

USAID/CAIRO
ACTION PLAN: FY 1986-1987

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A. MACRO-ECONOMIC SUPPORT

STRATEGY:

- To assist the GCE in managing its budgetary and balance of payments deficits by providing vitaly needed commodity imports, cash financing, and agricultural commodities, and
- to ease the GCE's adjustment process in adopting vigorous price reforms.

MILESTONES AND OBJECTIVES REACHED:

- Total CIP disbursements amounted to \$320 million during FY 1983 and \$285 million during FY 1984, up from \$242 million attained in FY 1982.
- As the result of new allocation procedures, the percentage share of CIP disbursements for capital equipment has risen from 45 to 55 percent between the two most recent programs.
- In January 1985, the Central Bank and USAID completed installation of an improved accounting system to ensure the timely collection of deposits and installment payments into the CIP special account and the identification of arrears.
- During the second and third quarters of 1984, Price Waterhouse Khattab and Development Associates completed an impact evaluation of the CIP. This led to MPIC and AID adopting improved commodity selection procedures which emphasize more developmentally oriented commodities.
- Significant price reform has taken place during 1984 in food and agriculture (bread, cotton, wheat, onions, groundnuts, oranges and watermelons) and, to a lesser extent, in industry (tomato concentrate, bulbs, tractors, cotton yarn and cloth, coking coal and steel products). While recent price reform in water and wastewater utilities, railways and petroleum has been less dramatic than those noted above, a major rise in electricity tariffs took place in April and May, 1985.

OBJECTIVES FOR FY 1986 AND 1987:

- Steer CIP allocations to a more developmentally significant commodity mix.
- Continue the ongoing policy dialogue with the GCE in its present form i.e., conditionality is only associated with the PL-480 Title I negotiation. All other macro-economic policy dialogue is carried out through discussion, information exchange and consensus.
- Gradually reduce the size of the public sector CIP until the Private Enterprise Credit program is USAID's primary mechanism for financing imports from the United States.

SUPPORTING NARRATIVE:

The annual level for Cash Transfer, CIP and PL 480 Title I will remain politically and developmentally important. We will attempt to maximize the development impact of this large block of funding by employing MPIC's recently developed commodity selection criteria to steer CIP allocations to more developmentally significant commodities

In late FY 1985, one USDH Economist from DPPE/PAAD will work closely with the commodity management specialists in IS/CMT to operationalize MPIC's selection criteria for the CIP. The new criteria will be applied each year by IS/CMT and DPPE/PAAD to steer commodity selection to more developmentally significant commodities. This annual exercise will require participation by all USAID technical offices.

The ongoing macro-economic reform dialogue will require an increased level of effort by the Mission's economists and will require the continued active participation of the Embassy and AID. The information required to underpin this dialogue will require the constant monitoring of prices and other economic indicators. One FSN economist will spend part time monitoring and analyzing energy prices and policies. Another FSN economist will devote half time to agricultural prices and policies. One USDH macro-economist will analyze balance of payments and exchange rate developments. Two other USDH economists will devote part time to analysis of prices and policies in industry and in water and sewerage. The Mission's chief economist and the AD/DPPE will coordinate preparation for annual bilateral policy review of the PL-480 Title I self help measures and will direct preparation of the PL-480, CIP and Cash Transfer documentation. The Mission Director will negotiate the PAADs.

SCHEDULE OF ACTIONS:

- During meetings with MPIC in the 3rd quarter of FY 1985, assess effectiveness of existing allocation criteria and make recommendations for their implementation. The Mission will prepare suggestions for specific CIP procurements both during the initial MPIC screening process each year and at the time the commodity lists are received.
- Reconcile outstanding discrepancies in the accounting records for the Special Account by July 1985 and settle most, if not all, arrears by October 1985.
- In FY 1986, the exchange rate applicable to counterpart deposits into the Special Account should be raised from the 91 piaster rate agreed to for the FY 85 program closer to market levels.
- Use each target of opportunities to further the macro-economic policy dialogue.

B. 1 WATER AND WASTEWATER

STRATEGY:

To enhance the capability of Egypt's major urban centers to accommodate substantial population increases in a healthy environment by providing expanded and improved water and wastewater systems through:

- construction and rehabilitation of water treatment and distribution networks;
- construction and rehabilitation of wastewater collection and treatment networks;
- development of financially viable water and wastewater utilities that place increasing emphasis on locally retained user charges as their source of revenue; and
- enhancement of management and O&M capabilities in water/wastewater utilities and agencies through support for institutional development, e.g. training, technical assistance and institutional reform.

MILESTONES AND OBJECTIVES REACHED:

- Memorandum of Understanding (MOU) signed, containing general commitments for AID funding and for GOE actions to improve policies and implementation. First and second annual sector reviews held under terms of the MOU. The second annual review established benchmarks for:
 - tariff increases,
 - O&M costs and services,
 - training and staff incentives,
 - autonomous organizations,
 - institutional development, and
 - construction management.
- National plan for tariffs developed and submitted to People's Assembly. It specifies initial tariff levels to cover 35 percent of O&M costs for water systems and 10 percent for wastewater systems.
- In Cairo:
 - Rehabilitation of pumping station and construction force mains largely completed under Cairo Sewerage I, with major reductions in street flooding,

- construction begun under Cairo Sewerage II, and
- construction of six water clarifiers and 2 km of 1400 mm main transmission water line completed at the Rod el Farag water treatment plant.
- In Alexandria:
 - water tariffs increased;
 - construction of wastewater system expansion initiated; and
 - new construction started for pumping stations and tunnels.
- In the Canal Cities (Port Said, Ismailia, and Suez):
 - construction of water treatment plans, waster distribution systems, and sewerage collection systems begun; and
 - construction of wastewater facilities begun by local contractors
- In the Provincial Cities (Minia, Beni Suef, and Fayoum):
 - 111 small high priority water and wastewater subprojects completed in the Provincial Cities; and
 - master plans completed for water and wastewater systems.

OBJECTIVES FOR FY 1986 AND 1987:

- Achievement of scheduled benchmarks established at second annual sector review in the areas of:
 - tariff increases;
 - O&M costs and services
 - autonomous organizations;
 - institutional development; and
 - construction management.
- Continued construction, as scheduled, in Alexandria, Cairo, the Canal Cities, and the Provincial Cities.

SUPPORTING NARRATIVE:

With approximately \$348 million expended and another \$646 million obligated for water and wastewater projects, the Mission is well positioned to achieve its design and construction objectives. However, continued obligations at the level of about \$200 million per year will be necessary to implement the Cairo west bank construction program on schedule. With major construction underway or soon to start in all eight cities covered by the program, the Mission's emphasis will increasingly shift toward dealing with the policy and institutional issues surrounding the water/wastewater program.

The annual sector review will provide the major forum for our continuing policy dialogue with the GOE. In addition, the achievement of benchmark objectives will be addressed through specific project interventions. Management and training assistance provided under on-going projects in each city will support the efforts of individual utilities to improve their operations, maintenance, financial, and training systems. Authorization in FY 1985 of a sector-wide Institutional and Human Resources Development project will help the Ministry of Housing and Public Utilities, and the National Organization for Potable Water and Sanitary Drainage to improve their ability to plan, budget, regulate, and service a national system of water/wastewater utilities. This dual approach to strengthening sector management capabilities -- through continued policy dialogue and the provision of project specific and sector wide institutional and human resources development interventions -- will help assure that the GOE will have the expertise and information necessary to undertake significant sectoral reforms.

The Office of Urban Administration and Development (UAD) is responsible for designing and implementing the water and wastewater portfolio and managing most of the policy dialogue activities in the sector. UAD was reorganized and expanded during FY 1984-1985 and divided into six management units, plus the director's office. Four units were established to design and implement geographically focused water and wastewater projects in Cairo, Alexandria, the Provincial Cities and the Canal Cities. Eleven engineers (2 USDH, 9 FSN), three USDH Project Development Officers (PDD), and one FSN Project Assistant manage 21 large contracts in these four units. The fifth unit is responsible for urban development support functions and is staffed by a USDH PDO, an FSN Program Assistant, and two engineers (one USDH, one FSN). This unit manages three large contracts. The sixth unit, staffed by a PDO and three Program Assistants (two FSN, one PSC), focuses on institutional and human resources development and internal support functions in policy analysis. This unit will be managing two large technical assistance contracts within the next 12 months. The professional office staff includes seven USDH PDOs (including an IDI), four FSN and one PSC Program Assistants, and fourteen engineers (4 USDH and 10 FSN).

As our focus in the institutional and human resources development area increases we may need to hire additional project funded expertise to complement our existing staff. Our proposed activities in training alone total over 40 million dollars. While the present staff of the USAID training office has provided assistance in the past, it alone will not be able to provide the extensive support that our new focus in training and human resources development demands.

SCHEDULE OF ACTIONS:

FY 1986

- Update USAID/GOE memorandum of understanding.

- Continue GOE and USAID monitoring of benchmarks, with special emphasis on defining and tracking quantifiable progress in Cairo.
- Expand/update the National Committee for Tariff Base Line study to include new works under construction; adjust tariff plan and local O&M budget as appropriate.
 - Design measurements and collect data on customer and community-wide benefits.
 - NOFWASD to develop plan to assist O&M organizations within governorates.
 - Implement full revenue retention at Governorate level, with tariff plan.
 - Develop plan to institute Sister Utility concept with a U.S. or U.K. utility.
 - Update Law 26 to include bonuses and merit awards for water workers as well as wastewater workers.
 - Obtain expatriate contractor for management/training support at Ministry headquarters. Develop comprehensive training program; establish Regional Training Center.
 - Complete Cairo Water and Canal Cities Water/Wastewater Phase I construction programs.
 - Obtain construction manager for Provincial Cities

FY 1987

- Continue monitoring MOU benchmarks.
- Obtain expatriate O&M service/training contractor for West Bank and other new works.

E. 2 ENERGY

STRATEGY:

- Curb waste of energy by industrial and household consumers and misallocation of investment into energy-intensive industries through
 - higher energy prices and electricity tariffs; and
 - selective conservation of energy through GCE modernization or shutdown of highly energy-inefficient industrial consumers.
- Provide for gradual expansion of EEA's efficient base thermal generating capacity and for rehabilitation of the current, aging power network.

MILESTONES AND OBJECTIVES REACHED:

- Electricity tariffs have been raised several times by EEA since April 1982, but until this year the average increase has been marginal, after adjustment for inflation. However in April and May of 1985, residential and commercial electricity tariff increases were implemented, and a number of other increases in the agriculture, government, and industry sectors are expected to be introduced on July 1. These implemented and forecasted increases are tabulated below:

<u>USER CLASS</u>	<u>Nov. 1984 PRICE*</u>	<u>1985/86</u>		<u>1986/87</u>	
		<u>% INCREASE</u>	<u>PROPOSED PRICE</u>	<u>% INCREASE</u>	<u>PROPCSED PRICE</u>
Industry	8.921	37	12.2	29	15.7
Agriculture	8.551	37	11.7	29	15.1
Government	7.757	37	10.6	29	17.7
Commercial	17.43 **	15	20	15	33.0
Residential	16.288**	10.5	18	15	21.0

* Prices are in milliemes per kwh.

** Residential and commercial tariff increases apply only to the first 100 kwh consumed and are progressively higher for increased rates of consumption.

- Price for premium gasoline was raised from 16 pt to 20 per liter effective April 1, 1985 and availability of non premium gasoline (still selling at 15 pt) is being reduced. These measures are expected to raise approximately LE 650 million annually in additional revenue for the GOE.
- Three US-financed generating units (Shoubrah 1, Abu Sultan 2, 3) have been commissioned during 1984 and are now fully operational, adding 615 mws of capacity to the EEA system. AID was a key co-financier of Shoubrah I and the primary financier of Abu Sultan 2.

OBJECTIVES FOR FY 1986 AND 1987:

- Continued increases in electricity tariffs and petroleum product prices, on a path toward total elimination of implicit GOE subsidies (currently about 7.5 piasters per kwh for electricity, LE 5 billion annually for all energy consumption) over a period of ten years.
- Continued general support to Eg, pt's program to expand its efficient base thermal generation, subject to positive movement on the first objective.

SUPPORTING NARRATIVE:

Monitoring and analysis of the GOE's progress in raising energy prices will require one third of the work time of one FSN economist and the close attention of the DPPE/PAAD Office Director. Continued satisfactory movement of energy prices toward full economic costs will be a condition for USAID financing of further electricity generation capacity.

USAID's current electrical engineering staff (2 USDH and 1 FSN) is adequate for the design of two new electrical generation projects. Extensive support by two capital Development Officers of the DR/ID Office is also planned. DR/ID relies on thorough feasibility studies performed by contractors to provide much of the information needed for project design.

This engineering staff is also adequate to monitor implementation of four ongoing projects in electricity generation and distribution, assuming continued satisfactory performance by the supervising engineering firms contracted under the projects. The Mission's fifth and sixth ongoing energy projects (Energy Renewables Energy Policy Planning) are managed by one full-time USDH engineer in the S & T Office.

SCHEDULE OF ACTIONS:

FY 1986

- Complete feasibility studies for a major thermal power plant at Quraymat and for a combined-cycle generating station at Talka by January, 1986.

- Continue to fund a number of renewable energy field testing projects to provide the GOE with a viable alternatives for cheap sources of energy which may be tapped in future years.
- Completion construction and begin operation of three new AID-financed generating units (Shoubrah 2 and 3, Abu Sultan 4) by December 1985 with a total generating capacity of 780 MW.
- Replace runners for first two generating units at Aswan High Dam.
- Start construction of Unit 4 (315 MW) at Shoubra Power Plant.
- Review GOE progress on energy price increases.
- Complete project papers for Electrical Generation project and Distribution Capacitors (shelf).

FY 1987

- Decisions on the new 1200 mw Power Plant and Talkha by January, 1987.
- Replace runners for two further generating units at Aswan High Dam.
- Complete Abu Sultan construction.
- Terminate National Energy Control Center project.
- Continue monitoring of energy pricing and continue dialogue with GOE.
- Approve contract award for Talkha Combined Cycle conversion.
- Complete project paper for Thermal Power Plant Rehabilitation.

B. 3 LOCAL DEVELOPMENT/DECENTRALIZATION

STRATEGY:

To improve delivery of municipal services to urban and rural residents through strengthening of the decentralization process. USAID will help local councils (elected and executive):

- plan for and build basic services and infrastructure;
- operate and maintain these facilities;
- mobilize resources locally,
 - through raising local revenues, and
 - through increased private investment; and
- develop local organizations and train staff to support public and private economic development.

MILESTONES AND OBJECTIVES REACHED:

- \$140 million invested in basic services and infrastructure FY 1984 and 85, bringing total project funded investments by local councils to \$300 million.
- Loans of \$9.5 million under the Local Development Fund (LDF) were made to more than 300 village councils, bringing the total outstanding loan portfolio to \$21 million. The LDF has changed its lending criteria; an increasing proportion of its loans are going to private businesses through the mediation of elected village councils.
- An \$18 million performance incentive fund has been established to reward councils for improved maintenance, local resource mobilization, and project implementation.
- Support for operation and maintenance of basic services in 22 rural governorates has been achieved by delivery of 750 pieces of equipment valued at \$20 million. Total deliveries since start of the program have now reached 1200 items valued at \$52 million. Awards have been made for an additional 450 pieces of equipment valued at \$20 million.
- Training has been provided for more than 20,000 elected and executive council members and technicians in project design, management, accounting, information systems, and other technical subjects.
- More than \$8.3 million has been invested by 868 local PVOs in 1068 social services and productive projects.

OBJECTIVES FOR FY 1986 AND FY 1987:

FY 1986

- Begin the transition from Development Decentralization I (DSS I) to Local Development II (LD II) by supporting the further development of four systems:
 - Basic Service and Infrastructure Project Planning and Implementation;
 - Operation and Maintenance of Services and Infrastructure;
 - Local Resource Mobilization and
 - Human Resources - programs and curricula for training.

FY 1987

- Consolidate the transition to LD II activities and expand the four systems into additional governorates.

SUPPORTING NARRATIVE:

The transition to LD II will require the completion of technical assistance contracts with Chemonics and Wilbur Smith Associates and the recruitment of new technical assistance for LD II implementation.

GOE Management and Policy Dialogue

GOE management of the LD II will require several major structural and staffing modifications. Foremost among these is the creation of a full time Technical Secretariat to provide sector-wide program and policy analysis to facilitate decision-making by the program's ministerial-level policy committee. The absence of this staff capacity has severely limited the program's ability to properly analyze, and frame for Ministerial decision, policy and legal changes required to advance the program.

This structural improvement is essential to secure required reforms related to:

- central-local government financial relationships;
- financing for recurrent costs of local infrastructure; and
- local jurisdictions' authority to impose user fees and retain these revenues.

The successful establishment and operation of the Technical Secretariat constitutes an important interim measure for judging the GOE's progress in addressing the major elements of the GOE/USAID policy dialogue in the local development sector.

USAID Management

The ongoing Decentralization Sector Support portfolio is an amalgamation of six projects which are managed as discrete and independent activities. Implementation of a fully integrated sector program has had to await the formulation of the Local Development II program.

With the authorization of the Phase II program the LAD office will be reorganized along functional lines rather than by discrete projects. Four sections focused on Rural development, Urban Development, Policy and Institutional Development, and Engineering and Procurement will be created. The existing LAD staffing level is considered adequate to design and launch the Phase II program. We anticipate the need for an engineer to assist in the monitoring and O&M aspects of the program. We also propose to retain a public finance economist with extensive experience in local government and utility finance to serve as a technical resource person for local resource mobilization. Both the engineer and public finance economist can be accommodated without increases in USDH positions, either by a project funded PSC or by internally reallocating existing LAD positions.

Technical Assistance

Several technical assistance contracts are envisioned for the second phase program. It is estimated that up to 6 percent of total project funds (approximately \$36 million) would be committed to this end over a five year period. Increasing GOE sensitivity to the high costs of expatriate consultant services will demand careful attention to the need for T.A., to the mix between expatriate and Egyptian expertise, and to encouragement of US/Egyptian joint ventures designed to build the capacity of local consulting institutions. For both technical and policy reasons, a substantial T.A. effort is required. Legitimate GOE concerns over high T.A. costs will need to be balanced with the need for T.A. to improve the quality of the GOE/USAID local development program.

SCHEDULE OF ACTIONS:

FY 1986

- Continue policy dialogue with the Ministry of Finance to:
 - establish a working group to monitor Operations and Maintenance budget requirements and allocations and establish a program enabling local units to retain and allocate user fees and other revenues for basic services and infrastructure operations and maintenance.
- Continue implementation of village and district subprojects and equipment purchases through the disbursement of the remaining \$42 million under DSS I activities.

- Implement the performance incentive system in selected governorates through the disbursement of \$10 million from the \$18 million FY 1985 obligation.
- Mobilize additional local resources by expanding PVO programs in social services and productive activities.
- Effect a transition to a system of "block grants" for the core program of basic services, infrastructure, and equipment through the disbursement of \$40 million from the FY 1985 obligation.
- Design a credit program for small scale businesses.
- Establish a program and curricula for local, national, and international training at the Saqqara Center.
- Design and implement a system for making local development training grants to selected governorates.

FY 1987

- Continue policy dialogue with the Ministry of Finance to:
 - increase the Operations and Maintenance budget allocations and
 - enable local units to retain and allocate user fees from municipal services and from other revenue sources.
- Continue "block grants" to governorates for capital projects.
- Expand performance incentive system to include all governorates.
- Expand the Operations and Maintenance program to include all governorates.
- Continue expansion of the PVO program.
- Begin, in selected governorates, the Credit Program designed in FY 1985.
- Expand the training program at the Saqqara Center.
- Expand the local development training grants to all governorates.

C. 1 AGRICULTURE

STRATEGY:

- Increase national agricultural production through the adoption of improved technologies and through a program of "supervised" farm credit.
- Encourage GOE to adopt prices reflecting international prices for major crops, animal products, and farm inputs. Concentrate especially on higher prices for crops in which Egypt has a strong international comparative advantage.
- Increase the role of the private sector in marketing farm outputs and inputs (particularly fertilizer and seed) through deregulation of private trade and through reduction of GOE subsidies for commodities sold by public sector suppliers.
- Assist Ministry of Irrigation to improve the overall water use efficiency of the irrigation distribution system, including on farm water management, and to develop mechanisms for cost recovery.

MILESTONES AND OBJECTIVES REACHED:

- Increases by about one-third in GOE procurement prices for wheat, winter onions, and groundnuts.
- Announcement of 28 percent increase in average cotton procurement price for 1985, following an increase of 11 percent in 1984.
- Announcement of 24 percent increase in the GOE procurement price for rice, following a year of no increases.
- Increase of interest rates under Small Farm Production Project from 6 to 14 percent.
- Increases in area of rice, maize, and wheat under improved practices, including high-yielding varieties; increase in yields over the national average yields were 52, 80, and 84 percent, respectively.
- Expansion of area under demonstration of improved varieties by 41,000 feddans of rice, 20,000 feddans of wheat, and 20,000 feddans of corn.
- Completion of over 3,000 structures in five directorates to help control irrigation supplies and improve access to fields.
- Initiation of Telemetry Data Collection subproject.

OBJECTIVES FOR FY 1986 AND 1987:

- Further substantial increases in farmgate prices of the most important crops (cotton and rice) for which Egypt has a strong international comparative advantage but for which local GOE procurement prices are very low (about 40 and 55 percent, respectively) in relation to the economic farmgate price.
- Refocus AID assistance on a national agricultural production program which includes development and dissemination of technology and production credit.
- Continue and expand current irrigation program.
- Negotiate higher prices (and reduced subsidies) for fertilizer and other inputs.

SUPPORTING NARRATIVE:

The strategy and objectives for the Agriculture Sector flow from a mutual concern of the GOE and AID that our limited resources be focused upon the sector's most tractable production and policy problems. The national crop production campaigns (emphasizing research and extension), effective rural credit, innovative private sector strategies, and improved water management require a staffing pattern that reflects systems management skills, analytical capacity to evaluate and direct price/subsidy dialogue, and irrigation utilization and system management skills.

Declining discrete project management requirements will provide an opportunity to realign functional responsibilities to meet the board system a management and analytical/policy dialogue skills required to adequately address the sector strategy and objectives. The Agricultural Directorate will have 21 management units; seven of these relate directly to agricultural production, three to production credit, ten to irrigation/land development, and one to management of the Directorate. To meet the sector strategy and Action Plan objectives will require the following USAID resources:

- 9 USDH technical and managerial officers
- 7 FSN technical staff
- 5 FSN support staff
- 1 US secretary

A reallocation of AGR staffing will be required to accommodate the addition of 2 irrigation engineers, (1 USDH, 1 FSN) to provide for transition to and efficient management of the new major sector interventions.

Such a reduced staffing pattern assumes close coordination with and regular assistance from other Mission divisions (e.g. training, procurement, contracting), plus more innovative and effective utilization of contractors and GOE counterparts than heretofore. Senior Mission management and Mission

economist assistance on policy dialogue will be required. It is also assumed an early positive project impact upon MOA/MOI management skills, full GOE programmatic support (e.g. minimal customs clearance delays), an increasing level of recurrent cost contribution by the GOE, increased public support by other ministries for private sector initiatives, and continued appropriate short-term technical assistance.

The NOA and MOI have strong (many U.S. trained) staff in key positions. USAID's previous projects have set a firm foundation through effective Technical assistance (e.g. Small Farmer Production Program). Working relations are excellent and the policy dialogue environment excellent. Therefore, we believe we can meet the objectives with these resources.

SCHEDULE OF ACTIONS:

FY 1986

- Convene PL 480 consultations to review the current structure of local and international prices for farm products and inputs and assess progress toward price rationalization.
- Begin implementation of the National Agricultural Production and Agricultural Production Credit projects.
- Replace 4000 irrigation structures and complete a detailed feasibility report for North Zifta irrigation project;
- Terminate the following projects in FY 1985 and 1986:
 - Rice Research and Training
 - Agricultural Mechanization
 - Agricultural Development Systems
 - Major Cereals Improvement
 - Aquacultural Development
- Encourage Ministries of Industry, Finance, and Agriculture to seek reduction by GOE in size and scope of farm-level subsidies for fertilizer.
- Initiate a regional irrigation improvement program; begin data collection and analysis for run-off predictions for the Nile river; and adopt an irrigation operation and maintenance model in five directorates.
- Support GOE's analysis of the value of irrigation water as a first step toward determining appropriate mechanisms for water charges.
- Negotiate phased broadening of the role of private dealers in the marketing of fertilizer.

- Begin the amendment process of the IMS project to include expanded activities.
- implement operation and maintenance model for irrigation in ten directorates.

FY 1987

- Complete Small Farmer Production Project.
- Replacement of 4000 irrigation structures.
- Continue PL 480 consultations, as above.
- Establish a regional irrigation and drainage training center.
- Develop PID for National Irrigation Improvement Program.
- Evaluate of the effectiveness of the West Nubaria old new lands development.
- Complete project design for the National Irrigation Improvement Program.
- Assist GOE to establish policies and mechanisms for water pricing.

C. 2 INDUSTRY

STRATEGY:

- To encourage private sector industrial growth and productivity through credit, technical assistance and specific industrial projects.
- To support selected interventions in public sector industry where they will lead to greater private sector participation or environmental efficiency.

MILESTONES AND OBJECTIVES REACHES:

Several steps have been taken to develop an effective mechanism for term lending to the private sector:

- The Private Investment Encouragement (PIE) Fund is finally operational. First loan of \$5 million to General Motors Egypt truck assembly plant is being negotiated.
- A term credit study completed in April 1985 recommended an umbrella PID with three credit components: project financing, general transactions, and small scale enterprises.
- A design team for a new term credit project is scheduled for May 1985.

Several avenues of direct support to private sector industrial producers are being developed:

- A proposal by General Motors Corporation to restructure Egypt's automobile industry is being evaluated.
- The joint Business Council's U.S. Investment Promotion Office is being continued and expanded.
- USAID productivity consultancy activities are being modified to focus on private sector clients.

To encourage pricing, managerial and environmental reforms in public sector industry as well as to encourage increased role of the private sector in the production/distribution chain:

- USAID has agreed to finance a sector feasibility study for an ammonia fertilizer plant in Upper Egypt to replace the obsolete electrolysis process KIMA plant to Aswan. Consideration of feasibility of private sector participation is included in scope of work.
- USAID is discussing a cement pollution abatement project with the GOE.

OBJECTIVES FOR FY 1986 AND 1987:

FY 1986

- Consolidate existing credit programs, while increasing the availability of term credit to the private sector and designing a mechanism to support small scale enterprises in the private sector.
- Make a start on restructuring of Egypt's automotive industry and its suppliers, if evaluation of the GM proposal is positive.
- If funding levels permit, support a business services, productivity, and technology transfer center that will complement the credit programs. (shelf funding)

FY 1987

- Bring about changes in fertilizer pricing and distribution policies related to an ammonia fertilizer plant to replace KIMA.

SUPPORTING NARRATIVE:

1. Policy Issues:

A continuing policy objective is to correct GOE distortions of input and output prices and to improve managerial and environmental practices in the industries that the USAID will support.

Policy issues relating to term credit include:

- the interest rates and exchange rates for USAID-funded medium to long term loans made to industry through the banking system; and
- GOE credit ceilings and banking regulations (e.g., the low ceiling on interest rates charged to industrial borrowers) that affect lending to private sector industry.

New USAID assistance to public sector industry will be contingent upon achieving a specific objective, such as:

- greater private sector participation in distributing the output of the industry;
- greater private participation in ownership and control of production; and
- significant reductions in environmental pollution.

2. Implementation Constraints

Implementing private sector projects is particularly difficult in Egypt. Government control of production is pervasive in all sectors. It took six years to put the PIE Fund into operation. Negotiating the Production Credit implementing instruction took nine months. Similarly, new investment by the private sector may take years of effort to make it through the bureaucracy. The rhetoric of the GOE is often not matched by timely decisions in support of private sector options. Our attempts to put a private sector program into operation will continually be constrained by this reality.

3. Management Resources

USAID staff allocated to the Industrial project portfolio consists of seven American project officers and six Egyptian professionals. The time of these people is divided as follows:

- Credit activities: 4
- Specific industrial production activities: 3-1/2
- Business services and productivity activities: 2-1/2
- Industrial environmental activities: 1-1/2
- Residual projects not in the current focus of the strategy: 1-1/2

As we implement this action plan, we intend to shift more resources to specific industrial projects such as automotive industry and fertilizer.

We will do this by:

- relying on the commercial banks and project-funded experts to do the bulk of the credit-related work;
- relying on the private business community to make the business services, productivity, technology transfer center as self-sustainable as possible as soon as possible;
- closing out residual activities, particularly those old projects dealing with public sector industry.

SCHEDULE OF ACTIONS:

- Preparation of PID and PP for consolidated credit project by First Quarter of FY 1986.
- Preparation of PID and PP for Business Development Project (shelf project) by Second Quarter of FY 1986.

- Preparation of Automotive Industries PP by First Quarter of FY 1986.
- Preparation of PID on cement plant environmental project by Second Quarter of FY 1986.
- Preparation of PID and PP on assistance to fertilizer plant to replace KIMA by Third Quarter of FY 1986, after completion of feasibility study and review of COE policies on pricing and private sector distribution of fertilizer.

C. 3 SCIENCE AND TECHNOLOGY

STRATEGY:

The S&T Program will increase productivity by concentrating the focus and direction of USAID supported R&D and technology transfer activities on a few key problems which hold the potential for technological breakthrough.

A concentration on end-user needs will contribute to more useful research results in Egypt and other AID-assisted countries and to more timely project implementation. Overall, the programs will contribute to improved health, better use of natural resources, and increased foreign exchange earnings.

MILESTONES AND OBJECTIVES REACHED:

- Academy of Scientific Research and Technology prepared its first national S&T development plan.
- Implementation and action plans developed for Renewable Energy and Energy Planning Projects. Field work began in both projects.
- Field work on seismic analysis completed at Aswan High Dam.
- The fourth (out of nine) subprojects completed in Applied S&T Project.

OBJECTIVES FOR 1986 AND 1987:

- Concentrate on problem solving and technology transfer based on end-user goals and needs;
- Build on capabilities of the most seasoned Egyptian research groups and work out arrangements for increased coordination between them.
- Identify and support major Egyptian efforts in specific S&T areas which may have major national and international impacts and would contribute to similar AID efforts in other countries.

SUPPORTING NARRATIVE:

USAID will continue to push for more realistic energy pricing and conservation, increased application of S&T capabilities to national development problems and increased support for the S&T community. While overall project funding will be adequate, substantial negotiating time will be needed to promote increased coordination among research groups.

One USDH is sufficient to take care of current energy projects. One FSN together with a JCC advisor are sufficient to complete our current applied S&T and resource assessment/development projects. As all individual components of the new S&T project get underway, two Egyptian contractors and one U.S. PSC will be required to facilitate project management and implementation. GOE counterpart relationships are satisfactory, and line agency and research organization representatives appear enthusiastic about project involvement. A study is to be conducted for improving university procurement procedures under the CIP, and additional efforts will be exerted to ensure speedier procurement and delivery of equipment to project sites.

SCHEDULE OF ACTIONS:

FY 1986

- Completion of Aswan High Dam seismic analysis project.
- Launch all components of new S&T project: Critical Childhood Diseases; Increased Productivity in Land Use and Energy Management and Training; and S&T Cooperation.
- Computer and data analysis system established and operating at Organization of Energy Planning.
- Publication of wind resources potential report. First report on renewable energy marketing potential published.
- Industrial process heating and wind field testing started.
- Special studies completed on electrical energy systems conservation and national energy pricing.
- Photovoltaic lighting, irrigation and desalination field tests operating.
- Remaining subprojects of Applied S&T completed and project ended and continuing project activities funded by GOE.

FY 1987

- Technical assistance contracts signed for Critical Childhood Diseases; start of implementation.
- Review and approval of second annual plans for S&T for Development components.
- Aeromagnetic survey, and enhanced oil recovery feasibility studies completed for Egyptian General Petroleum Corporation.
- Completion of geologic and petroleum data-base.
- Mineral resource marketing studies completed.

D. 1 POPULATION

STRATEGY:

The USAID strategy is to encourage the GOE to replace its current ineffective national strategy and program with a new national strategy and program to effectively deliver modern family planning services to couples nationwide through:

- support to the newly established National Population Council (NPC) including:
 - regular funding for necessary local costs of approved sub-activities such as the autonomous family planning organization,
 - managerial and administrative training for Council staff and clinical training for selected MOH clinic staff, and
 - commodity support for the testing, introduction and distribution of modern contraceptives
- selective sub-grant support to encourage expanded and more effective private sector participation in the supply and distribution of family planning devices and services
- expanded and improved mass media and other information and education programs on family planning
- policy dialogue to increase Government understanding of and commitment to reducing population growth

If possible, the bulk of USAID population resources will be channeled through the NPC and the autonomous family planning organization to implement the strategy. However, a contingency plan has been prepared to :

- directly assist existing or potentially successful projects,
- promote a limited number of new promising activities, and
- reduce or discontinue support for activities that fail to impact substantially on fertility.

This USAID contingency plan will be used only in the event the NPC proves ineffective and/or lacking in commitment.

MILESTONES AND OBJECTIVES REACHED:

- Issuance of Presidential decrees establishing the National Population Council (NPC) and appointing highly capable and committed Secretary General to head it.
- 26 percent increase from March 1984 to March 1985 in "couple years of contraceptive protection" by USAID supported commercial contraceptive retail sales program
- The percentage of Egyptian couples of reproductive age now using modern family planning methods has increased from 24 percent in 1980 to approximately 28 percent currently.

OBJECTIVES FOR FY 1986 AND FY 1987:

FY 1986

- Continue support begun in FY 85

To replace the current ineffective national strategy and program to increase the number of couples actively practicing family planning

With a new strategy and program to effectively inform and educate married couples of reproductive age about modern contraceptives and make these readily available to them.

- Achieve a contraceptive prevalence rate of 30 percent by the end of FY 86 .
- Achieve a crude birth rate of 36 per 1000 by the end of FY 86 .
- Achieve a population growth rate 2.6 percent by the end of FY 86 .

FY 1987

- Complete support

To replace the current ineffective national strategy and program to increase the number of couples actively practicing family planning

With the new strategy and program to effectively inform and educate married couples of reproductive age about modern contraceptives and make these readily available to them

- Continue support

For the new strategy and program through

- amendment to the existing population project, or
- design of a new population project
- Achieve a contraceptive prevalence rate of 33 percent by the end of FY 87.
- Achieve a crude birth rate of 35 per 1000 by the end of FY 87.
- Achieve a population growth rate of 2.5 percent by the end of FY 87.

SUPPORTING NARRATIVE:

The new strategy and program will apply resources to achieve the goal of

- increasing the number of married couples voluntarily using modern contraceptives.
- and thereby reduce Egypt's rapid rate of population growth.

Support will be provided to develop the capability of the autonomous family planning organization to

- prepare appropriate family planning policies and strategies,
- design appropriate family planning projects for NPC approval, and
- implement approved projects, through financial and other support to the NPC as required.
- Additional support will be provided to the NPC for such complementary activities as contraceptive procurement, training for NPC administrative management staff, and clinical training of sufficient physicians in IUD insertion to staff one half of all Ministry of Health Clinics by the end of FY 86.
- Increased participation of the private sector in improving delivery of modern family planning information and contraceptive services will continue to be promoted through financial support to the NPC and directly through grants to selected private organizations to ensure regular (uninterrupted) funding for their activities.
- Because it is potentially more cost effective the bulk of USAID resources may ultimately be channeled through the private sector. However, since there may be a legal constraint under existing Egyptian law, a compromise solution such as an autonomous authority exempt from Government salary and operating regulations may be required.

- Improvement and expansion of Mass media programs will continue to be emphasized by targeting the necessary financing and other assistance provided through the NPC and possibly through direct support for selected programs.
- A sustained policy dialogue will continue to be necessary to fully convince senior Egyptian officials of the importance of a reduced population growth rate to Egypt's economic development, and of the health benefits to mothers and children resulting from birth spacing and limitation of family size.
- If the recent apparent improvement in GOE commitment proves to be more cosmetic than real or the new family planning organization proves ineffective, the USAID contingency strategy would adjust support as described in the strategy section of this Action Plan and in more detail in the approved Egypt Population Game Plan.

Management of the USAID P/FP program will be done within the current workforce ceiling of three USDH, one US professional local hire, and three FSN professionals as follows:

<u>Functional / Management Unit</u>	<u>Full Time Equivalent</u>	
	<u>USDH</u> (3.0)	<u>FSN & Local Hire</u> <u>U. S. Professional (4.0)</u>
1. Family Planning Services	1.1	1.5
2. Private Sector Commercial Retail Sales	.5	.3
3. Information, Education, Communications	.4	.2
4. Commodity Procurement and Contraceptive Inventory/Logistics	.2	.5
5. Demographic Measurement, 1986 Census, Surveys	.2	.2
6. Training	.1	.5
7. Program and Financial Management	.5	.8
Total Full Time Equivalent:	<u>3.0</u>	<u>4.0</u>

Achievement of the Population objectives for FY 86 depends on:

- Use of project funds to finance up to four resident and several short term highly skilled contract population/family planning advisors to provide technical assistance to the NPC created family planning organization.
- Use of project funds to employ one local hire expatriate population/family planning professional to assist the three USAID direct-hire and three FSN professional staff with management, administration and monitoring of the population program.
- Use of project funds for selective technical assistance and training to ensure the NPC develops the required managerial, administrative, and policy formulation capability.

The FY 87 objectives will be achieved through

- Continued use of project funds, to finance continuation of the services of the up to four resident and several short-term contract advisors to the family planning organization.
- Continued use of project funds to retain the services of the local hire expatriate population/family planning professional assisting the USAID professional staff.
- Use of project funds to finance an evaluation of the performance of NPC, the autonomous family planning organization, and private sector organizations supported to determine the direction of future USAID support.
- Possible use of PD & S funds to assist with amending the existing USAID population project or in designing a new project to continue U.S. support for population family planning activities in Egypt.

SCHEDULE OF ACTIONS:

FY 1986

- Provide technical assistance and local cost support to assist the NPC with the detailed design of the new family planning organization.
- Assess viability and commitment of NPC and monitor progress in establishing the new autonomous family planning organization to ensure that it is fully staffed by the end of FY 86.
- Reach agreement with the NPC on an increase in the price of contraceptives to reduce present subsidies.
- Expand clinical trials of the contraceptive "Norplant".

- Complete policy dialogue with NPC on commitment, fundamental policy direction and program priorities, and on the nature and magnitude of USAID support of NPC activities, including agreement on greater GOE cost sharing for population/family planning activities.
- Determine USAID funding priorities for existing and potential population/family planning activities. Tighten monitoring and evaluation of ongoing population/family planning activities and terminate marginal or unproductive activities.
- Refine procedures for approving, disbursing and monitoring funds in support of selected private sector organization population/family planning activities.
- Initiate an assessment to determine most effective means of improving mass media educational and promotional coverage of population/family planning.

FY 1987

- Formally assess performance of NPC and the autonomous family planning organization by the end of second quarter FY 87
- Assist the new family planning organization to establish offices and full time clinics in each of the 26 governorates capitals.
- Assist the family planning organization to implement a community-based contraceptive project in rural areas.
- Assist the NPC as necessary to introduce the contraceptive "Norplant" into the national program by the end of FY 87.
- Formally assess performance of private sector organizations and review and refine monitoring and financing procedures for private sector organizations by the end of second quarter.
- Improve mass media population/family planning educational and promotional messages based on recommendations from feasibility assessment undertaken in FY 86.
- Increase the sale of contraceptives through the private sector social marketing project by 20 percent during FY 87.
- Ensure that the third National Contraceptive Prevalence Survey is conducted.
- Prepare major amendment to existing project or design new project by the end of second quarter

D. 2 HEALTH & NUTRITION

STRATEGY:

The USAID strategy is to shift from an emphasis on improving health delivery systems generally to an emphasis on reducing the unacceptably high mortality and morbidity caused by and largely preventable childhood diseases and excess fertility through:

- support for a range of child survival interventions, including:
 - expanded immunizations,
 - health and nutrition education,
 - continued emphasis on oral rehydration therapy,
 - child spacing, and
 - improved child nutrition;
- expansion of cost effective health services with emphasis on:
 - establishing a financing system which substantially and effectively recovers costs,
 - greater private sector participation, and
 - increased government insurance coverage; and
- expansion and better focus of biomedical and operations research on major health problems that affect Egyptian children and their mothers.

MILESTONES AND OBJECTIVES REACHED:

- GOE Policy approved establishing child survival as a priority health program in Egypt.
- Appointment of governmental steering committees for child survival and private sector health activities.
- Successful completion of oral rehydration therapy pilot program.
- Country-wide expansion of the oral rehydration therapy program.
- Agreement between USAID and MOH on a plan of action for a pilot iron fortification of wheat flour program that may eventually develop into a country-wide program to support activities to combat anemia.

OBJECTIVES FOR FY 1986 AND FY 1987:

FY 1986

Begin transition

From emphasis on improving health delivery systems generally

To an emphasis on preventive and public health care targeted to children and women of child bearing age.

FY 1987

Complete the transition

From emphasis on improving health delivery systems generally

To and emphasis on preventive and public health care targeted to children and women of child bearing age.

Reduce mortality from childhood diarrheal diseases by 25 percent.

SUPPORTING NARRATIVE:

The child survival and private health sector projects will shift USAID's focus

- From improving health delivery systems generally
- To preventive and public health care targeted specifically to children and women of child bearing age.

Prevention, early diagnosis and treatment of preventible diseases and illnesses affecting children will be specifically emphasized, while delivery of broad-based and curative services will be de-emphasized. The existing diarrheal disease control project will be expanded to make rehydration services as widely available as possible. The feasibility of increased direct UNICEF and WHO participation in child survival activities will be explored with officials of these organizations and with GOE health officials.

Increased participation of the private sector in all health and nutrition activities through such means as expanded health insurance coverage will be actively promoted under each program, especially the private health sector project. The issue of continued Government provision of free health care to all will remain the primary focus of policy dialogue for the health sector.

CRS, WFP and CARE, PL-480 Title II child nutrition programs will continue to provide nutritious meals for children

- through MCH
- through Day Care centers, and
- directly to needy children of Bedouin families in the Sinai.

Management of the USAID health and nutrition program will be accomplished within the current USDH and FSN work force of 4 US technical advisors/managers and 4 FSN technical/support staff. Duties will be shifted within the office to achieve the level of effort necessary for implementation of the two new projects, while at the same time maintaining proper oversight on existing projects during the FY 86-87 transition and phase-out period.

The Office Director will maintain overall responsibility for technical guidance, for supervision of the refocused USAID health program, and for the continuing policy dialogue with GOE health officials. A second USDH will have overall implementation responsibility for the child survival project and will be assisted by the two technical level FSNs. Another USDH will be responsible for developing and implementing the private sector project as well as phasing-out urban health project activities over the next 24 months. The fourth USDH employee will maintain prime responsibility for the phase-out of the rural health and Suez training projects and shall take on implementation responsibilities for the on-going Control of Diarrheal Diseases Project as the current project officer takes the lead with Child Survival activities. Current contract groups will continue their work on ongoing projects and will phase-out as rapidly as possible. The need for a US/Egyptian contract and a possible PASA team to assist with the new projects will be addressed at project design stages.

Achievement of the health and nutrition objectives for FY 86 depend on:

- GOE approval for the use of PD and S and possibly Special Account Egyptian Pound funds to finance a team of U.S. and Egyptian consultants to assist with the design of the private health sector initiatives project paper;
- use of project funds to employ one Egyptian and U.S. contract team to assist in developing the administrative structure for implementing the Child Survival project; and
- timely fielding of full-time TA contractors (4 py) for Child Survival

The FY 87 objectives will be achieved through:

- The actions of two direct hire project managers to terminate existing projects;
- likely use of PD & S funds to finance U.S. contract services (1 pm) to assist in amending and extending the Control of Diarrheal Diseases project;
- possible use of project funds to hire one Egyptian to assist with fielding and administrative support for the TA teams for the Private Health Sector initiatives and Child Survival projects; and
- possible use of limited part-time assistance from USAID direct hire project managers in the Industry and Support Directorate for the private sector health initiative.

SCHEDULE OF ACTIONS:

FY 1986

Child Survival

- Establish the Child Survival Secretariat.
- Initiate pilot iron fortification activity.
- Develop training plans and curricula and begin training and public education activities for immunizations, weaning food practices and the prevention, diagnosis and early treatment of acute respiratory illnesses.
- Develop formula for a weaning food supplement.
- Complete development of administrative structure for the Child Survival Project: 3rd quarter.

Private Sector Health Care

- Establish a health services delivery research unit in the Ministry of Health.
- Approve the Project Paper and sign Grant Agreement for the Private Health Sector Initiatives Project: 2nd quarter.

FY 1987

Child Survival

- Extend the Control of Diarrheal Diseases Project: 2nd quarter.
- Field the prime technical assistance team for the Child Survival Project: 1st quarter.

Private Sector Health Care

- Field the prime technical assistance team for the Private Sector Health Initiatives project: 3rd quarter.
- Introduce a computerized management information system for the Health Insurance Organization in Alexandria and Cairo.

Terminating Activities

- Graduate the first class of community medicine oriented physicians from the Suez Canal University Medical School.

- Complete construction of eight General Urban Health clinics and the Center for Social and Preventive Medicine in Cairo.
- Terminate the Rural Health Project: 3rd quarter.
- Terminate the Suez Health Training Project: 3rd quarter.
- Terminate the Urban Health Delivery Systems Project: 4th quarter.

D. 3 EDUCATION AND TRAINING

STRATEGY:

Achieve functional literary and numeracy for the maximum number of the Egyptian population. Improve essential technical and managerial skills. Provide broader access to English language training.

MILESTONES AND OBJECTIVES REACHED:

- Five additional governorates included under Basic Education Project.
- Vehicle Maintenance Training Project completed; Training Center in operation.
- 200 Basic Education Schools (out of 500) completed and instructional materials distributed to 15,000 schools.
- 1,295 Egyptians given English Language Training and 2,060 Egyptians sent to the U.S. for development training in FY 83 and FY 84.
- Technical studies of Basic Education completed by TA contractor on: Teacher Training, the Cost of Education and School Design.
- International team of specialists completed survey of Secondary Technical Education.

OBJECTIVES FOR FY 1986 AND 1987:

- Continue to support GOE goal of increasing access to schools through building 75 - 100 schools annually, while simultaneously discussing with the Ministry of Education (MOE) the quality issue, as measured by the attainment of functional literacy and numeracy.
- Consolidate training activities under a major new training project.
- Coordinate university research support under a new S & T program.
- Encourage greater use of U.S. training facilities through improved publication and advertising of U.S. training opportunities.
- Provide a substantial increase in the numbers of Egyptians receiving English language training.

SUPPORTING NARRATIVE:

In basic education, we will increase access to schools through a gradual expansion of new construction into more rural areas. We will address quality issues through facilitating the GOE distribution of improved instructional materials and equipment, increased support to teacher training programs and, in urban areas, the construction of replicable model schools.

This focus on rural areas and more modest attention to urban areas seeks to redress an excessive concentration of the USAID portfolio on Cairo and Alexandria and instead mitigate the rural-to-urban exodus through making rural areas more attractive. The GOE Ministry of Education would prefer a more rapid expansion of construction, particularly in urban areas. We believe that our recommended sharper focus dovetails better with the proposed USAID allocations (about \$25 million per year) and with the current staff (1 USDH and 1 FSN) managing the project with the assistance of consultants.

In secondary, technical and higher education, we will provide equipment, teaching materials and staff improvement for those areas where the development of the necessary skills are most needed for the improved operation and management of government and private organizations. We will be most responsive to funding requests where the capability of Egyptian counterparts is high enough to assure us that our funds will be well utilized. It has not yet been determined if the anticipated shift of higher education projects to S&T will result in a shift of some ET staff to S&T. In training we are substituting an FSN for a departing USDH.

Access to English language training will be broadened to meet our political interest in sending increased numbers of Egyptians to the United States and to assist our development training objectives by removing an important obstacle to technology transfer in many key technical areas where English manuals are in widespread use.

One FSN plus occasional assistance from the Development Training Officer can handle the current workload. The projected expansion in English language activities will require another full-time FSN professional. We believe that the proposed USAID allocations of about \$85 million per year and the available USAID/ET supervisory staff are sufficient to achieve these objectives. We will continue to improve procedures for ordering and delivering goods to the project site so that full benefit can be derived from technical assistance contractors.

SCHEDULE OF ACTIONS:

FY 1986

- Approve the Project Paper Amendment extending the Basic Education Project.

- Revise work plan for the Vocational Training for Productivity Project.
- Complete Project Paper for Secondary Technical Education (shelf project).
- Select contractor for institutional development portion of Development Training project 263-0125.
- Install AID/W computerized Participant Training Management System (PTMS).
- Increase numbers of U. S. professors supported through the Fulbright Program who will teach English at provincial universities.
- Implement soon-to-be-released AID/W guidelines on follow-up of returned participants (as part of the PTMS above).
- Implement GOE training plans for non-project training developed in consultation with GOE ministries and agencies.
- Increase the frequency and detail of reporting to MPIC on status of non-project related participant training actions.
- Transfer implementation of Peace Fellowships Project from U.S. Contractor to the Ministry of Higher Education.
- University Linkages Project: Bring the Foreign Relations Coordination Unit (FRCU) computing facility into operation and include it as an autonomous node in the Egyptian Information Network.
- Demonstrate examples of Educational and Manpower Planning Models with the MOE and the Manpower Planning Department of the Central Agency for Organization and Administration.

FY 1987

- Conduct Joint Central/USAID review of:
 - English Language Program
 - Peace Fellowship Program
- Develop Management Information System (MIS) system for Vocational Training for Productivity Project and complete curricula materials.
- Conduct meetings between Central Agency staff and USAID Technical Offices to finalize sector/ministerial training plans.
- Continue assistance to Ministry of Education to upgrade in-service training of English language teachers.

- Terminate the Vocational Training for Productivity, University Linkages and Development Planning Studies Projects.
- Transfer management of non-project training activities from MPIC to GOE agencies delegated this responsibility.
- Phase out non-project training under Project 0026.
- Oversee selection of prime and sub-contractors implementing the Development Training Project.
- Continue activities with the American University of Cairo to provide supplementary English language courses for Egyptians selected for training in the United States.

Project Funding:

FY 1986: -0-
FY 1987: \$25 million + \$25 million (shelf)
LCP : \$225 million

Project Purpose:

To engineer and construct a 1,200 MW thermal power plant together with the necessary transmission connections to the Unified Power System. The proposed project is a continuation of AID's extensive ongoing program to expand and rehabilitate the Egyptian electric power generation system, a major element of the infrastructure development program identified in USAID's CDSS.

Problems Addressed:

Egypt's annual growth in peak energy demand and consumption is exceeding installation of new capacity. Interruptions in service are frequent and adversely affect economic activity.

Energy prices are highly subsidized and discourage consumer conservation. Electricity rates are approximately 13 percent of world levels. The IMF, IBRD and AID have encouraged the GCE to initiate action to move energy price levels upwards over a 10 to 12-year period, and we have begun to see movement on this task.

Availability of trained operation and maintenance personnel is limited and will be further limited by the personnel requirements of generating stations currently under construction. Employees to operate and maintain the new facilities will require substantial training.

Description:

Based upon detailed investigation of a number of candidate thermal power plant sites in Egypt and an economic comparison of the sites, one site will be selected for the construction of a 1,200 MW thermal power plant. The project will provide for the engineering and construction of a new 1,200 MW thermal power plant together with the necessary transmission connections to the Unified Power System. The plant will utilize gas as the primary fuel with either Mazout or coal as the secondary fuel. The plant will comply with the environmental regulations of the financiers and Egypt.

Equipment and services will be packaged to meet the funding requirements of the various co-financiers. One or more major equipment packages and the contract for engineering and construction management services will be funded by AID.

Target Group:

An expanded and reliable power system will benefit both private and public productive sectors and the population in general.

Resource Requirements:

AID funds will finance technical assistance and major equipment packages as follows:

Engineering, procurement, construction	\$100 million
management, startup and training services	
Equipment	\$125 million

Project Funding:

FY 1986: \$50 million
FY 1987: \$60 million
LCP : \$160 million

Project Purpose:

To create an efficient, market-oriented automotive industry in Egypt.

The USAID's industrial strategy is to promote private sector industry as an efficient basis for Egypt's industrial economy. Priority is placed on assistance (primarily through credit) to firms operating in sectors:

- with high economic pay-out
- with export or import-substitution opportunities
- with a labor-intensive operation base
- with an opportunity for major productivity increases.

Problems Addressed:

Egypt's automotive industry suffers from many managerial, technical, and structural problems. There has been no strategy for the industry. There is a large number of makes and models in Egypt, but there has been no attempt to develop the market for locally produced repair and replacement parts (the "after-market"). Such an after-market should provide economies of scale and invite participation by the private sector in the development of the industry. Egypt also lacks the technical and managerial know how required to restructure and reform this import-intensive industry.

Description:

To help address this problem, USAID supported an automotive feeder industry study. The GOE later released a call for tender for a national car program. While a subsequent study concluded that the project described in the tender was not economically viable, alternatives warranted consideration, building on a reform of the existing, inefficient, public sector automobile assembly plant (NASCO). General Motors (GM) came to the same conclusion and proposed a combined export-oriented and import-substitution development strategy.

GM proposes to coordinate the modernization and private development of a significant industry that will in turn generate supply and service industries. It will do this through the privatization of NASCO, with GM as one of the equity partners. GM will:

- manage the new firm;
- assemble imported complete disassembled kits (CDK) from Opel;
- involve American and other western corporations in manufacturing components in Egypt for the local and export markets. These exports will hopefully earn the foreign exchange necessary to offset the foreign exchange costs of imported CDK sets; and
- achieve 50 percent local content by the end of the fifth year. GM will assist Egyptian firms to supply original and replacement parts. Efficient marketing, distribution, and consumer financing systems will be put in place.

The project will create demand for the Egyptian private sector manufacture of components and spare parts. It will attract American firms to invest in modern manufacturing operations in Egypt to supply components. Finally, the project will create trading arrangements, whereby manufacturers will earn foreign exchange by exporting high-quality, competitively-priced automotive parts.

USAID has informed the GCE and GM that AID participation in the project is conditioned upon:

- privatization of the assembly plant;
- GM equity participation;
- avoiding excessive tariff protection for the locally assembled vehicles; and
- setting prices for the cars based on the real costs of production.

Target Group:

The industrial labor force will benefit from jobs resulting from this project. Foreign exchange savings will benefit the economy in general.

Resource Requirements:

General MISR Car Company Equipment and Technical Assistance	\$45 million
Credit for Joint Venture parts manufacturing	\$115 million

Project Funding:

FY 1986 : \$30 million
FY 1987 : \$60 million
LOP : \$255 million

Project Purpose:

To expand credit for productive private enterprises. The project seeks to increase the private sector's share of industrial output. Emphasis on promoting the private sector is a recognized policy objective of both A.I.D. and the G.C.F.

Problems Addressed:

Private sector enterprises in Egypt face a variety of problems getting credit. Small scale enterprises generally are not able to get credit of any kind. Highly conservative banking practices coupled with a distorted COE interest rate structure prevent all but the largest and most credit worthy customers from getting medium to long term credit.

Description:

The project will have three major elements designed to meet the financial problems faced by the private sector.

- Medium Term Credit of 1-5 years will be available through participating commercial banks for the importation of raw materials, intermediate goods and capital equipment from the United States. This activity will be a modified version of the current Production Credit Project (263-0147). Minimum loans will be \$10,000 and importers will be limited to total usage of not more than \$1.5 million in any 12 month period.
- Term Credit for Project Financing will be similar to the current PIE Fund Project (263-0097). Project loans will be made for new plant construction or expansion. Credit terms will be tailored to specific projects but will generally be 5-10 years range. It is anticipated that loans would be up to \$5 million in value and could be used to leverage additional financing from the commercial banks.

- Short Term Credit for Small Scale Industries will be provided in Egyptian Pounds. It may be that local currency repayments of the dollar credits extended under the medium and long term components will generate sufficient Egyptian Pounds for this component.

The project will have a training and studies component to improve local banking skills and to undertake research into credit issues.

Target Group:

Beneficiaries will be Egyptian private sector enterprises and entrepreneurs and firms incorporated under Law 43. Specific types of firms, such as small scale enterprises or firms that export, will be targeted for preferential access to credit under the program.

Resource Requirements:

Medium term credit	\$144 million
Long term credit	\$110 million
Training and Studies	\$1 million

Short term credit for small scale enterprises will be funded by L.E. reflows from the first two project elements.

B. Shelf Projects for FY 1986 - 1987

The projects described in the following NPDS will be designed and made ready for funding in case one or more of the projects listed in core budget is not designed or approved. In the event that shelf projects substitute for core projects, the Mission staffing pattern, discussed in the Supporting Narrative section of each Sector Summary above, will need to be adjusted. Personnel may be shifted to different management units within the USAID offices or transferred among the Mission's offices.

263-0174: Canal Cities Water and Sewerage II

Project Funding:

FY 1986: \$3.0 million
FY 1987: \$10.0 million
LCP : \$400.0 million

Project Purpose:

To provide additional infrastructure needed to complete water and wastewater systems that are being improved under the current project and to improve water and wastewater services in other densely-populated areas in the Ismailia, Port Said and Suez Governorates.

The project supports USAID/Cairo's water and wastewater sector goal of improving the delivery of water and wastewater services to Egypt's urban population.

Problems Addressed:

The project will address the following problems in the Governorates of Ismailia, Port Said and Suez:

- Lack of adequate wastewater treatment facilities in the cities of Ismailia, Port Said and Suez. Existing treatment facilities are greatly undersized and provide little treatment.
- Lack of adequate water supply for the city of Port Said. The city's source of water supply, the Ismailia - Port Said Sweetwater Canal, does not have the physical capacity to meet currently water supply needs.
- Inadequate water and wastewater facilities in newly developed urban areas in the three Governorates. Existing efforts to expand facilities have not kept pace with population growth.
- Inadequate operation and maintenance of water and wastewater facilities in all three Governorates. The existing Canal Cities Water and Sewerage Project will train wastewater collection system O&M personnel in the three cities. Additional training and institutional development are needed to ensure proper operation and maintenance of the full range of urban water and wastewater facilities for the three Governorates.

Description:

The current Canal Cities Water and Sewerage Project provides for improvements to the existing water treatment, water distribution and wastewater collection facilities in the cities of Ismailia, Port Said and Suez. Construction of water and wastewater system improvements is well underway in all three cities and should be complete by the end of 1986. This proposed project would finance:

- new wastewater treatment facilities in the three Canal Cities;
- modifications to the city of Port Said's water supply system;
- various improvements to water and wastewater systems in rapidly developing urban areas outside the three cities;
- an institutional development and training program for water and wastewater personnel.

Implementing agencies will be:

- The National Organization for Potable Water and Sanitary Drainage for the construction of all wastewater projects and water projects outside the three cities.
- The Suez Canal Authority for the construction, operation and maintenance of water projects in the three Canal Cities.
- The Governorates of Ismailia, Port Said and Suez for the operation and maintenance of all wastewater projects and water projects outside the three cities.

The Mission will use experience gained in designing the current project and large-scale water and wastewater projects in Cairo and Alexandria in the development of this project.

Target Group:

The target group is the entire population of cities and towns served by the new facilities. This population is expected to exceed two million by the year 2000. Industrial and commercial establishments in the serviced areas will also benefit from improvements to water and wastewater delivery.

Resource Requirements:

Engineering Services	\$25 million
Construction	\$300 million
Commodities	\$60 million
Training/Institutional Development	\$15 million

Project Funding:

FY 1986: \$25 million
FY 1987: \$ 10 million
LCP : \$100 million

Project Purpose:

To improve the central Cairo water distribution system. This purpose will be met by upgrading and expanding the distribution system serving Rod El Farag water treatment plant and by expanding water storage capacity. The project directly addresses USAID/Cairo's infrastructure goal of improving the delivery of water to Egypt's urban population. The consistent delivery of quality water also addresses Mission and Agency health objectives.

Problems Addressed:

- Distribution bottleneck. The Cairo water supply system has been overwhelmed by a Greater Cairo population growth from about 4.8 million in 1960 to more than 12 million in 1985. This has exerted a tremendous burden on the water supply system. Water production capacity is being expanded in the central Cairo area serviced by the AID-supported Rod El Farag water treatment plant. The volume of water being treated is projected to double between 1985 and 1991. Existing water mains do not have the capacity to handle the increased water volume and pressure. To avoid a severe bottleneck, the present system must be expanded, upgraded, and reinforced.

- Inadequate Storage Capacity. Water storage facilities are also grossly inadequate. A preliminary assessment of the storage and distribution system estimated that 106,500 cubic meter per day of additional storage capacity is needed to meet normal requirements.

Description:

Cairo Water II is a follow-on project to Cairo Water I - the rehabilitation of the Rod El Farag water treatment plant.

Cairo Water II consists of three basic components:

- Engineering technical assistance;
- Procurement of water mains and associated equipment; and
- Construction of new facilities (water main installation and construction of reservoirs).

Installation of new water mains will provide a more dependable distribution system to a significant portion of the Cairo population. The additional storage capacity will allow the rehabilitated Rod El Farag plant to work at rated capacity and will minimize water shortages during periods of peak consumption.

Target Group:

The Rod El Farag water distribution system serves a 1985 population of approximately 6.8 million people in the most densely settled portion of Cairo. These people and the business establishments in the 34 square kilometer area are the direct beneficiaries of the project.

Resource Requirements:

The estimated requirements for A.I.D. financing are \$100 million, distributed as follows:

Engineering	\$7.0 million
Procurement and installation of distribution system	\$25.5 million
Reservoirs	\$67.5 million

263-0191: Alexandria Wastewater System Expansion II

Project Funding:

FY 1986: -0-
FY 1987: \$ 40 Million
ICP : \$215 Million

Project Purpose:

To provide additional improvements that are needed to complete the wastewater system for the Greater Alexandria Area. This project supports the GOE and USAID/Cairo's water and wastewater sector goal of improving the delivery of water and wastewater service to Egypt's urban population.

Problems Addressed:

The project will address the following problems in Greater Alexandria:

- raw sewage ponding in densely populated areas;
- raw sewage and industrial waste discharged into city's Mediterranean shoreline, Lake Maryout and irrigation canals;
- inadequate operation and maintenance of existing wastewater facilities.

Description:

This project is a follow-on to the Alexandria Wastewater System Expansion I project and provides additional capacity to address all wastewater collection and treatment needs for the Greater Alexandria Area. The project will accomplish the following outputs:

- enlarge the collection system to include the remaining unsewered areas;
- expand two primary treatment plants to meet projected population needs to the year 2000;
- expand sludge treatment and disposal facilities to meet projected population needs to the year 2000;

- develop a pilot, joint public-private sector program to treat toxic industrial wastes, and;
- provide training and human resources development for A/GCSD to upgrade its technical and managerial capability to operate and maintain the Greater Alexandria Wastewater system.

Implementing agencies will be:

- The Alexandria General Organization for Sanitary Drainage (A/GCSD)
- The General Organization for Industrialization (GOFI).

The Mission will use experience gained in designing and implementing the predecessor project and other large-scale wastewater projects in Egypt in the development of this project.

Target Group:

The target group is the population of Alexandria which will have 4.6 million permanent residents and 700,000 seasonal residents (tourists and visiting business persons) by the year 2000.

Resource Requirements:

Engineering Services	\$17 million
Construction	168 million
Operation and Maintenance	
Training / Support	30 million

263-0199: Urban Development Support

Project Funding:

FY 1986: \$30 million
FY 1987: \$30 million
LCP : \$145 million

Project Purpose:

To help the GCE to develop a national program to stimulate rational and efficient urban development, based on the experience of the Helwan Community Upgrading Project. This project is consistent with the AID Policy Paper on Urban Development. It aims to achieve the Mission's strategic urban objectives of:

- efficient accommodation of Egypt's urban growth,
- stimulation of private sector urban employment, and
- development of a broad institutional base that can deal effectively with the challenge of rapid urbanization, especially informal development and the needs of the urban poor.

Problems Addressed:

Expansion and institutionalization of the GCE's experimental program of upgrading informal settlements and developing adjacent land will address the following problems:

- Rapid urbanization is taking place in unplanned and unserviced informal settlements of the urban fringe of Greater Cairo and other cities.
- Problems of existing low-income informal settlements require alleviation.
- Channeling growth into more efficient patterns of intensive land-use is needed to minimize urban sprawl on agricultural land.
- There is a need to develop within the GCE a programmatic response to informal urban development at central and local levels.
- There is a need to foster government cooperation with the private sector in urban development.

Description:

This project is a follow-on to the successful Community Upgrading pilot projects under Grant 263-0066, which is scheduled to end in December, 1986. The project aims to broaden cooperation between the public and private sectors in improving informal urban areas. The project will strengthen the capacity of the Joint Housing Projects Agency (Ministry of Housing and Utilities) to provide policy guidance, advisory services, community organization assistance, coordination and financing for comprehensive urban upgrading and land development projects in cooperation with local government units. The project will also establish credit systems to finance private housing/neighborhood improvement and micro-enterprise development in informal settlements. It will demonstrate:

- workability of housing and infrastructure standards affordable by a wide range of the urban population; and
- mechanisms that will increase the proportion of public cost recovery.

The project addresses the following areas of special Congressional concerns:

- Environment: Upgrading of informal settlements will have a positive impact on the residential environment by removing sewage and solid waste from the communities.
- Private sector: Home improvement and micro-enterprise credit will encourage private housing construction and job creation.
- PVO activities: Assistance to neighborhood PVO's will strengthen community participation in the upgrading process.

Target Group:

The project's target group is the residents of informal settlements on the urban fringe of Greater Cairo. The majority of these beneficiaries are low-income families.

Resource Requirements:

Preliminary Budget Summary (LOP) in \$ Millions

Technical Assistance (U.S.)	\$ 6.6 million
Engineering/Construction Supervision (Local)	\$ 8.1 million
Construction	\$ 104.7 million
Credit	\$ 24.6 million
Training	\$ 1.0 million

263-0207: Distribution Capacitors

Project Funding:

FY 1986: -0-
FY 1987: \$35 million
LCP : \$35 million

Project Purpose:

To improve the power factor and efficiency of the Egyptian national power system by installing capacitors on distribution circuits throughout Egypt. The proposed project is a continuation of AID's extensive ongoing program to expand and rehabilitate the Egyptian power system. Development of economic infrastructure is a major component of USAID's country strategy for Egypt. The CDSS identifies expansion of the electric power and natural gas systems as necessary infrastructure for industry, agriculture, and residential use.

Problems Addressed:

The current inefficient operation of the Egyptian power system results in excessive losses and voltage drops. These controllable losses, estimated to exceed 3,000 million kilo watt hours annually, are caused by the failure to compensate for transmission circuits and transformers supplying customers.

Description:

The proposed Project will provide for the engineering, design and installation of an estimated 3000 megavars of fixed and switched capacitor units which will improve the power factor and efficiency of the Egyptian Power System. Engineering design, specifications, procurement and installation supervision will be by a U.S. engineering consultant.

Modern, well operated electric utilities in the U.S. use capacitors to maintain a system power factor of 0.95 - 0.97. The majority of developing countries utilize capacitors only to a limited extent, if at all. Egypt has not used any capacitors, and portions of the system operate at a power factor as low as 0.65. Correcting the power factor to 0.95 will enable generating, transmission, substation and distribution facilities to be used for increased power loads.

Target Group:

An expanded, more efficient power system will benefit all Egyptians by contributing to overall economic growth and by increasing the availability and reliability of power for both the public and private sector consumers.

Resource Requirements:

Commodities	\$32 million
Technical assistance	\$3 million
Installation and miscellaneous commodities	LE 3.6 million

263-0196: Talkha Combined Cycle

Project Funding:

FY 1986: \$80 million
FY 1987: -0-
LCP : \$80 million

Project Purpose:

To convert the heat being exhausted from the existing gas turbines at Talkha to additional electric energy. The proposed project is a continuation of AID's extensive ongoing program to expand and rehabilitate the Egyptian electric power system, a major element of the infrastructure development program identified in USAID's CDES.

Problems Addressed:

The gas turbines at Talkha are exhausting substantial quantities of heat which could be recovered and used to produce additional electrical power and energy.

Project Description:

A U.S. contractor will design, install, test, and place in operation a 90 MW combined cycle add-on plant at the Talkha gas turbine plant. The unit will consist of heat recovery steam generators (boilers), steam turbine generators, mechanical auxiliary equipment, remote control systems, and necessary piping, circulation water supply, control interconnection, and expansion of the existing 220 KV substation and existing control room. A U.S. consulting engineer will provide necessary related technical and project management assistance during the design, manufacturing, installation, testing and startup in Egypt.

Target Group:

An expanded, more efficient power system will benefit all Egyptians, by contributing to overall economic growth and by increasing the availability and reliability of power for both public and private sector users.

Resource Requirements:

Professional Services	\$5 million
Construction	\$75 million
Local Currency	LE 10 million

263-0195 Alexandria Regional Control Center

Project Funding:

<u>FY 1986:</u>	\$35 million
<u>FY 1987:</u>	-0-
<u>LCP</u> :	\$35 million

Project Purpose:

To improve the power factor and efficiency of the Egyptian Power System. The proposed project is a continuation of AID's extensive ongoing program to expand and rehabilitate the Egyptian Power System. It contributes to achievement of USAID's strategic goal of expanding and improving Egypt's economic infrastructure.

Problems Addressed:

The supervision and control of the Alexandria Distribution system is dependent on obsolete and unreliable communication systems and does not provide for the automatic recording of critical data. The timeliness of operating decisions is impaired by:

- delays in communication;
- lack of information on equipment status, voltage levels and power flows from which data analysis and decision making can be based; and
- inadequacies in the communication systems by which decisions are communicated to the field.

Description:

The project will provide for the construction and installation of a computer and communication system in Alexandria for the monitoring and control of the sub-transmission and distribution system in the Alexandria zone. The system will provide reliable power supply of proper voltage, notify operators of interruptions in service, and alert operators to abnormal conditions.

Critical to success of the project will be participant training in the programming and maintenance of the control center and the remote terminal units at the outlying substations.

Target Group:

An expanded, more efficient power system will benefit all Egyptians by contributing to overall economic growth and by increasing the availability and reliability of power for both the public and private sector consumers.

Resources Requirements:

Consultant Services	\$5 million
Equipment and Construction	\$30 million
Construction	LE 6 million

263-0208 Thermal Power Plant Rehabilitation

Project Funding:

FY 1986: \$-0-
FY 1987: \$20 million
LCP : \$100 million

Project Purpose:

To restore capacity, availability and efficiency of electric generator units presently operating at below nameplate rating and design efficiency. USAID's country strategy identifies the development of Egypt's electric power and natural gas systems as necessary for increased productivity in industry and agriculture and for residential use.

Problems Addressed:

Many of the thermal power plants of the Egyptian Electrical Authority (EEA) are operating at levels far below their design output and efficiency and are subject to frequent breakdowns.

Description:

The proposed project will finance the equipment and services to rehabilitate existing thermal generating units in six generating plants. Major equipment to be upgraded at each plant will include the boiler, condenser, turbine, plant auxiliaries, instrumentation, water and fuel treatment. The skills of operators and maintenance staff will be upgraded through training programs.

Target Group:

An expanded, more efficient power system will benefit all Egyptians by contributing to overall economic growth and by increasing the availability and reliability of power to industry, agriculture and residential customers.

Resource Requirements:

Technical Assistance	\$3 million
Equipment and Installation Services	\$92 million
Training	\$5 million

263-0177: Telecommunications IV

Project Funding:

FY 1986: \$50 million
FY 1987: \$50 million
LCP : \$175 million

Project Purpose:

To assist the GCE in meeting the growing demand for telecommunications services. The proposed project is consistent with USAID/Cairo's long-range objectives for the provision of infrastructure for economic and social development.

Problems Addressed:

- There is a large unmet demand for telephone service in Egypt, as indicated by the waiting list for service installation.
- ARENTO (The National Telephone Organization) needs better and more detailed information on its present system, employee assignments, costs alternatives, etc., for its planning, administrative and financial decisions.
- ARENTO's ability to operate and maintain the system needs to improve.
- Computer data transmission is becoming increasingly important to the Egyptian economy, but availability and level of service on existing lines are not sufficient to provide reliable data transmission.

Description:

The existing USAID Telecommunications program consists of three separate project agreements (Nos. 263-0054, 263-0075, and 263-0117). Implementation is going well and is approaching the final phase.

This project will build on and reinforce the institutional capacity already developed under this existing program and will address the four problems listed above by:

- providing approximately 100,000 new telephone lines for Cairo.
- continuing automation and institutionalization both of data collection and analysis, for management purposes, and of customer billing and accounts.
- providing technical assistance to improve O&M work assignments, crew organization, transport to site, worker productivity and repair documentation in these target C&M areas.
- providing a phased "switched data network" in Egypt, to allow the existing telecommunications system to transmit large amounts of data for banks and other businesses.

Target Group:

Beneficiaries would be private and public enterprises, government and social service organizations with data communication needs, and residents of the proposed new exchange areas.

Resource Requirements:

Equipment installation:	\$125 million
Technical Assistance:	\$ 30 million
Contingency:	\$ 20 million

263-0185: Cement Pollution Abatement

Project Funding:

FY 1986: -0-
FY 1987: \$20 million
LCP : \$40 million

Project Purpose:

To reduce dust emission and replace existing inefficient production equipment in the cement industry. The proposed project will assist the Government of Egypt in its attempts to reduce severe air pollution and increase production capacity through recovery of lost product.

The project supports the CDSS objectives by increasing industrial productivity. It also supports Agency environmental concerns. USAID limits its support for public sector industry to projects that will result in either a greater private sector role in marketing the output of the industry or in reduced environmental pollution.

Problems Addressed:

An air pollution evaluation for four of the five operating cement factories in Egypt found serious raw material waste, product losses and dust emissions occurring throughout the industry. The survey identified the Cement industry as the major stationary source of air pollution in both Alexandria and Helwan. The total dust emission from the four facilities is estimated to be about 700,000 metric tons/year, or approximately 14 percent of production, posing serious health hazards in the neighboring urban areas.

These problems were attributed to: (1) a general lack of dust suppression equipment, (2) inoperable or inefficient operation of existing dust suppression equipment and (3) inadequate procedures for alkaline dust disposal from the dry process lines. Although there is a considerable amount of dust collection equipment installed throughout the four plants, significant emissions still occur because of leaks and inoperative or marginally operative control equipment.

Description:

There are five operating cement factories in Egypt:

(1) Alexandria Portland Cement Company at Alexandria, (2) Helwan Portland Cement Company at Helwan, (3) National Cement Company at El Tebbin/Helwan and (4) Tourah Portland Cement Company at Tourah/Helwan and (5) Suez Cement Company at Suez. A national industrial pollution inventory jointly conducted by the Government of Egypt and USAID/Cairo from 1979-1981 resulted in the identification of an air pollution abatement program for the industry at all of the plants except Suez. Western International Inc. completed an air pollution abatement and concept evaluation report in December 1984.

This project will purchase and install new pollution control equipment and rehabilitate existing production equipment which is still useable and cost effective in the plants. This will include the procurement of new bag filters or electrostatic precipitators, repair of existing electrostatic precipitators, procurement of vacuum systems for mills and packing, procurement of vacuum trucks and required engineering services.

The project will also include the scrapping of old, inefficient and inoperative production equipment and the purchase and installation of 3 new mills with ancillary packaging/loading equipment and new dust suppression equipment. This project will require 30-36 months to complete. The overall dust control efficiency will be designed at 95 percent. The Egyptian implementing agency will be the Ministry of Housing.

Target Group:

The project would have significant benefits for the public health of residents in areas near the assisted cement plants and would improve the efficiency of the plants. It would result in yearly total dust recovery of product worth US\$ 10-12 million through pollution control investments.

Resource Requirements:

The proposed project would require U.S. \$ 40 million in foreign exchange costs and U.S. \$8-10 million in local currency. AID would fund the foreign exchange costs as follows:

- Commodities	\$30 million
- Construction works/services	\$5 million
- Engineering and Technical services	\$5 million

263-0186: Fertilizer Supply

Project Funding:

FY 1986: -0-
FY 1987: \$75 million
LOP : \$195 million

Project Purpose:

To assist the GCE increase domestic output of nitrogen fertilizers by establishment of a modern nitrogen fertilizer production complex. This project will support AID's strategic goals of increasing the private sector's role in heavy industry and increasing productive efficiency.

Problems Addressed:

- Subsidies on industrial inputs (e.g electricity to fertilizer plants) and agricultural inputs (fertilizer) represent a burden on Egypt's public finances and distort resource allocations.
- Forecasts of the demand for nitrogen fertilizer exceed present domestic production capacity.
- The farmer is not efficiently served by Egypt's public sector fertilizer distribution and marketing system.
- A significant proportion of domestic fertilizer production is produced at obsolete factories.

Description:

The current GCE Five-Year Development Plant includes approximately \$270 million for rehabilitation and completion of expansion programs of the existing fertilizer plants. The present level of Egyptian fertilizer consumption is 700,000 metric tons per year (MTPY) of nitrogen fertilizers, which are the most widely used fertilizers in Egypt. The consumption of nitrogen fertilizers has been rapidly increasing over the past ten years.

The GCE is becoming more conscious of energy efficiency and more aware of the need for economic production units to meet present and future nitrogen

fertilizer needs. Egypt will move from near balance in the supply and demand for nitrogen fertilizer to a deficit in 1995 of approximately 50 percent for nitrogen fertilizers. The GCE plans to restructure the Egyptian fertilizer industry, specifically focusing on nitrogen fertilizer. UNICO (JAPAN) has completed a feasibility study for the rationalization and expansion of a fertilizer complex at Suez, one of two plants needed to meet Egypt's nitrogen fertilizer requirements for both the near and long term. USAID is financing a second study to determine the most economically advantageous location for the second plant at one of four possible sites in upper Egypt: Aswan, Qena, Assiut and Safaga. The plant, if built, will require at least partial private sector equity participation.

A key component of the project will be a small technical assistance team to improve the distribution and marketing of fertilizer and to facilitate the smooth transfer of these functions to the private sector.

USAID anticipates conditioning assistance to this sector upon:

- a realistic fertilizer price policy and structure which would at a minimum allow a "break-even" equilibrium in operations and maintenance of the complex, and
- phased privatization of fertilizer distribution and marketing.

Target Group:

The major beneficiary of this project will be the Egyptian farmer who will have available a sufficient quantity of the right type of nitrogen fertilizers at stable, rational prices. This increased domestic production would meet a large part of Egypt's agricultural production requirements well into the 1990's. The other immediate major beneficiary of the project will be the Government of Egypt, which presently imports large quantities of nitrogen fertilizers. A reduction in imports will represent a foreign exchange savings.

Resource Requirements:

The foreign exchange costs are estimated at U.S. \$ 195 million for either the modernization of the plant at Aswan or the construction of a new plant, the location of which will be identified in the current study. The summary budget for LOP is as follows:

Construction	\$50 million
Commodities	\$125 million
Technical Assistance	\$20 million

263-0205: Business Development Center

Project Funding:

FY 1986: \$18 million
FY 1987: -0-
LOP : \$18 million

Project Purpose:

To increase production, productivity, and employment in the industrial sector through expansion of private industry. This project complements the Mission's credit-based support to the private sector. It will provide technical assistance and technology transfer as key elements to the package of assistance focused on the private sector. The project directly addresses USAID's strategic objective of increasing industrial productivity. It is also consistent with the Agency's policy emphasis on private sector production.

Problems Addressed:

Private sector enterprises in Egypt need assistance in several ways. Their credit needs are major and are addressed in another project. However, they also need a variety of services. These services range from things as simple as improved market information to sophisticated technology transfer and managerial approaches. In order to expand production and productivity of the private sector in Egypt, capital resources are not enough -- these firms also need help in developing the skills and tools that will enable them to make the most efficient use of all their resources.

Description:

In most cases, business services should come from the private investors themselves, especially when a U. S. partner is involved. It is the owners, themselves, who should be interested in new technology and managerial change for example, because it directly relates to their compensation and their profits.

In some cases, though, particularly for the medium and small firms, there must be some pooling of resources in order to share the costs of the services being provided. After extensive discussion among private businessmen, bankers, and GOE officials supporting the private sector, they have reached a general

consensus that there should be a private business development center to make available those services that are most in demand by private businesses.

USAID/Cairo supports this idea. By means of the Business Development Center project, we can provide the "seed" money to help establish a non-profit business center that is run by private businessmen, used by the private businesses, and ultimately sustained through user charges.

The decision on the choice of services to be provided by the Center will come from the demand shown by the users themselves during design and implementation. Illustrative services include:

- Industrial planning and start-up services, including industrial surveys, legal research, technology-choice, financing and marketing.
- Consulting services in essential operating functions, such as maintenance, inventory control, quality assurance, accounting, and personnel.
- Management training.
- A business information center and library.
- A business promotion program that will link the Center to various organizations representing and servicing the business community in Egypt.

A Steering Committee for the Center will decide which firms are eligible for more extensive longer-term services required for installing management, technological, and other systems through initial implementation.

Target Group:

About 250 medium size industrial firms will receive intensive assistance. The average size firm would have about 40 employees and a loan of \$2 million. Another 150 to 200 medium-size firms will receive less intensive assistance. Investment institutions providing credit would be responsible for project governance and for deciding which of their client firms will qualify for EDC services.

Resource Requirements:

Egyptian and U.S. technical assistance	\$10.0 million
Other services (promotion, manuals, commodities for information center, etc.)	\$7.5 million
Evaluation	\$0.5 million

263-0189: Secondary Technical Education

Project Funding:

FY 1986: -0-
FY 1987: \$20 million
LCP : \$100 million

Project Purpose:

To lower the cost of providing specialized technical training required in the private and public sectors by investing in the improvement of public secondary technical education.

This project is consistent with USAID's strategic focus on human resources development. It also responds to the GOE's recent strong emphasis on technical and vocational training at the secondary level.

Problems Addressed:

This project will deal with four major problems:

- duplication, overlap, and gaps in course offerings, caused by lack of coordination among 8-12 ministries planning and managing programs,
- the inability of technical schools and vocational training centers to accommodate more students and provide quality programs that are relevant to the needs of employers,
- the GCE's inability to provide sufficient funds both to meet recurrent costs and promote improvements, and
- constant turnover of instructional personnel.

Description:

This project will be designed to enable participating institutions to provide fundamental education to more students. It will improve the ability of selected secondary technical schools to provide broad based, technically relevant pre-vocational skills to learners, who will then go on to participate in private and public industrial training programs. In addition to providing

appropriate technical education, cooperation and coordination among the private sector and various ministries, the project will foster in-service training for members of the workforce. Through the provision of local experts, participant training, and commodities, the project will:

- develop a masterplan for secondary technical education,
- train a corps of administrators and instructional staff at three model schools to replicate improvements throughout the system,
- upgrade the occupational and pedagogical competencies of vocational instructors,
- replace obsolete and inoperable equipment with appropriate state-of-the-art equipment and improve the system of equipment management and maintenance,
- incorporate into the curricula income generating activities that can help defray operating expenses of the schools,
- develop more appropriate instructional materials to help increase comprehension and retention, and
- use program advisory committees with strong private sector representation to establish and maintain acceptable national standards of quality in all programs.

Target Group:

There are 195,000 students now served by the 148 secondary industrial schools. These students will be the immediate beneficiaries of improved secondary technical education. The project will also demonstrate how additional persons could be served at minimum cost to the institutions. Eventually all of the secondary industrial schools and various training centers will derive benefits from the project. The agricultural, commercial, and administrative/services schools may receive only residual benefits.

Resource Requirements:

Technical Assistance	\$2 million
Participant training	\$1.7 million
In country training	\$5.5 million
Curriculum assessment adaptation	\$8 million
Commodity procurement	\$90 million

III. PL-480 NARRATIVE

A. TITLE I

1. Host country food situation

a. Production.

Primarily because of the government's inefficient intervention policies, domestic agricultural production has been growing at only about 2 - 2.5 percent annually during the last decade. The agricultural sector provides a diminishing portion of the country's food requirements. In 1984 domestic production of primary food commodities covered about 57 percent of total consumption. Wheat has one of the lowest self-sufficiency ratios, 22 percent in 1984. Domestic production of wheat reached 1.8 million metric tons (MT) in 1984, while total consumption stood at 8.1 million metric tons in the same year.

b. Import requirements.

Government pricing policies for wheat encourage consumption while discouraging production. This has resulted in a continued growth in demand for wheat and flour imports. Egypt currently imports about 25 percent of its needs for wheat and flour. In 1984 wheat and wheat equivalent imports reached 6.3 million MT. In dollar terms, Egypt imported \$783 million worth of wheat and flour in 1983. About one third of Egyptian wheat and flour is imported from the U.S.

c. Ability to import commercially.

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

2. Country policies and activities in the food sector

The primary objectives of the GOE food policy are the promotion of social equity, price stabilization and maintenance of adequate nutritional standards for the population. To achieve these objectives, the government operates an extensive nationwide subsidy scheme, under which food is sold at prices below its international levels. In addition the government controls the marketing and distribution of a number of essential foods which are distributed through ration cards held by about 90 percent of the population. Food subsidies currently constitute about 11 percent of the government's current expenditure,

15 percent of current revenues and about 37 percent of the gross budget deficit. While the present food policy plays an important equity and political role, it constitutes a burden on economic resources. USAID has been encouraging the GOE, through self help measures, to initiate major reform in its present food policies.

3. Use of proposed commodities

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

4. Policy changes to be supported

See 5

5. Self-help measures.

The self-help measures provide a very important link between food aid and agricultural development policies of the GOE. The self-help program for FY 85 requires the GOE to undertake certain measures to increase agricultural production and reform the price structure of farm inputs and output. The program stipulates that the government:

1. Improve the structure of prices and farm production incentives by increasing producer prices for major export crops up to world levels.
2. Eliminate subsidies of agricultural inputs, e.g. fertilizers.
3. Encourage private marketing and distribution of farm inputs.
4. Reduce the burden on the treasury by reducing overall food subsidies and channelling them to targeted low income groups.

During FY 84 the GOE has made good progress regarding items 1 and 4. Procurement prices of cotton, wheat, onions, and groundnuts have been raised. In March 1985 the procurement price of rice was also increased. With regard to food subsidies, the price of bread has been doubled from 1 to 2 piasters. Additionally, the Ministry of Supply indicates that beef and maize subsidies will also be cut during 1985/86. However, no significant progress has been made towards items 2 and 3. USAID will continue to encourage the GOE to undertake the stipulated reform measures. Consultations involving officials of USAID, MPIC and the ministries of Agriculture, Economy and Supply are held regularly to discuss progress towards self-help objectives.

6. Uses of Local Currency

PL 480 agreements require the government to use net sales proceeds for financing the self-help measures and for developing the agricultural and rural sectors. Although USAID does not participate in the programming of local currency sales proceeds, the Ministry of finance submits an annual report on use of proceeds. FY 1984 report indicated that net proceeds have been incorporated in the government central budget and used to finance food subsidies and development programs in the agricultural sector.

7. Storage and distribution problems

A study of storage and distribution systems showed that the primary grain handling and distribution constraints up to the year 2000 will be associated with the handling of imported wheat. Absence of bulk handling facilities increases handling and storage costs. Reported wheat flour losses are of the magnitude of 10-12 percent resulting from inefficient handling techniques. A major program is underway to increase inland storage capacity. The government recently issued international tenders for the construction of 16 silos throughout the country. This will be a key element of the proposed transition to bulk handling and reduction of losses and costs.

8. Disincentives to local production.

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

B. Title II

1. Relationship to Mission Strategy and Program

A.I.D. and the GOE have agreed to phase down the Title II program and to eliminate it by the end of FY 1989. We share the view that optimal impact of Title II resources has reached a point of diminishing return in Egypt. USAID's strategy is now to phase down and terminate the School Lunch program by the end of FY 1985, the Other Feeding and General Relief programs by the end of FY 1988, and the Maternal and Child health program by the end of FY 1989. As the current program is phased out, USAID will begin support for the development of a soy-based weaning food supplement if this proves feasible. It would be made locally by a food processing technology transferred from the United States. A three-year Phase I (FY 1986 - 1988) Weaning Food Supplement activity will test the feasibility of developing a culturally acceptable weaning food supplement, a distribution system that will maximize availability of the supplement to mothers, and an education program to encourage mothers to use and pay for the supplement. Support will also be given for development of a nutrition education program to mothers to prepare wholesome weaning foods from village food sources in place of Title II foods.

This Title II strategy supports USAID's strategies in health and nutrition and private sector industry.

Title II commodities help reduce infant mortality and morbidity by providing nutrients to infants and mothers in support of the Child Survival initiative. If the program proves feasible we would look to one of our private sector credit programs for possible financing of a production facility for weaning foods.

2. Need for Complementary Inputs:

USAID is integrating with the Title II program complementary inputs from several sources to ensure that nutritional gains of the Title II program are not lost as Title II is phased out. Consistent with AID policy, PVOs will continue to be utilized to the maximum extent possible in providing these inputs. A proposal for the development of a culturally acceptable, inexpensive, fortified soy based weaning food supplement prototype and the distribution system necessary to make it reliably available to mothers will be financed out of existing AID Health and Nutrition funds as soon as GOE approval is given. Support for the two year second phase of this activity, which will establish a facility to produce the weaning food supplement, will be provided through the proposed Child Survival Project or through use of our private sector credit window. The Child Survival Project will also support the complementary four-year, goal-oriented nutrition education program to teach mothers to prepare wholesome weaning foods from village food sources.

3. USAID Title II Monitoring Plan:

Monitoring of the Title II program will continue to consist of critically reviewing regular reports submitted to USAID by CRS and CARE on receipt and distribution of Title II commodities and participation in regular evaluations such as the mid-year stock evaluation. USAID will also continue to monitor and follow-up as appropriate local press reports of GOE and PVO problems with the handling of Title II commodities. Our monitoring relies on information gathered by PVO field inspectors (CRS employs six and CARE nine field inspectors) and, in the case of distribution to MCH, clinics on GOE central audit personnel headquartered at the governorate level. The focus of USAID performance monitoring also will continue to emphasize such concerns as: (1) assuring, primarily through the mid-year stock evaluations, that adequate commodities are available to maintain feeding programs and surplus stocks are released for use in other countries, (2) determining the extent of inland pilferage and initiating appropriate remedial action and (3) determining levels of port losses and advising AID/W of higher than acceptable levels of marine loss on lash-type vessels.

4. Differences Between GOE, PVOs and Mission:

The USAID has no differences with the GOE or the PVO CARE. There are several differences, however, between USAID and CRS. These include the following:

a. Phase out of the Title II program:

USAID, in conjunction with the PVO's, reached the decision to begin phase out of the Title II program between FY 85 and FY 88. Discussions between CRS and USAID officials and the CRS Operational plan indicate that CRS now may need until FY 89 to complete the Maternal and Child health phase out. The Operational Plan of CRS refers to a tentative FY 89 termination of the program, a gradual phase over to MOH responsibility, and reductions in Title II commodities "over the next five or six years". The Mission proposes that AID/W support this modest adjustment.

b. Monetization of the Title II program:

CRS has submitted a proposal to USAID to allow the sale of Title II commodities. USAID has informally discussed the proposal with AID/FFP who pointed out that this may not be possible under current regulation. If it were possible either through a broader interpretation of the regulation or a change in the regulation USAID would support the proposal as an innovative approach to PVO/USAID relationships, particularly considering the world-wide reputation the CRS/Egypt program has.

c. The Nutrition Education II project:

This project is a potentially important vehicle for smoothing the transition

from reliance on Title II commodities to the use of indigenous resources for preparing weaning foods for local consumption. The project needs to be redesigned in order to meet this potential value. CRS has proposed to redesign the project. USAID will propose a joint CRS-USAID evaluation of the project before deciding how to proceed with follow-on nutrition education activities.

d. Selection and Use of Commodities:

CRS's selection and introduction of Instant Corn Soy Milk (ICSM) in its child nutrition programs has met with some resistance from recipients and has led to reports of misuse. CRS feels that its reduction of its ICSM requirement by 50 percent is an adequate response to the situation. USAID feels that further reduction may be warranted if recipient utilization is not demonstrably improved soon.

IV. EVALUATION PLAN NARRATIVE

Strategy:

The Mission's evaluation program serves as a tool of both project management and program planning. In FY 86 and FY 87, the Mission will continue to rely on a combination of project specific and broader multi-project evaluations with a particular emphasis on impact and generic sectoral issues. USAID/Cairo plans to pursue the strategy described in the FY 86 evaluation plan narrative of:

1. scheduling fewer evaluations,
2. concentrating on high priority sectors that have not been evaluated in the past, and
3. more effectively using evaluation findings in project implementation and future design efforts.

Since the vast majority of projects in the agriculture, human resources, and decentralization sectors have been evaluated in the recent past, a particular emphasis will be placed on infrastructure and industry in FY 86/87. By limiting the number of evaluations performed, the Mission will be better able to absorb lessons learned.

The evaluations scheduled in FY 86/87 meet one or more of the following criteria:

- institutionalization/sustainability is an issue,
- it is a pilot activity with broader implications,
- the project is particularly relevant to future programming,
- the project has never been evaluated, and
- the activity is at a stage where impact can be measured.

USAID Issues in FY 86/87:

The approach of including a number of related projects under an assessment reflects methodological lessons learned from the recent review of the water/wastewater sector and industrial productivity. USAID has found that there are a number of advantages to the assessment approach, particularly when dealing with capital projects. Assessments are less likely to focus on the provision of inputs and outputs (the primary responsibility of project

monitoring) and instead address purpose-level achievements and generic sectoral issues. Consequently, the Mission has scheduled assessments of USAID projects in the electricity sector and possibly storage facilities and industrial implementation experiences. Since many of USAID's projects in infrastructure and industry are close to completion, this will provide an opportunity to do a preliminary evaluation of impact. These efforts will also allow for an analysis of institutionalization and future strategy development.

While USAID will increase its emphasis on industry and infrastructure, a number of evaluations will continue to be performed in other sectors. The life of project evaluation programs of the Basic Education (263-0136) and the Neighborhood Urban Services (263-0161.05) Projects will proceed as planned. The local development program will continue to be evaluated closely to determine the effectiveness of the decentralization process. Some projects that have never been evaluated - such as Population (263-0029/0144) and the Project Development and Support (263-0042/0102) - will be reviewed for the first time. Several particularly innovative projects such as Suez Community Health (263-0136), Energy Policy Planning (263-0123), Development Planning Studies (263-0051) and Mineral, Petroleum, and Groundwater Assessment (263-0023) will be evaluated to determine the sustainability of the institutions being developed.

A number of the evaluations scheduled for FY 86/87 will play a particularly important role in future programming. Some evaluations, such as Tax Administration (263-0115) and the International Executive Service Corps Component of the Business Support and Investment Project (263-0159), will be tied to specific decisions on funding increases. Others, such as Agricultural Mechanization (263-0031), Agricultural Management Development (263-0116), and Peace Fellowship (263-0110), will provide general lessons learned applicable to future projects in their respective sectors.

In FY 86/87 USAID/Cairo intends to utilize evaluation findings in a more systematic manner. The development of a regular reporting capability on pending evaluation recommendations through the Mission's management information system will allow for more effective follow-up. This system serves to remind project and program managers of important unresolved issues on a quarterly basis. The impact of evaluations on future project designs and strategy development should be enhanced with the combination of the evaluation and planning functions in the USAID Program Office. Consequently, the same individuals who coordinate the Mission's evaluation program will also be responsible for strategy development and project design.

USAID/Cairo will make a special effort in FY 86/87 to improve host country capacity in planning and evaluation. The Mission intends to hire an additional FSN staff member who will be responsible for working with GOE planning officials in order to increase their role in evaluation efforts. USAID also plans to develop an information system on locally available consultant expertise in order to increase the involvement of the Egyptian private sector in responding to technical assistance needs of USAID and the GOE.

Achievements in FY 85:

The Mission has been fairly successful at translating evaluation recommendations into improved project implementation and planning in FY 85. For example, USAID has initiated action as a result of the evaluation of the Strengthening Rural Health Project (263-0015) that identified the need for a permanent research and development unit in the Ministry of Health in order to institutionalize the process initiated by the project. As a result of an FY 84 evaluation recommendation, the Scientific and Technical Information Component of the Applied Science and Technology Project (263-0016) was evaluated in FY 85. The recent evaluation identified several actions that would help to fine tune the information system that was identified as critical to project impact. The evaluation of the Commodity Import Program also provided recommendations on the appropriateness of imports, efficiency measures, and information systems that will improve program management and development impact.

In the area of program planning, several FY 85 evaluations have provided a basis for future projects. The evaluations of the decentralization portfolio emphasized the importance of conscious institutionalization efforts, operations and maintenance, and local revenue generation. These issues will be addressed under the follow-on Local Development II Program. The findings of the Low Cost Housing and Community Upgrading (263-0066) evaluation will contribute to the development of the forthcoming Urban Development Support Project. Similarly, the assessment of the water/wastewater sector will provide guidance for the development of the Institutional and Human Resource Development Project as well as project specific and programmatic recommendations. Other evaluations, such as Egypt Water Use and Management (2673-0017) and Production Credit (263-0147) have been especially useful to improving other activities, namely Irrigation Management Systems (263-0132) and Term Credit (263-0201).

V. SUMMARY PROGRAM TABLE

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PROJECT NUMBER AND TITLE

TECH CODE	L/S	OBLIG		FY 85 OBLIG	FY 86 OBLIG	FY 87 OBLIG	FY 88 OBLIG	FY 89 OBLIG
		DATE INIT-FIN	THRU FY 84					

ECONOMIC SUPPORT FUND

I. PROGRAM GRANTS

Cash Transfer	G			100000	100000	100000	100000	100000
OIF	G			200000	150000	100000	50000	

II. INFRASTRUCTURE

A. ENERGY

0030	Shoubra Thermal Power Plant (*)	G	79	86	200000	35200	20000		
0033	Urban Electric Distribution	G	77	85	30000	20000			
0033	Urban Electric Distribution	L	77	85	46012				
0150	Aswan High Dam Runners	G	82	86	85000		15000		
0179	Electrical Generation (*)	G	87	90			25000	113300	
0208	Thermal Power Plant Rehabilitation (*)	G	87	91				40000	

B. WATER AND SEWERAGE

0161.0	Provincial Cities Development (*)	G	82	87	30000	30000		
0173	Cairo Sewerage II	G	84	90	165000	195000	195000	65700
0174	Canal Cities Water & Sewerage II (*)	G	86	93				50000
0176	W/W Institutional & Human Res. Dev.	G	85	87		5000	5000	5000
0193	Cairo Water II (*)	G	86	89				55000

C. DECENTRALIZATION

0161.2	Basic Village Services	G	82	85	207000	18000		
0182	Local Development II	G	85	90		61000	71000	75000
								100000
								100000

III. PRODUCTIVITY

A. AGRICULTURE

0132	Irrigation Management Systems (*)	G	81	88	58000	15000	28000	20000	18000
0152	National Ag Production Programs (*)	G	85	89		20000	20000	35000	40000
0202	Agricultural Production Credit	G	85	90		15000	20000	40000	40000
YYYY	Irrigation Management Systems II	G							40000

B. INDUSTRY/PRIVATE SECTOR

0097	PIE Fund	G	79	85	10805	20000		
0112	Private Sector Feasibility Studies	G	79	87	5000		3000	2000
0147	Private Sector Production Credit (*)	G	82	86	58000	20000	15000	
0171	Automobile Sector Development	G	86	88			50000	60000
								50000

TECH CODE	LIG	DELIS DATE INIT/FIN	DELIS YRSL FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
				DELIS	DELIS	DELIS	DELIS	DELIS
B. INDUSTRY PRIVATE SECTOR (CONT'D.)								
0186			87 89				63000	132000
0201			86 90		30000	60000	60000	75000
C. SCIENCE AND TECHNOLOGY								
0105			80 86	20700	9000	7500		
0120			82 86	12300	2000	1500		
0140			85 89		3000	6000	13000	15000
IV. HUMAN RESOURCES								
A. EDUCATION AND TRAINING								
0026			77 95	34500	6000			
0110			80 85	54000	6000			
0125			85 90		4000	21000	15000	20000
0139			81 89	85000		15000	25000	30000
0118					3000			
XXXX			89 95					20000
B. HEALTH AND POPULATION								
0065			79 85	37253	8300			
0106			80 85	10800	5100			
0144			83 90	20000	6400	18000	18000	20000
0170			86 89			5000	12000	15000
0200			85 90		3600	14000	10000	15000
XXXX			88 90					6000
V. MISCELLANEOUS								
0102			83 89	15000	5000	5000	5000	5000
TOTAL ESF				1202670	815000	815000	815000	815000

(*) ==> SEE SHELF PROGRAM

PL 480

TITLE I

TITLE II (EXCLUDES WFP)

TOTAL PL 480

11744 21108 14847

11744 21108 14847

PROJECT NUMBER AND TITLE

TECH CODE	L/S	OBLIG DATE		OBLIG THRU		FY 85	FY 86	FY 87	FY 88	FY 89
		INIT	FIN	FY 84	OPLIG	OPLIG	OPLIG	OPLIG	OPLIG	
ECONOMIC SUPPORT FUND										
I. PROGRAM GRANTS										
							50000	100000	100000	100000
							175000	150000	175000	200000
II. INFRASTRUCTURE										
A. ENERGY										
0000			79	86			1800			
0175			87	90				25000	61700	
0196			86	86		80000				
0207			86	86		35000				
0208			87	91			20000	20000	20000	20000
0195			86	86		35000				
B. WATER AND SEWERAGE										
0161.3			82	87		30000	35000			
0174			86	93		3000	10000	50000	50000	
0193			86	89		25000	10000	10000		
0191			87	90			40000	50000	60000	
C. DECENTRALIZATION										
0182			85	90		79000	75000			39000
D. OTHER INFRASTRUCTURE										
0177			86	87		50000	50000	50000	25000	
0180			86	90		20000	40000	20000	20000	
0199			86	90		20000	30000	30000	30000	
III. PRODUCTIVITY										
A. AGRICULTURE										
0132			85	88		10000	10000	10000		
0152			85	89		15000	5000	10000	5000	
B. INDUSTRY/PRIVATE SECTOR										
0147			82	88		5000				
0186			87	88			75000	120000		

PROJECT NUMBER AND TITLE

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TECH CODE	L/S	OBLIG DATE		OBLIG THRU		FY 85	FY 86	FY 87	FY 88	FY 89
		INIT	FIN	FY 84	OBLIG	OBLIG	OBLIG	OBLIG	OBLIG	

B. INDUSTRY/PRIVATE SECTOR (CONT'D)										
0205				86	88		18000			
0209				87	88			20000	20000	
D. SCIENCE AND TECHNOLOGY										
0140				85	89		9000	5000	40000	40000
IV. HUMAN RESOURCES										
A. EDUCATION AND TRAINING										
0125				85	90				9000	10000
0139				81	89			5000		
0189				87	91			20000	20000	20000
B. HEALTH AND POPULATION										
0144				83	90			1200		
0170				86	89			3000		
TOTAL ESF							659800	729200	795700	619000

AID PROGRAM IN FY 1987
ANNUAL BUDGET SUBMISSION
TABLE V - PROPOSED PROGRAM RANKING

DECISION UNIT 263 EGYPT

RANK	PROJECT	TITLE	NEW/ CONT	LOAN/ GRANT	PROGRAM FUNDING (\$000)		CUM
					APPROP	INCR	
1	0144	Population	0	G	ES	18,000	18,000
2	0203	Child Survival	0	G	ES	10,000	28,000
3	0202	Agricultural Production Credit	0	G	ES	40,000	68,000
4	0201	Private Enterprise Credit	0	G	ES	60,000	128,000
5	0132	Irrigation Management Systems	0	G	ES	20,000	148,000
6	0152	National Agricultural Production	0	G	ES	35,000	183,000
7	0171	Automobile Sector Development	0	G	ES	60,000	243,000
8	0179	Electrical Generation	N	G	ES	25,000	268,000
9	0176	Water/Wastewater Inst. Dev.	0	G	ES	5,000	273,000
10	0173	Cairo Sewerage II	0	G	ES	195,000	468,000
11	0182	Local Development II	0	G	ES	75,000	543,000
12	0139	Basic Education	0	G	ES	25,000	568,000
13	0140	S&T for Development	0	G	ES	13,000	581,000
14	0125	Development Training	0	G	ES	15,000	596,000
15		PL 480 Title II (non-add)			P2	(5,393)	596,000
16	0170	Private Health Sector	0	G	ES	12,000	608,000
17	0112	Private Sector Feas. Studies	0	G	ES	2,000	610,000
18	0102	Tech. Trans. & Feas. Studies	0	G	ES	5,000	615,000
19	KXXX	Commodity Import Program	0	G	ES	100,000	715,000
20	KXXX	Cash Transfer	0	G	ES	100,000	815,000
21		PL 480 Title I (non-add)			P1		815,000

POLICY DIALOGUE PLAN --
AGENDA FOR AID-GOE DISCUSSION OF
ECONOMIC POLICY ISSUES IN EGYPT

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Agenda for AID-GOE Discussion of
Economic Policy Issues in Egypt

I. Macro-economic Elements of the Policy Dialogue -- Reduction of Price Distortions to Improve Resource Allocation and Enhancement of GOE Revenue to Reduce the Budget Deficit

The highest priorities for price/budgetary reform in Egypt are to adjust the currently distorted prices for energy, bread, and cotton. For these three basic commodities,

(i) the local price is a small fraction of the world price for the same commodity,

(ii) all consumers and industrial customers currently have access to unlimited quantities of the commodity,

(iii) The products are used wastefully, as is indicated by levels of consumption per person in Egypt that greatly exceed the customary requirements in other, similar developing countries, and

(iv) the government bears a very large direct or indirect financial burden of subsidies.

A. Follow a strategy of price reform with compensation for consumers. Since the correction of price distortions for energy and bread would involve substantial increases in consumer prices, the popular reaction to some of the reforms could be strongly negative unless the price reforms occur very gradually or the government provides financial compensation to consumers.

In recent years the GOE has followed the gradualist approach, but efforts toward reform have been so gradual that the major price distortions in the economy have actually worsened.

The alternative strategy -- based on larger price increases for subsidized food and fuel, compensated by simultaneous increases in wages or ration allotments for consumers -- offers a more promising approach to the overall problem of price reform. Since higher prices for energy and food will lead to lower waste and inefficiency in their consumption (cf. item iii, above), the GOE revenue from higher prices will exceed the simultaneous GOE expenditures required to compensate consumers and to avoid a decline in real living standards. Thus, an efficient by managed correction of price distortions by the GOE will still permit an increase in net revenue of the government.

- B. Increase domestic energy prices to world price equivalents. A major step toward this objective (especially higher prices for industrial fuels) should be feasible during 1985, although GOE reforms in this area fell far below initial expectations in 1983 and 1984.
1. The prospective increase in government revenue from higher energy prices would be: LE 5 billion annually, when the world price level has been reached. ^{1/}
 2. Main reasons for reform: (i) to increase government revenue; (ii) to reduce wasteful levels of industrial and household energy consumption -- currently twice as high in Egypt as in other, comparable developing countries; (iii) to revive donor interest (World Bank, AID) in financing new electric generating stations.
 3. Desirable forms of compensation:
 - (a) For industry, none. Allow full passthrough to final consumers of the costs of energy inputs, as the GOE did with public sector cement and steel companies after selective increases in their energy costs in 1983 and 1984.
 - (b) For individual consumers, compensation could be through a monthly ration of essential household fuel (for example, resalable coupons for either kerosene or butagas), and/or through a GOE-decreed wage increase for public (and possibly other) employees.
- C. Reduce the budgetary burden of food subsidies. In August 1984, the GOE doubled most flour prices and began a program to replace the standard 1-piaster bread with 2-piaster bread at all government retail outlets. That phased bread program is expected to be completed in 1985, with an annual budgetary savings of LE 330 million.
1. Prospective reduction in subsidies: (a) approximately LE 1.5 billion annually for bread and flour (if the tax on local production of wheat and the subsidies for imports, processing, baking, and distribution were completely eliminated), (b) approximately LE 420 million for meat, imported corn, sesame.

^{1/}Egypt's annual domestic energy consumption of about 23 million tons of oil equivalent has an export value of about \$200 per ton or \$4.6 billion; translated to local currency at an exchange rate of LE 1.40 per dollar, the international value of Egypt's energy consumption is LE 6.4 billion. Since local energy prices average about one-sixth of corresponding world prices, the total implicit energy subsidy amounts to about LE 5 billion.

2. Main reasons for reform: To reduce the budgetary burden of food subsidies; to reduce wastage and feeding of bread to animals.
3. Desirable approach to reform: Complete the nationwide introduction of 2-piaster bread. Devise a subsequent program for limiting the quantities of bread and flour that are available to individual households at heavily subsidized prices (through use of the ration card, coupons, or some other system for targetting subsidies for the poor). Discontinue all subsidies for imported meat, feedgrains, sesame, and other high-income consumer items.

D. Increase farm procurement prices for cotton to their world price equivalents. In November 1984, the GOE announced that cotton procurement prices for the fall of 1985 will be raised by 28 percent. (However, even after the 1985 increase, the average procurement price will still amount to only 40 percent of the economic farmgate price for Egypt's high quality cotton, based on world market conditions.) In January 1985, the GOE announced that prices of cotton lint to domestic mills will be raised to pay for the higher procurement costs.

1. Prospective effects of higher cotton prices on GOE revenue and expenditure: Revenue would increase by about LE 700 million annually if domestic prices of cotton lint and cottonseed products were raised to their border price equivalents. Annual expenditures for higher farm procurement payments would amount to LE 1200 million if the average official farm procurement price were raised from the current LE 92 per kantar to the economic farmgate price of about LE 250 per kantar.
2. Main reasons for reform: to improve production incentives for cotton, for which acreage planted has declined from 1.9 million feddans in 1961 to 1.0 million feddans in 1984, owing to very low government procurement prices for cotton and the high, uncontrolled prices for berseem clover, maize, and other, competing fodder crops.
3. Desirable forms of compensation:
 - (a) For industry, none. Higher cotton lint prices should be passed through in higher prices for cotton cloth. Higher cottonseed meal and oil prices should be passed through to the cattle-feed mills, food processors, etc.
 - (b) For individual consumers of cloth and vegetable oil, compensation can be provided through the ration system or through simultaneous, GOE-decreed wage increases -- just as in the case of energy prices.

II. Agriculture

- A. Introduce producer prices to reflect Egypt's structure of international comparative advantage in agricultural production. The objectives of these adjustments are (i) to induce shifts of the cropping pattern away from fodder crops to cotton and other crops of high comparative advantage for Egypt, (ii) to provide incentives for appropriate use of farm labor and machinery, and (iii) to raise farmers' incomes.
1. Incentives to exploit Egypt's area of comparative advantage. In 1984, the GOE took significant action to raise prices for wheat, onions, groundnuts and decided upon a significant price increase for cotton in 1985. Further large increases are warranted in prices of these crops -- for example, as indicated in section I.D, preceding, the new cotton procurement price still amounts to only 40 percent of the economic farmgate price. Dialogue with Ministries of Agriculture and Economy is expected to continue through PL 480 consultations (as in May and August 1984) and, for rice prices, through the NAPP design process.
 2. Encouragement of imports of feedgrains, meat, and milk. Relaxation of restrictions on private imports and marketing of these products by the Ministry of Supply is the main objective. No recent GOE progress in this area. Past dialogue with MOS has taken place through PL 480 consultation of May 1984 and correspondence with the Minister concerning CIP requests.
- B. Reduce subsidies of farm inputs and phase down public-sector domination of the supply system. Elimination of subsidies for intermediate products (such as farm inputs) is recommended by the recent subsidy-rationalization reports submitted to the President by the Ministry of Agriculture (October 1984) and by Cairo University.
1. Marketing and pricing of fertilizer. Almost all domestic fertilizer sales are channeled through the FBDAC, which sells fertilizers to farmers generally at less than half of their world market value. The GOE allowed a minor, 8 percent increase in official retail prices of nitrogen fertilizer in 1984. The Ministry of Industry is preparing to seek substantial increases in ex-factory fertilizer prices in 1985; such increases would provide a favorable basis for possible AID funding of a major nitrogen fertilizer production project whose feasibility is being assessed by an AID-funded study during 1985. Dialogue on farm-level pricing of fertilizer also has been (August 1984) and will continue to be a major objective of the PL 480 consultations. GOE steps toward narrowing the input marketing activities of FBDAC and toward widening the marketing of inputs by the private sector will be sought through a new Small Farmer credit project and through PL 480 consultations.

2. Marketing and pricing of other subsidized inputs. The budgetary costs of free or low-cost services to farmers provided by the GOE (credit, seed, pesticide spraying), including those under AID-sponsored extension programs, have grown rapidly in recent years. The most vigorous element of the AID dialogue in this area to date has been to discourage the provision of government subsidized mechanization services by the MOA. Under design efforts in 1985 for the NAPP, Small Farmer Production, and Private Horticultural Exports projects, the dialogue will be broadened to seek reduced subsidization and government decontrol of fertilizer, seed, and other farm inputs.

C. Inject economic criteria and cost recovery principles into GOE planning for investment in land reclamation and for delivery of irrigation water. No recent progress by GOE. No recent ministerial-level discussions of these policy issues initiated by AID. Discussions were held with the GOE after receipt in 1980 of the AID-financed Pacific Consultants' study, recommending that the GOE scale down drastically its plans for uneconomic development of new agricultural lands. The GOE's 1982-87 five year plan disregarded this recommendation (and the similar recommendation of the World Bank's 1982 staff study of land reclamation), and Egypt has continued on program of multi-billion dollar investments in land reclamation for agricultural uses.

III. Industry

A. Promote expansion of the private sector and, within the public sector, autonomous, profit oriented enterprises.

1. In the past, the GOE agreed to form the joint venture Suez Cement Company (SCC), in connection with the funding of AID's only major non-public sector industrial plants in Egypt (the Suez and Qattamiya Cement plants); however, lack of private investors' interest in SCC required that state commercial banks subscribe most of the "non-governmental" equity of the company.
2. Privatization and greater company autonomy are elements of project proposals for nitrogen fertilizer, automotive manufacturing, and private horticultural exports that are being considered by USAID for development in 1985. The Minister of Industry has expressed skepticism about the potential for substantial private-sector investment in the proposed new nitrogen fertilizer complex.

B. Align prices of principal inputs and outputs with world prices.

1. Cement sector. After increases in cement prices during 1983 and 1984 from LE 31 per ton to LE 52 per ton for previously subsidized users, the GOE is complying with covenants in the Suez Cement and Qattamiya Cement project agreements to raise Egyptian cement prices approximately to (currently depressed) world levels. In addition, the GOE eliminated in 1984 the discriminatory high energy input prices for the Suez Cement Company vis-a-vis its public sector competitors, although principally by lowering energy input prices to Suez Cement (the cost of fuel oil for SCC was lowered from LE 170 to LE 30 per ton) instead of raising energy input prices to the public sector companies to realistic levels.

During 1985, the GOE should consider further increases in energy input costs for the cement sector (increases which would need to be balanced by corresponding increases in cement output prices) in order to strengthen incentives for all cement companies to replace their highly energy wasteful wet-process cement kilns with new dry-process kilns.

2. Nitrogen fertilizer sector. USAID staff recently have had fruitful discussions with Ministry of Industry and Ministry of Agriculture officials that suggest the GOE may consider introduction of substantial increases in fertilizer prices during 1985. The Ministry of Industry plans to request increases in prices of domestically produced fertilizer delivered to the Ministry of Agriculture to a level that would cover an expected increase in fuel input costs and would allow the fertilizer companies to earn a respectable profit. Several Ministry of Agriculture officials oppose such increases.

IV. Infrastructure

- A. Basic objectives for operation and maintenance. Increase user charges and establish principles of economic cost recovery and of adequate autonomous funding for maintenance of all basic utilities (water and sewerage, electricity, telephone) and roads.

For the water/wastewater sector, the need for greatly increased user tariffs and the problems of inadequate financing of maintenance are especially acute since

(i) user tariffs typically cover less than 10 percent of total costs and less than one-third of current operation and maintenance expenses for the system; and

(ii) actual maintenance budgets are far below the budgets that would be needed to provide adequate continuing service levels.

For electricity, the average user tariff covers about 15 percent of the economic cost of providing electric power through the national grid, and the cost of fuel oil inputs for EEA is only 3 percent of the world price for such fuel.

For telecommunications, total customer revenues are more nearly adequate to cover the total costs of utility service, but local and household service is subsidized through high tariffs and fees on international and business users that may inhibit the development in Egypt of export-oriented goods and service industries.

B. Water/Wastewater Tariffs, Maintenance, and System Planning

1. The extremely high expected costs of future upgrading and expansion of services for households and industrial customers require a simultaneous strategy for
 - (a) determining the full costs of providing water and sewerage service (differentiating operations and maintenance (O&M) costs and capital costs), and introducing proper accounting of such costs onto utility company financial balance sheets;
 - (b) setting targets to fund through user charges at least the O&M costs of the utility companies;
 - (c) improving the utilities' ability to meter the volumes of customer use;
 - (d) allowing individual utility organizations to retain tariff revenue and to link future tariffs to increases in system costs, in order to reduce risks of underfunding maintenance;
 - (e) earmarking of new taxes as proxies for user fees (e.g., property taxes and charges for building permits) to provide for local expansion and upgrading of major utilities;
 - (f) development by the National Organization for Potable Water and Sanitary Drainage (NOFASD) of a master plan for a cost-effective national water/wastewater construction program that takes account of local and national willingness to pay for alternative methods of collection and treatment of sewerage.
2. As a result of the second annual water/wastewater review held under the terms of the 1984 Memorandum of Understanding (MOU), the GOE and USAID have agreed to benchmarks for increased user charges. The GOE proposes to implement a National Tariff Plan with minimum 1985 water tariff rates to finance 35 percent of system O&M costs and 10 percent of wastewater costs.

Water tariffs, are to increase annually to 100 percent of O&M costs in 1990; wastewater surcharge tariffs are to be introduced starting at 10 percent of estimated O&M costs per year and increasing annually.

3. Near-term policy or policy-planning objectives for the water/wastewater sector:

(a) use the agreed-upon MOU benchmarks for Cairo Sewerage II as a basis for establishing income and balance sheets (at least on a pro forma basis) for operating water/wastewater organizations, as a step toward determining full costs of delivering their services;

(b) undertake further AID analysis and begin discussion with GOE of measurement of benefits in this sector;

(c) review needs for further GOE action on tariffs and other policy measures, based on the findings and recommendations of the Water Supply and Wastewater Sector assessment team now (March 1985) in Egypt.

C. Electric power: Raise electricity tariffs for industry and other customers within ten years to reflect the full, marginal economic costs of electric power to Egypt. (See also section I.B, preceding.) The current average tariff of about 1.6 piasters per kilowatt hour amounts to about one-sixth of the long-run marginal cost of power supplied by the Egyptian Electricity Authority (EEA).

1. The main purposes of higher electricity tariffs are:

(a) to induce electricity conservation by industry, which consumes over half of all electric power in Egypt, through improvement or termination of highly energy-inefficient production activities, while also inducing a more appropriate, less energy-intensive pattern of future industrial investments;

(b) to lower by more than half the future growth of demand for electric power from EEA (currently increasing at 12-15 percent annually) and thus to reduce Egypt's future requirements for fuel and for investment in power generating stations;

(c) to improve the financial position of EEA, so that EEA can self-finance a larger share of its future investments and can become more creditworthy for foreign loans from development agencies (World Bank and AID) and from export credit agencies in the United States, Europe, and Japan.

2. Electricity tariffs have been raised several times by EEA since April 1982, but after adjustment for inflation, the average tariff has hardly increased at all --

Year	Average EEA customer tariff, yearend	Increase in average tariff during the year		
		total	inflation factor	real increase
(piasters per kilowatt hour)				
1981	1.12	0.00	0.17	-0.17
1982	1.20	0.08	0.17	-0.09
1983	1.34	0.14	0.18	-0.04
1984	1.59	0.25	0.20	0.05

The long-run marginal cost of electric power in Egypt--the optimal average tariff level--is approximately 10 piasters per kilowatt hour.

3. As of March 1985, prospects appear poor for significant GOE increases during 1985 in electricity tariffs for industry, the most important group of consumers. Prospects are also poor for early closure or reduced operations at the major industrial plants that consume 20 percent of Egypt's electricity but are deplorably wasteful (Kima fertilizer plant) and subsidize foreign consumers of aluminum (Nag Hamadi refinery complex).
4. The past GOE policy of minimizing publicity and avoiding public announcement of periodic changes in electricity tariffs has made it impossible for the GOE to introduce large changes in electricity tariffs, except by neglecting the simultaneous need for a passthrough of increased prices for industrial products and for compensation of consumers through wage increases.
- D. Decentralization: Enhance revenue generation and utility-maintenance capabilities of local government. The primary purpose is to improve levels of maintenance for local utilities. Budgets for non-wage operating expenses are too low because of decisions of the Ministry of Finance to place tight ceilings on local Chapter II expenditures.

Unless central government spending priorities are rearranged to finance higher levels of spending on important local services, local governments will need to:

- (1) introduce higher user fees and other sources of new revenue, so that more adequate levels of O&M can be financed.

(Total expenditures of local governments should not be expanded except to the extent of new revenue sources, because the consolidated central and local government budget deficit of about LE 6.5 billion annually is already too high.)

(2) obtain responsibility for collecting a larger share of the total budgetary resources needed to finance municipal services. (Revenue and tax collections managed by the central government now account for about 85 percent of the total budget resources of local governments.) Experience with decentralization of fiscal responsibility in other countries suggests that establishment in Egypt of a broader base of local discretionary revenue will be followed very quickly by a more efficient pattern of village/markaz expenditure decisions related to local municipal services.

An individual local authority will have an appropriate incentive to raise new revenue, as per (1) above, only if the MOF does not respond by reducing correspondingly its existing level of budgetary support (especially for Chapters I and II) for the local authority.

During 1985, USAID will seek to persuade the MOF that the levels of local Chapter II expenditures should be allowed to increase above the ceilings in the MOF's annual budget plan, where local authorities introduce new user fees or taxes to finance the added expenditures. Covenants in USAID implementing letters for infrastructure grants will continue to specify that localities provide adequate funds to finance all O&M costs. These commitments will be made more specific in future letters. USAID will also fund during 1985 technical assistance by public finance experts to help the Ministries of Finance and Local Government and the local authorities to select efficient and appropriate new sources of local revenue.

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