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U.S. ECONOMIC ASSISTANCE PROGRAM IN EGYPT

PROGRAM ACCOMPLISHMENTS

1974 - 1992



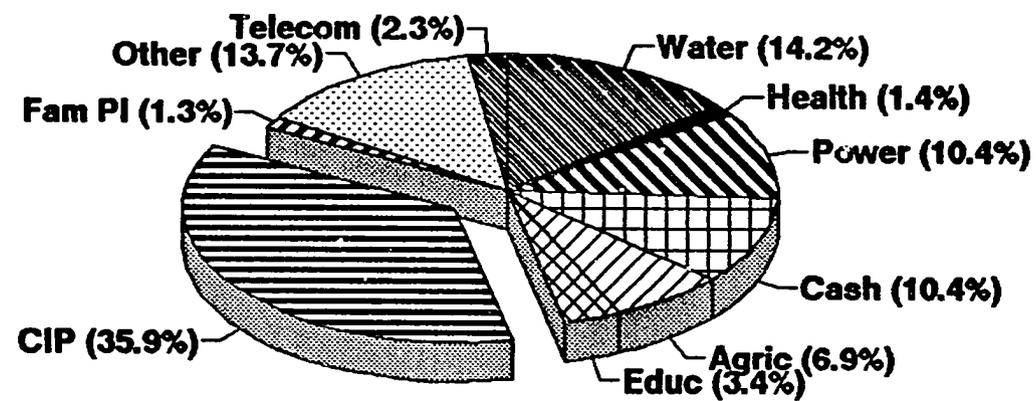
NE/DP and
Program Office,
USAID/Cairo
October, 1992

Cumulative U.S. Government ESF Obligations in Egypt
FY 1975 - June 1992
(\$ 000)

Sector	Amount	% Of Sub-Total	Cumulative % of Sub-Total	% of Total
Commodity Import Program	4,954,452	35.9%	35.9%	28.3%
Water & Wastewater	1,957,003	14.2%	50.1%	11.2%
Power	1,436,832	10.4%	60.5%	8.2%
Cash Transfers	1,434,949	10.4%	71.0%	8.2%
Agriculture	948,492	6.9%	77.8%	5.4%
Education	469,099	3.4%	81.2%	2.7%
Telecommunications	323,864	2.3%	83.6%	1.9%
Health	190,422	1.4%	85.0%	1.1%
Family Planning	182,554	1.3%	86.3%	1.0%
All Other	1,891,180	13.7%	100.0%	10.8%
SUB-TOTAL	13,788,847			78.8%
Food Aid (PL480 and Section 416B)	3,704,229			21.2%
TOTAL	17,493,076			100.0%

ESF OBLIGATIONS IN EGYPT

FY 1975 - 1992



Egypt

Program Accomplishments

Overview

U.S. economic assistance to Egypt was restored in December 1974. While in the previous year President Sadat had introduced the *infitah*, or "opening," the Egyptian economy and economic institutions were unchanged from the Nasserite era, which is to say they largely manifested the heavy-handed central planning patterns that reflected the thinking of the Eastern European advisors who had helped to institute them. During the era of confrontation between Egypt and Israel from 1948 to the mid-1970's, large proportions of Egypt's financial resources and economic energies had been diverted to military expenditure, leaving relatively little for economic development. The most visible sign of this economic weakness was its deteriorating infrastructure. The demands on the decrepit old system were tremendous. Population was growing at 3% annually, with no sign of slowing. This effect was compounded by a rapid rate of migration to urban areas. Although accurate census data was not available to verify this, informed estimates placed the growth of greater Cairo by the end of the 1970's at more than a thousand per day.

Faced with this crush of people, and after decades of overuse and neglect, Cairo's water and sewage, telephone and transportation systems, some of which dated from the 19th century, were in a state of near collapse. Anecdotes about failures of this system abounded. Perhaps 100 people could be seen crammed into city buses that had been built to carry 60 passengers. Entire areas of Cairo were periodically flooded with raw sewage when the system backed up. Ancient water pipes burst with great regularity. It took less time to drive to a meeting with a person in another part of the city than to place a telephone call to the same individual. Making an international call could be an all-day task. Incoming international mail could take months to reach its destination. The housing supply could not keep up with the increased demand, and photographs of people living in the tombs of medieval cemeteries became a macabre regular feature of Western travel magazines.

Prices were centrally administered, economically irrational, and geared to subsidizing urban consumption and fostering the needs of a large import-substituting parastatal industrial sector. Even so, much of the latter was underutilized or lying idle for want of adequate power or water. Farmers, often employing 3,000-year old technologies, were rewarded for their back-breaking efforts by being *de facto* heavily taxed by this pricing system in order to subsidize the urban-industrial complex. The combination of population pressure, urban growth and adverse agricultural production incentives had succeeded in converting the country from a food exporter to a huge importer of (debt-financed) food.

From the mid-1970's, AID was faced with the task of obligating hundreds of millions of dollars per year in an economic and political environment that was uninviting to private sector investment, and including a public sector bureaucracy bloated with redundant staff and virtually strangling on its own red tape. In such an environment a program composed largely of cash transfers would have stood little chance of producing meaningful development progress. AID therefore opted for a heavily projectized mode of assistance, complemented by a major CIP program that helped to offset the shortages induced by an irrational exchange rate system. During this period, AID continued to press for major economic policy reform within the political constraints that prevailed. However, it was not until the late 1980's that measurable progress on some economic policy reform fronts became apparent.

From 1975 to 1992, AID provided \$13.8 billion of ESF and \$3.7 billion of food assistance. The distribution of this assistance by major sectors is shown in the attached table. In the process of generating the significant developmental accomplishments described in the following sections, the program has resulted in at least \$12.8 billion in purchases of goods and services from the United States, including CIP, food assistance and commodity purchases under various categories of project assistance. For example, more than \$1.3 billion was purchased under various construction activities and nearly \$1 billion more on other kinds of project-related equipment purchases. Further, it is estimated that the average yearly expenditures of roughly \$750 million on Egypt over the past 17 years has directly or indirectly supported up to 15,000 jobs each year within the U.S. Thus, the U.S. taxpayers' contribution to the foreign assistance program in Egypt has not only benefited the long-range policy interest of the U.S. by increasing the economic welfare of millions of Egyptians, it has also supported income and employment at home and helped U.S. industry to penetrate a market that will consume U.S. products for some time to come.

Agriculture

AID provided over \$600 million for research, credit and irrigation system improvements for the agricultural sector over a ten year period. Agricultural research activities have resulted in improved varieties of major crops capable of producing 64 percent more maize, 47 percent more wheat, 26 percent more sorghum, 150 percent more soybeans, and 47 percent more rice. These percentages represent the increase in yield per feddan. A new rice variety has been developed which is resistant to the blast disease, is high yielding, and has the cooking qualities demanded by the Egyptians. Until recently, however, the diffusion of the improved varieties and improved methods to most farmers has been slow in many cases.

How can this be directly attributable to USAID?

Agricultural policy reforms have become an increasingly important part of AID's policy dialogue with the GOE. Past policies had discouraged and distorted the pattern of agricultural production by holding some crop prices too low, by allowing others to rise too high (e.g., meat and fodder), and by restricting private sector participation in the marketing of agricultural inputs and exports. AID's agricultural policy reform program covered price and marketing controls and delivery quotas for ten major crops, reduced subsidies and inputs and began the process of opening markets to private investment. Substantial progress has been made. Markets for ten crops were freed, farm-gate prices of fertilizer increased by 75 percent, and citrus exports were opened to the private sector. It is expected that a more rational pricing system will also have beneficial environmental effects by reducing excessive fertilizer and pesticide usage.

Again - what specifically did USAID do to promote this?

AID has provided over \$250 million to the irrigation sector through the ministry of Public Works and Water Resources (PWWR) to improve research, applied technology, manpower and physical infrastructure and to increase the operating efficiency of the irrigation system. The Water Research Center, created in 1975, has eleven institutes with trained staff carrying out priority research under a strategic plan. A manpower development program established in 1982 has to date trained more than 7,600 irrigation staff in planning, design, construction management, quality control, operations, maintenance and water management through both off-shore and in-country events. A Project Preparation Department established in 1980 produces high quality feasibility studies to meet specific development needs and has led to funding of the Esna Barrage project by a consortium of other donors and the World Bank in drainage and channel maintenance. A successful preventative maintenance program in one irrigation directorate is now being replicated in five others.

% of financing US vs others?

The **Water Use and Management Project** demonstrated potential for 50 percent increases in crop production with structural improvements in the water delivery system, land leveling, better application of fertilizer and on-farm water management, and the establishment of water use associations to operate and maintain the systems. Technologies introduced under this project are now being refined and replicated throughout Egypt. The formation of over 1,400 water user associations provides for more reliable and equitable distribution of water and gives thousands of small farmers greater control over this critical resource.

AID has financed replacement of obsolete and dilapidated irrigation structures such as regulators, steel gates, weirs, aqueducts and others that control and regulate water. Of approximately 44,000 small and medium sized irrigation structures in the system, more than 19,000 obsolete or run-down facilities have been rehabilitated with AID assistance benefiting more than 2 million farmers. Other major AID investments have financed communication systems, computer-based models, automated water management data bases, and modern mapping capability. These tools have enhanced the Ministry's capability to develop and implement more effective plans and operation policies for the irrigation system utilizing the newest scientific techniques and mathematical models to simulate, forecast, plan and regulate water flows in the Nile River system. Together, these investments have led to better control of water distribution, increased water use efficiency (water savings) and, thereby, expansion of the area under irrigation.

Health

AID has provided over \$200 million for improved health services, with major emphasis on child survival programs aimed at preventing childhood diseases, reducing death from diarrhea and acute respiratory infections, and improving the health of young children and their mothers. This program has been phenomenally successful. As a result of the programs that USAID has supported, death rates for the two leading causes of death among children, i.e., respiratory and diarrheal diseases, has declined rapidly. For example, the cause-specific infant mortality rate for diarrhea decreased from 26 per 1,000 cases in 1982 to 12 per 1,000 in 1987. Likewise, acute respiratory infections declined from 17 in 1982 to 13 in 1987 and are expected to decline even further as the more recently initiated ARI control programs are expanded nation wide. Infant mortality rates in Egypt have dropped by 50%, having been reduced from 116 per 1,000 live births in 1970 to 56/1,000 in a 1991 survey. This reduction in mortality means that 80,000 Egyptian childrens' lives are currently saved every year. In 1990, the Mission estimated that AID programs in the health sector had saved the lives of approximately 580,000 children over the preceding 10 years.

One of the most successful interventions was the **National Control of Diarrheal Diseases Project**. Before the project was initiated, diarrhea caused over 100,000 child deaths in Egypt annually. Due to widespread knowledge and use of oral rehydration therapy (ORT) disseminated by the project, it is estimated that over 300,000 childrens' lives were saved between 1982 and 1989. Actual use by mothers of ORT to prevent dehydration in their children went from 27 percent to 68 percent between 1980 and 1990. ORT clinics were established in 85 percent of the 3,500 Ministry of Health clinics nation wide.

Similarly, with assistance from USAID and UNICEF, immunization coverage rates to protect children against tuberculosis, measles, pertussis, diphtheria, tetanus, and polio have increase dramatically, giving Egypt one of the highest immunization rates in the developing world. As of the last immunization coverage survey in 1990, 87.5 percent of all children under 5 received three doses of oral polio vaccine; 88.5 percent received three doses of diphtheria, tetanus and pertussis vaccine, 88 percent for BCG to prevent tuberculosis and 86 percent of the children sampled were immunized for measles.

The primary challenge facing Egypt's health sector today is establishing its own budgetary resources to sustain the child survival and endemic disease control programs, most of which must be funded by the government. 65 percent of the Ministry of Health's investment budget is spent on curative services, leaving only 6% for preventative services and 29 percent for primary health care, the two categories that are most important for child survival programs. While there has been a tradition of "free" health services, studies in 1985 and 1992 show that lower income Egyptians are willing to pay, and do pay, for health services because government facilities are unable to provide all the necessary drugs and other medical supplies and because people feel that free services are not of high quality.

In an effort to make wiser use of scarce public resources, the Ministry of Health, with assistance from USAID, launched a program aimed at improving cost recover in hospital health services and expanding the availability of health insurance in order to find affordable ways to pay for curative care. If private resources pay for the bulk of curative care, government resources can be focused on preventative care. Through its **Cost Recovery for Health Care Project**, USAID/Cairo is assisting the GOE in this restructuring of the health care financing system, expanding opportunities for private medical practice, and working to expand health insurance coverage for Egypt's 12 million school children. With Project Hope, USAID is working to strengthen nursing education. While Egypt has a plentiful supply of well-qualified doctors, there is a serious shortage of well-trained nurses. AID assisted in dramatically improving medical training at Suez Canal University. The program represents a sharp break with Egyptian tradition by

emphasizing hands-on experience and work with rural patients. Forty-four of the first entering class of 50 graduated. Half of them were women.

In collaboration with a number of U.S. universities, the Naval Medical Research center in Cairo and the CDC in Atlanta, the mission is engaged in an ambitious research program aimed at developing a vaccine to prevent schistosomiasis. This parasitic disease affects 9 million Egyptians by affecting the liver and kidneys. In adults the disease can lead to a 50-70 percent loss in productivity and an annual treatment cost of \$200 million. The payoff for this vaccine, when it is discovered, will be substantial for the 200 million people worldwide who are affected by this debilitating disease.

Family Planning

Population growth in Egypt has shown an unprecedented decline, most notably since 1989. In the late 1970's, the population growth rate was nearly 3 percent. By 1989 it fell to 2.52 percent and in 1991 it continued to decline to 2.3 percent. However, even optimistic projections predict a population of 66 million by the turn of the century in a country that is already one of the world's most densely populated, in terms of persons per square kilometer of inhabitable land.

As the largest single donor to Egypt's population program (accounting for about 75 percent of all donor assistance), AID's strategy is to increase the level and effective use of modern contraceptive methods. To accomplish this, AID is involved in projects designed to increase family service volume and improve service quality, provide improved information to policy makers, and improve management capacity in implementing agencies. As part of these efforts, AID procures about \$3.5 million worth of contraceptives annually to increase the availability of contraceptives in the local market to the economically disadvantaged.

AID-financed information programs have contributed to the general awareness of the need for family planning through media campaigns, commercials and TV spots. A 1990-91 survey revealed that more than 98 percent of respondents had knowledge of contraception. Since 1980, AID has supported the very successful contraceptive social marketing activity in family planning in Egypt, the **Contraceptive Social Marketing Project of the Egyptian Family Planning Association (CSM/EFPA)** (formerly under the **Family of the Future**). Originally a Cairo-based urban program, the CSM/EFPA now operates throughout the country, covering virtually all of Egypt's 7,500 pharmacies and most private physicians. It now accounts for almost 40 percent of the total contraceptive prevalence. The private sector has, in fact, become the largest provider of contraceptive

services in Egypt. Until now, the mission has been involved in the procurement of bulk commodities for this program. USAID/Cairo now plans to phase out of its contraceptive commodity support for the private sector and is discussing with the GOE a pricing regime that will make the CSM program financially more sustainable in the longer term.

The Family Planning Systems Development Project, which supports comprehensive upgrading of the Ministry of Health's family planning service system in 21 governorates, is working in 23 governorates. **The Clinical Services Improvement Project** with the EFPA has upgraded the quality and quantity of EFPA family planning services. To date, 17 primary centers and 95 subcenters have opened in 18 governorates.

Looking beyond the current population growth figures, evidence exists for some optimism. The most important fertility measure, the total fertility rate (the number of births a married woman would have at the end of her reproductive period), has declined from over 5.2 in 1980 to 4.3 in 1992. This represents a 17 percent decline in barely more than a decade. The crude birth rate dropped from 39.8 in 1985 to 30.8 in 1991, with most of that decline occurring after 1988. The average age of marriage is increasing as is the contraceptive prevalence rate. Between 1980 and 1990, contraceptive prevalence among married women virtually doubled from 23.8 percent to 47.6 percent. In 1988 the rate was only 38 percent. Recently, Islamic judicial determinations made at the highest level have given full support and sanction to those who wish to limit their family size. The effect of these developments, however, remains to be seen. With AID assistance, a National Population Strategy for 1992 to 2007 has been prepared by the National Population Council.

Education

For more than a decade, AID has worked with Egypt's Ministry of Education to implement an ambitious education reform program aimed at (a) improving the quality of education and (b) increasing student access to schools. AID provided more than \$469 million for education and training between 1975 and 1992. The major focus has been increased access to primary and preparatory school through construction of schools in under-served areas.

The project's strategy was to locate new rural schools so that no student would have to walk more than 2 kilometers (1.25 miles) to get to school. This improved access was designed to increase student enrollment and attendance. It specifically focused on the primary barrier, distance, to female education. The project's strategy succeeded.

Access overall improved and over 925,000 students attend project schools. Enrollment rates improved as shown in one three-year study: male enrollment in the first grade increased by 15 percent, while female enrollment improved 29 percent. The respective dropout rates fell by 6 percent and 7 percent. The impact upon female students was dramatic. In 1980, 897,000 primary and 180,000 preparatory school females were enrolled in rural schools. By 1991, over 1,400,000 primary and 700,000 preparatory school females were enrolled.

In terms of total rural school enrollment, the proportion of females rose from about 30 percent to nearly 42 percent. The Project completed more than 1,900 schools by the end of its construction phase.

The other element of the strategy was to improve the quality of education. Egypt's educational structures and methods had become atrophied and outdated. With the passage of the Education Reform Act in 1988, the government of Egypt made a commitment to renew and improve the education system. AID was asked to provide technical assistance aimed at improving evaluation programs and delivery systems as well as management and decision-making systems. The Office of the President itself was an important force for change. With the cooperation of the Minister of Education, the Ministry began the complicated process of reforming itself. By 1991, all of the country's 27 governorates had computer systems. The Research Directorate, working with Harvard University advisors, is working on critical policy issues. More than 18,000 students were tested on basic achievement in science, mathematics, Arabic and preparatory English skills. By 1990, it had reorganized along new lines and had instituted a national Educational and Evaluation and Examination (NCEEE) system to develop new ways of testing and measuring student performance. A landmark new curriculum is now being introduced at the elementary level that will move the instructional system away from rote learning and memorization. The same element aims to alter teaching in ways that will encourage creative thinking and make learning more relevant. Feedback from teachers on the materials introduced during the early stages of this process is very positive. USAID feels that a major turning point has been achieved in upgrading Egypt's education process.

Facilities for reaching children with special learning problems were nil. Out of a student population of nearly 10 million, a mere 15,000 hearing, mentally or visually impaired students are served. In 1991, through a contract with Gallaudet University, 50 special education teachers and 15 professionals from the Ministry of Education began special training. They, in turn, will train 3,000 special education teachers and administrators throughout Egypt.

Over the years, USAID has also worked with Egyptian universities, notably through linkages with U.S. institutions of higher learning. Eleven Egyptian universities have had joint research projects with 80 U.S. universities in 35 states. Results of the 470 joint applied research projects from these linkages are now beginning to have an impact on the economy. For example, Cairo University/UCal, Berkeley research resulted in energy and material savings in aluminum factory worth nearly \$2.5 million per year. Joint work with Virginia Tech helped reduce production costs of high-voltage transformers by 62%. Improvements in cattle feed could save \$30 million per year. AID has financed more than 8,500 participants in U.S. academic and technical training.

Water and Wastewater

Water and wastewater systems in Egypt's major cities, serving 17 million people, have been rehabilitated and expanded. Urbanization presents a formidable problem for Egypt. In Cairo, the population has more than doubled in the past 25 years. Urban infrastructure expansion has not kept pace. Overtaxing of water/wastewater facilities and poor facility maintenance have caused significant deterioration in service. Since 1975 AID has provided more than \$1.9 billion in support of water and wastewater system rehabilitation and expansion in Egypt's major cities. During this period, the GOE has also increased its own investments in the sector dramatically. Nonetheless, further improvements are needed to ensure adequate operation and maintenance to sustain those improvements, and to increase user-fees both to improve cost-recovery and to encourage efficient use of the systems.

In the mid-1970's, over 100 sewage flooding incidents occurred daily on the streets of Cairo. Flooding was not confined to streets, but often extended inside people's homes or shops. A 1988/89 impact evaluation of the Cairo Sewerage I project found that most of Cairo's streets had been made free of sewage flooding. Of the 67 chronically flooded neighborhoods before the project, 65 percent no longer report any flooding incidents and 83 percent have been relieved of any major incidents. This is due to the rehabilitation of 90 pumping stations and improvements in major sewers financed by the project.

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

Under the Cairo Water I project, AID rehabilitated and expanded the largest water treatment plant in Cairo, Rod El Farag, expanding its treatment capacity from 200,000 cubic meters per day to 650,000. The plant now produces potable water and provides services for some of the poorest and most densely populated areas of central Cairo. Three million people receive more and cleaner water as a result of this project. In the Provincial Cities of Minia, Fayoum and Beni Suef, AID has completed installation of 26 km. of water and sewer lines, construction of a water treatment plant in Beni Suef and construction of a wastewater pumping station in Fayoum, thereby improving water and wastewater services to approximately 140,000 people living in those provinces. Discharges of sewage onto the beaches of Alexandria and flooding in its streets have been reduced as a result of the Alexandria Wastewater Project.

Power

Between 1975 and 1992, AID provided more than \$1.4 billion to help the GOE develop its electric power base. Power generation capacity grew rapidly, from 3,798 megawatts (MW) in 1976 to 9,165 MW in 1988.

Sixty-three percent of our assistance in the power sector has been for construction of new generating facilities at three different power plants. These generating units provide 1,260 MW -- second only to the Aswan High Dam capacity of 1,750 MW. AID was the primary donor in this remarkable effort which involved 10 donors financing 58 contracts from firms in 10 different countries.

Another 13 percent of AID assistance has contributed to the rehabilitation and modernization of existing power systems unable to produce at nameplate capacity due to age and deterioration.

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

Much of the rapid demand for electrical power in Egypt has been a result of heavily subsidized energy prices. Egyptian prices for electricity represent less than one fourth of its real economic cost. These subsidized prices have resulted in excessive consumption and encouraged inappropriate use of electrical energy. AID and other donors, including the World Bank, have consistently urged the government to enact substantial increases in energy prices. Both AID and the World Bank have followed the policy of relating

funding levels for electricity generation projects to progress on adjustment of electricity rates towards more realistic levels. In the past these efforts met with limited success. During the 1980's, energy rate increases did not keep up with inflation so that real energy prices declined. Under the conditions of the new World Bank SAL and the USAID Power Sector Program, prices were raised in 1991 and 1992. They are almost 70% of the long-run marginal cost (LRMC) of production. The target under the SAL is to have prices equal 100% of LRMC by June of 1995.

Telecommunications

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

Since 1978, AID has provided \$324 million to improve Egypt's telecommunication system, including the cost of technical assistance in planning, management, finance, and accounting provided to the National Telecommunication Organization (ARENTO).

In the first three phases of its project, AID funded the installation of eleven electronic switching stations in 10 exchanges, all of which are now operational, as well as the new state-of-the-art fiber optics junction and microwave systems. More than 2,000 engineers and technicians have been trained in the use of computers and telecommunications equipment.

As a result of AID's assistance, over 7 million people in Cairo and Alexandria have reliable telephone service. The system has improved dramatically. Telephone density has increased to 4 lines per 100 population. Completion of calls is at a par with the U.S. system. Long distance direct dial is available, even for international calls, and improvements in the system have allowed for installation of modern business equipment in Egyptian firms such as telephone-computer information links and facsimile transmissions. More than 70,000 more subscribers and 480,000 users will have access to improved telephone services as a result of a fourth phase of the telecommunications project.

The Egyptian press and the public at large have praised the new system which has to date allowed for more than a 30 percent increase in the number of telephone lines. The

physical improvements as well as the institutional development of the Telecommunications Organization have also made it easier for ARENTO to implement much needed increases in telephone subscription and installation rates over the past five years. ARENTO now collects sufficient revenues to cover fully its recurrent operation and maintenance costs.

CIP's

In 1975, AID began its Commodity Import Program (CIP) to provide balance of payments support through the provision of foreign exchange for import of raw materials, food items and capital equipment from U.S. sources. These CIP resources were especially critical in the years immediately following the Camp David accords when Egypt was facing serious foreign exchange shortages after years of high military spending and withdrawal of Arab financial support. The early CIP program included transactions for such programs as the Vessel Traffic Management System (\$23 million), and the Train Traffic Control System (\$67 million). In the early stages, CIP became closely identified as direct support to the public sector since most allocations during the first seven years were to government institutions, including industry and other state enterprises.

With total contributions of almost \$5.0 billion to date, the CIP is AID's largest single assistance program in Egypt. A 1984 evaluation of AID's 10 year experience with the CIP concluded that the CIP materially eased the GOE balance of payments deficit in its early years and helped instill confidence in the business and import communities. It has given U.S. industry the potential to develop new market opportunities in the Middle East.

Close to 70 percent of total CIP resources have been allocated to production and services rather than consumption. Nevertheless, in the years before the GOE embarked on its comprehensive structural adjustment program, the CIP played an important role in responding to Egypt's ever-increasing demand for food. From 1975 to 1988, 32 percent of the CIP was used for agricultural commodities. Although the CIP has limitations as a tool for implementing macro economic policy reforms, individual CIP tranches have supported specific reforms. For example, AID has used the CIP to raise the price of corn to free market levels by conditioning CIP corn imports to incremental domestic price increases.

Until 1981, only 10 percent of all CIP resources were allocated to private industry. The remainder was used for the commodity needs of government ministries, utilities and industries. Unfortunately, government industries, which utilized up to 27 percent of CIP resources, are largely inefficient, restricted by government imposed price ceilings, and

consequently heavily subsidized by the GOE budget. Since May 1987, by AID's insistence that importers pay the local currency equivalent at the commercial rate, AID helped impose a greater degree of budgetary discipline on imports to GOE institutions. Further, it was evident to USAID/Cairo that the predominance of public sector participation in the CIP was inefficient and potentially counterproductive.

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

By the end of 1988, the two projects had financed almost 200 transactions valued at \$183.1 million, spread over 450 separate companies. The greatest share of Private Sector CIP allocations has been for importers of raw materials (68 percent) and capital goods (32 percent). A 1986/87 analysis of a sample of firms utilizing the Private Sector CIP indicated that end-users are primarily new, modern, growing, and import-dependent, diverse in size and type of production or service. Over half the user firms are in industry (excluding traders who are primary suppliers of equipment and raw materials to small and micro enterprises), and a quarter are in agriculture. The PSCIP promotes U.S. export expansion and trade promotion. At one point, U.S. imports funded by this program reached \$8 million per week. Since 1985, private sector importation of U.S. products has been supported at an average of between \$4 million and \$7 million per week. In a 1990 study of PSCIP, 68 percent of users reported that their imports from the U.S. now replace commodities previously imported from Europe, Asia and Canada. Nearly half of these firms reported that PSCIP had helped to increase their employment, and a majority said that it promoted the expansion of their sales. The Cairo USAID mission is planning to allocate the entire \$200 million of FY93 CIP funding to the private sector.

Cash Transfers

AID's concern over the effect of government policies on Egypt's economic development began in the late 1970s. By then, it was clear that despite President Sadat's Open Door Policy (Infitah), the economy was not becoming more productive because of a wide range of policies and government economic controls of production in virtually every sector. The GOE's desire to keep consumer prices low and to channel production into certain areas led to price distortions and administrative regulations which impeded productivity.

Rapid population increase and maintenance of widespread consumer subsidies resulted in a growing fiscal burden for the GOE.

In 1984, AID began to provide cash transfers to help Egypt with its balance of payments and to engage the GOE in serious discussions on macroeconomic reform. Though AID has disbursed \$1.4 billion in cash transfers to the GOE, policy changes over the years have not always been successful. For example, the GOE did not undertake macroeconomic reforms sufficient to justify the release of cash in FY 1988 and disbursement was postponed.

Currently, AID's Cabinet-level dialogue on policy reforms has assisted the government in identifying many of the economy's problems and in developing alternative adjustment strategies. In recent years the GOE implemented several of the measures that AID advocated. Until 1990, perhaps the singular mission success was in agricultural price reform through sector grants. However, in 1991, the GOE initiated a comprehensive economic reform program, with support from an IMF standby agreement, a World Bank SAL and major debt rescheduling. AID played a key role in the World Bank-led Consultative Group discussions that led to this program. This program and prior GOE actions have resulted in: achieving unification and convertability of the exchange rate including the operation of a new market-based rate within the banking system; increases in nominal interest rates, energy tariffs, and an increase in prices of major agricultural commodities, along with lifting most restrictions on agricultural production and trade. Further, actions have been taken to reduce expenditures on government salaries and food subsidies; substantially liberalize prices (with a 1995 target date for full price liberalization). There has been some movement toward privatization by the sale of public sector hotels to the private sector and selected transfer of management responsibility to private sector contractors. All parties in the Consultative Group are urging the GOE to move more rapidly in privatizing state-owned enterprises. By the end of FY 1993, AID will have contributed \$400 million in policy-conditioned sector grant assistance to support and accelerate economic reform in the fiscal, financial, privatization and trade areas.

The USAID mission also supports the macroeconomic reform effort with substantial technical assistance that enables the GOE to implement IMF and World Bank reforms. For example, under its Public Finance Administration Project, the mission supplied all of the technical assistance required for the GOE to implement a sales tax as part of its IMF agreement. During the first 9 months of collection, the new tax generated at least LE 2 billion in revenues.

Conclusion and Assessment:

It is difficult to capture quantitatively and in detail the total impact of AID's investment of \$17.5 billion in economic assistance over the past 17 years. This package includes \$1.4 billion in cash transfers, \$3.7 billion in food aid, \$4.95 billion in CIP commodities, and \$7.4 billion in project assistance.

However, viewing the program as a whole, the key question to ask is: Is the life of the average Egyptian better off for there having been a U.S. assistance program? As the preceding descriptions testify, the answer is "yes". There is no doubt that the US assistance program has made a sizable contribution to rehabilitating and stabilizing Egypt's economy. Dependable electricity, clean water, sewer and telephone systems, vastly improved health care and more schools, as well as easier access to farm credit and high-yielding technologies, are all achievements that have produced a higher standard of living for most Egyptians. However, much remains to be accomplished. Despite recent reforms, policies that limit individuals' incentives to invest in their own economy still constrain economic growth and lower productivity. Unless it can effectively mobilize its peoples' resources for development, Egypt will be unable independently to sustain the gains that have been made. While Egypt has begun to take major steps to decontrol the economy, major elements of the economy still remain state-controlled and state enterprises still dominate the industrial sector. In addition, GOE requires continued vigilance to curb government spending and make stronger efforts to encourage fertility reduction. Recent policy reforms undertaken by the GOE appear to indicate a growing realization that they must operate successfully in an interdependent, competitive, world market economy if they are to achieve sustainable growth.