to include expanded project financing mechanisms and terms (e.g., \$15.0 million transaction limits, eight-year payback terms, 18-month grace periods on initial interest payments and 36-month grace periods on principal) which will encourage medium to large scale investment in new productive projects.
- (See discussion above on small and micro-scale credit and guarantee facilities.)

c. Intermediate Objective: (B)

Expand governorate small-scale credit program.

1) Indicators:

1988 Action Plan Summary - implement pilot program in two governorates by mid-88...develop plan for expansion through 16 regional banks by end of FY 89.

Revised - Implement pilot program in two governorates by mid-89; evaluate in early FY 90 and develop plan for expansion as appropriate by end of FY 90 with expansion to all 16 regional banks by 1992.

Status:

- The pilot program has experienced delays in developing organization and technical assistance mechanisms. The first governorate programs are to begin in 1989.
- The Mission has actively pursued expansion of the Private Sector CIP into governorates which have not previously used the program.

d. Intermediate Objective: (B)

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

a. Indicators

1988 Action Plan Summary - "...initiate credit program in Cairo and Alexandria through new private foundations by early FY 89...develop credit guarantee facilities with six banks by early FY89...credit and guarantee programs providing service to 200 clients in 1989, 400 in 1990 and 1000 in 1992..."

Revised - (as per discussion above) in 1989 establish and staff Foundation offices in Cairo and Alexandria. Beginning in 1990, one satellite branch office established annually for a total of four in each city. 100 TA projects completed in FY 89, 150 per year in 1990-1993. Small and micro-scale loan levels reaching \$600,000 in year 1 (1989-90); \$3.6 million in year 2; and \$5.6 million in year 3 of lending. Loan guarantees reaching \$5.0 million in year 1 and increasing to \$12 million in year 2 of lending. (By year 10 loan guarantees should be generating \$300 million in guaranteed loans.)

Status:

- As per discussion above, the sector's potential for employment generation and productivity is now accepted by the GOE, and expansion objectives of USAID are being supported. The GOE has agreed to major USAID financing of private sector foundations dedicated to the sector's growth. Two foundations have received charters and are being staffed. U.S. and Egyptian long term technical advisors are being recruited. Ten banks have agreed to organize and help capitalize a Small Scale Credit Guarantee Corporation and manage the USAID Guarantee Fund.

- The Private Sector CIP now complements efforts to develop small scale enterprise. The CIP can finance transactions valued at as little as \$10,000 and offers other terms which can benefit small scale enterprise.

VII. SCIENCE AND TECHNOLOGY

A. Strategic Goals and Intermediate Objectives:

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

- a. Intermediate Objective: (B/M)

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

Status:

- This intermediate objective will not be achieved because GOE requested changing the contribution of participating companies from partial grant to full grant. The change is required because investment funds for companies are far tighter now than when the project was designed. Implementation of this change delayed start-up and will reduce total number activities implemented. Last sentence of objective should be changed to read, "Begin the first 3 energy efficiency activities in early FY 1990, and another 6 each for FYs 1991 through 1995.
- Pro Ag signed in FY 1988. Interim contractor started work in February 1989. Specific technology applications have been identified. Pro Ag amendment adding \$10 million and covering full grant program to be signed in mid FY 1989.

- b. Intermediate Objective: (O)

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

Status:

- Information generated by MPGAP project seismic and aeromagnetic activities purchased and currently being used by at least five U.S. oil companies.
- Improved analytical capability in mineral sector has led to successful negotiations with three private sector firms for potassium, sulphur and gold.
- Resource Information System has been established.

c. Intermediate Objective: (O)

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

Status:

- Contract for enhanced oil recovery is under implementation and gas injection will start in FY 1990.

d. Intermediate Objective: (O)

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

Status:

- Studies completed in FY 1988: electricity co-generation, in-depth energy audits of nine industrial facilities, and industrial energy conservation. Studies completed in first half of FY 1989: macroeconomic energy model, national energy balance, energy pricing, and energy conservation in the transportation sector.

e. Intermediate Objective: (B)

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

Status:

- Construction for wind application completed and demonstration initiated in FY 1988. Construction started at photovoltaic site in FY 1988; demonstration to start in FY 1989. Design for two industrial process heat applications completed in first half of FY 1989.

f. Intermediate Objective: (B)

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

Status:

- Energy Manpower Development Project Agreement signed in FY 1988. Interim Technical Assistance contract signed in first half of FY 1989.

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

a. Intermediate Objective: (B/M)

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

Status:

- Intermediate objective will not be achieved; delay in signing Management - Technical Assistance contract has delayed project start-up. Objective should be changed to read, "Initiate S&T research activities in twenty selected problem areas in FY 1989. Complete research on five problem areas by FY 1991 and fifteen by FY 1993.
- S&T Cooperation Project Secretariat is established. Management - Technical Assistance contract signed in February 1989. Research projects in five problem areas were identified and advertised for competition among Egyptian research centers.

b. Intermediate Objective: (O)

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

Status:

- Suez Canal University, Alexandria University, and Ministry of Housing and Reconstruction added to the S&T Information System. Another three regional universities: Mansoura, Assyut, and Tanta will join the network in FY 1990.

c. Intermediate Objective: (A)

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

Status:

- Intermediate objective essentially achieved.
- Schistosomiasis Research Project Steering Committee established and project staff being recruited in first half of 1989. Contract signed and center identified for biological materials center. Interim Technical Assistance contract signed and 23 research topics selected in first half of FY 1989.

VIII. POPULATION

A. Strategic Goals and Intermediate Objectives

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

- a. Intermediate Objective: (O)

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

Status:

- Contraceptive prevalence rates were 24 percent in 1980 and 30 percent in 1984. Egypt's population growth rate increased from 2.75 percent in 1980 to 2.95 percent in 1986. Preliminary results from the 1988 contraceptive prevalence survey show an increase in prevalence to 38 percent.
- The Family of the Future in 1988 exceeded the 10 percent target in IUD, oral contraceptive and condom sales.

- b. Intermediate Objective: (U)

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

Status:

- No reliable service statistics are yet available to indicate whether the target increase was achieved. However, the new project will implement a management information system which will provide service statistics by which we can measure progress. Fragmentary indications from selected governorates indicate significant recent increases in MOH family planning acceptors, especially among IUD users.

c. Intermediate Objective: (U)

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

Status:

As the EFPA Clinical Services Improvement project commenced in late 1988, complete service statistics are not yet available. However, the project MIS system will provide such data.

d. Intermediate Objective: (B)

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

Status:

A new Institutional Development Project was initiated in late 1987. Management problems and key staff vacancies have caused the project to fall behind schedule.

e. Intermediate Objective: (A)

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

Status:

- A national survey to determine levels of knowledge of modern family methods was carried out in 1988. An impact assessment of individual SIS campaigns and activities was also undertaken.
- These studies indicate a near universal knowledge of family planning methods and availability among the Egyptian population. The 1988 Demographic Health Survey for Egypt will also provide important information on knowledge and use of contraception. Preliminary information indicates that overall use has increased, though improper use still results in large numbers of unwanted pregnancies.

IX. HEALTH

A. Strategic Goals and Intermediate Objectives:

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

- a. Intermediate Objective: (U)

80 percent of Egyptian mothers to use Oral Rehydration Therapy correctly and as needed by FY 1990.

Status:

- Prior to the initiation of the program in 1983, knowledge and utilization of ORT was below 5 percent. By 1988, the utilization had grown to 75 percent of mothers ever having reported using ORS, 84 percent of users reporting using it correctly and 61 percent reporting using it consistently.
- There were no national studies which were conducted during 1988 to determine the overall utilization of ORT. A national sample is scheduled to be conducted during 1989 to confirm utilization rates. An 80 percent utilization rate will result in significant progress in the treatment of diarrheal dehydration and resultant reduction in infant mortality.

- b. Intermediate Objective: (A)

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.

Revised Objective: (M)

Maintain 60 percent of the children under five with full series of six mandatory vaccines and provide 60 percent of pregnant women with two tetanus immunizations through FY 1991.

Status:

- For 1988 and 1989, the Ministry of Health reported that more than 80 percent of children received the full series of 6 mandatory vaccines and 70 percent of women received tetanus immunizations. The objectives for the six mandatory childhood vaccines were achieved for the first time without a major campaign. The tetanus coverage objective was achieved through a major campaign.

- Through 1991, a new maintenance objective of 60 percent coverage rates for the 6 mandatory childhood diseases and maternal tetanus immunizations will represent a major program accomplishment and signify progress towards achieving the strategic goal.

c. Intermediate Objective: (B)

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

Revised Intermediate Objective: (M)

Significantly expand and improve programs for diagnosis and treatment of acute respiratory illnesses (ARI) in five governorates by FY 1990 and reduce ARI related mortality by 10 percent in FY 1992.

Status:

- The Ministry of Health established initial guidelines for the ARI national plan which includes program strategy, training, epidemiologic studies and service delivery. Baseline data will be established as part of the initial epidemiologic activities. ARI first annual implementation plan developed in July, 1989. Due to delays in host country contracting for Child Survival Project contractor, Atlanta University, achievement of operational programs in 5 governorates has to be delayed by one year.

d. Intermediate Objective: (B)

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

Revised Intermediate Objective: (M)

Increase awareness in 75 percent of mothers of the basic foods needed for weaning in FY 1992

Status:

- Planning is underway for surveys of weaning practices to obtain baseline data for media awareness programs.
- Delays in completing prime contract with Atlanta University have hindered progress on this component. New target dates for achieving objectives must be set due to contracting delays and the contractor mobilization capabilities.

e. Intermediate Objective: (B)

Increase to 80 percent in FY 1990 the awareness of the adult population of the relationship between closely spaced births and maternal and infant mortality.

Revised Intermediate Objective: (M)

By FY 1991 increase awareness to 80 percent within the adult population of the relationship between closely spaced births and maternal and infant mortality.

Status:

- Initial media messages tested and aired by the Population/Family Planning program. These messages will be utilized as a model for the design of child spacing media campaign.
- Delays in completing the prime contract for Atlanta University have hindered progress in this component. Atlanta contract has been signed and mobilization of personnel is now in progress. New target dates must be set to accommodate the contracting delays and the mobilization capabilities of the contractor.

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

a. Intermediate Objective: (B)

Increase the number of government health facilities charging fees for service by 5 percent by FY 1990.

Revised Intermediate Objective: (M)

Increase the number of government health facilities charging fees for service by 5 percent in FY 1991.

b. Intermediate Objective: (B)

Increase utilization of private health insurance, health maintenance organizations, preferred physician organizations, and other prepaid health services by 3 percent in FY 1989.

Revised Intermediate Objective: (M)

Increase utilization of private health insurance, health maintenance organizations, preferred physician organizations, and other prepaid health services by 3 percent in FY 1991.

c. Intermediate Objective: (B)

Expand private medical practices by 3 percent in secondary cities and rural areas by FY 1989.

Revised Intermediate Objective: (M)

Expand private medical practices by 3 percent in secondary cities and rural areas in FY 1991.

d. Intermediate Objective: (B)

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

Revised Intermediate Objective: (M)

Initiate trend for GOE health expenditures to shift from curative to preventive care in FY 1994.

Status:

- The Cost Recovery Programs for Health Project (263-0170) was signed in October 1988 and represented a major policy dialogue advance for the implementation of cost recovery in the public and private health sector. During the first year, key activities will focus upon MOH mobilization and the development of indicators to measure progress in implementing cost recovery programs. New target dates must be established to accommodate the significant increase in funding and activities related to Component One which resulted in subsequent delays for PID approval and the signing of the project agreement.

X. EDUCATION

A. Strategic Goals and Intermediate Objectives

1. Strategic Goals: Increase rural enrollment in basic education and increase Ministry of Education (MOE) capabilities in planning and service delivery.

a. Intermediate Objective: (O)

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

Status:

- Accurate baseline data with reference to school enrollment will be available on a sample basis by the end of 1989 and on a comprehensive basis by the end of 1991.
- In 1988, 233 schools were completed, exceeding the target of 200. The number of completions in 1990 is expected to approach 400, a doubling of the original target.

b. Intermediate Objective: (U)

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

Status

The National Curriculum Development Center was established in early 1989. An interim U.S. technical assistance team is on site, with long-term advisors to be mobilized by mid 1989.

c. Intermediate Objective: (B)

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

Status:

- The limited progress made to date under the Basic Research and Implementation in Developing Education Systems (BRIDGES) project will be broadened in early 1989. The BRIDGES activity has undertaken basic education systems modeling and data collection work that has been designed and tested at the MOE.

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

a. Intermediate Objective: (B)

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

Status:

- The number of new participants was 544 in 1980, 1,213 in 1984, 599 in 1986, 498 in 1987 and 573 in 1988. The reason for the sharp decline in the number of participant trainees was MIC's reluctance to finance the foreign exchange costs of overseas training and delays in implementing major project activities.
- Earlier problems have been resolved and the previous trend was reversed in 1988 with an increase of 20% in the number of new participants. The number of participants will accelerate in 1989 but the full objective will probably not be achieved.
- Improved systems and relationships in the Mission are expected to provide increasingly reliable and accurate information for the data base on participant training.
- The number of project participants Programmed under the non-project component of Development Training in FY 1988 increased from 51 in 1987 to over 200. Peace Fellows and NARP are anticipated to send significant numbers in 1989.

b. Intermediate Objective: (B/M)

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

Status:

The program has been delayed over two years by the absence of an agreed plan for institutional development to support management training in Egypt. In January 1989 a consultant team provided a detailed plan for management training in three existing institutions, including the Management Development Center for Industry in Agouza that has been renovated and equipped with project funds. All personnel trained in the U.S. to take on management development staff responsibilities have returned to Egypt. Proposed training in the new Agouza center, now scheduled to begin in September 1989, will focus on a 9-month program for a limited number of potential managerial leaders, rather than a larger number of short-term trainees. USAID has indicated agreement in principle to support the Center if there is commitment to organizational and program development consistent with recommendations in the recent consultant report. Ministry response to report recommendations is pending. Targets have been revised in light of delayed start-up and an estimate of revised output plans. For these reasons, we plan to readjust our targets to provide in-country training to 50 Egyptians in 1990, 200 in 1991 and 200 in 1992.

c. Intermediate Objective: (A)

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.

Status:

- Having trained 840 in 1987 and 936 in 1988, this objective has been exceeded. Given language requirements of participant pool, which is expanding, and need to increase management efficiencies of programming mechanisms, Mission has moved from annual contracting to a multi-year competitive contract to provide English language testing and training support. Total number of trainees per year is expected to stabilize at between 1000 and 1200.

d. Intermediate Objective: (M)

Continue support of the five on-going maxi-linkages, and selected mini-linkages, primarily in the energy, agriculture, industry and health areas.

Status:

- An impact evaluation will be conducted in mid FY 1989. The Mission will support selected on-going activities through an extension while moving on a parallel track to design a companion capacity building project.