PD-ABL-658
XD-ABL-658-A
ISN 96039
96040

AGRICULTURAL POLICY REFORM PROGRAM ASSISTANCE APPROVAL DOCUMENT

263-K-...

TECHNICAL ASSISTANCE FOR AGRICULTURAL POLICY REFORM PROJECT PAPER

263-0219

March 16, 1995

PD-ABL-658

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Amendment Number: ____

DOCUMENT CODE: 3

COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0219

BUREAU/OFFICE: Asia Near East

5. PROJECT TITLE (maximum 40 characters): Technical Assistance for Ag. Policy Reform

PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 06 DD 30 YY 00

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 95 B. Quarter 3 C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE		FIRST FY 95 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total							
(Grant)		(20,000)	( )	(20,000)	(27,000)	(---)	(27,000)
(Loan)		(20,000)	( )	(20,000)	(27,000)	(---)	(27,000)
Other U.S.	1.						
	2.						
Host Country			---			237	237
Other Donor(s)							
TOTALS		20,000	---	20,000	27,000	27,237	27,237

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
ESF						20,000		27,000	
TOTALS						20,000		27,000	

SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

PROJECT PURPOSE (maximum 480 characters)

To assist the GOE in developing, carrying out, monitoring and evaluating its agricultural policy reform program.

SCHEDULED EVALUATIONS

Interim MM 01 YY 98 | MM YY | Final MM 01 YY 00

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [x] 000 [ ] 941 [ ] Local [ ] Other (Specify)

AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Mission Controller has reviewed and concurs with the proposed methods of implementation and financing included herein.

Douglas Franklin

Douglas Franklin
AD/FM

7. APPROVED BY

Signature: John R. Westley

Title: John R. Westley
USAID/Egypt, Director

Date Signed: MM 3 DD 23 YY 97

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

1330-4 (8-79)

XD-ABL-658-A

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

	1. PAAD Number 263-K
	2. Country Egypt
	3. Category Cash Transfer
	4. Date
5. To John R. Westley, DIR USAID/Egypt	6. OYB Change Number
7. From Clemence Weber, AD/AGR	8. OYB Increase None To be taken from:
9. Approval Requested for Commitment of $ 50,000,000	10. Appropriation Budget Plan Code

11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period	14. Transaction Eligibility Date
☐ Loan ☒ Grant	☒ Informal ☐ Formal ☐ None	FY 95 - FY 96	

15. Commodities Financed

16. Permitted Source	17. Estimated Source
U.S. only	U.S. 40,000,000 imports from U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash $50,000,000	Other 10,000,000 U.S. debt

18. Summary Description

The purpose of the Agricultural Policy Reform Program (APRP) is to remove remaining policy barriers to private enterprise in agriculture, thereby creating a liberal, competitive marketing system, and stimulating sustainable agricultural growth. It is an integral part of the overall Mission goal of enhancing Egypt's role as a model of stability, democracy free markets and prosperity in the region. It contributes to the Mission's third strategic objective, which is to increase agricultural productivity, production, and incomes in the agricultural sector. Benefits expected to result from the policy reforms under NARP include lower resource costs in production, accelerated adoption of new technology, a more economically appropriate crop mix, lower resource costs in marketing and processing, increased farm income and increased agricultural output.

APRP will take the form of a $200 million policy-based cash transfer, divided into annual $50 million obligations over four years. APRP will provide the Government of Egypt (GOE) with foreign exchange and generate local currency to support the GOE as it undertakes difficult, and sometimes costly, agricultural policy reforms. The selection of some or all programming options shall be based on specific assessment of these options.

Clearances	Date
Alverson, OD/AGR/ACE	3/20/95
Jordan, AD/PDS	3/20/95
Moore, AD/LEG	3/23/95
Franklin, AD/FM	3/21/95
Dunlap, AD/PROC	3-23-95
Miller, DDIR	

20. Action

☐ APPROVED ☐ DISAPPROVED

Authorized Signature — Date 3/23/95

Title Mission Director USAID/Egypt

1120-1 (5-82) CLASSIFICATION:

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Technical Assistance for Agricultural Policy Reform

Number of Project: 263-0219

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Technical Assistance for Agricultural Policy Reform Project (the "Project") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed Twenty-Seven Million United States Dollars ($27,000,000) in grant funds over a two-year period from the date of authorization, subject to the availability of funds in accordance with the USAID Operating Year Budget/Allotment process, to help in financing the foreign-exchange and local-currency costs of goods and services required for the Project. The estimated life of the Project is five years from date of initial obligation.

2. The Project will assist the Government of Egypt in developing, carrying out, monitoring and evaluating its agricultural policy reform program.

3. The Project Agreement may be negotiated and executed by the officers to whom such authority is delegated in accordance with USAID regulations and delegations of authority. It shall be subject to the following essential terms, covenants and conditions, together with such other terms, covenants and conditions as USAID may deem appropriate.

4. Source, Origin and Nationality. Except as the USAID/Cairo Mission Director or his/her designee may otherwise agree in writing, to be eligible for USAID financing under the project, (i) commodities shall have their source and origin in the United States; (ii) the suppliers of commodities or services (other than ocean and air shipping) shall have the United States as their place of nationality; and (iii) ocean and air shipping shall be on flag vessels of the United States; provided, however, that the local procurement of commodities and services is eligible for USAID financing to the extent provided in Chapter 18 of USAID Handbook 1B, or any successor provisions.

5. Based upon the justification set forth in the Project Paper, I hereby determine, in accordance with Section 612(b) of the Act, that the expenditure of United States Dollars for the

C

procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this Project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for the certification required by Section 612(b) of the Act.

John R. Westley
Director

5/23/95
Date

Clearances:
AGR/ACE, REhrich
AD/AGR, CWeber
PDS/PS, TGehr
AD/PDS, RJordan
AD/FM, DFranklin
DDIR, DMiller

DRAFTED:LEG:PSullivan PWS:mf:(1/4/95):PAUTH.219

TABLE OF CONTENTS

ANNEXES

ACRONYMS

AERI	Agricultural Economics Research Institute
AGR/ACE	Office of Agricultural Credit and Economics in the Directorate for Agriculture, USAID/Cairo
APCP	Agricultural Production and Credit Project
APRP	Agricultural Policy Reform Program
ATUT	Agricultural Technology Utilization and Transfer
CIP	Commodity Import Program
CY	Calendar Year
EAP	Directorate for Economic Analysis and Policy
ELS	Extra Long Staple
ERR	Economic Rate of Return
ERSAP	Economic Reform and Structural Adjustment Program
ESF	Economic Support Funds
FX	Foreign Exchange
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GOE	Government of Egypt
HCC	Host Country Contribution
IBTCI	International Business and Technical Consultants, Inc.
IFPRI	International Food Policy Research Institution
IMF	International Monetary Fund
IMS	Irrigation Management Systems Project
LC	Local Currency
LOP	Length of Project
LS	Long Staple
MALR	Ministry of Agriculture and Land Reclamation
MIC	Ministry of International Cooperation
MOF	Ministry of Finance
MOS	Ministry of Supply
MOU	Memorandum of Understanding
MPE	Ministry of Public Enterprise
MPWWR	Ministry of Public Works and Water Resources
MVE	Monitoring, Verification and Evaluation
NARP	National Agricultural Research Project
NIS	Newly Independent States
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Proposal
PBDAC	Principal Bank for Development and Agricultural Credit
PC	Program Coordinator
PEO	Public Enterprise Office
PIL	Project Implementation Letter
PPC	Program Planning Committee
RIG/A	Regional Inspector General, Office for Audits
SAL	Structural Adjustment Loan
SPR	Sector Policy Reform
TA	Technical Assistance
TI	Directorate for Trade and Investment
USAID	United States Agency for International Development
WID	Women in Development

I. EXECUTIVE SUMMARY

A. Background

Agriculture, including production, marketing, and processing, accounts for over 40 percent of GDP and at least 50 percent of employment. From 1981 to 1992, real growth in the sector has been sluggish, at around two per cent per year. The real growth rate has been far below the four percent per year needed, as estimated by the World Bank, to sustain overall economic growth at the target rate of five per cent. It also has been less than the rate of population growth, which would have caused increased food import needs if domestic wheat and rice production had not increased dramatically.

Certain policies, including direct price and marketing controls, government ownership of key agricultural industries, heavy net taxation of agriculture, and overvalued exchange rates, were the major causes of this slow rate of growth. Significant policy change, however, has occurred since 1986: markets and prices for thirteen major crops, including cotton, rice, wheat, and maize, were liberated; input subsidies and government marketing monopolies were almost eliminated for most farm inputs; and exchange rates are now determined by market forces.

Nevertheless, government control is still pervasive. Sugarcane is completely dominated by the government. Cotton was completely controlled by the Government of Egypt (GOE) until 1994. Virtually all textile spinning capacity remains under government control. About ten per cent of the fertilizer is still distributed by the Principal Bank for Development and Agricultural Credit (PBDAC). The GOE manufactures 100 percent of domestically-produced fertilizer, and 50 percent of wheat and rice milling capacity is owned by the government. Overall, the policy climate is still inimical to private investment. Consequently, the private sector remains politically weak and economically ineffective.

By the early 1980s, the magnitude of the economic cost of these policies had become evident. Following a series of USAID-financed studies and the sector assessment conducted by the Presidential Commission of 1982, the GOE and the United States Agency for International Development (USAID) embarked on a program of reforms under the policy component of the Agricultural Production and Credit Project (APCP) in 1986.

The program of reforms was developed in two phases of three years each, following recognition in the mid-eighties that existing policies were having serious negative effects on sector performance. The first phase, 1987-89, covered price and marketing controls and delivery quotas for 10 major crops, reduced subsidies on inputs and began the process of opening markets to private investment. The GOE made substantial progress; markets for the ten crops were freed, farm-gate prices of fertilizer increased by 75 percent, and citrus exports were opened to the private sector. Little progress was made, however, in the cotton subsector until liberalization in 1994, and while PBDAC made progress in divesting itself of the inputs marketing business, it still owned storage facilities and employed most of the labor that had been used in input distribution. Much of this labor is now redundant.

The second phase (1990-92), building on earlier experience, sharpened the policy focus and developed more quantifiable targets. Principal benchmarks were:

(1) increase cotton procurement prices to 66 percent of the economic price (complete liberalization became the target in 1992 and was accomplished in 1994);
(2) remove procurement quotas on rice;
(3) eliminate subsidies on all inputs;
(4) reduce PBDAC's role in input marketing;
(5) restrict subsidized credit;
(6) improve PBDAC's institutional viability; and,
(7) reform the structure of seed production and marketing.

Results were impressive. Although cotton prices fell short of the original target of 66 percent of five-year average export prices, they exceeded 84 percent of the "spot" export price; and the GOE agreed to liberalize cotton marketing in 1994. Rice delivery quotas were removed in 1991, private dealers distributed over 80 percent of fertilizer in 1992, and the GOE adopted a comprehensive plan to liberalize the seed subsector. In addition, exchange rates became freely market-determined in 1991.

Still, much remains to be done. The proposed new four-year program of policy reform, building on the momentum generated by APCP, will focus on four critical reform areas:

(1) prices and marketing;
(2) private investment and privatization;
(3) public investment policy and sustainability; and
(4) subsidies, taxes, food security, and sustainable agriculture.

B. Program Description

The Agricultural Policy Reform Program (APRP) is a $200 million sector grant program, the purpose of which is to remove the remaining policy barriers to private enterprise in agriculture to create a liberal, competitive marketing system and stimulate sustainable agricultural growth. The program will begin in FY 95, with annual disbursements of approximately $50 million over four years, depending on GOE performance toward established benchmarks. In addition, $27 million for long and short term technical assistance (TA) and studies will be provided over five years in the form of project assistance to help in carrying out the policy reform program.

Program elements identified thus far, arising in part out of the APCP experience and in part from additional analyses of sector policies, are:

(1) reform of price and marketing policies in cotton, rice, sugarcane, livestock and fertilizer;
(2) privatization of the processing, marketing and distribution of cotton, rice, wheat, feed, fertilizer and other inputs;
(3) increased efficiency of public investment in agricultural research and land and water development, and improvement of the sustainability of agricultural investment by dealing with environmental degradation and cost recovery issues; and
(4) removal of general consumer subsidies on food and fiber, establishment of a targeted food security program, and reduced negative environmental impact of agricultural growth.

C. Expected Program Benefits

The benefit-cost analysis of the proposed policy reforms suggests benefits many times the cost of this program. Benefits will arise from lower resource costs in production, accelerated adoption of new technology, a more economically appropriate crop mix, lower resource costs in marketing and processing through privatization, increased farm income, and increased agricultural output.

In the short run, structural change and policy reform will likely cause a rise in unemployment, until growth generates more jobs in agricultural processing and marketing. The program will include, indirectly through local currency disbursements to concerned ministries, elements to address unemployment, such as retraining, early retirement, and perhaps credit schemes for micro-enterprises. The program will assist the GOE in special programs to deal with short-term labor problems arising from privatization of agro-industries.

In addition to benefits arising from increased participation by the private sector, the program will generate efficiencies in remaining public sector entities. Greater efficiency in land and water use and development, increased efficiency of investment in research and extension, creation of effective regulating agencies to foster competition and regulate quality of food and fiber products, and creation of a market information system will increase economic efficiency in the sector.

Replacing general consumer subsidies with targeted food security programs will reduce the GOE's budgetary burden and contribute to efficient allocation of agricultural resources. APRP will also address the plight of the very poor by monitoring food prices and real wage rates and developing safety-net food programs targeted for the poor.

Expected annual program benefits are (billion LE):

(1)	Efficiency gains from privatization of agro-industry	1.85
(2)	Increased agricultural resource income	1.10
(3)	Increased efficiency of land and water use	0.62
(4)	Reduced consumer subsidy costs	1.20
	TOTAL	**4.77**

Annual costs attributable to the reform process are approximately LE 0.25 billion. Thus, the Program is economically feasible.

D. Scope of Program

The broad scope of this program is necessary to achieve the economic efficiency that only fully competitive markets can generate. Examples abound regarding the failure of partial policy solutions to achieve these efficiencies, e.g., fertilizer marketing is virtually free, but prices administered by the public-sector holding companies reduce economic efficiency; rice production and marketing is free, but public sector rice mills account for over half of the total capacity, and indications are that farm prices are reduced by public sector inefficiency and manipulation of prices and trade by the public sector; wheat processing has a similar structure; development of land and water resources remains in government hands, while recent studies indicate serious economic inefficiencies in these investments.

Tackling these broad policy issues will require extending the policy dialogue to include the Ministries of Supply, Public Enterprises, Public Works and Water Resources, and perhaps others such as Economy and Planning.

E. Project Assistance

As the reform program proposed for APRP is technically complex, four projectized technical assistance activities are envisioned: a) monitoring, verification and evaluation of policy reforms ($5.7 million); b) assistance with the implementation of reforms ($11.2 million); c) program management ($1 million); and d) medium- to long-term research on food security ($7.4 million). A Program Planning Committee (PPC) will provide overall guidance to the technical assistance teams.

The teams as a group will provide input to the formulation of policy benchmarks and the development and implementation of local-currency-funded projects. They will also monitor, verify, and evaluate progress made in meeting policy benchmarks as well as evaluate policy impacts. It is anticipated that assistance for the first three activities will be provided under direct contracts with USAID, which will monitor contract performance. The advisors will respond to technical requests from the PPC and USAID. The technical team leaders, or their designees, will interact on a day-to-day basis with the PPC via its Management Unit and a Program Coordinator. It is anticipated that the fourth activity (food security) will be implemented through a USAID grant to an appropriate research institution.

The efforts of these technical assistance teams will be bolstered by resources from the Mission's Privatization Project. Formal task forces will be formed to coordinate that Project's role in privatizing agribusinesses targeted under APRP.

F. Financial Plan

The total length of project (LOP) budget is $227 million, of which $27 million is projectized to fund technical assistance, audits and evaluations, and $200 million is for performance-based disbursements. The performance-based funds will consist of four annual $50 million disbursements.

For the performance-based disbursements, two accounts will be managed by the GOE, one for dollars and another for local currency. The Ministry of International Cooperation (MIC), as the primary implementing agency, will coordinate all activities and ensure that the Central Bank and the Ministry of Finance properly manage the Dollar and Local Currency Special Accounts, respectively. The procedures established under the Cash Transfer for Sector Policy Reform will apply under the current agreement in the use of dollars to purchase commodities or for the servicing of U.S. Government debt. A Project Implementation Letter (PIL) to MIC will be issued to stipulate the detailed terms of the required system of financial management.

The GOE will establish a separate local currency account in the Central Bank in the name of the Ministry of Finance. Deposits to this account will be made as follows: 1) for debt repayment (limited to 25 percent of the dollar amount), no local currency deposits are required; and 2) for commodity purchases, special arrangements will be made through a PIL. Funds deposited in the Local Currency Special Account will be programmed and used in accordance to the sixteenth amendment to the Memorandum of Understanding and its subsequent amendments. The Ministry of Finance is responsible for accounting, reporting and monitoring the Account. Based on recent audits and studies, it has been determined that the GOE meets USAID's requirements for managing the local currency account.

II. PROGRAM CONTEXT

A. Macroeconomic Framework

The agricultural sector, including production, marketing and processing, accounts for over 40 percent of gross domestic product (GDP), nearly 50 percent of employment, and 22 percent of commodity exports. Agriculturally-related industry, including production of agricultural inputs and marketing and processing of commodities, accounts for approximately 20 percent of GDP and 20 percent of employment.

Real growth in the agricultural sector was slow relative to its potential from 1981 to 1992. The production sector's share of GDP declined from 20 to 17 percent, and the real value of production grew at around two percent per year, below the annual population growth rate of 2.6 percent. Employment in agriculture grew at less than one percent per year.

Slow growth in agricultural output can be traced in part to poor performance in the cotton subsector. Production of cotton, historically Egypt's most important single crop, declined from 10.6 million kentars (a kentar equals 50 kgs.) in 1980/81 to 5.8 million kentars in 1989/90. Export value declined from $443 million in 1980 to $236 million in 1990 and $50 million in 1992. This precipitous decline is due in large part to the Government's policy of fixing farm gate prices below 50 percent of international prices and setting export prices too high relative to international prices of substitutes.

Concerning other major crops, fruit and vegetable yields increased substantially during this ten-year period, with tomatoes leading at 55 percent and potatoes showing a respectable 18 percent increase for the period. Wheat yields, whose market was freed from control in 1986, increased by over 36 percent from 1986 to 1990. Rice and maize yields also increased substantially after 1986 (26 and 28 percent, respectively). In contrast, cotton yields declined by 25 percent during the same period. Increases in yields for the liberalized crops were directly related to policy reforms and may portend a re-emergence of agriculture as a growth leader.

Recent indicators of the impact of marketing and price reforms for agricultural crops, even in the face of GOE controls over the major processing industries, clearly indicate positive results. The gross real returns to agricultural resources for the 11 major crops increased 27 percent on the average for reform years (1987-93) versus pre-reform years (1981-86). Macroeconomic reforms since 1987, including a liberalized exchange rate in 1991 and a reduction in subsidies and removal of some key tariffs, resulted in an increase in aggregate consumption (welfare) of 3.6 percent. Thus, given the huge potential benefits (gains in efficiency) possible through privatization of key agricultural processing and marketing industries, one can be confident that the liberal, private, competitive system being created by these reforms has an excellent chance of turning the agricultural economy around.

A viable, growing agricultural sector can be a major stimulus to industrialization, job creation, and general economic growth. Agriculture and industry are interdependent, with increased productivity in agriculture providing food, raw materials, capital and labor for industry, and industry providing low cost inputs for agriculture. Policies that inhibit growth in agriculture are likely to reduce growth in other sectors as well.

Government control is still pervasive in the agricultural sector, despite liberalization of the markets for 13 crops since 1986. In addition to stringent controls on prices and plantings for sugarcane, most crops (e.g., rice, wheat, maize, cotton, and animal feeds) must be marketed through government-owned marketing and processing facilities. In addition, fertilizer is entirely produced in publicly-owned enterprises. For many crops (e.g., rice, wheat and cotton), subsidies to public facilities as well as trade restrictions effectively limit competition from the private sector. Overall, the policy climate has been inimical to private investment, resulting in the private sector continuing to be politically weak and economically ineffective.

Other important policy factors that continue to contribute to low productivity and slow growth in agriculture include inefficient investment in land reclamation and irrigation, lack of cost recovery in irrigation (inefficient pricing of water), barriers to imports (e.g. banning meat imports, tariffs on fertilizer and tractors), and inefficient investment in research, extension and other government-provided farm services.

One factor that could inhibit economic policy reforms in the near future is the large workforce currently employed by public sector industry. Over 3 million people are employed by public sector enterprises in all sectors, representing 22 percent of total employment in Egypt. Over 460,000 people are employed by those public enterprises in agriculture that will be directly affected by the policy reforms proposed below; of these, approximately 200,000 are employed in the cotton textile industry. This program will attempt to minimize the short-run negative economic and political impact on employment as these industries are privatized.

In addition, the very poor will need to be protected from rising food prices. A system for targeting assistance to low income Egyptians will be developed under the program.

B. Program/Sector Constraints

In the 1960s and 1970s, the Government of Egypt (GOE) introduced tight controls over agriculture, including prices fixed below economic levels, planting and delivery quotas on most crops, subsidies on most farm inputs, and public monopolies in the marketing of most crops. The result was a predictable decline in per capita production, soaring subsidy costs, declining exports, rising imports of basic foods and animal feeds, and lagging resource productivity in spite of the promise of the green revolution.

By the early 1980s, the magnitude of the economic cost of these policies became evident. USAID and the GOE carried out several policy studies under the Agricultural Development Assistance Project (1980-1983) and the Data Collection and Analysis Project (1983-1985). In 1982, a Presidential Commission conducted an agricultural sector assessment. The recommendations of the commission formed part of the basis for the policy component of the Agricultural Production and Credit Project (APCP).

Four broad categories of reforms and fifteen benchmarks were identified which were included in the policy reform component of APCP. The four conceptual categories of reforms carried out were:

- remove price, area, and delivery quotas on all crops except sugarcane;
- remove processing and marketing controls except for sugarcane;
- decontrol cotton, meat and feed, increase procurement prices, remove import constraints on meat and livestock feed, and remove feed subsidies; and
- reform the farm input subsector, including holding the line on or reducing input and credit subsidies, privatizing the input distribution system, limiting state ownership of land and promoting the sale of reclaimable new land to the private sector.

C. Relationship to USAID Strategy

The APRP will contribute to Strategic Objective No. 3, "increased agricultural productivity, production, and incomes in the agricultural sector." Program outcomes to which APRP will contribute include: 3.1) liberalized product and input markets and increased private sector share of agricultural processing and marketing; and, 3.3) increased efficiency of water use for agriculture. APRP will also contribute, to a lesser extent, to Program Outcome 3.2, improved technologies developed and adopted for the production, processing, and marketing of agricultural commodities. The program seeks to remove major policy barriers to efficient, equitable, sustainable, private-sector oriented and export-led growth in agriculture.

Combined with programs in agricultural research and improving water and land use efficiency, APRP completes USAID/Cairo's comprehensive agricultural development strategy. Proposed benchmarks in water pricing will establish the macroeconomic policy framework within which the water resources management policy agenda can be negotiated. Agreement to implement a market price mechanism for allocating water is a prerequisite for such policy actions as allowing Water Users Associations a greater management role and restricting the role of the Ministry of Public Works and Water Resources (MPWWR) in irrigation systems management. Institutional reform in the Ministry of Agriculture and Land Reclamation (MALR) is necessary before research can be utilized at peak efficiency. APRP can play a role in inducing these required reforms.

Strategic Objective No. 2, Increased Private Investment and Trade, aims to help create market conditions conducive to privatization and private investment, and to assist tne GOE in its privatization efforts throughout the Egyptian economy. As such, APRP privatization efforts targeted at the agribusiness sector will be coordinated closely with activities under this strategic objective to take advantage of complementarities. Moreover, broader mission policy on privatization will guide the agribusiness privatization activities to be funded under this program.

Elements of the Sectoral Policy Reform (SPR) Program are closely related to performance on policy reform in agriculture. The plan for privatization of cotton textiles was a condition under the SPR program. Liberalization of trade policies throughout the Egyptian economy under the SPR program will affect agricultural sector performance, especially regarding exports. Thus, APRP will also have an impact on Strategic Objective No. 1, Increased Macroeconomic Performance, and in turn will be coordinated with policy negotiations under SPR II.

D. Relationship to GOE Strategy

The GOE's strategic plan for development of the agricultural sector closely relates to that of USAID. The primary elements of the GOE strategy are:

(1) liberalization of pricing, trade, and marketing;
(2) expansion and conservation of land and water resources;
(3) food security;
(4) increased rural employment; and,
(5) ecological sustainability of the agricultural development process.

Privatization is the main focus of public sector reform, together with the reform of the organizational and management structure of certain public agencies. The GOE plans to liberalize prices for industrial goods, energy, cotton and agricultural inputs by allowing prices to rise to market levels. The GOE will promote the development of the private sector by reducing investment barriers, product licensing and product mix requirements, and by eliminating certain distribution monopolies.

E. Relationship to Other Donors

USAID's program for economic reform in the agricultural sector complements the efforts of the IMF and the World Bank. The goal of the IMF Stand-By Agreement with the GOE is to restore macroeconomic balance and reduce inflation so as to provide a stable basis for resumed growth. The World Bank Structural Adjustment Loan ($300 million in two tranches) supports the Government's Economic Reform and Structural Adjustment Program (ERSAP) in the areas of public sector deregulation, privatization, price liberalization, foreign trade liberalization, and private sector development. Its objective is to promote sustainable medium-term economic growth. Specifically related to agriculture, the World Bank is involved in projects focussing on irrigation, technology transfer and agricultural credit.

In addition to the World Bank and the IMF, other major donors in the agricultural sector include: Britain (privatization); Germany (credit, liberalization of the seed sector, small farm machinery); Canada; Italy (barrage reconstruction); Japan (retrofitting pumps, small farm machinery); European Union (privatization, irrigation management); Food and Agriculture Organization (water management); Netherlands (research, pilot projects in drainage); and, the United Nations Development Program. The USAID/Cairo program will complement these efforts.

III. PROGRAM RATIONALE AND DESCRIPTION

A. Goal and Purpose

The goal of the Agricultural Policy Reform Program (APRP) is to increase production, productivity and incomes in the agricultural sector (including agribusiness). This is also a strategic objective for USAID/Cairo. The purpose of APRP is to remove remaining policy barriers to private enterprise in agriculture, thereby creating a liberal, competitive marketing system, and stimulating sustainable agricultural growth. Competition in a free and open marketing system will lead to increased agricultural production and productivity, sustainable income growth, increased employment in the agricultural sector and increased exports. Exports are essential to sustaining a growing agricultural sector.

B. Policy Dialogue and Agenda

Progress in policy reform has been satisfactory on many fronts. Given the magnitude of the distortions in the agricultural sector, however, as well as the formidable challenges identified by the sector studies carried out during 1990-94 and annual monitoring and verification studies carried out under APCP, it is clear that important constraints to achieving the goal of a free and open market economy still remain. In order to address these constraints, USAID will expand the reform agenda begun under APCP, broadening its scope to include such areas as water and land use policy, privatization of major agricultural industries, liberalization of imports and exports, and food security.

Although not a specific policy category, APRP will also address environmental and other sustainability issues related to agricultural policy reform. Irrigation cost recovery, fertilizer price policy, and market liberalization are policy issues that directly impact on the environment. Specifically, these concerns include water pollution arising from inappropriate use of pesticides and fertilizer, waterlogging and salinization related to excessive application of irrigation water, water pollution caused by industry, and food contamination.

The following four policy categories, identified as the most important policy constraints inhibiting private-sector oriented, export-led economic growth, constitute the framework for the policy agenda addressed by this Program:

Price, Marketing and Trade Policy: Priority issues include farmer incentives, government control of the cropping pattern, liberalization of international trade, and competitive conditions for private firms in marketing, processing and exporting. Regarding international trade policy, reforms will conform to other instruments of U.S. and GOE policy, such as the GATT treaty.

Moreover, the thrust of marketing reforms and specific trade policy reforms is to directly support the Mission's strategy of export-led growth. This strategy has as its essential element the provision of appropriate market incentives to increase the production of high-value crops and elimination of barriers to trade.

Private Investment and Privatization: Private initiative under fully competitive conditions generally maximizes employment, income and output. The GOE should remove barriers to private investment, privatize most public enterprises, put public sector firms that remain in competition with private entities under strict, market-oriented rules, and actively encourage private sector participation. In order to reduce the burden on the national budget and improve the ability of the private sector to compete, the GOE should discontinue any preferential treatment of public sector companies.

Public Investment Policy and Sustainable Agriculture: The GOE should improve the nature and efficiency of public investment. More emphasis should be placed on technology transfer and research. The Government should submit public investment proposals to rigorous economic feasibility analysis. Users of services should pay the costs of infrastructure investment whenever practicable. Public investment should not be made in economic activities that are best carried out by private firms. The MALR should divest its land holdings except for those needed for essential public services. The public sector role in providing market information, research, extension, and quality regulation should be strengthened. Barriers to entry of private enterprise into these areas should be removed, however, as the private sector has an important role to play in delivery of these essential services.

Subsidies and Food Security: Subsidies on agriculturally-related consumer goods strain the public budget, cause consumption in excess of optimal levels, and contribute to inappropriate price signals to farmers. Selective, targeted subsidies, or income support programs for the very poor, financed through explicit taxes which leave resource allocation to market-determined prices, will be a more efficient means of achieving equity goals. Food security will be improved through rational trade, price, and marketing policies and perhaps could be enhanced by price stabilization schemes or other interventions.

C. Program Conditionality

1. Sector Reform Dialogue and Policy Content

The content of the policy benchmarks is based upon the following considerations:

(1) the need to complete reforms begun under APCP;
(2) the sequencing, as some reforms must precede others;
(3) the need to integrate reforms, either vertically (e.g. removal of farm price restrictions and liberal market pricing) or horizontally across commodities (freeing of maize prices affects the profitability of cotton or other crops);
(4) the degree of negotiating success anticipated with the different ministries involved. For example, if possible, USAID will try to avoid jeopardizing the successful completion of important reforms that might arise from including an impossible condition in the reform list;
(5) the estimated economic benefit from the reforms; and,
(6) the contribution of the reform to private sector, export-oriented economic growth.

Subsection III.C.4 below provides complete details of the reforms for the first year (FY 1995/96). A tentative list of reforms is laid out for the succeeding three years in Annex E. A Memorandum of Understanding (MOU) will be negotiated each year, adding new reform measures and further specifying the time-phased reforms laid out in the initial Memorandum of Understanding.

Policy reforms are classified into four categories:

(1) Pricing, Marketing, and Trade;
(2) Private Investment and Privatization;
(3) Efficiency of Public Investment and Sustainable Agriculture; and
(4) National Subsidy/Tax Policies, and Food Security Concerns.

The classification serves to identify types of reforms and roughly indicates institutional links or responsibilities. Pricing and marketing concerns generally fall within the mandate of the Ministry of Agriculture and the Ministry of Economy. Privatization issues are the concern of the Ministry of Public Enterprise, Holding Companies, the Ministry of Industry, and the Ministry of Supply. Public investment concerns will largely involve the Ministry of Agriculture, the Ministry of Public Works and Water Resources, and the Ministry of Finance. This category would logically include any reform of public institutions that may be identified, such as compensation schedules, reduction in labor force, and consolidation of administrative units. Finally, the subsidies/tax category, while related to pricing policy and efficiency of public investment, will be focussed primarily on consumer subsidies for food, food security, and price stabilization policy, and environmental (sustainability) concerns.

Ranking reforms within categories, sequencing reforms over time, and linking reforms vertically and horizontally was done subjectively, as few quantitative measures are practical. Cotton benchmarks continue to rank the highest because of the degree of GOE control and their importance economically, followed by rice and then fertilizers. Privatization measures in all crops and fertilizer are the most important in terms of the expected economic benefits. A study or plan is required in most cases prior to implementing privatization benchmarks in following years, thus helping to insure the proper time sequence of benchmarks.

Market liberalization measures must either precede privatization measures or be carried out simultaneously in order that private entrepreneurs may reasonably expect profitable investments. While marketing reforms are necessary, they alone are not sufficient to improve private sector performance. Private investment must occur to realize the full impact of market reforms.

Improved water use efficiency and increased viability of land reclamation schemes are expected to generate annual benefits in excess of LE 500 million and returns to such investments in land and water resources will be positively affected by policy reforms in marketing, processing and pricing. Quick, direct benefits can accrue to society through improved performance of the GOE investment portfolio. Private users of these resources will generate higher value-added by using the resources more efficiently.

2. Medium-Term Policy Objectives

End-of-program objectives are: 1) open and competitive agricultural markets that generate appropriate price signals; 2) trade allowed to develop and grow according to Egypt's comparative advantage; 3) liberal conditions favoring private investment, including privatization of GOE-owned enterprises in agro-industry; 4) application of sound economic efficiency criteria to public investment in land and water resources and public services, including market information, market regulation, and research; 5) targeted food subsidies that reduce budget expenditures, ease the shock of market reforms for the poorest families, and stabilize food supplies; and 6) reduce harmful environmental effects that may arise from agricultural growth.

Private-sector oriented, export-led growth is the principal objective of this program of policy reforms. The following policy matrix contains many reforms directly related to liberalization of trade. Other reforms included in the matrix will indirectly have a positive impact on the ability of the private sector to expand imports and exports. The importance of stimulating exports and their contribution to sustainable economic growth makes it useful to concisely summarize the various benchmarks contributing to this overall objective. These benchmarks are:

- remove unwarranted restrictions on cotton imports;
- eliminate the system of minimum export prices for cotton yarn and woven fabrics;
- reduce the tariff on cotton yarn to 20 percent;
- eliminate the 30 percent tariff on fertilizer;
- eliminate "informal" controls on rice exports;
- apply a compensating tariff rather than quantitative restrictions to red meat and frozen chicken imports;
- reduce the tariff on tractors;
- reduce the tariff on trucks; and
- identify other barriers to freedom of import and export and develop a time-phased plan to eliminate them.

These comprehensive benchmarks are designed to correct direct distortions to agricultural trade. Indirect factors, such as liberalizing domestic markets and privatization of agribusinesses, are also part of this reform program. Thus, the program of reforms is designed to help the GOE shift from its past policy of import substitution and industrialization through the taxation of agriculture, to an open-market policy of export-led growth and incentives to agriculture.

The preliminary matrix of policy reforms for 1995/96, outlined below, is shaped by these medium-term policy objectives. See also Annex D for further details concerning the medium-term goals of this program.

3. Procedures for Obligation and Disbursement

Funds are obligated through an initial program/project agreement the first year and annual amendments in the following years. A detailed Memorandum of Understanding will contain specific policy conditionality for each year.

Disbursements will require satisfactory performance on agreed upon benchmarks specified in the Memorandum of Understanding. Determination of performance will be based on the results of the Monitoring, Verification and Evaluation Unit's periodic reports (see Section V.B.).

4. Detailed Policy Agenda and Conditionality Matrix

MATRIX OF POLICY CONDITIONS
1995/96

I. PRICING, MARKETING AND TRADE

A. Cotton:

1. Verify that cotton benchmarks in Tranche 7 of APCP continue to be met (see Annex F).

2. Verify that the practice of allocating lint cotton to spinning mills according to an administrative formula has been abolished. Allow mills to acquire lint cotton at free market prices directly from private dealers or gins.

3. Allow private traders to import unlimited quantities of cotton at "border" prices, respecting phyto-sanitary restrictions where justified by an acceptable technical analysis of the risks of infestation by insects and disease.

4. Expand the program of trials and demonstrations for short season cotton varieties for the 1995 season.

5. Abolish systems for allocating cotton yarn output and eliminate minimum export prices for cotton yarn and woven fabrics.

6. Reduce the tariff on cotton yarn imports from 30 to 20 percent.

B. Fertilizer:

1. Abolish the current practice of transferring excessive fertilizer production costs to farmers. Introduce the following policies:

   (a) the GOE should operate all domestic nitrogen production units at full capacity as long as market-clearing prices are above <u>variable</u> costs;

   (b) phosphate prices should be allowed to decline to market-clearing levels;

   (c) eliminate the 30 percent tariff on fertilizer; and,

(d) public-sector fertilizer production companies will price fertilizer according to supply and demand conditions.

2. Implement other liberalization measures recommended in the Fertilizer Policy Impact Study of June 1993 (See Annex G).

C. Rice:

1. Abolish informal government controls on rice exports and imports. Allow complete freedom for the private sector to purchase, process, store and export rice at prevailing market prices.

2. Develop a plan for rationalizing water charges for rice and other crops that consume large amounts of water.

D. Cropping Pattern Controls:

1. Remove restrictions on the cropping pattern that are not justified by technical requirements. Rice, sugarcane, and cotton should be given priority attention in this regard.

2. Begin to apply the recommendations of the study of short season cotton through a system of trials and demonstrations for farmers.

3. Adjust cropping pattern constraints related to irrigation water requirements to provide farmers maximum possible flexibility in cropping, consistent with system water management requirements.

E. Tariffs and Trade:

1. Apply a compensating tariff to red meat and frozen chicken imports in lieu of ad hoc quantitative restrictions.

2. Reduce the tariff on 40-85 HP tractor imports from 40 to 20 percent.

3. Identify all other barriers to imports and exports of agricultural inputs and commodities, and develop a time-phased plan for eliminating these barriers.

4. Reduce the tariff on trucks.

II. PRIVATE INVESTMENT AND PRIVATIZATION

A. Cotton:

1. Privatize the five profitable cotton spinning companies (KABO, STIA, UNIRAB, Shebin, and Misr Mehalla) by July 1997. Privatize two by July 1996 and the remaining three by July 1997.

2. Analyze the 10 unprofitable spinning companies to develop precise recommendations for restructuring debt and labor in order to privatize them. Develop a concise plan for their privatization by July 1996.

3. Analyze options for liquidation of the 13 least profitable spinning companies and adopt a plan for divesting them by July 1996.

B. Fertilizer:

1. Based on the study of nitrogen fertilizer production to be completed in March 1995, and the study of phosphate production completed in December 1994, the GOE will adopt a time-phased liberalization and privatization plan for fertilizer production by December 1995.

2. Privatize the most profitable fertilizer plant by July 1996. Prepare other plants for privatization according to the agreed plan.

C. Wheat:

Conduct a comprehensive study of wheat marketing and flour milling and develop a privatization and liberalization plan by March 1996.

D. Rice:

1. Based on the comprehensive study of rice marketing, milling, and trade completed in November 1994, develop a privatization and liberalization plan by September 1995. Develop a liberalization/privatization benchmark by December 1995.

2. Begin implementing the privatization plan for rice mills, privatizing one rice mill by July 1996.

E. PBDAC:

1. PBDAC will cease distributing fertilizer and all other inputs after July 1, 1995, except for playing a short-term stop-gap (emergency) role for remote areas of Upper Egypt. The law governing PBDAC will be changed to eliminate the marketing of inputs from PBDAC activities.

2. PBDAC will continue to reduce redundant employees, reaching 5500 employees by March 1995 and 6800 by July 1996.

3. An additional 25 percent of warehouses will be sold or leased to the private sector, or leases held by PBDAC will be terminated by December 31, 1995.

4. PBDAC will expand implementation of its new policies regarding creditworthy lending, aggressive deposit mobilization, and employee incentives based on unit profits to the entire PBDAC system effective with the GOE FY 1995/96.

5. PBDAC will implement Phase I of a five-year Strategic Bank Development Plan that is acceptable to USAID.

F. Seed:

1. Continue to implement the privatization of all seed processing plants, including those for cotton seed, privatizing 50% by December 1995 (See Annex F).

2. Continue to develop delinting capacity for cottonseed and develop a plan to privatize the delinting capacity by December 1995.

G. Feed:

1. Conduct a study of the public sector feed milling industry.

2. Develop a plan for liberalizing and privatizing the feed milling industry.

H. Cooperatives:

Submit legislation to the People's Assembly to create the legal framework for independent, commercial cooperatives.

I. **Land**:

Sell a specified amount of Ministry of Agriculture land to private investors.

III. EFFICIENCY OF PUBLIC INVESTMENT AND SUSTAINABLE AGRICULTURE

A. **Land**:

1. A comprehensive study of the socioeconomic viability of new land development schemes was completed. Develop a revised land master plan based on the study.

2. Implement recommendations for intensifying investments on one "old" new land settlement by July 1996, developing a plan for improved marketing, on-farm irrigation technology, and credit for at least 10,000 feddans.

3. Conduct a study of land tenure policy.

B. **Sustainable Agriculture**:

1. Complete Study No. 3 of the three-part analysis of irrigation costs and farmers ability to pay water charges, and develop a rational plan for allocating water charges to farmers and other users of water by September 1995.

2. Develop a benchmark for 1995/96 that will require implementing the first phase of the plan for cost recovery and rational allocation of water among alternative uses (March 1996). (Link this benchmark to development of the Water Resources Management Project.)

3. Develop a plan for reducing salinity, waterlogging, and water quality deterioration.

C. **Investment in Research, Extension, Market Information Services, and Regulatory Services**:

1. Conduct a thorough analysis of research and extension institutions during 1995, with the aim being to develop a plan for improving institutional arrangements, improving the efficiency of investment, and reducing budgetary pressures where possible. Develop a plan for

institutional reform. Complete Phase I of the plan.

2. Assess the market information needs of an open and competitive agricultural marketing system and develop recommendations for developing a marketing information system by December 1995. Consider option of private sector provision of service. Develop a plan and initiate Phase I of the information system.

3. Conduct a study of phyto-sanitary controls on imports of agricultural raw materials and develop a plan to remove unnecessary restrictions to free trade in agricultural raw materials and inputs.

4. Develop a plan to introduce a mechanism for monitoring competition in agro-industry.

IV. NATIONAL SUBSIDY, TAX AND FOOD SECURITY POLICIES

A. Subsidies:

1. Remove remaining general consumer subsidies on food commodities.

2. Establish a safety net program for the poorest households, concentrating on the poorest one-half of urban and rural populations that fall below the poverty line.

3. Monitor the impact of market liberalization and privatization on food security and employment, recommending measures to reduce negative impacts in the medium term.

B. Taxes:

Conduct a study by July 1996 to develop a national farm tax policy based on a study of the total tax burden, including water charges, land taxes, transport taxes, sales taxes on inputs and others.

C. Food Security:

1. Expanding on the analysis of food security conducted in 1993/94, develop a plan for targeting food assistance and moderating price and income variation under the liberalized market regime.

2. Implement Phase I of the plan.

D. Beneficiaries and Program Impact

Dismantling the government control apparatus and clearing away public policies and programs that prohibit private sector participation in marketing and processing will yield tangible benefits to Egypt. The most important of these are: lower resource costs in production, marketing, and processing; increased output; increased farm income; increased food supplies at lower economic prices; a net increase in employment over the long term; reduced government budgetary outlays; and increased national income. Subsection 1 below assesses the types of benefits likely to accrue under the reform program. Subsection 2 summarizes quantitative benefits estimated in the Economic Analysis (see Annex A).

1. Benefits of the Program

Impact on Overall Economic Growth: There is a minimum annual growth rate in agriculture (the World Bank estimates four percent) required to support the overall target rate of economic growth of five per cent annually. Agricultural policy reform should contribute to achieving this overall target rate by increasing food and raw material supplies, releasing labor for industrial growth, and producing surpluses for investment in the industrial sector. According to a recent study by the International Food Policy Research Institute (IFPRI), macro-economic reforms (e.g., liberalization of the exchange rate) combined with agricultural reforms contributed to an increase in total welfare of 3.6 percent compared to conditions existing prior to 1987.

Increased Net Farm Income: The most important single impact expected from the program of policy reform is increased net farm income. Simply shifting more resources to cotton, following the recent increase of world cotton prices, could result in an increase in net farm income of over 35 percent for cotton farmers. Adopting new, available technologies for growing cotton and other crops could conservatively add over 50 percent to yields of most crops and increase gross farm income by a similar order of magnitude. Net farm income should increase even more, as these technologies, especially new varieties, tend to be resource saving. Quantitative benefits related to increases in agricultural resource income are summarized in Subsection 2, below.

Increased Agricultural Output: Parallel to increased farm income, total agricultural output is expected to increase as a result of the proposed policy reforms. The combined impact of new technology, adjusting the crop mix, and a more efficient allocation of resources, will increase total output and the rate of growth of this output. Exports should grow more than proportionately as farmers shift resources to high-valued crops having a clear comparative advantage in Egypt.

Resource Costs: As farmers begin to receive higher prices for their produce, they will adopt improved technology. This improved technology should increase output per unit of resources. Also, shifts in the crop mix to the competitive optimum will result in gains in output per unit of resource. As competition drives resource costs to a minimum, marketing and processing of inputs should also become more efficient. As input subsidies are removed, rising prices should reduce the use of inputs per unit of output to their economically optimal levels.

New Technology: Fixing crop prices below border prices, as was the case for many important crops, created disincentives for farmers regarding adoption of technologies that would raise yields and reduce production costs. Under free-market pricing conditions, farmers will seek out new seed varieties, more advanced cultivation practices, improved pest control and more economical use of inputs such as fertilizer. These innovations lead to higher yields. The relative increases in yields expected for the major crops, based on already available technology, are 100 percent for cotton, 48 percent for wheat, 50 percent for rice, and 12 percent for maize (See Annex A).

Shifts in Crop Mix toward Economically Optimum Levels: Distorted relative prices of crops cause farmers to deviate from the optimal cropping pattern. For example, cotton was priced at less than 50 percent of its border price in 1987-1989, while competing crops such as wheat, rice, and maize were priced at their border equivalents. By allowing cotton prices to reach the border price, economic gains through shifts in acreage to cotton would have resulted, since cotton had a higher economic value than its "official" price.

Resource Costs in Marketing and Processing: Inefficiencies, i.e., high resource costs, are significant in publicly-owned marketing and processing enterprises. For example, a Labor Utilization Study estimated that employment in public industries was 30 percent redundant. Of the six fertilizer factories operated by the public holding companies, three are technically efficient while the other three have very high costs of production. These factories are currently protected by a pricing and tariff structure that subsidizes their output. Similarly, inefficient resource use exists in rice milling, cotton ginning, cotton spinning, feed milling and flour milling. Privatization of these agro-industries is expected to increase marketing and processing efficiency. Studies indicate that current public management of these entities has resulted in gross inefficiency. The magnitude of expected cost savings through privatization is summarized in Section 2 below.

Increased Efficiency of Public Investment and Reduced Budgetary Outlays: Gains in the private sector will be substantial. In addition, improved policies vis-a-vis public investment and subsidies will generate huge savings, directly through reduced budgetary outlays and indirectly through increased efficiency of public investment.

Application of strict economic efficiency criteria to land reclamation programs will generate increased economic output per unit of investment. The GOE's goal in the next five-year plan is to reclaim 150,000 feddans per year at a total estimated cost of LE 1.5 billion per year. It is estimated that at least LE 180 million per year could be saved by applying strict economic criteria to these reclamation programs.

Improved efficiency of irrigation water use through a national program of water charges and recovery of public investment and operating costs could greatly increase the productivity of investment in water resources. Savings arise from four major sources: 1) improved timing and quantity of water delivery; 2) improved efficiency of water use by farmers; 3) lower per unit costs of water delivery due to improved maintenance of structures; and, 4) improved water quality. Currently, the shadow price of a cubic meter of irrigation water to the farm is about LE 0.056 per M^3. Excess use of irrigation water is conservatively estimated at eight billion cubic meters, which amounts to potential savings of LE 440 million per year.

Removal of Consumer Subsidies: The consumer subsidy must be viewed as a transfer payment from the agricultural sector to consumers. The transfer is not neutral, however, in terms of economic efficiency. Farmers receive less than "efficiency" prices and thus allocate resources to the various crops in less than optimal amounts. Similarly, consumers use more than economically optimal amounts of the commodities, resulting in both high resource costs per unit and excess consumption. Savings to the economy from removing the subsidy and allowing prices to rise to their market levels therefore arise from resource savings and reduced per capita consumption of food.

The equity concerns that motivated the GOE to establish the subsidy system in the first place are probably quite valid. To maintain some type of equitable income transfer and still realize efficiency gains requires major changes in the system. Targeting food subsidies or introducing income subsidies are two ways of dealing with the problem. Letting farm prices rise to their border-price equivalent, however, is likely to increase the level of food prices generally, thereby penalizing low and middle-income groups whose wages tend to be fixed. A change in wage policy may therefore be needed, at least during the transition period from a controlled to an open-market economy. The government, the nation's largest employer, would have to find additional direct budgetary resources to pay increased wages.

Introducing a targeted food subsidy system, perhaps targeted to the poorest one-half of the population that falls below the poverty line, seems warranted. This could alleviate negative impacts on prices and wages and save as much as LE 1.2 billion per year in reduced subsidy costs.

Reducing Redundant Employment: The short-run impact of these reforms may well be to increase unemployment, as some of the redundant labor in public marketing and processing industries will become unemployed, at least temporarily. Small gains in on-farm employment associated with increased farm output are not expected to be sufficient to offset the reduction in industrial employment. Growth in employment in marketing, processing and exports in the newly liberalized agricultural economy, however, is expected to be substantial. As overall economic growth fueled by policy reform continues, overall employment should rise in the long run.

Experience with PBDAC under the APCP provides some guidance for handling the employment problems that are sure to arise as large segments of agricultural industry are privatized. Divestiture of input marketing activities may cause over 12,000 PBDAC employees to lose their jobs. Early retirement, retraining for positions within PBDAC, and employee stock schemes for divesting a portion of assets to employees are three options being implemented to cope with the employment "shocks" of the privatization of agricultural inputs marketing. The cost of early retirement is estimated at LE 25,000 per employee.

Other, somewhat more ambitious schemes will have to be devised as the policy reform program expands to encompass large, agriculturally-related industries. Over 70,000 families might be affected in the cotton ginning and spinning industry alone, assuming that one-third of the workers currently employed would be redundant under a private system. Thus, some proportion of special account funds under APRP may need to be programmed towards alleviating the negative impact expected in terms of short-term unemployment, and additional GOE sources of funds will be required due to the magnitude of the problem.

Long-term, broad interventions in the labor redundancy problem are not regarded as appropriate for USAID. The problem is simply too immense relative to available USAID resources. Quick in and out interventions to demonstrate political feasibility (such as those being carried out in PBDAC under the APCP), development of studies and plans, and attempting to leverage other resources such as the Social Fund and holding company assets, will be examined during the implementation of this program.

2. **Estimated Quantitative Benefits and Costs**

A cost-benefit analysis of the Program was carried out based on the estimated gains and costs to the economy described in this section. The study reveals an economic rate of return (ERR) of about 78 percent. ERRs are measures used by analysts to determine if the project will have a net economic benefit to the country. At 78 percent, the ERR of this project is far above the 10 percent that USAID often uses for the minimum ERR needed to justify a project. It strongly suggests the project is an excellent use of U.S. Government funds. The calculation was based on the assumption that the benefits to the economy will be achieved four years after the start of the Program. Benefits are assumed to last 30 years.

Several sensitivity analyses were considered to see if any one particular assumption accounted for the very high ERR. For example, if the project is able to achieve only half of the benefits, the ERR will still be about 52 percent. If only one fourth of the benefits are fulfilled, the ERR is still about 32 percent. The sensitivity analysis also calculated the ERR if one did not count lower consumer subsidies as a benefit. (It could be argued that the benefit reached by the GOE through lower expenditures was offset by a reduction in the benefits the consumer received from the subsidies.) The ERR was still over 60 percent. Hence, it can be concluded that benefits from APRP are expected to significantly outweigh costs and realize a very large net gain to the economy.

a. Summary of Program Benefits (see Annex A):

Short-Run Benefits to Privatizing Agro-Industry: Total short-run, direct benefits of privatization of cotton, rice and fertilizer marketing and processing will probably exceed LE 1,852 million per year, as indicated in the tabulation below. Direct economic benefits from increased processing and marketing efficiency exceed the programmed amount of disbursement from this project by $354 million. Thus, the project is justified on the basis of returns to privatization alone. Other benefits, including increased net value added and foreign exchange earnings will of course add to the economic justification for the project, as will other institutional reforms and improved efficiency in public investment in land and water development and agricultural research.

Short-Run Economic Benefits of Privatization

	LE in millions
Rice Milling	500
Cotton Ginning	60
Cotton Spinning	708
Cotton Weaving	302
Fertilizer Production	223
Fertilizer Marketing	59
TOTAL	**1,852**

Benefits from Liberalized Markets and Prices:

- Increase in annual agricultural resource income (increased producer surplus) by **LE 1.1 billion**.
- Reduced rural to urban migration pressure by increased agricultural rural employment by **+2.5%** as a result of policy reforms during 1990-93.

Increased Efficiency of Land and Water Use:

- Increase the ERR for small-holder (new land) settlements from - 3.3 to + 7.3; or **LE 180 million/year**.
- Improved water use efficiency of **LE 440 million/year**.

Reduced Consumer Subsidy Costs: **LE 1.2 billion/year**.

TOTAL ANNUAL BENEFITS

	LE in millions
1. Privatization of Agro-Industry	1,852
2. Liberalization of Markets and Prices	1,100
3. Increased Efficiency of Land and Water Use	620
4. Reduced Consumer Subsidy Costs	1,200
TOTAL ANNUAL BENEFITS	**4,772**

b. Summary of Program Costs (see Annex A):

Increased GOE Services:

- Market news: **LE 2 million per year**.

- Regulation of standards and competition: (cost unavailable)

Reducing Labor Redundancy: LE 250 million per year.
Costs of reducing labor redundancy exceed the resources available under this program. Overall benefits, however, outweigh costs to such an extent that the GOE should be advised to invest its own resources to cover these costs. Potential sources for such GOE contributions include the Social Fund for Development, financial flows from sales of Holding Company assets, and general GOE budget resources. The amount contributed by the GOE will be subject to negotiation each year as part of the annual Memorandum of Understanding.

c. Stream of Benefits and Costs

The target rate of privatization for rice, cotton and fertilizers is 50 percent during the life of project and 50 percent in the following five years. The appropriate stream of benefits is therefore expected to increase from LE 200 million at the end of the year to LE 1,852 million at the end of ten years.

Gains from market liberalization are LE 1,100 million per year, arising from past liberalization measures. For the purpose of analysis, it is assumed that APRP will add LE 200 million per year over the life of project, reaching LE 2,000 million by July 1999.

Increased efficiency of land and water use is assumed to increase in equal increments of LE 150 million each year until reaching the annual rate of LE 620 million by July 1999.

Consumer subsidies are assumed to be reduced by equal increments of LE 300 million through July 1999.

Costs are assumed to reach the level of LE 250 million per year in July 1996.

IV. PROGRAM MANAGEMENT AND IMPLEMENTATION PLAN

The merits of alternative institutional configurations were weighed against the complex political, managerial, and policy negotiating requirements of this Program. The institutional model proposed below was chosen to facilitate broad and in-depth policy dialogue, externalize and formalize program management, place MALR in a lead role but engage other ministries as required, and provide for participation from the "bottom-up" by interests affected by economic reform. See Annex B, Institutional Analysis, for a detailed discussion of the institutional models analyzed.

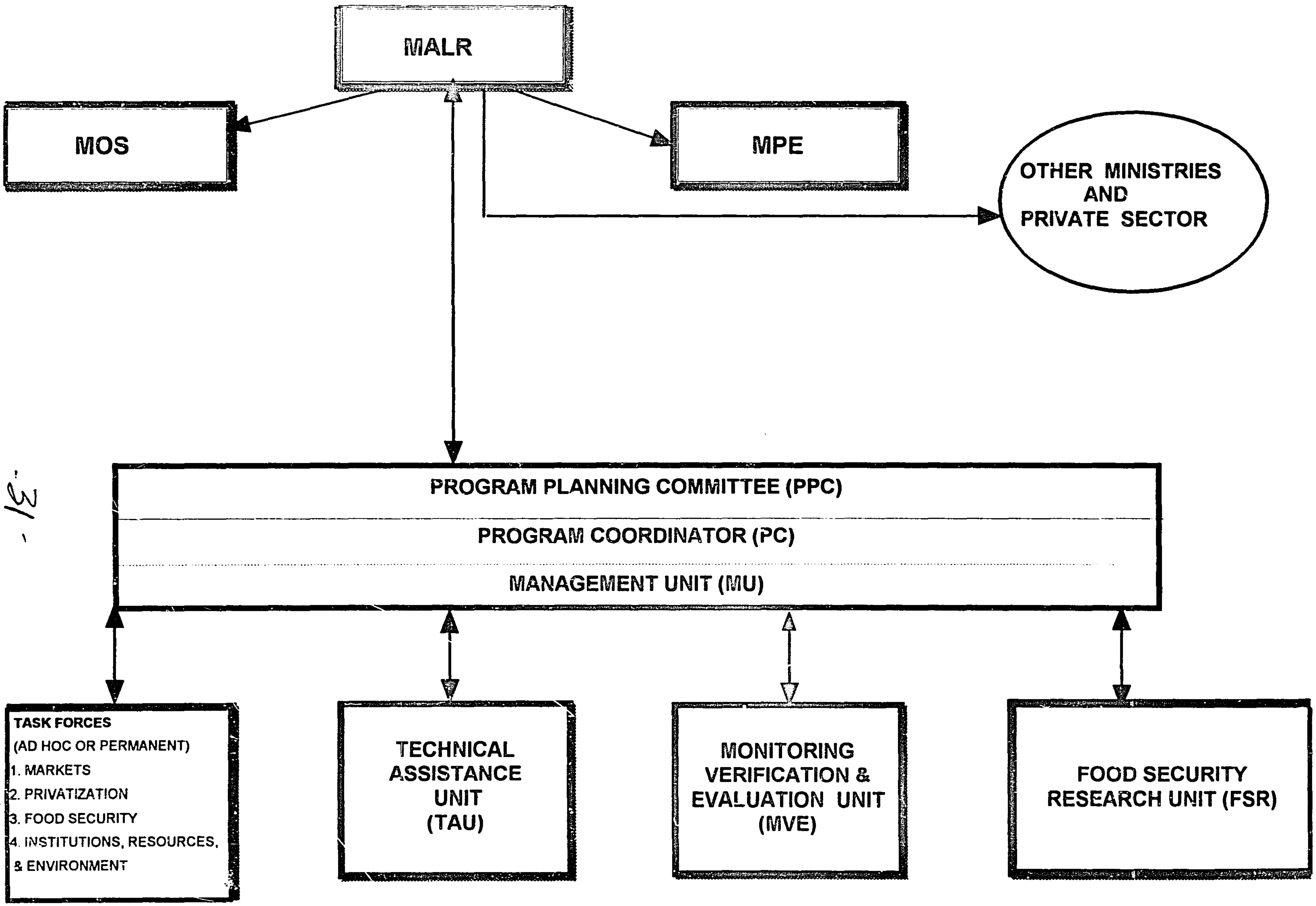
A. The Ministerial Committee

Composition: APRP will be placed under the direction of the Ministry of Agriculture with an informal committee comprised of the Ministers of Public Works and Water Resources, Supply, and Public Enterprise, and representatives from the private sector. The three Ministries, in addition to the MALR, are the most concerned with APRP objectives. Relations among the Ministries and with APRP would be in the form of a Ministerial Committee convened whenever required to make specific policy decisions. The committee would be chaired by the Minister of Agriculture. The role of the private sector representative will be to communicate the policy concerns of the business community to the Ministerial Committee and to relay the policy dialogue to the business community.

Rationale: The rationale for forming a committee that includes ministries and the private sector in addition to MALR is to overcome weaknesses in the "traditional" model, reduce top-down management, and give other ministries and the private sector a sense of "ownership" of APRP. This model, therefore, provides a mechanism for interministerial liaison, and an arena for the discussion of broad GOE policy and its impact on program initiatives.

Roles and Responsibilities: The Ministerial Committee will not play a significant role in program planning and management, which will be performed by the Program Planning Committee (PPC), at the second organizational level. The Ministerial Committee will be responsible for facilitating inter- and intra-ministerial activities under APRP, providing for policy level participation by the private sector, and providing broad GOE policy guidance to the Program Planning Committee (described below).

Procedures: The Ministerial Committee will meet as required at the request of MALR, the other Ministries, or the private sector.


MALR
MOS
MPE
OTHER MINISTRIES AND PRIVATE SECTOR
PROGRAM PLANNING COMMITTEE (PPC)
PROGRAM COORDINATOR (PC)
MANAGEMENT UNIT (MU)
TASK FORCES
(AD HOC OR PERMANENT)
1. MARKETS
2. PRIVATIZATION
3. FOOD SECURITY
4. INSTITUTIONS, RESOURCES, & ENVIRONMENT
TECHNICAL ASSISTANCE UNIT (TAU)
MONITORING VERIFICATION & EVALUATION UNIT (MVE)
FOOD SECURITY RESEARCH UNIT (FSR)

B. Program Planning Committee (PPC)

Composition: The PPC will be comprised of full members representing the MALR, the Ministry of Supply (MOS), the Ministry of Public Enterprise (MPE), and the private sector; the program coordinator of the PPC; and other members representing USAID and the ministries of economy and foreign trade, public works and water resources, and industry and mineral wealth. Each Ministry will have one representative, with the exception of the MALR, which will have two.

The PPC will be chaired by a representative from MALR and the private sector. A full-time program coordinator will take direction from the PPC. The PPC will also include a Management Unit for operational, administrative, and financial tasks associated with APRP, headed by a Management Unit director, and including a financial adviser, and support staff (e.g., secretaries, translators).

Rationale: The PPC will be constituted to achieve the following objectives:

- Provide liaison among ministries and the private sector;
- Provide an arena for discussion of program issues;
- Encourage systemic thinking and approaches to policy and planning for APRP;
- Engage more stakeholders in program decision making;
- Develop internal program management capacity;
- Formalize procedures of program management;
- Separate program management from the provision of technical assistance.

Roles and Responsibilities of the PPC: The PPC will have a policy-making role with respect to APRP initiatives, consistent with the broad policy guidelines laid down by the Ministerial Committee and the policy objectives of APRP. The PPC also will be the chief planning, programming, and program management unit for APRP. It will decide on overall program management strategies, determine which activities will receive technical and financial support pursuant to achieving the benchmarks agreed upon between USAID and the GOE for APRP, and establish appropriate timing and resource allocation guidelines for these activities. In the process, the PPC will serve as the primary liaison between the ministries and the private sector at the policy level, and the task forces, Technical Assistance Unit, the Food Security Research Unit, the Monitoring, Verification and Evaluation Unit (described below) and the Mission's Privatization Support Project at the operational level.

Roles and Responsibilities of PPC Staff: The PPC **program coordinator** will have primary responsibility for developing and maintaining a sense of common purpose among those participating in APRP. To that end the coordinator will be expected to communicate frequently with as many concerned parties as possible, and to provide overall coordination of the PPC's planning, programming, and program management functions. This individual, who will be employed on a full-time basis and paid with project funds, should have long experience in Egypt's agricultural sector at the undersecretary or ministerial level (or the equivalent in the private sector), and enjoy widespread respect among colleagues. Private sector experience is highly desirable.

The **director of the Management Unit** should have a managerial background, including private-sector experience, preferably in both Egypt and the United States, and be bilingual in Arabic and English. His/her primary focus of responsibility will be to manage the day-to-day operations of the PPC, including program-wide communications of an operational nature.

The **financial adviser** to the Management Unit will have overall responsibility for financial management of APRP. This management will consist of recording and monitoring the flow of funds within APRP and between APRP and external participants, including ministries. The financial adviser will work in cooperation with USAID personnel in preparing financial documentation related to agreements with relevant parties. S/he will act as management director in his or her absence.

The **USAID relationship** to this proposed organizational structure for APRP requires a combination of formal and informal linkages. Formal linkages will include an ex-officio member of the PPC who attends all meetings of that body to provide appropriate input and to serve as a direct channel of communication to USAID. USAID should also have ex-officio membership on all task forces, where the USAID member will play a role analogous to that of his/her colleague on the PPC. Finally, USAID will be involved in all contractual matters related to the functioning of the food security research unit, technical assistance, and the monitoring, verification and evaluation unit. In addition to these formal relationships, USAID will develop and maintain informal relationships with individuals and institutions involved in APRP.

Procedures: The PPC should meet in formal session at least once a month. Its business should be conducted according to normal rules of order, including the requirement for a majority vote for all formal motions. Facilities for the PPC, including office space for the program coordinator and management unit, and an appropriate meeting room for the Committee itself, should be in a single location to promote frequent interaction among committee members.

C. Task Forces

Composition: Together with the Technical Assistance, Food Security Research, and the Monitoring, Verification and Evaluation Units (see below), as well as the Privatization Support Project, the task forces constitute the third level of the organizational model. The task forces could either be constituted on a permanent basis, or formed ad hoc as needs arise, following review of this issue by the PPC. If task forces are to be permanent bodies, established at the outset of APRP and for the life of the program, they should be formed around the central objectives of the program itself. These objectives are: 1) the further development of free markets for agricultural and related sectors; 2) privatization of enterprises providing inputs to agriculture and marketing or processing agricultural outputs; 3) providing food security in a carefully targeted, non-wasteful fashion to the needy; and, 4) developing the capacity of institutions to manage land and water resources more efficiently.

Each of these task forces will be headed by a chairperson who may also be a full member of the PPC, and may include the private sector representative. A logical distribution of assignments would be that the representatives of the MALR chair the task forces on markets and institutions; the representative of the MOS chair the task force on food security; and the representative of the MPE would chair the task force on privatization. The task force on privatization will also include a representative of the technical assistance team under the Privatization Project to facilitate coordination of jointly implemented privatization activities.

The membership of these task forces will be representative of the institutions involved in and the interests affected by policy reform. Members will be nominated by the PPC in consultation with USAID. Total membership will not exceed seven in the case of any task force. In each task force there will be representation from the private sector. Key members will be compensated from project funds at standard rates.

If task forces are to be ad hoc rather than permanent, they will be formed by the PPC from time to time and charged with a specific function. Their composition will be guided by the same principles that apply to the permanent task forces, namely, that task forces need to be closely linked to key governmental instrumentalities; they need to include representation of interests that will be affected by proposed APRP activities; and they need to have the capacity to utilize technical assistance effectively. While ad hoc task forces will provide flexibility to the PPC and APRP, this flexibility will perhaps be obtained through sacrificing some of the institutionalized capacities that permanent task forces represent.

Rationale: Task forces, whether permanent or ad hoc, will play an important role in achieving APRP objectives. With regard to privatization, for example, a task force provides an ideal context for addressing thorny issues surrounding labor redeployment. Presently, the privatization process is impeded by the lack of fora for negotiations between private investors and public sector workers and managers. Labor unions have little capacity at the factory or company level to engage in collective bargaining. To the extent such bargaining has occurred over the past forty years, it has been concentrated at the national level and undertaken by the leadership of the General Confederation of Trade Unions, rather than union leaders at lower levels. As a result, public sector labor forces have been poorly equipped to bargain. Suspicious of a process they do not fully understand, they have resisted privatization in general. An APRP privatization task force, drawing on technical assistance from the TA Unit and the Mission's Privatization Support Project, could play a role in reducing resistance to privatization by helping to create venues for negotiations with concerned parties and upgrading their bargaining capacities.

Roles and Responsibilities: Task forces will be responsible for developing concepts into project-like proposals. Task forces will be assisted in this work by the Technical Assistance Unit. The task force mechanism should provide a broad array of expertise and interests in the formulation of specific guidelines, objectives and procedures for program activities. By interacting with the Technical Assistance Unit, task forces will draw affected interests into the processes of project design, implementation, and monitoring and evaluation. Task force members will provide the Technical Assistance Unit with policy perspectives on key issues, and in return, will receive technical input from staff in the Technical Assistance Unit. In sum, the purpose of the task forces will be to increase the level of interaction between institutional decision makers, affected interests, and technical experts, and in so doing, facilitate the emergence of consensus on program goals and enhance the quality of project activities.

Procedures: Task forces should meet on a regular basis, under the overall coordination and direction of the Program Coordinator.

V. PROJECT ASSISTANCE DESCRIPTION (263-0219)

A. Introduction

Because the reform program proposed for APRP is quite complex, four projectized technical assistance activities are envisioned: a) monitoring, verification and evaluation of policy reforms ($5.7 million); b) assistance with the implementation of reforms ($11.2 million); c) program management ($1 million); and, d) medium- to long-term research in food security ($7.4 million). All activities support the Program Planning Committee (PPC) described in Section IV. The PPC will provide overall guidance to the technical assistance teams. The teams as a group will provide input into the formulation of policy benchmarks and into the development and implementation of local-currency-funded projects. They will also monitor, verify, and evaluate progress made in meeting policy benchmarks as well as evaluate policy impacts.

All assistance will be provided under direct contracts with USAID. The advisors will respond to technical requests from the PPC and USAID. The technical team leaders will interact on a day-to-day basis with the PPC via its Management Unit and the Program Coordinator. The fourth activity (i.e., food security research) will be implemented through a USAID grant to an appropriate research institution.

B. Monitoring, Verification and Evaluation Activity

APRP requires technical assistance in this area to: a) ensure that policy benchmarks are verifiable; b) monitor and verify progress toward meeting these benchmarks; c) monitor the progress of APRP projectized activities; and, d) evaluate the economic and social impact of the reform program, including the effects on employment generation as well as the impacts on small farmers and women. A technical assistance team will make up the Monitoring, Verification and Evaluation (MVE) Unit under the PPC. They will be responsible for verifying that specific benchmarks have been attained, which is a precondition for releasing funds in annual tranches.

The advisors will coordinate with the Technical Assistance Unit (TA Unit), the Program Task Forces, the Food Security Research Unit, and the PPC. Part of their work with the TA Unit will be to incorporate realistic performance monitoring/verification parameters into the project-like activities created by the Task Forces.

The MVE Unit will consist of two long-term expatriate advisors (four years), two similarly skilled Egyptian specialists, and an administrative and secretarial support staff. The long-term technical advisors are:

(a) An **Agricultural Policy Analyst**, team leader and director of the MVE Unit, to coordinate all monitoring and verification of policy performance studies and to personally carry out impact analyses of reforms undertaken. As director of the Unit, this individual will need to have a thorough understanding of policy processes within Egypt and be engaged in all stages of program implementation; and,

(b) A **Marketing Economist/Agribusiness Specialist**, to advise on analyses required to monitor reforms in marketing and processing systems and lead analyses of the impact of reforms on employment, efficiency, and output in agribusiness.

Approximately 100 pm of short-term technical assistance (60 pm of expatriate and 40 pm of local assistance) is required. Examples of the type of special skills needed include a **production economist**, needed to advise on farm-level analyses necessary to monitor reform progress, **agricultural resource economists**, needed to assess gains in land and water use efficiency, and **agricultural scientists** to help gauge progress in improving research investment.

The team leader will have primary responsibility for specifying short-term TA requirements and for overall supervision of the MVE Unit.

C. Policy Reform Implementation Activity

Technical assistance in this area will be provided through the APRP Technical Assistance Unit (TA Unit). The primary purpose of this technical assistance will be to: a) design, conduct and direct policy analyses and studies; b) assist in generating policy impact analyses; c) facilitate the making of public policy; and, d) assist in the design of project-like activities in support of implementing policy reforms. In fulfilling these responsibilities, the advisors will monitor policy debates closely and ensure that the assistance they provide focusses on viable policy alternatives and implementable reform activities. This requirement dictates a pro-active approach by the advisors. They will need to work closely with the Task Forces and the PPC to facilitate implementation of the policy reform process.

This Unit will function at the third level of the organizational structure, under the overall coordination of the PPC. The advisors will have their scopes of work tied to the function of that Task Force which most closely corresponds to their expertise. The team will collaborate with the MVE Unit on the development of verifiable policy benchmarks and the monitoring of APRP-sponsored activities. The director of the TA Unit will regularly attend Task Force meetings, meet with the PPC Unit, and consult with the PPC Coordinator. The Unit will also meet on a regular basis with staff of the MVE Unit and the long-term, food security research team as required.

The TA Unit will have a staff of four long-term expatriates and four Egyptian technical personnel, plus secretarial and administrative support. The long-term technical advisors are:

(a) An **Agribusiness Privatization Specialist**, director of the TA Unit and team leader, to coordinate all studies and analyses, and focus primarily on the process of privatization. Since this individual will lead the TA Unit's efforts to provide policy-relevant assistance, s/he should be familiar with the Egyptian policy context, and have proven capacities to undertake and supervise socio-economic analyses of key agricultural policy related issues;

(b) A **Marketing Economist** to advise on the design and implementation of market reform projects and activities with the aim of maximizing the impact of policy change on market performance, productivity and output. This individual will advise on major issues such as market news requirements and is expected to focus on implementing projectized activities;

(c) A **Food Security Specialist** able to advise on activities and reforms that address food security, land and water development and institutional reform issues, but focus mainly on the implementation of projectized initiatives related to alleviating food insecurity. The individual will collaborate closely with the food security research group.

(d) A **Public Administration/Institutional Analyst** to assist in designing reforms for key agricultural sector institutions in order to complement economic policy reforms. In addition, this person will be required to advise on such issues as public sector employment and labor issues.

Approximately 120 person months of short-term technical assistance (approximately 60 pm of expatriate TA and 60 pm of local TA) is required. The team leader will be responsible for requesting and supervising the short-term TA. Technical expertise anticipated includes experts in rural labor markets, food processing plant efficiency, land tenure, and environment.

Expertise in areas such as market news, market regulation, law, farmer organizations, and the like may also be necessary.

These advisors will assist in the implementation of actions required to liberalize and privatize, for example, the five key agribusiness subsectors: cotton textiles, fertilizer production, rice milling, flour milling and feed milling. Technical analyses needed will include measuring the anticipated impact of private management on value added and employment, and developing options for privatization. Some of the main topics in which the advisors are likely to be involved in support of the implementation of reforms are:

- economic, financial, and technical analyses of agro-industrial firms facing privatization (sale, lease, sale of stock, and management contracts);
- development of an employment plan to address labor redundancy and the need for retraining;
- need for market information to assist effective private sector decision making and equitable access to markets and technology;
- redrafting of regulations, anti-trust legislation and phyto-sanitary standards and controls; and,
- the study, design, and testing of a safety net program for the poorest households below the poverty line affected by the reform.

Approximately 60 percent of this technical assistance activity will be applied to the privatization policy reform area and the remainder to analyses supporting the other three policy reform areas. The technical assistance for privatization will directly support the five-part APRP strategy for this area, which is: 1) diagnosis of the economic efficiency of the public-sector holding companies related to the agricultural sector, leading to GOE agreement to privatize the companies; 2) developing a time-phased plan for implementation; 3) conducting feasibility studies of individual firms to prepare for sale, lease, sale of stock, or other privatization methods; 4) carrying out assessments of special problems, such as debt or labor; and 5) designing special programs to remove barriers to privatization.

Six holding companies will receive the bulk of the technical assistance for privatization: three holding companies involved in cotton spinning, one holding company that deals with rice and wheat, one for fertilizer production, and one for animal feed production. Based on experience with technical assistance under the Mission's Privatization Project during the last year, the technical assistance cost per holding company for complete privatization, through the above five strategic steps, is approximately $1 million. Thus, the six holding companies require about $6 million.

This activity will overlap somewhat with activities under the Privatization Project (263-0238), whose purpose is similar to that of this program but addresses a much broader spectrum of public enterprises. Close coordination between the Directorates for Agriculture (AGR), Trade & Investment (TI), and Economic Analysis and Policy (EAP) will be practiced to avoid duplication, capitalize on complementarities, and present a coordinated program to the GOE. See Annex M for additional detail on the Privatization Project components.

The long-term privatization advisor, along with a share of the short-term technical assistance financed under this project, will develop the sectoral-level, technical analyses required to gain a policy commitment to privatization and to develop a comprehensive liberalization and privatization plan. They will also develop studies of the key barriers to privatization, including labor redundancy and debt. Feasibility studies of individual firms that are scheduled for privatization, and development of detailed privatization mechanisms, will be the responsibility of the Privatization Units provided by the Privatization Project. The Privatization Project will also provide assistance in sales implementation, financial instruments, media campaigns, developing bank facilities, stock issues, brokerage, and investment banking.

It is anticipated that three Privatization Units, provided under TI/FI's Privatization Project, will be established at the outset, one in each of the cotton holding companies. The overall joint activity will be coordinated by a high-level, USAID steering committee and implemented by a task force made up of project officers from the AGR, EAP, and TI Directorates. Future establishment of Privatization Units in other agribusiness holding companies will depend on the results of the assessments planned for wheat, rice, fertilizer and feed.

D. Program Management Unit

A Program Coordinator, Director of the Management Unit, and financial/administrative support staff for APRP will be provided to the PPC Program Management Unit through a direct contract with USAID. Details of their roles and functions in the PPC are described in Section IV above.

E. Food Security Research

In collaboration with the Ministry of Agriculture and Land Reclamation, a qualified research institution will carry out food security research. A $7.4 million, four-year grant will be provided for a research and capacity strengthening activity to investigate the expected medium-to long-term implications of policy reform for the Egyptian economy and its impact on food security. The objective is to assist the GOE with information relevant to guiding the policy reforms in agriculture. The study will aim to increase understanding of the conditions for successful reform of the food and agricultural sector in Egypt by analyzing the following policy issues:

a) To what extent can market reforms and structural change of Egyptian agriculture be effective in improving food security, agricultural growth, national welfare, and the management of natural resources?
b) How could effective market reforms be implemented while protecting the poor and vulnerable segments of Egyptian society?
c) How could institutional and policy changes contribute to increased rural employment and reduced poverty?

A conceptual framework will be applied that allows organization of the research work around four main levels of analysis: household, market, sectoral and macroeconomic. The following research tasks will be carried out:

- Evaluation of various policies and programs for food security;
- Nutritional status and income of the poor;
- Effects on food demand of various economic groups;
- Effects on marketed surplus of major agricultural outputs and demand for inputs;
- Effects on market structure and performance of input and output markets;
- Marketing costs and trader investment behavior;
- Effects on labor markets;
- Performance of alternative rural institutions in provision of agricultural inputs, credit, and marketing services;
- Factors facilitating agricultural exports in the context of integrated regional and international markets;
- Effects of agricultural prices and investment policy and water management policy on agricultural production and income;
- Evaluation of alternative institutional arrangements for resource management; and
- Inter-sectoral effects of reforms.

The research activity will require close collaboration by the grantee with the Ministry of Agriculture and Land Reclamation, the Ministry of Supply, and various research institutions in Egypt. Outreach activities will be carried out, including research and policy workshops, capacity strengthening activities, and dissemination of research results.

The research tasks will be undertaken at four levels of aggregation:

- **Household:** Identify the poor, analyze consumption and income patterns, evaluate the role of subsidies, evaluate the impact of removing subsidies and develop a targeted income support program for the poor.

- **Market-Level:** Analyze the changes in market structure and performance induced by policy reforms, including competition and barriers to entry, market integration, price behavior, and marketing margins. Develop measures of market efficiency and make recommendations for improving market performance.

  Evaluate transaction costs and their relationship to marketing margins. Identify policy reforms required to reduce transaction costs.

  Analyze labor markets to forecast trends in wages, determine the degree of labor market integration, study labor supply behavior of households, and assess the impact of food and agriculture policies on links between labor and nutrition. Design policies that help the poor escape poverty through the labor market.

  Analyze export markets in the context of regional and international trade to understand the dynamics of the export-oriented strategy and identify institutional arrangements that facilitate integration of domestic and international markets.

- **Agricultural Sector Level:** Examine the impact of policy reforms on agricultural production and income, using a multi-market model. Assess the dynamics of supply and demand for land and water resources under the new policy regime. Evaluate institutional arrangements required for the efficient management of land and water resources, including strengthening water-users associations, incentives for efficient use of water, water-users relationship to the central Water Management Agency, and improved methods of water allocation.

- **Economy-Wide Level:** Analyze the inter-relationships between sector policy reform and macro-economic reform and their combined impact on sectoral income, national income, production, and trade. Quantify the contribution of agriculture to GDP and changes induced by macroeconomic reforms and sectoral reforms.

The proposed activity is expected to be completed within four years and involve 268 person months for expatriate researchers, Egyptian collaborators, outreach activities, and survey data collection.

F. Procurement Plan

The procurement for $27 million of projectized activities will be organized according to the structure of the APRP program. It is currently anticipated that a direct contract will be awarded to provide four years of assistance to the MVE and TA Units. It is anticipated that the contract will be for long- and short-term expatriate and local technical assistance, local support staff, and a limited amount of commodities to support these units.

Because of the necessary qualifications for members of the Management Unit (e.g., excellent reading and speaking capabilities in Arabic, intimate knowledge of the socio-political Egyptian environment) it may be most cost effective to contract with a local firm. Under Section 18A1c of Handbook 1B, Chapter 18, local firms are eligible as suppliers of professional services only if the estimated contract amount does not exceed $250,000. If it is determined that the contract for the Management Unit, which is estimated to be $1,048,000, should be awarded to a local firm, a nationality waiver will be sought in accordance with Section 5D10 of Handbook 1B, Chapter 5.

Due to the time involved in the contracting process, the TA for the MVE Unit will not be available to start the monitoring and verification plan at the time that the first MOU is approved. Therefore, it is anticipated that a direct contract with either an IQC or 8(a) firm will be issued to start the plan. Evaluation and audit activities will also be provided through direct USAID contracts.

It is anticipated that the projectized activity in food security research will be implemented through a four-year grant to a food policy institution.

At the time of each procurement action, every effort will be made to encourage the participation of business concerns owned and controlled by socially and economically disadvantaged individuals, historically black colleges and universities, colleges and universities having a student body in which more than forty per cent of the students are Hispanic Americans, and private voluntary organizations controlled by socially and economically disadvantaged individuals. The table below outlines the currently proposed methods of procurement.

PROPOSED METHODS OF PROCUREMENT AND FINANCING

ELEMENTS	METHOD OF PROCUREMENT	METHOD OF FINANCING
PROGRAM ASSISTANCE	**PILs**	**Cash Transfer**
PROJECT ASSISTANCE		
MVE Unit - 2 LT Expats, 96 pm - 2 LT Local Pros, 60 pm - ST Expat TA, 60 pm - ST Local TA, 60 pm - Local Support Staff - Verification Studies - Support Commodities TA Unit - 4 LT Expats, 192 pm - 4 Local Pros, 192 pm - ST TA, 100 pm - Local Support Staff - TA for Policy Studies - Training/Commodities	Direct Contract via full and open competition	Direct Payment
Management Unit - Program Coordinator - Executive Manager - Local Support Staff - Commodities	Direct Contract via limited competition with local firm	Direct Payment
First Monitoring and Verification Plan - 2 LT Expats, 4 pm - Local Staff	IQC or 8(a) procurement	Direct Payment
Evaluation and Audit	Direct Contract/IQC	Direct Payment
Research on Food Security, 268 pm	Grant	Direct Payment

G. Schedule for Major Policy and Procurement Actions

DATE	ACTION
February 1995	Approval of PAAD/PP by ExCom
February 1995	Complete PIO/Ts for MVE, TA, & Mgmt Units TA
March 1995	RFPs sent out for MVE and TA Units, and Mgmt Units
April 1995	Sign Program and Project Agreements
May 1995	Award contract for Management Unit
July 1995	MOU for 1995/96 negotiated and approved
July 1995	Start development of Monitoring and Verification Plan
August 1995	MALR and MIC approval of the food security grant
October 1995	Award contract for MVE and TA Units
November 1995	Monitoring and Verification Plan completed
July 1996	Meet benchmarks for first disbursement
September 1996	MOU and ProAg Amendment negotiated for second tranche
July 1997	Meet benchmarks for second disbursement
September 1997	MOU and ProAg Amendment negotiated for third tranche
January 1998	Midterm evaluation
July 1998	Meet benchmarks for third disbursement
September 1998	MOU and ProAg Amendment negotiated for fourth tranche
July 1999	Meet benchmarks for fourth disbursement
January 2000	Final evaluation
July 31, 2000	PACD

VI. COST ESTIMATES AND FINANCIAL PLAN

As shown in the tables following the narrative in this section, the total USAID LOP budget is estimated to be $227 million of which $27 million will be used to fund technical assistance, audits and evaluations. The balance of $200 million will fund performance-based disbursements.

The Projectized Activities Component will include the following elements:

- (a) Monitoring, Verification and Evaluation Unit ($5.7 million);
- (b) Technical Assistance Unit ($11.2 million);
- (c) Program Management Unit ($1 million);
- (d) Food Security Research Grant ($7.4 million);
- (e) Audits and Evaluations ($0.27 million); and,
- (f) Contingency ($1.36 million)

A detailed description of the project assistance is provided in Section V.

Under performance-based disbursement methods, payment will be made based upon meeting specific benchmarks outlined in a Memorandum of Understanding. This process does not require any cost sharing by the GOE. For the projectized portion ($27 million), the only identifiable Host Country Contribution is the GOE cash payment of participant airfare tickets and medical checks, estimated at the Egyptian Pound equivalent of $0.238 million, which will be paid out of the trust fund account maintained by USAID. Other forms of contributions (e.g., office space, utilities and salary of staff while on training) cannot be estimated at this time and will be identified and monitored during the early stages of implementation.

Performance disbursements are estimated to be $200 million in four annual tranches of $50 million each. A detailed discussion of the uses of dollar grant proceeds, and the financial management of the dollar special account and local currency special account follows.

A. Separate Account for Dollar Grant Proceeds

The Fiscal Year 1995 Appropriations Act specifies that countries receiving cash transfer assistance must establish a separate account for the dollars proceeds. USAID will deposit the appropriate dollar amount into an interest bearing Dollar Separate Account in a U.S. bank designated by the Central Bank of Egypt.

This account will be used solely for the receipt of appropriated dollars for this cash transfer program from USAID in accordance with applicable USAID policy guidance, including 90 STATE 194322 (June 17, 1990). The proceeds will not be commingled with funds from any other source, agreement or assistance. Any interest earned on the account, or redeposits required due to ineligible use of funds, shall be treated as grant proceeds received under the terms of the Agriculture Policy Reform Program Agreement.

1. Uses of Dollar Grant Proceeds

It is anticipated that dollar disbursements will take place in annual payments of $50 million upon fulfillment of policy reform benchmarks.

Grant proceeds may be used by the Government of Egypt for the following two purposes:

a. Purchase of eligible commodities and commodity-related services having their source and origin in AID Geographic Code 000 (the United States).

b. Repayment of debts of the Government of Egypt owed to or guaranteed by the U.S. Government, except debts related to military or police organizations (not to exceed 25 percent of the total of the funds made available under this grant).

Eligible commodities will include raw materials, bulk commodities, and intermediate and capital goods (including machinery and equipment). Commodities for the use or benefit of military or police organizations will be ineligible. Surveillance equipment, abortion equipment, luxury goods, gambling equipment and weather modification equipment will also be ineligible.

In case of ineligible use of funds, the GOE will deposit to the Dollar Separate Account, from its own resources, an amount equal to that released for ineligible use plus any interest which would have been earned on these funds.

2. Financial Management of Dollar Separate Account (Accounting, Monitoring and Reporting)

As stated above, the GOE may use dollars from the Dollar Separate Account for payment of U.S debt or commodities and equipment imported from the U.S. The systems and procedures used by the GOE for payment of U.S debt are different from those used for procurement of commodities and equipment. The systems and procedures for these two uses of Dollar Separate Account funds are discussed below. Also discussed are the actions required by the Mission to ensure proper accountability and compliance with AID regulations.

The Ministry of International Cooperation (MIC) will be the primary Implementing Agency. MIC will coordinate all activities among the various GOE Ministries and ensure that the Central Bank properly manages the Dollar Separate Account. USAID will work closely with MIC to ensure adequate systems and procedures are in place to implement this cash transfer program.

The GOE will submit monthly bank statements to USAID. These statements will show the daily activity of the dollar account detailing deposits, withdrawals and balance. The grant agreement and implementation letters will contain detailed provisions for accounting and reporting of the grant proceeds in conformance with the Dollar Separate Account guidance in 90 STATE 194332.

The Central Bank will manage the Dollar Separate Account. The Mission has reached a positive determination that the Central Bank is capable of effectively managing the Dollar Separate Account in accordance with AID requirements. This determination is based on the Central Bank's management of the FY 1989, 90, 91, 92 and 93 cash transfer special accounts for USAID programs. The Regional Inspector General/Cairo audit of the FY 89, 90 and 91 cash transfer special account transactions reported no adverse findings related to the Central Bank's management.

Payment of U.S. Debt. The GOE has adequate procedures in place for managing payments from the Dollar Separate Account for U.S. debt. These procedures require the GOE to maintain records to indicate the amount of debt paid, date of payment, recipient of the debt payment, description of the debt, and evidence of payment.

Purchase of Commodities and Equipment Imported from U.S. The procedures and systems for using the Dollar Separate Account for purchases of commodities and equipment from the U.S. under the Cash Transfer for Sector Policy Reform will be applicable to this agreement. Letters of credit issued by the GOE to procure U.S. commodities should not be less than $1,000,000. The Mission has streamlined procedures for both USAID and the GOE in accordance with the Dollar Separate Account guidance in 90 STATE 194322.

A GOE system for accounting, reporting and monitoring dollars used for the purchase of commodities, approved by USAID, must be in place before the GOE uses the Dollar Separate Account for procurement. The GOE system must ensure that commodities and equipment procured: (1) comply with source and origin requirements; and (2) clear customs in Egypt. This will be stipulated in a PIL to MIC to ensure that the GOE complies with the terms of the agreement and USAID requirements.

The GOE system will account for, monitor and document the eligibility of commodities under this program to ensure that the commodities are of U.S. source and origin, and that such commodities have actually entered the country. The accounting books and records will be available for inspection by USAID or USAID's designee for a period of three years following the date of the last disbursement from the Dollar Separate Account. The required documentation, maintenance of records and reporting will be outlined in PILs between USAID and GOE.

USAID or its representatives will examine records and documentation at MIC on a quarterly basis to ensure compliance with the terms of the agreement. USAID may reduce or increase the amount of monitoring depending on the performance of the GOE. Based on past experience, the Mission believes that the GOE has the capability to effectively manage the Dollar Separate Account in accordance with requirements.

B. Local Currency Special Account

The GOE shall establish in the Central Bank of Egypt a separate "Local Currency Special Account" in the name of the Ministry of Finance. Funds deposited in such account will not be commingled with funds generated from other agreements or assistance. The GOE will deposit in this account local currency equivalent to dollar disbursements made from the Dollar Separate Account for the purpose of commodity purchase. Debt payments will not result in local currency deposits. The total local currency to be generated will be equivalent to $200 million less amounts used for debt payments. Funds deposited in the Local Currency Special Account will not earn interest.

1. <u>Deposits and Uses of the Local Currency Special Account (Accounting, Monitoring and Reporting)</u>

<u>Deposits of the Local Currency Special Account</u>: Deposits to the Local Currency Special Account will be made in accordance to a repayment mechanism or schedule agreed to between USAID and the GOE.

Except as USAID may otherwise agree in writing, the exchange rate applied will be the daily average closing selling rate for transfers as determined by the Free Market Central Chamber for the last business day immediately preceding the day determined for computing local currency deposits according to the mechanism described in a PIL between USAID and the GOE. The timing and amount of deposits will depend on the type of commodity purchased, i.e, whether it is bulk or non-bulk. For bulk commodities, one hundred percent of disbursements made from the dollar account will be deposited in equivalent local currency within thirty days from the date of disbursement. For non-bulk commodities, 20-25 percent of local currency equivalent to the letter of credit will be deposited within thirty days from the date the letter of credit was issued. The balance of 75 to 80 per cent will be paid on three equal annual installments with the first installment maturing one year from the issuance date of the letter of credit and over a span of one month. For all types of commodities cash payment may be made to the Special Account if program users so wish. Cash payment may be 100 per cent of the letter of credit to be paid upon its issuance or 100 percent of the disbursement made from the dollar account for shipment payment. The specific repayment mechanism and procedures will be addressed in a Program Implementation Letter.

Uses of the Local Currency Special Account (Specific Assessment): Funds deposited into the Local Currency Special Account will be programmed in accordance to the sixteenth amendment to the Memorandum of Understanding regarding the Special Account dated June 30, 1980, or its subsequent amendments and programming documentation. In programming local currency under this agreement, the major portion will be provided as General Budget Support and General Sector Support. The basis for such determination is the General Assessment which determined that the GOE has a rational system of budgetary allocation and expenditures with built in controls to prevent fraud or diversion of funds. The 1992 assessment performed by a local accounting firm concluded that the GOE's financial management and accounting systems provide adequate internal management and accounting controls over GOE assets, including local currency generated by USAID programs. The assessment also concluded that the Host Government personnel possessed adequate educational, training and management capability required to manage GOE resources. In addition, the GOE implementation of an IMF-sponsored economic reform program which calls for budget deficit reduction provides a justified basis for providing General Budget Support.

Documentation supporting the sixteenth amendment to the Memorandum of Understanding will discuss the Mission's rationale for providing General Sector Support for each ministry or a GOE entity and that the quality of the overall sectoral activity is satisfactory to the Mission. Further, the Mission intends in the near future to assess the two main Sector Support recipients, namely the Ministry of Local Government and the Ministry of Education, to determine their technical and administrative capability in managing GOE resources. The Mission may also consider assessing other entities receiving Special Account Funds as necessary or as deemed appropriate.

The Mission may also consider providing specific sector support to a project or an activity within the GOE budget. However, due to USAID staff constraints and the intensive accounting, monitoring and reporting requirements associated with this type of budget support, the Mission will limit this method of programming to USAID financed projects only.

Our experience with the MOF supports our belief that the GOE budgetary and allocation system are adequate to enable the Mission to program all of the above forms of Budget Support. With regard to the General Budget Support, the GOE provides evidence that the local currency is transferred from the Special Account to the General Fund. This evidence is also considered a performance indicator for providing General Budget Support.

When providing General Sector Support, Mission will be assured that the local currency has been deposited into the General Fund and that the agreed upon budget allocation to the ministry or budget line item has been made. This is done through a supplemental budget action whereby the ministry's budget is augmented by the allocation made from the Special Account. Although the local currency loses its identity once deposited in the general fund, the amounts in the supplemental budget action match the approved allocation and the Special Account is identified as being the source of the action. The supplemental budget meets the reporting requirement of the local currency guidance of budget allocation and expenditures from the General Fund. It also serves the purpose of a program result or performance indicator demonstrating that the ministries' budgets have been increased by certain amounts. In a recent exercise made by the Mission to trace allocation of funds under the General Sector support, the GOE provided documentation necessary to support this type of program.

Under the third type of budget support, i.e., "Specific Sector Support" provided for an USAID-financed project, the GOE will provide documentation reflecting budget allocation and disbursement of funds from the general fund to the project.

Similar to the General Sector Support programming mode, a supplemental budget action increasing the level of the project funding will be made for this type of programming. For each allocation of Specific Sector support, the Mission will request reports on the use of funds by the project and that such funds supported the project objectives. Specific performance indicators will be developed for each project and will be included in the Mission programming document approving the allocation of funds.

Based on the above and except as USAID may otherwise agree in writing, funds deposited in the local currency Special Account may be used for the following purposes:

(a) Funding USAID administrative costs.
(b) General Budget Support for the GOE Budget.

(c) General Sector Support for particular Government sectors.
(d) Specific Sector Support of USAID-financed projects.
(e) Activities mutually agreed to between USAID and MIC under the USAID Trust Fund Agreement.

Accounting, Monitoring and Reporting of the Special Account: MIC shall maintain records with regard to programming of local currency and make available to USAID or its representative such records for review and audit for the period of the grant and up to three years following the disbursement from the Local Currency Account. Local currency not used for the purposes indicated above will be redeposited to the Local Currency Special Account from GOE resources. Any unencumbered balances of funds which remain in the Local Currency Special Account upon termination of the program will be used for such purposes (subject to applicable law) as agreed upon between the GOE and USAID.

The Ministry of Finance (MOF) is responsible for accounting, reporting and monitoring the activity of the Local Currency Special Account. The GOE shall provide USAID with monthly bank statements showing deposits, withdrawals and balances. The Central Bank will incorporate the summary of deposits, withdrawals and balances of Local Currency and submit them to USAID on a quarterly basis. Details on the frequency and the format of the required reports for funds released from the Special Account as well as the performance indicators for each type of budget support will be stipulated in the amendments to the Memorandum of Understanding regarding the Special Account or in any subsequent programming documents. Even though the Local Currency Special Account is kept in the Central Bank, it is owned and controlled by the MOF. All instructions for opening accounts, issuance of bank statements and their submission to the different recipients are provided by MOF. From past experience and implementation of previous Special Accounts, USAID believes that the MOF is capable of managing the Local Currency Special Account under this agreement as described in detail in the following section.

2. GOE's Capability to Manage the Local Currency Special Account (Informal Assessment)

The Mission has past experience with the Ministry of Finance in managing the Special Account. MOF has been responsible for handling Special Account generations and releases since 1985 when a GOE system for monitoring Special Account collections, deposits, and disbursements of local currency was put in place. In October 1988, MOF established an accounting unit within the Central Loans Department for accounting, monitoring and reporting Special Account activities. Reports from MOF on the Special Account unit's activities have been verified on an annual basis by the Mission.

The Mission works closely with the MOF in monitoring Special Account deposits and releases. Under the Commodity Import Program (CIP), the Mission and MOF have established procedures for Special Account deposits based on dollar disbursements. Monthly reports on CIP dollar disbursements and a schedule of local currency installments are being submitted from and to USAID and MOF on a monthly basis.

The Mission verifies every month the exchange rate applied by MOF and that correct amounts of installments are paid. The Mission maintains and implements an accounting system and records to verify adequacy of MOF's reports and local currency deposits based on bank statements.

In the recent exercise referred to above, adequate reports were submitted by the MOF on the allocation and release of Special Account funds for General Sector Support under MOU amendments numbered 14 and 15. Reports were verified by both the Mission and the Regional Inspector General, Office of Audits (RIG/A) and found appropriate.

The Mission will continue to use the system developed for tracking local currency deposits under the current Cash Transfer program to ensure that adequate deposits are being made. Under previous CIP and Cash Transfer agreements, the MOF had exercised a high degree of adequacy in monitoring and reporting Special Account activities. On the few occasions when the Mission had found discrepancies, MOF was notified and a modified report was issued. Based on the Mission's favorable experience with the MOF, a continuing informal assessment will be undertaken, rather than doing a formal assessment that is prepared solely at a point in time.

The Regional Inspector General/Cairo audited FY 89, 90 and 91 cash transfers (February, 1992). The audit objectives were to determine whether USAID/Cairo ensured that the GOE generated, deposited and reported local currency in compliance with applicable laws, regulations, policies and terms of the Grant Agreement. The audit reported that GOE complied with the applicable laws, regulations, policies and the terms of the Grant Agreement.

Based on the above, the Mission assessed as satisfactory the MOF's ability to meet the requirements of the 1991 guidance. The Mission also believes that the MOF is capable of effectively managing the Special Account.

C. Audit

The GOE may audit the records for both the Dollar and Local Currency Special Accounts, but USAID will not be able to obtain GOE audit reports.

The Program Grant Agreement will include provisions requiring audit of the dollar and local currency separate accounts in accordance with 90 STATE 194322 and 91 STATE 204855. RIG/A has been auditing the Dollar Separate Accounts for the past years. Mission will coordinate with RIG/A to ensure that the Dollar Separate Account is being audited. The Mission has requested RIG/A to modify our FY 95 audit plan to include audit of Local Currency Special Account's activities under all currently active agreements. Funds will be available for triennial audit purposes for both the dollar and the local currency accounts.

D. Recurrent Costs

The program should not have recurrent cost implications for the GOE.

E. Financial Plan

The following tables outline an illustrative financial plan.

AGRICULTURAL POLICY REFORM PROGRAM
USAID PROJECT # 263-0219

RUN1	C:\LTS\APRP1

ILLUSTRATIVE FINANCIAL PLAN US $ (000)

CATEGORY	Base Year Unit Cost	No. of Units	1995	1996	1997	1998	1999	Total
I) PROJECTIZED ACTIVITIES:								
A) MONITORING, VERIFICATION & EVALUATION UNIT								
2 L.Term Expatriates (P/Y)	180.00	8.00	0.00	378.00	396.90	416.75	437.58	1,629.23
2 L.Term Local Professionals (P/Y)	27.00	8.00	0.00	56.70	59.54	62.51	65.64	244.38
Short Term Expatriates (P/M)	16.00	60.00	0.00	252.00	264.60	277.83	291.72	1,086.15
Short Term Locals (P/M)	2.00	60.00	0.00	31.50	33.08	34.73	36.47	135.77
Local Support Staff /1	1.35	192.00	0.00	68.04	71.44	75.01	78.76	293.26
SUB-Total Burdened (1.5 Multiplier)			0.00	1,179.36	1,238.33	1,300.24	1,365.26	5,083.19
Verification, Studies & Misc. /2	100.00	6.00	0.00	210.00	220.50	115.76	121.55	667.81
(@ 6 studies 80-120,000/study)								
ELEMENT TOTAL			0.00	1,389.36	1,458.83	1,416.01	1,486.81	5,751.00
B) TECHNICAL ASSISTANCE UNIT								
4 L.Term Expatriates (P/Y)	180.00	16.00	0.00	756.00	793.80	833.49	875.16	3,258.45
4 L.Term Local Professionals (P/Y)	27.00	16.00	0.00	113.40	119.07	125.02	131.27	488.77
Short Term Expatriates (P/M)	16.00	100.00	0.00	420.00	441.00	463.05	486.20	1,810.25
Local Support Staff /3	0.86	288.00	0.00	65.02	68.27	71.68	75.26	280.23
SUB-Total Burdened (1.5 Multiplier)				2,031.62	2,133.21	2,239.87	2,351.86	8,756.55
Training								
In Country, On the Job Training /4	0.20	200.00	0.00	10.50	11.03	11.58	12.16	45.26
Observational and ST. Technical /5	5.50	100.00	0.00	144.38	151.59	159.17	167.13	622.27
Training Materials /6	0.03	300.00	0.00	2.36	2.48	2.60	2.73	10.18
Total Training			0.00	157.24	165.10	173.35	182.02	677.71
Commodities								
Computers (average price based on DMS estimates)	6.00	20.00	0.00	126.00	0.00	0.00	0.00	126.00
($ 6,000 per computer)								
XEROX Machines ($ 23,530 based on OE estimates)	23.53	2.00	0.00	49.41	0.00	0.00	0.00	49.41
(@ 9% assuming PSA services)				15.79	0.00	0.00	0.00	15.79
Total Commodities			0.00	191.20	0.00	0.00	0.00	191.20
Policy Studies /7	N/A	3.00	0.00	550.00	500.00	500.00	0.00	1,550.00
ELEMENT TOTAL			0.00	2,930.06	2,798.30	2,913.22	2,533.88	11,175.47
C) PROGRAM MANAGEMENT								
Program Coordinator and Executive Manager /8	27.00	8.00	0.00	56.70	59.54	62.51	65.64	244.38
Financial & Administrative Support /9	3.70	192.00	0.00	186.48	195.80	205.59	215.87	803.75
D) FOOD SECURITY RESEARCH UNIT /10	N/A		2,400.00	1,400.00	1,200.00	1,200.00	1,200.00	7,400.00
E) AUDIT and EVALUATION /11	N/A		0.00	30.00	80.00	30.00	130.00	270.00
PROJECTIZED ACTIVITIES SUB-TOTAL (before Contingency)			2,400.00	5,992.60	5,792.47	5,827.33	5,632.20	25,644.61
F) CONTINGENCY /12			120.00	299.63	289.62	291.37	354.77	1,355.39
I) TOTAL PROJECTIZED ACTIVITIES			2,520.00	6,292.23	6,082.10	6,118.70	5,986.97	27,000.00
II) PERFORMANCE DISBURSEMENTS:			50,000.00	50,000.00	50,000.00	50,000.00	0.00	200,000.00
TOTAL PROJECT			52,520.00	56,292.23	56,082.10	56,118.70	5,986.97	227,000.00

55

January 5, 1995

APRP Budget Notes:

1. Local support staff are calculated for 4 professionals based on USAID salary scale, grade 10 step 5.

2. Studies are calculated for 6 studies for average price $ 100,000, distributed as two studies per year for CY 96 and 97 and one study per year for CYs 98 and 99.

3. Local support staff are calculated for 6 employees based on USAID salary scale, grade 8 step 5.

4. In-country training is estimated for 200 opportunities, evenly distributed among the years 96 through 99.

5. Observational tours and short term technical training will take place in the States and Third World Countries, calculated at an average $ 5,500/trainee.

6. Training materials are calculated for 300 training opportunities with an average of $ 30/trainee.

7. Policy studies are calculated based on Project Officer's input as follows: CY 96 one study for $ 550,000,
   CY 97 & 98 2 studies for $ 500,000/study.

8. Program Coordinator and Executive Manager are calculated as two long term local professionals.

9. Financial and administrative support staff are calculated for 4 employees as follows:

   2 employees based on USAID salary grade 10 step 5.
   2 employees based on USAID salary grade 5 step 5.

10. Food security research unit cost is estimated by the project officer based on past experience with predominant vendor.

11. Audits are budgeted for $ 30,000 per anum starting CY 96. Evaluations are estimated to be $ 50,000 for CY 97 (mid-term) and $ 100,000 for CY 99 (Final).

12. Project Officer estimates contingency to be 5%.

* **Budget is annually inflated by 5%.**

PLANNED OBLIGATION SCHEDULE
US$ (millions)

	1995	1996	1997	1998	1999	Total
Projectized Activities	20	0	7	0	0	**27**
Performance Disbursements	50	50	50	50	0	**200**
TOTAL	**70**	**50**	**57**	**50**	**0**	**227**

ILLUSTRATIVE IDENTIFIABLE HOST COUNTRY CONTRIBUTION PLAN
LE (000)

CATEGORY[1]	Unit Cost	No. of Units	1995	1996	1997	1998	1999	TOTAL
Training[2] -Airfare ticket, LE 6,800 -Medical Check, LE 350	7.15	100	0	188	197	206	217	**809**

[1]Only currently identifiable HCC has been budgeted (i.e., airfare tickets and medical checks) at this time. The GOE, however, will provide other contributions (e.g., salary of staff while on training, office space, utilities) that will be monitored during actual implementation.

[2]Consists of observational and short-term technical training.

VII. MONITORING AND EVALUATION PLAN

A. Monitoring of Policy Measures

Achievement of policy measures is the criterion for disbursement of dollar funds under this program. Careful monitoring of progress is, therefore, a critical component of the APRP. The MVE Unit will also measure the effects of the policy reforms on employment generation, as well as the impacts on small farmers and women.

Monitoring will be carried out primarily by USAID's AGR/ACE Office. In addition, the Directorate for Economic Analysis and Policy (EAP) will also closely track progress. Information will be obtained from ministry reports as well as feedback and reporting from TA contractors. A formal detailed verification report will be required annually from the Monitoring, Verification and Evaluation Unit (See Section V.B.).

In addition, APRP's progress and impact will be carefully assessed during the Mission's semi-annual performance reviews. The reviews will focus both on the Program's achievement of its policy reform objectives as well as the impact of these achievements on the Mission's strategic objectives under PRISM.

B. Evaluation of Program Activities

During program implementation, evaluations will be carried out regarding the implementation and impact of individual policy reform activities. The exact content and timing for evaluations will be identified by the Technical Assistance Unit and the Monitoring, Verification and Evaluation Unit, as well as by AGR/ACE and EAP.

As APCP winds down, a final evaluation of the project is scheduled in 1995. Although it may be difficult to fully measure the impacts of the policy reforms accomplished under APCP at this time, USAID will utilize the upcoming evaluation to help establish baseline data for APRP.

International Business and Technical Consultants, Inc. (IBTCI), under contract through the Mission's Privatization Project, will evaluate activities under this program that address the privatization of agribusiness. AGR/ACE will coordinate the evaluation of activities by IBTCI as they relate to agribusiness privatization under APRP.

An interim and a final project evaluation will be conducted at appropriate times during the life of project. These general evaluations will assess the project's overall effectiveness and impact. In addition to generic issues, e.g., the quality of technical assistance and the impact of the project's basic approach, the evaluation will be used to address any specific management concerns that may surface during project implementation.

ANNEXES

ANNEX A

ECONOMIC ANALYSIS

The analysis focusses on four aspects of gains from agricultural policy reform. First, specific reforms that occurred during 1987-93, largely in marketing and pricing policy, were described and their impact on prices, cropping patterns, and farm incomes for wheat, rice, maize, and cotton were measured. Second, the sector-wide impact of these reforms was analyzed. Third, expected gains from future policy changes through increased efficiency in marketing, processing and input supply industries were estimated. Fourth, expected gains from increased efficiency of public investment in land and water resources were quantified. Finally, expected costs of reforms were estimated to provide a measure of the economic feasibility of the Program.

I. Policy changes, 1987-1993, and their impact on prices, production, farm income, and export earnings for wheat, maize, rice, and cotton

A. Summary of Policy Changes

Inputs: Fertilizer prices were subsidized by 50 percent during 1981-1986 and 24 percent during 1987-1990. The subsidy was eliminated in 1991. The exchange rate was overvalued by 217 percent during 1987-1989, 47 percent for 1990, and zero percent during 1991-1993.

Wheat and Maize: Government controls on area planted, prices, procurement, and domestic marketing were removed for wheat, maize and eight other less important crops in March 1987. Prior to this the GOE had increased procurement prices and relaxed the enforcement of procurement quotas. However, an extremely overvalued exchange rate was in force until 1991, which greatly subsidized imports of wheat and maize. This subsidy probably depressed domestic farm prices for the two grains, although farmers perceived that prices increased from 1987-90, as procurement prices had been set far below border prices during 1981-1986. The subsidized urban market for wheat and bread was also segregated to a degree from the rural market for domestically produced wheat, and the market for imported maize was segregated from that for domestic maize. These "wedges" undoubtedly tempered the price effect of the overvalued exchange rate as domestic grain prices.

Rice: The GOE procured 48 percent of the crop and paid an average of 45 percent of the border price during 1981-84.

61

Procurement quotas were reduced in 1991 and eliminated in 1992. Procurement prices were increased to about 90 percent of the border price during 1985-1990. Procurement quotas were removed in 1991, but market prices remained below border prices by about 14 percent, indicating that competitive conditions were not perfect, probably owing to the price policies of government-owned mills.

The exchange rate overvaluation effectively discouraged rice exports through 1990. This was corrected in 1991. Rice uses approximately twice as much water as other crops. Thus, the almost 100 percent subsidy on irrigation water greatly favored rice production relative to other crops.

Cotton: Cotton was the most controlled crop, with strict acreage quotas until 1991, procurement prices set at less than 50 percent of border prices, and 100 percent of the crop procured by the government. Procurement prices were increased from 40 percent of the border price in 1990 to 75 percent in 1991 and acreage controls were relaxed. Further, price increases in procurement prices in 1992 and 1993 caused the farmgate price to rise above border prices in those years. Pest control costs were subsidized by over 90 percent until 1992 and were then reduced by 25 percent in 1993. The subsidy on pest control was removed in 1994. The fertilizer subsidy that affected other crops also applied to cotton through 1990.

The GOE fixed export prices, for the entire year, much higher than market clearing prices, resulting in a sharp reduction in exports during 1988-1992. Procurement prices were based on this inflated export price, about double what they would have been given the highly overvalued exchange rate, but still below border prices by about 50 percent. In 1991, the GOE removed the overvalued exchange rate, lowered administered export prices, and raised procurement prices. Procurement prices were thus 75 percent of border prices in 1991, 114 percent in 1992, and 132 percent in 1993. Market prices in 1994 exceeded floor prices by about eight percent. GOE policy thus shifted dramatically from taxing farmers and practicing monopolistic strategies in the export markets to subsidizing farmers and taking aggressive steps to recapture their share of the export market.

Legislation was introduced for the 1994 crop removing all controls on farmers, merchants and exporters. Imports, however, remained severely constrained by phyto-sanitary controls, and no private exports occurred as of December 1994. In addition, the cotton textile industry is almost 100 percent government controlled.

62

B. Impact of Policy Changes on Prices, Production, Farm Income and Export-earnings

Wheat and Maize: Farmgate prices rose relative to border prices, increasing from an average of about 80 percent during 1981-1986 to approximately 105 percent during 1987-1993. The real farmgate price of wheat averaged LE 95/MT during 1981-1986, jumped to LE 141/MT during 1986-1990, and declined to LE 131/MT in 1991-1992. Maize prices followed a similar pattern, rising during 1986-1990 owing to relaxation of official price controls and declining sharply in 1991 and 1992 because world (border) prices declined.

As a result of these favorable price developments, and because cotton and rice were still heavily, indirectly taxed, there was a 50 percent increase in area planted for wheat and maize during 1986-1990. Much of the increase came from a decrease in "other" crops, although the fact that rice and cotton area did not expand contributed to the expansion in wheat and maize. Production of these two grains continued to increase despite a slowdown in acreage expansion in 1991 and 1992, totaling 67 percent more than production in 1986 and 1987. Yields of wheat increased 49 percent from 1986 to 1992 and maize yields increased 36 percent for the same period.

Farmers apparently responded in a classic sense to improved prices, shifting land and water resources, applying inputs more intensively and adopting new technology such as higher yielding varieties. Consequently, real net income from these crops increased 80 percent from 1986 to 1990, declining slightly in 1991 and 1992 because world prices declined.

Rice: Farmgate prices, under strict GOE control, increased from 45 percent of border prices in 1981-1984 to 91 percent in 1985-1990. Rice acreage increased only 10 percent, from 1.01 million feddans in 1986 to 1.10 million feddans in 1991, probably because the wheat/maize rotation was relatively profitable. Rice prices were still 10 percent below world prices, and delivery quotas were in force. Rice acreage jumped another 10 percent between 1991 and 1992, presumably because quotas were lifted and improved technology created favorable income conditions for rice. Real net income for rice exceeded that for maize and wheat by LE 116 in 1991. Yields of rice increased 6 percent from 1990 to 1991. Production increased by 13 percent between 1991 and 1992 owing to relatively favorable prices, new high yielding varieties, and the continued subsidy on water.

Cotton: Cotton remained severely taxed during the "reform" years of 1987-1990 with prices averaging 40 percent of the border price equivalent. Procurement prices went up dramatically, reaching 75 percent of the border price in 1991, 114 in 1992 and 132 percent in 1993. Marketing, ginning and spinning of cotton remained under strict government control through 1993.

Cotton production declined 27 percent from 1986 to 1991, but increased by 22 percent between 1990 and 1993. The latter recovery surely reflects the increase in official farmgate prices, which made cotton/berseem once again the most profitable of the five crop rotations. In 1993, real net income for cotton/berseem exceeded that for wheat/rice by LE 575/fed, and exceeded the wheat/maize rotation by LE 712/fed.

Cotton production recovered following these dramatic increases in price. Area planted continued its downward trend but yields increased dramatically. Apparently farmers lacked confidence in the price changes and still consider cotton as a government crop, which as such is subject to the whims of the policy makers. Thus, farmers did not expand area and those who planted cotton applied more resources, thereby increasing yields.

Farmers received payment for their 1993 crop only after a prolonged delay and great confusion regarding the price. Then, while announcing that the 1994 cotton market would be free, the GOE failed to pass the needed legislation until long after planting decisions had to be made. The announcement of the floor price was delayed even further. When the floor price was announced, it was lower than the 1993 price, failing to take into account predicted increases in the world price of cotton. Consequently, farmers reduced cotton area by a further 25 percent in 1994 relative to plantings in 1993.

Assuming full liberalization of cotton production, marketing and trade in 1994, and assuming the full return of producer confidence, it is expected that the following positive adjustments is the cotton industry may occur within the next few years: 1) acreage will expand to about one million feddans; 2) yields will recover to their historical level of 8 ktrs/feddan; 3) some shift to a wheat and short season cotton rotation will occur; 4) extra long staple (ELS) and long staple (LS) cotton will recover about 20 percent of the world market for long-staple, fine cottons; and, 5) if imports are liberated, local mills will use more, cheaper imports and a higher percentage of ELS/LS will be exported.

II. Sector-wide Impacts of Price and Marketing Reforms

A. Prices

Adjustments upward in procurement prices for some controlled crops, and complete liberalization of prices and markets for wheat, maize and eight other crops in 1987, resulted in favorable price conditions for all important crops except cotton in 1987-92 compared to 1981-1986. Cotton prices remained far below border prices through 1990. Rice appears to be a special case. Its market price remained substantially below border prices through 1993. One suspects that interaction between private traders and exporters and public rice mills, which are the only mills capable of producing export-quality rice, resulted in continued depression of farmgate prices. There is clearly a lack of competition, even though markets ostensibly have been liberated.

The gross real value of output of the eleven most important crops (80 percent of total output) averaged 27 percent more during the reform period (1987-93) compared to the pre-reform period (1981-86). This increase was caused in large measure by increased yields with some important shifts in area among crops. Yields of four "reformed" crops, wheat, rice, maize, and tomatoes, increased from 17 to 44 percent. Wheat yields increased 44 percent. Cotton yields declined somewhat, reflecting continued government controls.

Wheat illustrates the power of freedom of choice. Production increased an astonishing 85 percent in the reform period compared to the controlled period. A combination of rising world prices through 1990, removal of quotas and procurement prices for wheat, high yielding technology on the "shelf," and rice and cotton prices being controlled at low levels resulted in a substantial shift in land and other resources to wheat, largely at the expense of cotton and "other" crops.

B. Sector Resource Income

Overall gains in efficiency owing to free-market pricing should be reflected in increased producer surplus. Adjustments in crop mix, levels of input use, efficiency of input combinations, and raising prices to their international parity levels contribute to an increase in producer surplus. Total welfare is the sum of consumer and producer surplus. An independent measure of welfare for the 1990-1993 period showed producer surplus actually declining by 15 percent relative to the 1990 base period, but consumer surplus gained 6 percent. The sum (welfare) remained constant. Of course, much of the benefit from agricultural policy reform occurred before 1990, so this direct measure of producer surplus distorted the picture by not capturing gains between 1987 and 1990.

A proxy variable, agricultural sector resource income (real gross farm income less purchased farm inputs) was analyzed to measure total gains from reforms since 1987. By this measure, the real income to on-farm resources increased by 23 percent on the average for the 1987-1992 period compared to the 1981-1986 period. Real resource income declined from 1990 to 1993, owing primarily to increased input prices after subsidy removal and declining world prices for wheat, rice, maize, and cotton. If world prices had remained constant for these crops during 1991 and 1992, average real resource income would have increased by another five percent in past reform years compared to pre-reform years. The latter crops account for 50 percent of total gross value produced in the sector. The 23 percent increase attributable to policy reforms amounts to LE 1.1 billion per year.

C. Employment and Other Macro-Economic Concerns

A computable general equilibrium model was quantified to measure the overall economic impact of agricultural sector price and marketing reforms and the impact of macro-economic policy reforms such as exchange rate reform and removal of tariffs, taxes and subsidies.

Reforms in both the agricultural and non-agricultural sectors since 1987 resulted in an increase in consumption (welfare) of 3.6 percent, a figure considered large by international standards. The pre-1987 policy bias against agriculture was clearly evident, as agricultural value-added terms of trade increased 16 percent over the 1987 base.

The model predicted a net migration into agriculture with policy reform. In other words, reforms may have relieved rural to urban migration pressure. Removing the bias against agriculture apparently created employment opportunities. Indeed, another more detailed model of the agricultural sector indicates that policy reforms since 1990 increased agricultural employment by 2.5 percent.

Surprisingly, however, experiments with increasing exports of agricultural products did not generate additional employment. Export promotion dramatically increases sector income but not employment. Evidently labor intensive export crops merely draw labor away from other activities such as livestock production. Conversely, the study indicated that "forcing" more labor into agriculture could be done without greatly reducing sector productivity. A 10 percent increase in labor was associated with only a 0.2 percent decrease in social welfare (the sum of consumer and producer surplus). Thus, reducing unemployment in industry by adopting a rural employment program may be socially and economically feasible. This hypothesis requires further analysis.

D. Impact on Food Security and the Poor

Thirty-seven percent of the urban population and 25 percent of the rural population fall below the poverty line. The relative increase in prices of basic grains that accompanied agricultural policy reforms since 1987, and the gradual removal of consumer subsidies, has undoubtedly exacerbated the economic condition those falling below the poverty line.

Targeting economic assistance seems advisable. It will be costly, however, as poverty is quite deep in Egypt. Preliminary calculations indicate that the annual cost of targeted programs, if provided to all people below the poverty line, would be about equal to the 1992/93 cost of food subsidies (LE 2.4 billion). Targeting to the poorest one-half of people below the poverty line would cost somewhat over one-half that amount, generating savings that could be used for economic development programs.

III. Expected Efficiency Gains from Privatization and Liberalization of Agricultural Marketing, Processing, and Input Supply Industries

Economic studies completed within the last few years for cotton textiles, rice marketing and milling, and fertilizer production revealed gross inefficiencies in public sector enterprises. Privatization, private management and private investment in agro-industry are therefore expected to generate very large savings in processing and marketing costs.

A. Rice Marketing and Processing

Public mills in 1993, through a GOE explicit policy of allocating the rice crop equally among mills, operated at 25 percent of capacity. Costs at 25 percent of capacity were LE 253/MT, compared to LE 110/MT at full capacity (87 percent of capacity). Applying savings of LE 143/MT to the 71 percent of the 1993 crop that was marketed generates LE 285 million per year in cost savings. Furthermore, private mills had costs of less than LE 30/MT to produce lower quality rice and about LE 60/MT to produce export-quality rice. If the latter of efficiency could be attained throughout the sector, an additional LE 200 million per year could be saved in rice processing costs.

B. Cotton Ginning, Spinning, and Weaving

Cotton spinning and weaving represent over 25 percent of total industrial output (excluding petroleum). About one-fourth of public sector industrial employment is in the cotton textile industry. Almost all efficiency indices for these public sector firms are low and declining as a result of poor management and poor sectoral policies, including export pricing, raw material allocation schemes, labor practices, and investment policies.

Egypt's mills spin about 6 million MK (1 metric kentar is equal to 50 kg of lint cotton) of raw cotton each year at an average cost of LE 589/MK. These mills have an efficiency rating of 65 percent, compared to a global average of 85 percent. Increasing the operational efficiency by 20 percent would reduce processing costs by LE 118/MK or LE 708 million per year.

Privatization of weaving, which operates at 72 percent average efficiency compared to 85 percent by global measures, could generate a reduction in cost of LE 0.55 per meter of cloth. This amounts to LE 302 million per year.

Ginning costs are approximately LE 15/MK, at current capacity utilization rates of 50 percent. Increasing the rate of utilization to 87 percent would generate a savings of LE 5 MK or LE 30 million per year.

C. Fertilizer Manufacturing and Marketing

The imposition of a 30 percent protective tariff on some nitrogen and phosphate fertilizer in January 1993 suggests that overall efficiency is about 30 percent below world standards. Reducing costs by 30 percent would generate a savings of LE 223 million per year.

Reduced marketing margins followed privatization of fertilizer distribution. Distributors reported margins of 9 percent and retailers reported operating margins of 3 percent. PBDAC charged a 20 percent margin for wholesaling plus retailing. Thus, privatization has reduced the margin by 8 percent, equaling about LE 60 million per year in cost savings.

IV. Increased Efficiency of Land and Water Development

A. Land Reclamation

According to a recently completed study (1994), investment in infrastructure and sale of land to private investors was economically efficient, with ERRs in excess of 12 percent. However, economic returns to investments in publicly-managed, small-holder settlements were very low, ranging from a negative 3.3 percent for graduates in Bustan to +13.8 percent for Khatatba (small investors managing their own wells).

A recent study also identified a strategy of intensifying investment in existing settlements as having promise for increasing economic returns. Irrigation technology, improved market access, site specific production technology, and improved access to credit were identified as key constraints.

Assuming, conservatively, that investments to intensify production on existing small-holder schemes would increase the ERR by 10 percentage points, and applying this factor to the planned investment of LE 1.8 billion on 513,000 feddans, generates LE 180 million per year. If all investments in new reclamation schemes were foregone, and the LE 1.8 billion were applied to intensification of "old" new lands, as much as LE 360 million per year could be saved, as ERR's for intensification of all types of reclamation exceeded 30 percent per year on the average.

B. Improved Water Use Efficiency

Water, the binding constraint to future growth of Egyptian agriculture, has a shadow price of LE 0.056/M^3 according to estimates generated by a multi-market sectoral model. A crude measure of potential gains to society from improved water use efficiency is the gross value of water saved by improving irrigation efficiency. Assuming that cost recovery and water pricing would induce a 20 percent decrease in water used, given that 40 billion M^3 are used by agriculture each year, eight billion M^3 could be saved. At its shadow price, eight billion M^3 has a value of LE 440 million per year. Furthermore, water is becoming increasingly scarce and its shadow price is expected to double by the year 2000. Returns to water savings would also double.

C. Improved Food Security Measures

In the short run, policy reforms are expected to raise consumer prices while wages will tend to lag, so food security measures are probably necessary to protect the poor. Eliminating the general food subsidy (LE 2.4 billion in 1992/93) and using the budgeting proceeds to target income assistance to the poor would increase food security for these segments of the population that are most at risk.

Targeting food security measures could save LE 1.2 billion, as the population served would be reduced from the current 80 percent for food subsidies to fewer than 20 percent, half of those falling below the poverty line. Investing the LE 1.2 billion saved in rural economic development programs could

69

generate LE 120 million per year through work programs that create rural infrastructure.

V. Estimated Program Costs

A. GOE Services

An expansion in services provided by the GOE will be needed to complement the newly-liberated, free-market system. At minimum, these should include market news, regulation of standards and regulation of competition behavior. Estimating the costs of these programs requires further study. Establishing market news and information services may involve an initial capital investment of LE 20 million and annual operating costs of LE 2.0 million. Costs of regulation of standards and control of monopoly behavior may be substantial. This should be the subject of further study and a future policy benchmark.

B. Labor Retraining and Reduced Labor Redundancy

Labor redundancy equals about 30 percent of the labor force, or 150,000 workers, in the cotton, rice, wheat, feed and fertilizer processing industries. Based on an estimated cost of LE 25,000 per worker, derived from experience with the PBDAC program, early retirement of 25 percent of the redundant employees would cost LE 937 million. Another LE 75 million for retraining the remaining 112,500 workers would bring the total cost to approximately LE 1.0 billion, or LE 250 million per year for four years.

C. Other Costs

Other costs, such as reduced asset valuation of privatized public enterprises and costs of food programs are likely to be minimal, as they are offset by savings in other programs, e.g., reduced food subsidies; or are accounting adjustments rather than true economic costs, as in the case of re-evaluation of publicly-owned assets.

VI. Estimated Quantitative Benefits and Costs

A cost/benefit analysis of the Program was carried out based on the estimated gains and costs to the economy described in this section. The study reveals an economic rate of return (ERR) of about 78 percent. ERRs are measures used by analysts to determine if the project will have a net economic benefit to the country. At 78 percent, the ERR of this project is far above the

10 percent that USAID often uses for the minimum ERR needed to justify a project. It strongly suggests the project is an excellent use of U.S. Government funds. The calculation was based on the assumption that the benefits to the economy will be achieved four years after the start of the Program. Benefits are assumed to last 30 years.

Several sensitivity analyses were considered to see if any one particular assumption accounted for the very high ERR. For example, if the project is able to achieve only half of the benefits, the ERR will still be about 52 percent. If only one fourth of the benefits are fulfilled, the ERR is still about 32 percent. The sensitivity analysis also calculated the ERR if one did not count lower consumer subsidies as a benefit. (It could be argued that the benefit reached by the GOE through lower expenditures was offset by a reduction in the benefits the consumer received from the subsidies.) The ERR was still over 60 percent. Hence, it can be concluded that benefits from APRP are expected to significantly outweigh costs and realize a very large net gain to the economy.

Annex B

INSTITUTIONAL ANALYSIS

I. Problem Summary

Many different factors will have an impact on the implementation of APRP. Principally, these include: Egyptian economic and agricultural policy; the perceptual context in which APRP will take place; the political and administrative context; and USAID program management, including the legacy of a predecessor project, APCP. The program design, particularly the program's organizational configuration, needs to reflect these factors.

The economic context involves Egypt's movement towards a market-oriented, private-sector economy. As this trend progresses, it is making new and diverse demands on government decisions, priorities, and activities, on both the macro- and micro-economic levels, including many of the areas in which APRP will function.

The perceptual context is one in which both the GOE and USAID share a commitment to reform, but differ over their assessment of past successes and over the speed and thoroughness with which future changes should be implemented. Given differing orientations toward the tactics of reform, it is probable that the pace and pattern of economic liberalization, which is now well established, will continue to be measured, incremental, and not invariably unidirectional. Policy dialogue will continue to involve numerous issues as it moves from the macro-economic framework to specific micro-economic reforms. The distribution of support for and opposition to reform also lends support to the argument that reform will continue to proceed in incremental fashion.

The political and administrative context also has major implications for the design of APRP, in that institutional arrangements will need to be designed to achieve the following objectives: 1) retain the support of the MALR and its minister; 2) diversify and deepen cabinet and subcabinet support for reform; 3) foster linkages among individual and institutional proponents of reform; 4) find an appropriate role for reform-supporting, quasi-governmental institutions; and, 5) pursue reform at the microeconomic level and on a case-by-case basis.

The current USAID program management context requires that APRP relationships and structures be formalized, and that an internal

12

management capacity be developed within the program. The program management structure should be inclusive and representative of varying interests, but these objectives should not be pursued in such a way as to jeopardize the coherence of decision making and implementation. The legacy of APCP, although positive in most regards, does not include an organizational model that should be emulated by APRP, whose broad, multi-sector objectives would be incompatible with the APCP straight-line management structure.

Using these political, economic, and institutional factors as a starting point, this study analyzes various objectives that must be achieved in designing an institutional structure for APRP. These objectives can be summarized as follows:

- Intensify, broaden, and deepen policy dialogue;
- Develop management capacity within the program;
- Formalize program management procedures;
- Insulate program management from a host institution;
- Retain the support of the MALR;
- Enlist support from other key ministries;
- Enlist support from quasi-governmental institutions;
- Give voice to interests affected by reform; and,
- Reduce the role of public sector and governmental functionaries.

The merits of alternative institutional configurations were weighed against the complex political, managerial, and policy negotiating requirements of this Program. The institutional model proposed below is chosen to facilitate broad and in-depth policy dialogue, externalize and formalize program management, place MALR in a head role but engage other ministries as required, and provide for participation from the "bottom-up" by interests affected by economic reform.

II. Comparison of Institutional Models

Pursuant to the objectives outlined above, the institutional analysis explored three alternative organizational models. The first represents a traditional, straight-line, single-ministry program, modified by the addition of special units to provide technical assistance on the one hand, and monitoring and verification on the other (first figure). In all other respects the organizational structure is identical to that used for APCP. The primary strength of this arrangement is its simplicity. Its deficiencies are that it provides no linkages to other ministries or affected interests; it does not contain an internal program management capacity; and it provides little scope for creative program management techniques.

13

An alternative, more elaborate structure has organizational components at three levels. At the top level are the Ministries of Agriculture, Supply, and Public Enterprise, constituted as the Ministerial Committee. Agreements would be signed with these three ministries. Below the level of the Ministerial Committee, a Program Planning Committee (PPC) would assume responsibility for planning, programming, and program management. The three ministries would have representatives with voting rights on the PPC, while up to three other ministries would have ex-officio members, as would USAID. The PPC would have a full-time program coordinator and a Management Unit composed of a director, deputy director, and financial specialist.

The PPC would direct the activities of a third organizational level, which would include various task forces, a Technical Assistance Unit, a Monitoring and Verification Unit, and a Food Policy Research Unit. The task forces would either be permanent or ad hoc. They would include representatives of relevant ministries, other institutions, as well as affected interests. They would be chaired by a member of the PPC, and would receive assistance and guidance from the deputy director of the PPC Management Unit. They would be responsible for developing project concepts into full-blown project proposals.

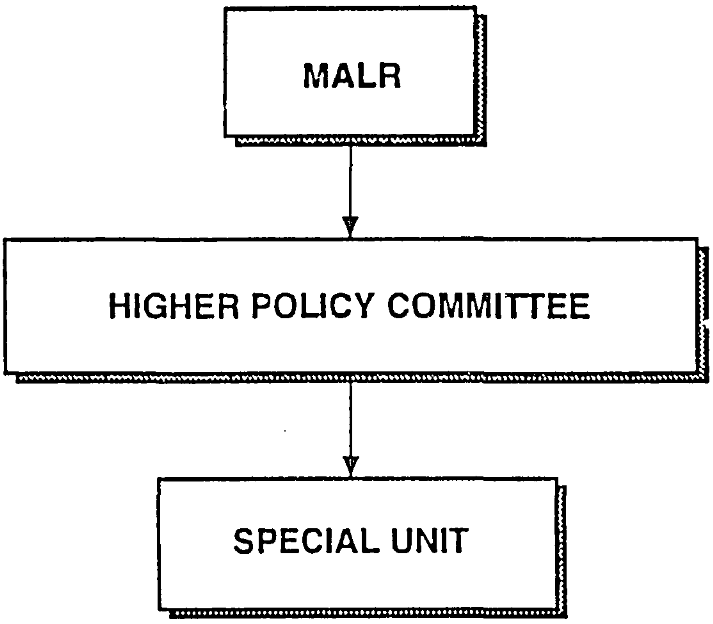
The Technical Assistance Unit would have a director and a small in-house staff of technical experts, with significant capacity to recruit, manage, and deliver appropriate technical assistance. The Monitoring, Verification and Evaluation Unit would have a similar composition. Both would work with the task forces on a regular basis, providing input to project development.

This alternative model provides linkages among ministries and to other institutions and relevant interests. It has a more formalized operational structure and includes an administrative/managerial capacity. Its perceived weaknesses are potential problems of interministerial cooperation; the complexity and diffusion of authority that could militate against timely and effective decision making; and some ambiguity concerning how this institutional structure would deal with ministerial initiatives to meet benchmarks, on the one hand, and project proposals on the other.

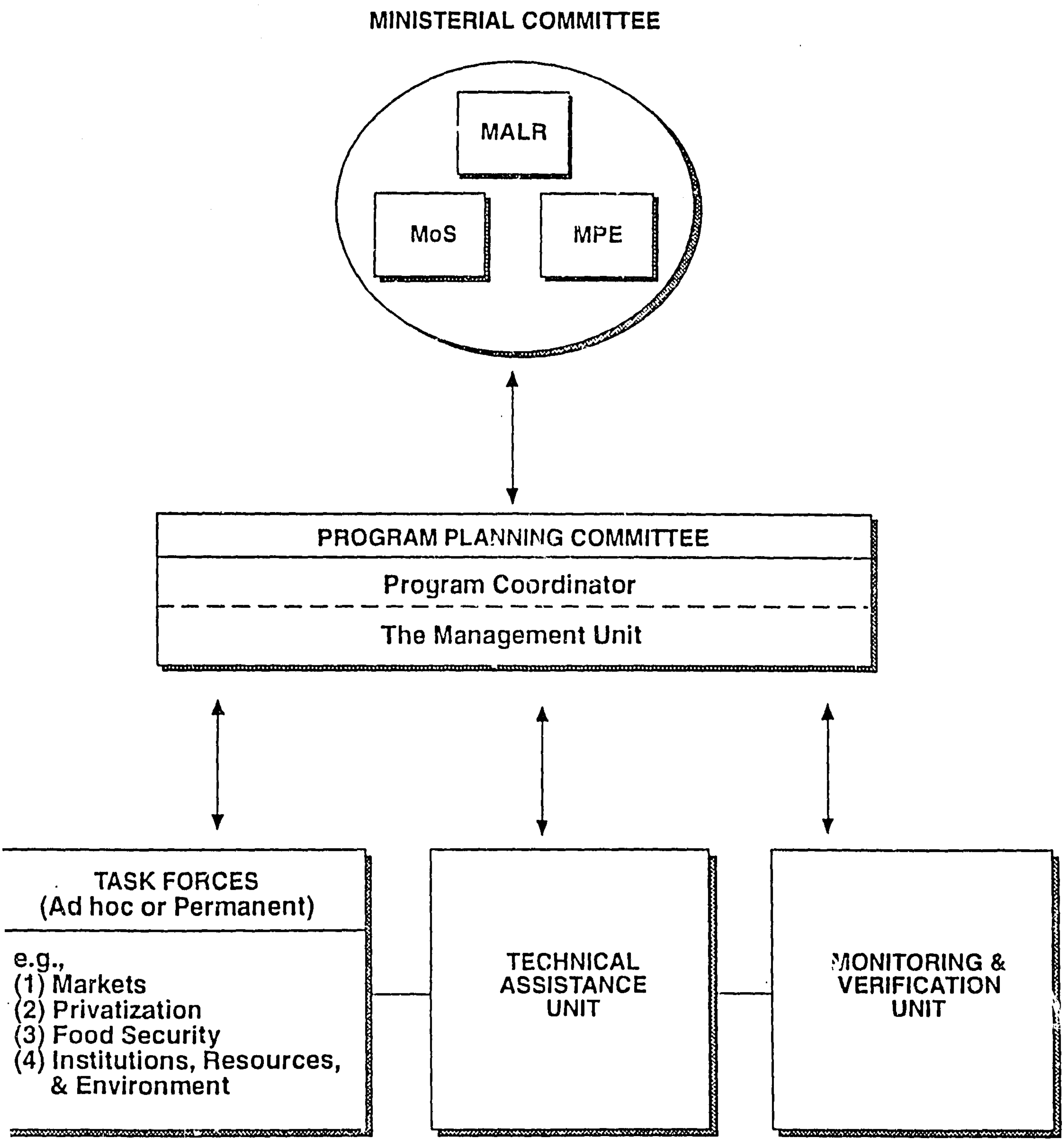
A second alternative model also is presented. It places the PPC directly under the Ministry of Agriculture, as the principal ministry involved with APRP initiatives and therefore addresses many of the perceived difficulties involving coordination, efficiency, and timely decision making. It does continue to provide liaison, coordination, and funding of other ministries' projects and initiatives through an ad hoc interministerial committee, and through ministerial representation on the PPC and on the task forces.

Because of the complex and ambitious objectives of APRP, its central organizational structure will need to have the capacity to support a "bottom-up" approach to policy reform. This approach requires the ability to interact with numerous actors from different institutional settings, while ensuring coherent, autonomous management of the program. For this reason the traditional institutional arrangement is basically inadequate, and either alternative model appears preferable.

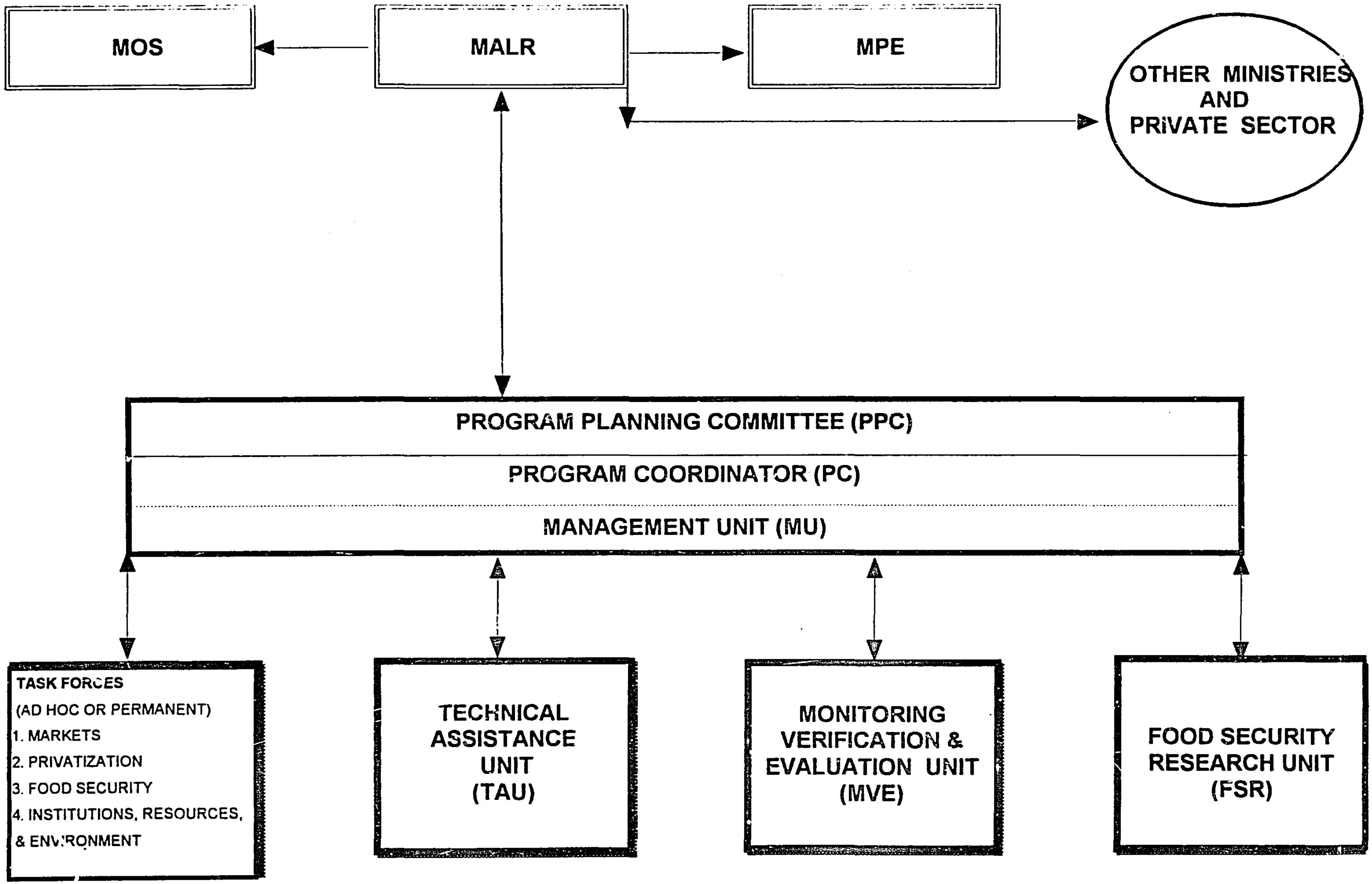
MODIFIED "TRADITIONAL" STRUCTURE



ALTERNATIVE MODEL I



77


MOS
MALR
MPE
OTHER MINISTRIES AND PRIVATE SECTOR
PROGRAM PLANNING COMMITTEE (PPC)
PROGRAM COORDINATOR (PC)
MANAGEMENT UNIT (MU)
TASK FORCES
(AD HOC OR PERMANENT)
1. MARKETS
2. PRIVATIZATION
3. FOOD SECURITY
4. INSTITUTIONS, RESOURCES, & ENVIRONMENT
TECHNICAL ASSISTANCE UNIT (TAU)
MONITORING VERIFICATION & EVALUATION UNIT (MVE)
FOOD SECURITY RESEARCH UNIT (FSR)

Model I, which establishes a formal, Ministerial Committee to oversee the Program, overcomes weaknesses in the modified "traditional" structure (second figure):

- It provides linkages to other ministries;
- It provides administrative support to the central policy unit of the program; and,
- It provides access to APRP for other governmental and quasi-governmental institutions, as well as affected interests.

It could be argued, however, that the **Model I** structure introduces weaknesses of its own. The first difficulty results from having three ministries share responsibility for the project. Separate MOUs would have to be signed with each ministry, a lengthy process in itself. In addition, misunderstandings between the ministries and even the ministers themselves might arise, in part because of possible ambiguities in the relationship between the Ministerial Committee and the PPC. Finally, the MALR and its leadership, which have had sole responsibility for previous USAID agricultural programs, might not receive this proposed change enthusiastically. As a result the MALR might provide less support for APRP than it would were it entirely under that ministry's jurisdiction.

The second area in which difficulties might arise results from the relative complexity of this proposed organizational structure. It diffuses authority more widely than did the APCP management structure; it calls for more complex interactions between management personnel; and it provides for the incorporation into the program (through the task forces) of non-governmental personnel. In sum, it is novel and ambitious.

A final problem arises as a result of the potentially dualistic nature of APRP itself. APRP may consist of both independent activities of a project nature, as well as autonomous initiatives by ministries, which would in turn be rewarded for those initiatives by allocations of funds. A structure suitable for project design, management, and integration is probably too cumbersome for straightforward allocation of funds in support of ministerial initiatives to meet benchmarks. Solutions to these possible problems are sought through a second alternative organizational model, as described below.

Under **Model II**, the first problem mentioned above is resolved by reducing the salience of the role of the MOS and MPE. The third figure depicts such an arrangement. The MALR would be the sole ministry with which an MOU would be signed. Other ministries would be incorporated into the APRP organizational structure through four mechanisms. First, an interministerial committee, which would be convened on the initiative of the MALR, would include ministries on an as-needed basis. It would also include at least one representative of the private sector. Second, informal interactions between ministers would occur. Third, Memoranda of Implementation would be signed with specific ministries when and if activities were to be conducted within their sphere of competence. Finally, the PPC, which would function in the manner described above, would provide a forum within which voting representatives of the three key ministries (MALR, MoS, and MPE) and non-voting representatives of other concerned ministries would interact on a regular basis.

The second problem area, that of novelty, complexity, and diffusion of authority, is less easy to resolve. Novelty in program organization may be necessary to achieve the various objectives being sought for APRP, which is in itself a novel program. While the alternative organizational models proposed here are complex, they do have a management unit that will serve as the backbone of APRP, communicating with participants in APRP, following up on decisions reached, and ensuring compliance with USAID procedures and regulations.

With regard to the diffusion of authority, it needs to be noted that there is a trade-off between the need for organizational coherence on the one hand, and the need to include vital and affected institutions and interests on the other. The organizational models proposed here are attempts to maximize that tradeoff. The PPC, working under the guidance of relevant ministers, and supported by the Management Unit, is a sufficiently small and coherent body to provide program direction, leadership, and supervision.

The third problem, which is that of handling two types of program activities within the same management structure, might be resolved by treating proposals for projects differently than unilateral benchmark-meeting initiatives by ministries. Whereas the former would be handled by the PPC forwarding ministerial initiatives to an appropriate task force to develop the project with the assistance of the Technical Assistance Unit, the latter would be facilitated by direct access to the Technical Assistance Unit itself. The PPC would assist in administration of ministerial initiatives and the Monitoring and Verification Unit would also be involved. The PPC would not, however, have authority over the initiative. Despite having no authority over such ministerial initiatives, the PPC would provide a useful forum in which to coordinate such initiatives between ministries.

Alternative resolutions of this problem would be either to amend the organizational structure by deleting the task force component entirely, or to deformalize relations between the PPC and task forces, the latter of which would be formed entirely on an ad hoc basis.

The cost of dropping task forces entirely would be that APRP would not have a formal mechanism to enable the program to draw on a range of interests and expertise in support of its activities. The cost of deformalizing the relationship between the PPC and task forces would be greater uncertainties in project management, as well as a potential tendency to not utilize the task force mechanism but to restrict consideration of all initiatives to intraministerial actors. Since formalization of procedures with APRP to some extent necessarily represents a diminution of power of high-ranking ministerial officials, USAID has to determine what it wants from the trade-off between the benefits of formalization and the costs of some dissatisfaction with the project structure within relevant ministries.

Annex C

SOCIAL AND POLITICAL ANALYSIS

The discussion below focusses on the various political, perceptual, and institutional contexts that will have an impact on APRP and therefore will need to be considered as part of the design process.

I. Perceptual Context in which APRP will Operate

Egyptian View. The prevailing consensus within the GOE, as well as among significant sectors of the articulate public, is that Egypt has made great progress in reforming its economy. That the stabilization program has been largely implemented without severe disruptions to the political economy, is contrasted to less successful reform programs elsewhere, especially those in the NIS. The ingredient typically identified as being most vital to Egypt's comparatively successful experience with economic reform is that of gradualism. Unlike rash, across the board reform programs elsewhere, Egypt's incremental, segmented approach to reform is attributed with: (1) having maintained production and employment in the public sector as it has been gradually privatized; (2) having contributed to growth in the private sector; (3) having reduced consumer subsidies while avoiding severe social and political unrest; and, (4) having instituted fiscal and monetary reforms that have stabilized the currency as it has been moving progressively toward full convertability. In sum, informed Egyptians from various backgrounds take pride in the comparative success of their reform program, some going so far as to claim that it as an appropriate model for others to copy, a model that is responsible for Egypt becoming "the New Tiger" of the Mediterranean.

Because an incremental approach resulted in successful macroeconomic stabilization, it is deemed to be the appropriate manner in which to undertake structural adjustment. The Egyptian view is that there is no need to change the "steady as she goes" course, for it has brought the political economy to its present, comparatively favorable position. Reinforcing this view is the fear that more abrupt reforms might stimulate a negative popular reaction. With large numbers of security forces already occupied

92

in confronting an Islamist-inspired insurrection in Upper Egypt, the danger of strikes, demonstrations, or other manifestations of civil disorder elsewhere in the country is acutely felt throughout the GOE. To provoke such reactions by a headlong rush to privatize, further reduce subsidies, and otherwise implement IMF/World Bank-mandated structural adjustment, would almost certainly exacerbate a serious situation.

Sensitivity to socio-political backlash was amply demonstrated by the GOE's response to a strike at a public sector spinning and weaving company in Kafr al Duwwar in the first week of October 1994. After forcibly quelling the strike and accompanying demonstrations, the GOE acceded to all worker demands. The prudent approach, and one that has demonstrated its superiority, is generally thought to be a cautious, piecemeal one that avoids disruptive and potentially disastrous confrontations.

U.S. View. A common U.S. assessment of the Egyptian economic reform program is that it is more "pussycat" than "tiger." Where Egyptians see success, Americans tend to see lost opportunities. Where Egyptians see that reform has been executed with skillful precision, Americans see that Egypt, even when benefitting from huge windfall gains, has had to be forced to adopt timid reform measures. Whereas Americans question whether there is adequate political will to implement structural adjustment with the speed and thoroughness required to meet pressing demands for economic growth and job creation, Egyptians resent such skepticism and feel they are far better equipped to orchestrate structural adjustment so that it does not lead to a socio-political explosion or subsequent backsliding.

These two views are highly discordant. The American view emphasizes the need for urgency and thoroughness of reform, while the Egyptian one stresses caution and the need to maintain old structures and practices while new ones emerge. Neither view, of course, is monolithic, but their centers of gravity are sufficiently coherent and distant from one another to make policy dialogue a challenging and frequently frustrating endeavor for both sides.

Implications of the Perceptual Context. Both Egypt and the United States are committed to policy reform in all sectors, but there are sharp differences of opinion as to how reform should be implemented. In some instances, there are disagreements over how deep the reforms should be. Given these contrasting views, it is probable that the long-established pattern of reform and policy dialogue will continue. According to that pattern, the pace and degree of reform is measured, halting, and, with the exception of extraordinary external interventions such as the Gulf war, determined primarily by domestic developments.

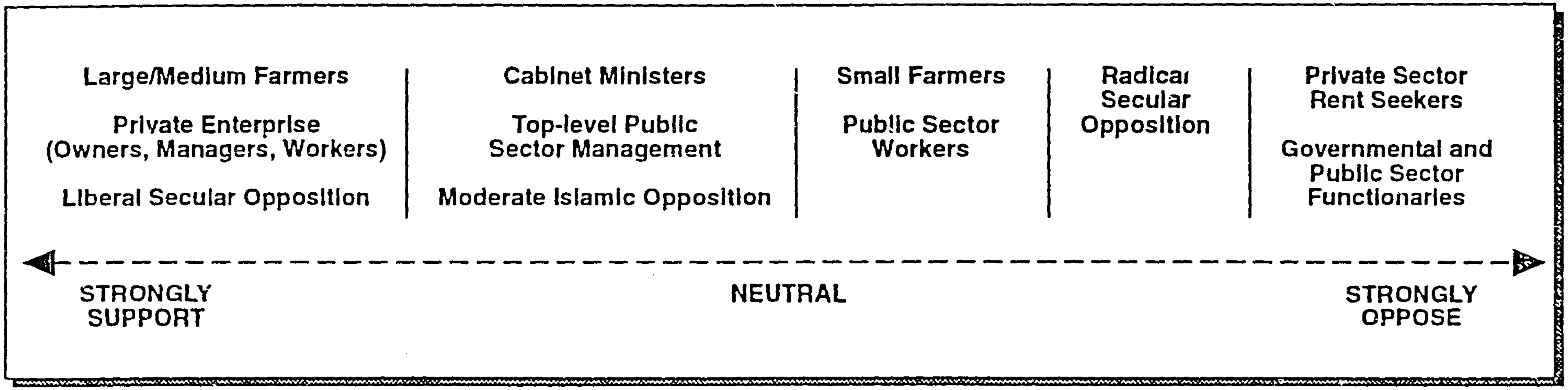
93

This incremental approach is frustrating to those who fear that reform is not moving quickly enough to meet the ever mounting challenges of a rapidly growing population and increased global competitiveness. Interactions between donors and the GOE are likely to continue to be more akin to a "guerilla war" than to a single, decisive engagement. A major breakthrough is unlikely. Instead, skirmishes over a host of issues, involving numerous institutional and personal actors, will continue, with the skirmish line gradually moving in the direction of reform. How quickly the line moves will be determined in part--but only in part--by how effectively and consistently donors apply pressure.

II. Array of Interests Affecting Agricultural Policy Reform

While each policy initiative stimulates a reaction by actors whose interests are affected, the thrust of overall economic reform is sufficiently coherent to describe reactions to reform in the aggregate, rather than with regard to each specific measure.

FIGURE 1. REACTIONS TO REFORM



Note in the Figure, vis-a-vis privatization that:

- The opposition of public sector workers is less profound than that of middle level-public sector administrators/managers;
- Both government and opposition actors are divided by the issue of reform, thereby suggesting that over the long run new coalitions are likely to be formed;
- High status actors who dispose of considerable political/economic resources tend to favor reform, while medium status actors whose resources and status are declining tend to oppose reform.

A more detailed description of actors' interests and capacities follows below.

III. Interests Opposed to Reform

Small Farmers and Public Sector Workers. Small farmers and public sector workers, despite differences on specific issues, nevertheless share an overall orientation toward economic reform. That orientation is more one of skepticism or apprehension, than it is of dedicated, outright opposition. The figure, which is two dimensional, does not reveal two other important dimensions, which are intensity and homogeneity of attitudes. Were these dimensions included, they would reveal public sector workers and small farmers as having less intense and more varied attitudes than many other actors. This diversity is due in considerable measure to the objective reality of their conditions. Some workers and small farmers will gain from economic reform, while some will lose. Most, however, do not know whether they will be winners or losers, both because they do not control their destinies to the degree that many other actors do, and because they simply lack information necessary to make an informed choice. While they are suspicious of reform and moderately opposed to it, their typical attitude is more that of wait and see, for opportunities may arise.

Both public sector workers and small farmers were incorporated into the system of production within the planned economy in such a way as to provide them more or less a guaranteed (but low) return for minimum effort on their part. Many workers and farmers have skills that in free labor and capital markets will enable them to prosper, although not all will. Many of those who will benefit from privatization are not yet aware of that possibility. The reform task with regard to this audience, therefore, is to communicate what new opportunities are likely to be made available, and to ensure that those with appropriate

86

skills are incorporated as quickly as possible into an expanding private sector. In the meantime, their opposition to reform is likely to be episodic and heavily dependent in particular instances on whether decision makers are perceived to be trustworthy and cognizant of worker and small farmer interests.

That public sector workers especially, and small farmers to a lesser degree, will militantly resist change, is a prognosis that serves the interests of those in the administrative/managerial apparati that have grown up above public sector workers and small farmers. In the public sector textile industry, for example, the Assessment of Potential for Liberalization and Privatization of the Egypt Cotton Textile Subsector, submitted in 1993, notes that "direct production laborers in the public sector are not in excess and are correctly allocated." The report goes on to observe that the work force in administration and related areas is "50 percent as large as the direct production work force," is better paid, and vastly surplus to requirements. (p. IV-10).

Public sector workers and small farmers are not an insurmountable obstacle to reform of the agricultural or manufacturing sectors. The Sorelian myth of the "general strike," which has its Egyptian equivalent in popular lore and is hinted darkly at by numerous other actors, especially those managing or administering the affairs of workers and small farmers, will indeed remain myth so long as labor relations are handled in a reasonably sensible fashion.

Mid-level Public Sector Management/Administration and Ministerial Bureaucracies. It is these actors who stand to lose the most from reform, hence they oppose it most strongly and effectively. Their skills are either of limited relevance in a fully privatized economy, or so badly deteriorated through lack of use that their prospects in the private sector are dim. Their actual leverage over policy reform, however, is limited, for they do not constitute a mobilized, system-threatening group. Their tactics are to subvert reforms from within, to point to the dangers of reform (e.g., the myth of the general strike), and in general to drag their heels. In the face of dedicated reform leadership, their resources and tactics could do little more than delay the inevitable. When confronting cautious leadership that is not united behind specific reforms, their ability to deflect or altogether subvert reforms is considerable. Any strategy for reforming the political economy should seek to diminish the voice and influence of these functionaries. Reform requires that their interests be negatively affected.

The political role of these functionaries is in many cases as or more important than their economic one. Broadly speaking, that role has been to provide the support of their "clients" (e.g., lower ranking bureaucrats, small farmers, workers) for the government and its political party. Such functionaries have played key roles in delivering votes in elections. The MALR, for example, has 450,000 employees, which constitutes almost ten percent of the electorate that has voted in recent parliamentary elections. Those employees are in turn in positions to influence the political behavior of some portion of Egypt's four and a half million farmers. PBDAC alone, with its almost 40,000 employees, has been said to be the major political base for 30 members of parliament. As both the economy and polity liberalize, the control exerted by these functionaries will necessarily decrease. If, however, the level of civil unrest were to increase, the government could be expected to slow the pace of reform, thereby prolonging the influence of this actor.

Private Sector Rent Seekers. A share of the private sector assures profitability through rent-seeking arrangements with the public sector or state administration. Such rent seekers are opposed to changing the status quo. The influence of rent seekers on both sides of the transaction, however, is limited to subverting the reform process. Rent seekers are not in a position to mobilize public support behind their cause, or even to gain broad governmental support. Tactics of subversion can be exposed and countered by dedicated reform leadership.

Radical Secular Opposition. Until recently this element vocally opposed most aspects of economic liberalization. Since about 1991, however, its opposition has diminished, targeting specific aspects of reform rather than reform per se. Bargaining over proposed changes to labor laws reflects this change. Whereas previously the radical secular opposition opposed any change to those laws, now that opposition is engaged in a process of debating how laws can be changed to secure the "rights" of workers while privatization and other reforms proceed. This increasingly realistic stance reflects growing acceptance among the potential constituents of the radical, secular opposition (workers, for example) of the basic tenets of reform. Radical, secular opposition elements are also countered by liberal oppositionists, who advocate more rapid reform, and by moderate Islamists, who support reform quietly. In sum, this element is not a major obstacle to reform and could, in fact, contribute to it by playing a role in sanctifying or even helping to negotiate new arrangements between capital and labor.

IV. Interests Supporting Reform

Private Enterprise. Virtually the entirety of the non-rent-seeking private sector, including owners, managers, and workers, supports the reform process. Their support for reform, however, is difficult to mobilize in a political system that is less than fully democratic. Organizations of business persons, which were very active in the late 1970s and 1980s, have failed to live up to their early promise and the commitment and participation of their members have deteriorated. Not having a voice, despite some access to the executive branch, such members seek personal rather than group or policy solutions to problems. While broad-based democratization over time would enhance the influence of these actors, the role of private sector actors needs to be upgraded independently of democratization. Specifically, representatives of private enterprise need greater access to decision-making arenas.

Large/Medium Farmers. Although modern agricultural entrepreneurs operating large enterprises (typically on new lands) are more aware of and committed to economic reform than their more traditional counterparts (farming old lands), both medium and large landholders support reform. Paradoxically, it is the more traditional farmers who have greater political influence, for they are situated in the more densely populated Nile Valley and benefit from traditions of family influence in local politics. It was, for example, pressure applied by such landholders through the People's Assembly that ultimately led to the final form of the 1992 legislation that modified the rental provisions of the 1952 agrarian reform law. Modern agricultural entrepreneurs, generally lacking traditional political resources, have to resort to "modern" methods (e.g., business associations) in attempts to influence policies. Those methods are much less effective than traditional means of exerting influence.

Top-level Public Sector Managers. At the highest levels of the public sector, especially within holding companies, there is considerable support for privatization, both because it is believed to offer better possibilities for production and profitability, and because top-level managers see personal opportunities arising as a result of privatization.

Liberal Secular and Moderate Islamist Oppositions. The former group are outspoken supporters of virtually all aspects of structural adjustment, but their influence is restricted to that of public opinion, which has no direct impact on policy formation. Moderate Islamists are strong critics of the state's role in the productive sectors of the economy, which they see as a legacy of Nasserism (an ideology and system they heartily dislike) possibly more for religious than economic reasons. For Islamists, however, it is more a question of dislike of the state and its economic role than it is support for structural adjustment. Moreover, since they seek to broaden their appeal they do not loudly proclaim their support for unpopular structural adjustment measures. Indeed, they assert that the Islamic economy is a "third way" between "capitalism" and "communism."

Cabinet Ministers. The sharp division that prevailed until the 1990s within the cabinet over support for reform measures has been replaced by a general consensus that reform is necessary. Disagreements now occur over the pace and sequencing of reform measures.

V. Implications of the Array of Interests

The pattern of support for and opposition to reform suggests that unless and until a major political realignment occurs, reform will proceed in an incremental, piecemeal fashion. Both government and opposition are divided by the issue of reform. Were Egypt to have an open political system in which actors could freely negotiated alliances, a fundamental realignment would likely occur. A coalition favoring more rapid reform might well emerge. It would include private sector entrepreneurs, high-ranking public sector managers, medium and large agricultural producers, secular and Islamist opposition elements, and most of the incumbent leadership of the National Democratic Party, including a majority of cabinet ministers. Another major coalition would oppose reform. At its core would be functionaries, attached to which would be private sector rent seekers and opposition radical secular political activists. The two major coalitions would compete for the support of public sector workers and small farmers. The outcome of this competition, hence control of the decision-making apparatus, would be determined primarily by the performance of the economy and of the political leadership of the competing coalitions.

But Egypt does not now have, and is unlikely to have in the near future, an open, competitive political system. The more the system does democratize, the more the resources of actors favoring reform will be revalued, with a corresponding devaluation of the resources of those opposing reform. The resources of pro-reformers are more useful in transparent, open political markets, while the resources of anti-reformers are more effective in closed, opaque political settings.

A gradual political opening would, therefore, provide additional political support for structural adjustment. However, political, like economic reform, is likely to proceed slowly. In the meantime, the enormous numbers of functionaries in the governmental service and public sector will brake reform. Functionaries play not only economic, but also important political roles. They provide a primary control mechanism through which the government maintains its hold on vital constituencies, including public sector workers, farmers, and the urban middle class, which is largely comprised of those functionaries. Until the government feels confident that it can maintain political control without relying heavily upon such functionaries, it is unlikely to adopt in wholesale fashion economic policies that dilute those functionaries' joint economic/political role.

The primary implication of this configuration of interests, therefore, is that it will retard the rate of structural adjustment unless and until a more open political system emerges and makes possible the formation of a new governing coalition more committed to reform.

VI. Egyptian Political and Administrative Context

The political/administrative system consists of four strata. At the top is the inner elite, which decides all "high policy" matters and sets the parameters in which decisions on "low policy" are made. High policies are those that entail military, security, foreign, and broad economic issues, while low policies are those governing day-to-day matters. The inner elite intervenes in matters of low policy and its implementation when it perceives potential threats to security. The recent example of an intervention to block cotton exports is a case in point. USAID is not in a position to influence substantially the inner elite or high policy, although it may have some small impact, especially concerning intervention by the inner elite into low policy issues.

The next stratum down is comprised of the cabinet. Since Egypt has neither parliamentary government, nor effective political parties, the cabinet does not comprise government in the parliamentary sense. Instead, cabinet is comprised of a collection of individuals who are not bound together by common commitment or membership in a political party that represents identifiable group interests. Because the cabinet does not govern collectively, it is highly factionalized, lacking common purpose and honeycombed with small coalitions, some of which are transitory, others of which are determined by the institutional interests of the various ministries.

The process of selecting cabinet members is essentially one in which the inner elite accords to the prime minister the right to chose some ministers who administer low policy. How many ministers he can choose depends on his relative political strength. The incumbent prime minister has been able to select very few ministers, hence has few supporters in cabinet. Because virtually all ministers lack political power bases independent of the government itself, they rely on governmental instrumenta-

91

lities to exercise and compete for influence over policy. Since most ministers have only their ministry to underpin their exercise of power, their primary orientation is to that ministry, rather than to the cabinet. The strength of a ministry thus determines the comparative strength of most ministers.

The average age of cabinet ministers was, until three recent appointments, well above 60. Cabinet turnover under Prime Minister Atef Sedki has been the lowest since Egypt gained nominal independence in the wake of World War I. Thus it would be premature to speak of a "new guard" emerging in the cabinet that is committed to pushing the pace of reform. However, recent appointments to the cabinet have been of talented, younger individuals who fully endorse the goals of economic reform and who have the capacities to make major contributions to that objective.

Ministries that have a potential interest in APRP include the Ministry of Agriculture and Land Reclamation (MALR), the Ministry of Public Enterprises (MPE), the Ministry of Supply and Home Trade (MoS), the Ministry of Economy and Foreign Trade (MOE), the Ministry of Public Works and Water Resources (MPWWR), the Ministry of Industry and Mineral Wealth (MoI), and the Ministry of International Cooperation (MIC). Of these ministries, the MALR is much the most powerful. Its sheer size (up to 450,000 employees), combined with its vital role in ensuring rural political quiescence, to say nothing of its involvement in the key area of food production, have for decades virtually guaranteed that the minister of agriculture is a significant actor in cabinet.

The present incumbent, like several of his predecessors, combines his ministerial role with a leadership role in the government political party, as well as a deputy premiership. His background of activity in the Arab Socialist Union under President Nasser suggests that he is an adept political operator within the political/administrative apparatus. Although not a politician in the democratic, parliamentary sense, he is virtually the only quasi-politician in the cabinet, for unlike his cabinet colleagues with other "low policy" portfolios, he interacts with the inner elite on policy issues and has far and away the largest base of personal supporters in and outside government.

None of the other relevant ministries provides a significant power base. The Ministry of Public Enterprises and the Ministry of Industry have divided a portfolio that formerly was united under the latter. The MPE is not, in fact, a ministry, but a title given to the minister of state, whose administrative apparatus is the Public Enterprise Office. That minister has visibility, but no real base from which to affect policy. When the present ambiguous triangular relationship between the public sector holding companies, the MPE and the MoI becomes clarified and solidified, it may be the case that the MPE assumes greater importance by virtue of more control and influence over those holding companies. In the meantime, however, the formerly powerful MoI has been weakened, while the MPE has yet to establish a clear role.

The MPWWR has always been subordinate in status and power to the MALR, although the former traditionally seeks to guard its autonomy from the latter. The MoS role has been declining in lock step with the reduction in consumer subsidies. That ministry has a reputation of harboring particularly corrupt, entrenched administrative and enforcement staffs, which in turn makes the minister vulnerable both to those staffs and to problems arising because of their activities. A reformer in that portfolio, which is the case at present, has a double-edged sword to wield. While the ministry affords him considerable opportunities to impact on a wide range of food security issues, he has to be careful lest that ministry's staff be the cause of his own demise.

The minister of agriculture, both because of his portfolio and his unique political role within the cabinet, is thus by far the most influential minister within whose domain APRP falls. He has more capacity to push to achieve the goals outlined in APRP than other ministers. The question is, will he fully employ that capacity for that purpose?

There is little doubt that to date, the minister has been a vigorous champion of reform of the agricultural sector. He has steadfastly urged upon his cabinet colleagues, and in public fora of various sorts, the need to raise producer prices and thus stimulate agricultural production. He has supported other elements of the reform program in varying degrees. However, support for higher prices for producers has long been an obligation of those occupying the agriculture portfolio. The adversarial relationship over commodity prices between the ministry of agriculture, on the one hand, and the ministries of supply and industry, on the other, has been a standard of cabinet politics since the Nasser era. In the early stages of reform, higher producer prices were central and the minister's support for their increase was vital to the success of the reform program.

Now, however, the reform process is on the verge of broadening and deepening. The objectives of APRP are more ambitious than those of APCP. It is not higher prices for commodities that are being sought—it is market prices. When shadow prices were far higher than those paid to Egyptian producers, it was easy for the MALR to advocate price rises. It would not be so easy to preside over falling prices, and justify them as the proper workings of the market mechanism. In that situation the minister might chose to support floor prices in excess of shadow prices. Other conflicts that will test the traditional advocacy role for farmers of the minister of agriculture are likely to arise, including conflict between private sector processors and exporters, on the one hand, and producers on the other.

In sum, the "easy" stage of reform has come to an end. Championing reform will be a more difficult, complex task for any minister of agriculture in the future. Championing reform may conflict with the traditional obligation of speaking on behalf of producers. The likely consequence of this growing complexity will be to neutralize somewhat the formerly key role played by the minister of agriculture. As reform becomes more complex, so will the politics surrounding it. The minister of agriculture will have to listen to more voices and respond to more conflicting demands. In this circumstance it would seem advisable when structuring APRP to share with other ministries some of the load that was carried by the minster of agriculture for APCP.

The third stratum is comprised of the ruling National Democratic Party and the Parliament. Both serve more as sounding boards for policies emanating from the inner elite and the cabinet than they do as policy makers or articulators of political demands. On occasions when the chairperson of the Agricultural Committee of the People's Assembly has belonged to a faction opposed to that of the minister of agriculture, this chairperson has been able to exercise a partial veto over policy initiatives. At present, however, this is not the case and the committee is primarily a forum for the government to announce its policy and hear responses to it. Both the Party and the Parliament provide opportunities to the executive (and conceivably to those involved with APRP) to explain policy reforms to a broader audience. Since in the past, these organizations have played so small a role in formulating policy, including them in decision making in APRP would be innovative and possibly provocative.

The fourth stratum is comprised of institutional and organizational "interest groups." Because centralized decision-making systems do not foster voluntarism, most such groups are institutional in nature, rather than comprised of voluntary members. Examples of the former that have relevance to the agricultural sector are the Horticultural Exporters Association, the Federation of Industries, the General Confederation of Trade Unions, and the Export Development Bank. Examples of organizational interest groups include the Egyptian Businessmen's Association and the American-Egyptian Chamber of Commerce.

The comparative weakness of private voluntary associations and their non-governmental character are significant obstacles to

94

including them in donor-supported reform programs. Such obstacles do not impede the establishment of formal relationships with relevant quasi-governmental institutions. They are capable of playing roles in reform programs, both within their institutional capacity and as linkages between decision makers and various constituencies. The Export Development Bank, for example, has an official responsibility for promoting exports through the provision of credit and market information to clients. It also plays a role in developing linkages between exporters, linkages which over time may contribute to the emergence of a more important "exporters lobby." Thus the inclusion of such institutions within donor-backed reform programs may simultaneously enhance their institutional capacities and stimulate the development of linkages to and within reform-oriented constituencies.

Implications. In designing APRP institutional arrangements, therefore, there are several major implications stemming from Egypt's political and administrative context, including the need to:

- Retain the support of the MALR and its minister;
- Diversify and deepen cabinet and subcabinet support for reform;
- Foster linkages between individual and institutional proponents of reform;
- Find an appropriate role for reform-supporting, quasi-governmental institutions;
- Pursue reform at the microeconomic level and on a case-by-case basis;
- Test the willingness of private sector influentials to become more involved.

VII. Summary: Climate for Economic Reform and Inter-relationships among Key Decision-makers

Rapid, across the board structural adjustment, including privatization, is unlikely to be undertaken by the GOE in the immediate future. Successful economic stabilization measures have provided a cushion which obviates the need for dramatic policy change and which will probably be distributed through wages and social spending to prevent social unrest. Donor leverage, already considerably reduced, will be further eroded when the final tranche of the 1991 Paris Club agreement is released.

Domestic and foreign policy issues also are likely to continue to hinder the structural adjustment process. The absence of effective, representative policy making institutions deprives the GOE of legitimacy required to take and implement difficult, unpopular decisions. More taxation stimulates demands for

95

greater representation, demands to which the GOE has yet to adequately respond. The rapidly evolving regional political environment presents a major foreign policy challenge to Egypt. That challenge will consume much of the time and energy of high level decision makers who, because of the economic cushion, will in any case be less disposed to devote energies to domestic economic policy issues. Thus, what progress is made in structural adjustment is likely to be incremental, driven less by top down macro policy changes than by bottom up, sector specific innovations that do not entail major political risks and which take the form more of pilot projects than decisive policy shifts. In this environment, privatization is better viewed as a continuum rather than as a discrete category juxtaposed to public ownership. Operating within the context of a political economy which is not highly conducive to further structural adjustment, APRP will need to have the capacity to identify and respond to opportunities for sectoral specific innovations.

APRP will also be operating within the framework of inter-ministerial relations, the most relevant of which are those between the ministers of agriculture, supply, public enterprises, and public works. The former two ministers have a long established working relationship that is reinforced by the nature of their ministries, by the way in which the minister of supply has defined the interests of his ministry's constituency, by the channels through which both were recruited into the cabinet, and by their personal styles. The minister of public enterprise does not have an established working relationship with these other ministers. Aspects of his portfolio, as well as his background, suggest that it is unlikely that a relationship similar to that which exists between the ministers of agriculture and supply will develop. The ministry of public works is a junior portfolio and its occupant is a cabinet newcomer, so he is subordinate to the other three ministers.

The apex of the APRP organizational structure needs to recognize the superior formal position of the minister of agriculture and take advantage of his informal power position, as well as capitalizing on the working relationship between the ministers of agriculture and supply. This suggests that the core of any interministerial committee, whether permanent or ad hoc, should consist of these two ministers. This arrangement probably does not need to be structured formally because it will probably be operative in any case and also because if it were formalized, it might have deleterious consequences for the participation of the minister of public enterprises and minister of public works. An ad hoc ministerial committee, chaired by the minister of agriculture and including the other three ministers on an as needed basis appears to offer the best possibilities for successful program development.

The People's Assembly presently lacks the autonomy and the capacity to make a significant contribution to economic policy reform. It can, however, serve as a megaphone for the executive branch, which may wish to trumpet certain reforms through it, seeking thereby to gain further support. The executive could also allow the Assembly to attack economic reform measures if for some reason, such as a deterioration in bilateral relations with the U.S., it deemed such an attack to be useful, but did not want to mount it directly itself.

The 1995 parliamentary elections, combined with USAID's Decision Support Services Project, will have an impact on the autonomy and capacity of the Assembly. That impact will first be felt in 1996 as the new parliament begins to establish its procedures of work and priorities. While it is unlikely that the Assembly will assume a major responsibility for making public policy, it is possible that it will become much more vociferous in commenting on it and seeking to shape it at the margins. Such increased activity could contribute to or impede further economic policy reform, depending in part on the composition of the Assembly, and in part on the GOE's strategy at that time.

The highly centralized nature of labor unions tends both to disguise their internal weaknesses and to contribute to them. Weaknesses are due to the heterogeneous composition of unions, to the cooptation of union leadership, to the aging nature of the public sector work force, and to the increasing attractiveness of private sector employment. Centralization of the union structure renders it difficult for federations and local organizations to negotiate over specific issues that affect their memberships. Because of its paradoxically centralized, yet fragmented nature, and the fact that those controlling it respond more to the wishes of white as opposed to blue collar members, the Confederation of Trade Unions is unlikely to be able successfully to negotiate policy reforms that would expedite privatization. Therefore, the approach to labor by APRP, were there to be one, should be focussed at the lower level of union organization and take the form of specific, small scale proposals rather than wide ranging policy changes. This approach should maximize the role of blue collar workers in negotiations, whose prospects for employment in the private sector are much better than those for white collar workers.

In sum, the political economic context in which APRP will operate, and its objectives, suggest that its focus and structure should differ from those of APCP. Macro structural adjustment resulting from broadly based policy reform is unlikely, so progress needs to be sought in micro-level, sector specific innovations. This approach is much more likely to appeal to the ministers concerned, who will not have the authority to make major policy reforms but will be able to undertake more limited

97

initiatives. It is also less likely to encounter opposition from the centralized, but increasingly ineffective union organization. It could also avoid potential problems with an activated People's Assembly.

Annex D

MEDIUM-TERM POLICY OBJECTIVES

Summary Matrix of Key Policy Areas, Long-Term Goals, Projected End-of-Program Status and Concerned Ministries

Policy Area	Long-Term Goals	Projected End-of-Program Status	Concerned Ministries
A. Prices, Markets and Marketing Institutions	1. Incentives to farmers consistent with market valuations.	1.1 Domestic prices appropriately linked to international prices. 1.2 Real exchange rates maintained at levels that encourage exports. 1.3 Reduced levels of industrial trade protection. 1.4 Elimination of tariffs and quantitative restrictions on imported inputs.	MALR, MOE, MOI
	2. Farmers free to respond to relative price signals and market demands.	2.1 Elimination of all crop area controls.	MALR
	3. Liberalized domestic and export marketing.	3.1 Elimination of quotas and other restrictions on imports. 3.2 Elimination of unnecessary phyto-sanitary requirements.	MALR, MOS
	4. Cost-effective government interventions to reduce variability in agricultural prices and producers incomes.	4.1 Government interventions limited to low-cost stabilization measures. 4.2 Public and private sector capability to trade in futures and options contracts for traded commodities.	MALR
	5. Market information that is credible, timely and equally accessible to all market participants.	5.1 Operating system for reporting and disseminating price information. 5.2 Regular and timely outlook reports for all major commodities published and widely distributed.	MALR
	6. Enforcement of effective competition and product quality regulations in input supply, processing, marketing and trading industries.	6.1 Passage of anti-monopoly laws and creation of enforcement system. 6.2 A system of transparent sanitary and quality standards uniformly and impartially enforced.	MALR, MOI, MOS
B. Investment and Efficiency in Processing, Marketing, and Exporting Industries	1. Growth in value-added and employment in input-supply, processing, marketing and distribution.	1.1 Increased private-sector investment in agro-industry and distribution.	MOI, MOS

Policy Area	Long-Term Goals	Projected End-of-Program Status	Concerned Ministries
	2. Increased efficiency of state-owned enterprises operating in agro-industries.	2.1 Restructured state-owned enterprises operating on a commercial basis. 2.2 Privatization of financially-viable state-owned enterprises.	MPE, MOI
	3. Reform of MALR to focus on supporting services for agriculture and agribusiness.	3.1 Privatization of commercially-viable activities. 3.2 Staff reductions. 3.3 Enhanced capacity to deliver information, advisory and regulatory services.	MALR
C. **Public Investment, Land and Water Resource Utilization and Sustainable Agriculture**	1. Increase productivity of investments in land reclamation.	1.1 Farmers on new lands producing high-valued crops with efficient use of scarce water resources. 1.2 New land development limited to economically feasible projects with private investors paying user costs for public infrastructure.	MPWWR, MALR
	2. Improve water use efficiency in crop production.	2.1 A cost-recovery system for water that encourages farmers to use it economically in the production of the most profitable crops.	MPWWR, MALR
	3. Enhance long-term sustainability of intensive irrigated agricultural production.	3.1 Reductions in salinity, water-logging, and deterioration in land and water quality.	MPWWR, MALR
	4. Achieve adequate public funding for research and extension activities justified by high rates of social returns.	4.1 Stable public funding for a research and extension system responsive to producers' needs and national priorities.	MALR
D. **Food Security for Low-Income Rural/Urban Households and Alleviation of Rural Poverty**	1. Elimination of untargeted food subsidies.	1.1 Untargeted subsidies terminated.	MOS, MOE
	2. Creation of targeted food subsidies that benefit rural and urban households in extreme poverty.	2.1 Lowest 50 percent of households below poverty line benefitting from targeted food assistance.	
	3. Improved distribution of rural income.	3.1 New land tenure policies implemented. 3.2 Progressive rural taxes implemented. 3.3 Higher productivity and real wages for farm and rural workers.	MALR

Annex E

POTENTIAL POLICY CONDITIONS FOR 1996/97

I. MARKETING AND PRICING

A. Cotton

1. Verify that the liberalization measures agreed to in the 1995/96 Matrix continue to be enforced.
2. Introduce on-farm demonstration trials for recommended short-season cotton varieties into the cropping pattern for Upper Egypt in 1997.
3. Eliminate the tariff on cotton yarn imports by July 1997.
4. Abolish the prohibition on cotton fabric imports by July 1997.

B. Fertilizer

1. Continue to implement liberalization measures.
2. Monitor private trade in fertilizer to ensure adequate competition.

C. Rice

Implement the first phase of the plan to rationalize water charges for rice by July 1997.

D. Cropping Pattern Controls

1. Continue to reduce GOE restrictions on the cropping pattern, except those justified by technical considerations.
2. Improve technical extension coordination between MPWWR and MALR regarding on-farm water management practices. Conduct an Institutional Analysis by December 31, 1996 and develop a plan for institutional coordination by July 1997.

102

E. Tariffs and Trade

Reduce the tariff on 40-85 HP tractor imports from 20 percent to zero by July 1997.

F. Feed

Implement Phase I of the market liberalization measures recommended in the 1995/96 study, by July 1997.

II. INVESTMENT AND PRIVATIZATION:

A. Cotton

1. Verify that the five profitable cotton spinning mills had been privatized by July 1997.
2. Privatize two of the 10 intermediate spinning companies identified in the plan for privatization by July 1997.
3. Provide an interim evaluation of progress toward liquidating the 13 least profitable cotton spinning mills by July 1997.

B. Fertilizer

1. Privatize the second fertilizer plat by July 1997.
2. Conduct a study to assess the impact of privatization of the most profitable fertilizer plant on costs, prices, and marketing efficiency by December 1996.

C. Wheat

Privatize one public sector flour mill by July 1997.

D. Rice

1. Privatize the second rice mill by July 1997.
2. Conduct a study to assess the impact of privatization on prices, marketing and exports.

E. PBDAC

1. Verify that PBDAC distributes only fertilizer required to meet emergency needs in Upper Egypt.

2. Reduce redundant employees by a total of 9000 by July 1997.

3. Implement Phase II of the management restructuring plan.

4. Sell or lease the remaining warehouses to the private sector by December 31, 1996, except those justified for banking purposes.

5. Implement Phase II of the five-year strategic Bank Development Plan by July 1997.

F. Seed

1. Privatize all remaining seed processing plants, except those required to produce foundation seed, by December 31, 1996.

2. Execute the plan to privatize cottonseed delinting capacity.

G. Feed

Execute Phase I of the plan to privatize the feed industry.

H. Cooperatives

Verify that enabling legislation has been passed by the People's Assembly.

III. EFFICIENCY OF PUBLIC INVESTMENT AND SUSTAINABLE AGRICULTURE

A. Land

1. Begin investment activities to intensify marketing, research and extension, credit, and on-farm water technology on 50,000 more feddans of "old" new lands.

2. Verify that investment funds are being shifted from "new" projects to intensifying investment on "old" lands.

3. Develop draft legislation to implement new policy measures recommended by the Land Tenure Policy Study by July 1997.

B. Sustainable Agriculture

1. Implement Phase I of the water cost recovery plan by December 1996 (mesqa costs).

2. Develop Phase II which will take steps to improve water use efficiency by charging for water at the secondary canal level for water in excess of 5000 cum/FED.

3. Implement Phase I of the plan to reduce salinity, waterlogging, and water quality determination, by July 1997.

C. Investment in Research, Extension, Market Information Services, and Regulatory Services

1. Execute Phase II of Institutional Reforms recommended for the research and extension services, by July 1997.

2. Execute Phase II of the Market Information System, by July 1997.

3. Remove 1/3 of the unwarranted phyto-sanitary controls on imports of agricultural raw materials and inputs identified by the Plan, by July 1997.

4. Conduct a comprehensive review of the food product regulatory system and develop a plan for reforming the system as required under the liberal, free-market system.

IV. NATIONAL SUBSIDY, TAX, AND FOOD SECURITY POLICIES

A. Subsidies

1. Verify that general consumer subsidies on food have been eliminated.

105

2. Continue to monitor the impact of economic restructuring on the welfare of the poorest households.

3. Monitor performance of the safety-net food security program.

B. Taxes

Address the highest priority recommendations of the National Agricultural Tax Study by July 1997.

C. Food Security

Execute the highest priority recommendations of the plan for improving food security by July 1997.

D. Environmental Impacts of Policy Reform

Develop a national plan for improving water quality, reducing land degradation, and reducing pollution arising from agribusiness.

POTENTIAL POLICY CONDITIONS FOR 1997/98

I. MARKETING AND PRICING

A. Cotton

1. Verify continued implementation of liberalization measures.

2. Recommend additional short-season varieties to farmers in Upper Egypt for the 1998 crop. Expand the varieties to the Delta.

3. Monitor the effect on imports of reduced phyto-sanitary controls and make corrections as warranted.

B. Fertilizer

1. Continue to implement liberalization measures.

2. Monitor fertilizer prices and trade to insure adequate competition.

C. Rice

Implement Phase II of the plan to rationalize water charges for rice by July 1998.

D. Cropping Pattern Controls

1. Continue to reduce restrictions.

2. Monitor coordination between MALR and MPWWR regarding on-farm irrigation technology.

3. Implement Phase I of the Plan of Institutional Coordination in Water Issues, by July 1998.

E. Tariffs and Trade

1. Monitor meat and frozen poultry imports, tariffs and restrictions.

107

2. Monitor machinery impacts, tariffs and other restrictions.

F. Feed

Implement Phase II of the market liberalization recommendations of the 1995/96 study by July 1998.

II. INVESTMENT AND PRIVATIZATION

A. Cotton

1. Verify that two of the 10 intermediate spinning companies had been privatized by July 1997. Privatize three additional enterprises by July 1998.

2. Liquidate the remaining enterprises of the least profitable thirteen, by July 1998.

B. Fertilizer

1. Privatize two additional fertilizer plants by July 1998.

2. Adjust the privatization plan according to the 1996 study results and the impact of privatization on farm costs.

C. Wheat

Privatize two additional public sector flour mills by July 1998.

D. Rice

Privatize three additional rice mills by July 1998.

E. PBDAC

1. Reduce redundant employees by a total of 12,000 employees, by July 1998.

2. Implement the final Phase of the management and organizational restructuring plan by July 1998.

3. Implement Phase III of the five-year Strategic Bank Development Plan by July 1998.

F. Feed

Execute Phase II of the plan to privatize the feed industry.

III. EFFICIENCY OF PUBLIC INVESTMENT AND SUSTAINABLE AGRICULTURE

A. Land

1. Invest in intensifying marketing, research and extension, credit and on-farm water technology on 50,000 more feddans of "old" new lands bringing the total affected area to 110,000 feddans by July 1998.

2. Implement new land tenure legislation by July 1998.

B. Sustainable Agriculture

1. Implement Phase II of the Water Cost Recovery and Allocation Plan.

2. Execute Phase II of the National Plan for Improving Water quality, reducing land degradation, and reducing pollution arising from agribusiness, by July 1998.

C. Investment in Research, Extension, Market Information Services and Regulatory Services

1. Execute Phase II of reforms for research and extension institutions.

2. Execute Phase II of the Market Information System.

3. Monitor the impact of phyto-sanitary controls on farmers and consumers.

4. Implement Phase I of the Plan for reforming regulatory services by July 1998.

IV. NATIONAL SUBSIDY, TAX, AND FOOD SECURITY POLICIES

A. Subsidies

1. Execute Phase II of the Safety Net Program.

2. Continue to monitor the impact of economic policy reform on the welfare of the poor.

B. Taxes

Address the remaining recommendations of the National Agricultural Tax Study by July 1998.

C. Food Security

Execute the next highest priority recommendations of the National Plan for improving food security, by July 1998.

POTENTIAL POLICY CONDITIONS FOR 1998/99

I. MARKETING AND PRICING

A. Cotton

1. Verify continued implementation of liberalization measures.
2. Monitor the adoption and economic impact of short-season cotton varieties.
3. Monitor phyto-sanitary controls on imports.

B. Fertilizer

1. Continue to implement liberalization measures.
2. Monitor fertilizer prices and market performance.

C. Rice

Monitor the performance of water pricing measures vis-a-vis rice costs and returns.

D. Cropping Pattern Controls

Implement Phase II of the plan for improved coordination between MALR and MPWWR on water issues.

E. Tariffs and Trade

Identify and correct any remaining distortions in the tariff regime for agricultural inputs and crops.

F. Feed

Monitor market performance in the feed industry.

II. INVESTMENT AND PRIVATIZATION

A. Cotton

\\\

1. Verify that five intermediate spinning mills had been privatized by July 1998.

2. Privatize the remaining five intermediate spinning mills by July 1999.

3. Verify that all of the least profitable spinning mills had been liquidated by July 1998.

B. Fertilizer

1. Privatize the remaining fertilizer plants (3) by July 1999.

2. Monitor competitive conditions in the fertilizer industry.

C. Wheat

Privatize the remaining public sector flour mills by July 1999.

D. Rice

Privatize three additional rice mills by July 1999.

E. PBDAC

1. Implement Phase IV of the five-year Strategic Bank Development Plan by July 1999.

2. Monitor PBDAC's financial performance and make recommendations as appropriate.

F. Feed

Monitor performance of the feed industry and make recommendations as appropriate.

III. EFFICIENCY OF PUBLIC INVESTMENT AND SUSTAINABLE AGRICULTURE

A. Land

1. Invest in intensifying marketing, research and extension, credit and on-farm water technology on

50,000 more feddans of "old" new lands, bringing the total affected area to 160,000 feddans, by July 1999.

2. Monitor the impact of new land tenure legislation on production efficiency, income, and equity.

B. Sustainable Agriculture

1. Implement Phase III of the Water Cost Recovery program.

2. Monitor the performance of the Water Allocation Plan.

3. Execute Phase III of the national plan for improving water quality, reducing land degradation, and reducing pollution.

C. Investment in Research, Extension, Market Information Services and Regulatory Services

1. Implement Phase II of the plan for reforming regulatory services by July 1999.

2. Monitor the performance of reformed institutions and recommend corrections as warranted.

IV. NATIONAL SUBSIDY, TAX, AND FOOD SECURITY POLICIES

A. Subsidies

1. Execute Phase III of the Safety-net Program and monitor the cost and benefits of the program.

2. Continue to monitor the impact of liberalization and privatization of agriculture on the poor.

B. Taxes

Monitor the impact of the newly rationalized tax policies on agricultural income, production, and productivity.

C. Food Security

1. Execute remaining recommendations in the national plan for improving food security.

2. Monitor the impact of food security measures on agricultural income, production, and productivity.

AGRICULTURAL PRODUCTION AND CREDIT PROJECT (APCP)

SEVENTH TRANCHE BENCHMARKS

1. Following the ratification of the three Presidential cotton decrees and the relevant Ministerial decrees, the further liberalization of the production, marketing, ginning, and trade of cotton beginning with the planting season in CY 1994 will be implemented, as follows:

   a. Cotton producers are allowed to freely choose cotton area planted and to sell their cotton and by-products (except seed for planting) to any registered buyers without restrictions in transporting, ginning, and trading.

   b. Eligible private entities are allowed to register as domestic dealers, exporters, and importers. They are allowed to engage freely in domestic and international trade of cotton. They are allowed to freely trade cotton and by-products, and gin their cotton on equal terms with public enterprises, allowing for quantity discounts.

   c. Mina El Bassal cotton spot market is reopened and functioning as a privately managed spot market with its facilities available to all cotton dealers, exporters, importers and brokers, whether public or private, on equal terms.

   d. The floor price for cotton cultivated in CY 1994 is set so as to: (i) provide protection for the cotton growers against severe price declines; and, (ii) not interfere with the private sector's participation in cotton domestic marketing, exports and ginning.

   e. Cotton price controls, including export prices and prices to mills, and all allocation systems currently in use (e.g., lint allocation to spinning mills and seed cotton allocation to gins) are abolished beginning with the cotton planted in CY 1994.

   f. By the end of March 1995, all non-phytosanitary restrictions on imports of cotton will be eliminated.

115

2. By the end of March 1995:

   a. Eligible private entities will have begun to domestically market, gin, export, and import cotton.

   b. No GOE market restrictions will constrain private entities' involvement in cotton domestic marketing, ginning, exporting and importing.

3. By the end of March 1995, a phased comprehensive plan to liberalize and privatize the cotton ginning subsector will be developed and actions initiated (conforming to the medium- and long-term recommendations contained in the annexed **Cotton Liberalization Implementation Plan**), and will include at least:

   a. Public ginning and trading companies must compete for market shares among themselves and with the private sector. Cotton gins will offer custom ginning services to all parties on equal terms, allowing for quantity discounts. Cotton ginning charges will be determined on a competitive basis.

   b. In order to encourage private sector participation in cotton ginning, at least 25 percent of the publicly owned ginning stands will be offered for sale or lease to the private sector, based on accepted valuation techniques.

4. Other cotton market recommendations are implemented as follows:

   a. By the end of CY 1994, a study will be completed which analyzes the economic and technical feasibility of introducing new types of short-season cotton varieties.

   b. All cotton pest control direct subsidies will be eliminated starting with the cotton crop cultivated in CY 1994.

   c. The GOE will continue to supervise the cotton pest control program. By the end of CY 1994, an announcement will be made to:

      (i) allow cotton growers to choose among MALR approved cotton pest control practices; and,

      (ii) permit the private sector to provide MALR approved pest control services directly to the farmers.

5. By the end of CY 1994, an inventory of all GOE restrictions and requirements on cropping patterns and production practices will be developed. The rationale behind the technical limitations will be precisely defined.

6. By the end of March 1995, the following fertilizer policy-related measures will be implemented:

   a. Verify that ex-factory prices are competitively determined among the six domestic fertilizer companies.

   b. Verify that all budget subsidies on fertilizer have been eliminated.

   c. All non-tariff restrictions on private sector imports and marketing of fertilizer will be eliminated. The MALR will study and analyze the 30 percent import tariff on imported fertilizers and will develop recommendations for reducing the tariff if warranted. The MALR will use the study results to negotiate with the Ministry of Finance (MOF) to reduce the tariff.

   d. A study of fertilizer production will be conducted and a plan will be established to liberalize and privatize fertilizer production. The study will also examine and recommend measures for adjustments to the current fertilizer pricing and tariff structure.

7. By the end of March 1995, the MALR will adjust marketing policies for farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector using the following guidelines:

   a. Private sector dealers will be permitted to trade and transport all farm inputs including cottonseed cake (except cotton seed for planting). Licensing procedures for private sector agricultural input dealers will be simplified and made less restrictive in the following manner:

      (i) Remove the requirement that the executive manager of an agri-input business must be a member of the Agriculturalists' Syndicate.

      (ii) Combine the three dealer licensing committees of the MALR (seed, pesticides, and fertilizer). Grant full authority and approval procedures to the governorate level to issue licenses to agri-input dealers.

(iii) Separate the licensing of fertilizer storage from the licensing for fertilizer sales.

b. All fertilizer dealers (PBDAC, cooperatives, and other private dealers) will have access on competitive terms to locally produced fertilizers.

c. During July-December 1994, PBDAC's share of fertilizer distributed to farmers will not exceed 20 percent of total fertilizer sales to farmers during the same period.

8. FY 1993/94 budget interest subsidies on agricultural loans will not exceed the level of LE 40 million.

9. In 1990, PBDAC, under the leadership of Minister Wally, took a courageous first step toward radically transforming its role in support of Egypt's agriculture and rural economy. That step was to begin to divest itself of its huge agricultural inputs distribution business in order that the private sector might assume this function. This important reform, now approaching completion, was accompanied by a conversion from in-kind to cash lending for farm production loans as well as by a substantial reduction in credit subsidies to PBDAC borrowers. These reforms have contributed to a more market driven and private sector oriented agricultural economy. However, the loss of revenues due to divestiture of agricultural inputs distribution, continuing high operating costs, and marketing and providing an array of financial services in a competitive environment represent important challenges to which PBDAC must respond.

In recognition of the challenges facing it and the need to adjust to a changing environment, in October 1993, PBDAC adopted a new mission statement: to provide a nationwide, long-term flow of development supporting financial services to Egypt's rural people and agricultural sector. Now, in order to successfully carry out this new mission, PBDAC commits itself to adopt the following measures:

a. Measures to restructure and refocus PBDAC in support of its new mission statement.

(i) The October 1993 PBDAC mission statement appears to be completely adequate to define the new policy

118

directions in which PBDAC should move to become a financially viable rural development bank. To implement the new mission, PBDAC, by the end of March 1995, will adopt policies and take initial steps to broaden the Bank's lending operations to provide credit to any creditworthy enterprise in the rural areas of the country. This would involve:

(a) elimination of loan targeting and its associated list of eligible purposes for loans; and,

(b) further decentralization of lending authority to the village bank, branch, and governorate levels.

(ii) By the end of March 1995, PBDAC, assisted by a contracted team of organization and management experts, will carry out an objective and comprehensive study with the objectives of:

(a) improving and streamlining the Bank's administration, organization, operations, and management; and

(b) reviewing the current enabling legislation for PBDAC (Law 117) to see if changes are needed to allow PBDAC to broaden its lending operations as stated in item 9.a.(i) above.

(iii) By the end of September 1994, PBDAC and USAID will jointly review the Financial Assessment completed in June 1994, and PBDAC will determine whether its current financial management practices and related business policies are advantageous to the Bank and are in accordance with standard bank accounting and financial practices. By the end of March 1995, PBDAC will initiate measures to implement the study's recommendations which are approved by PBDAC.

(iv) Based in part on the studies described in 9.a.(ii) and 9.a.(iii) above, PBDAC will finalize by May 31, 1995 a Strategic Bank Development Plan to set forth specific goals and targets in concert with the Bank's new mission statement. The plan will establish time targets for implementation together with resource requirements. The plan will address, but not be limited to, the areas mentioned above in 9.a.(i), 9.a.(ii) and 9.a.(iii).

(v) By the end of March 1995, PBDAC will:

(a) submit a phased plan for privatizing its pest control services unit; and,

(b) liquidate its owned stocks of machinery, spare parts, jute bags, and all other agricultural inputs as detailed in the Tranche VII Monitoring Plan.

b. Measures to increase deposits: By the end of FY 1993/94, PBDAC increased its deposit base by over 20 percent compared to the FY 1992/93 level. By the end of March 1995, PBDAC will review its savings interest rates to maintain them at competitive rates compared to the commercial banks and will take the measures necessary to continue to increase its deposit base. By the end of March 1995, PBDAC will increase its deposit base by at least 11 percent over the FY 1993/94 level.

c. Measures to reduce costs and improve employee performance.

(i) PBDAC will adopt a unit profit-based incentive performance system. This new system will be developed and implemented in phases. The first phase, to be completed by the end of March 1995, will consist of the design and installation for testing of the system in a pilot governorate bank and selected village and branch banks within that governorate. Adjustment of the accounting system, where necessary, will be part of the design phase of the performance system. The accounting system will provide all necessary data, including cost of funds supplied from higher levels of the Bank, for the bank managers at the village bank, branch and governorate levels. These data will provide the bank managers reasonably accurate profit and loss positions of their bank operations on a monthly basis. Later phases for expansion will be dependent upon the success of the first phase.

(ii) PBDAC will continue to implement the phased redundancy plan prepared in 1993 under Tranche VI. Normal attrition, release of contractual and seconded employees, early retirement, re-training and re-deployment in bank positions, and lending to former PBDAC employees to establish businesses will all be used as tools to accomplish the reduction in force. The short-term target is to reduce the number of redundant employees during the period July 1, 1992 through May 31, 1995 by at least 5,400 (of which 1,450 normal attrition, 1,250 contractual and seconded employees, and 2,700 early retirees) provided that necessary funds are available.

However, by March 31, 1995, PBDAC will analyze and amend the phased redundancy plan to take into account:

(a) cost effectiveness of early retirement,

(b) time required to implement the plan, and

(c) legal actions necessary for completing the reduction in force.

New hiring will be limited, on an exceptional basis, to shortage areas such as management information systems (MIS) and accountancy.

(iii) PBDAC will continue to implement its preliminary plan to dispose of (sell or otherwise release) its storage facilities. By the end of December 1994, PBDAC will submit a final phased plan for the disposal of its storage facilities except those justified for bank lending operations. By the end of December 1994, PBDAC will dispose of at least 1.15 million square meters of its storage facilities.

10. By the end of March 1995, the MALR will have made progress in implementation of reform measures in seed production, processing and distribution/marketing, as follows:

a. Issue Ministerial decrees and ratify new national seed legislation which will:

(i) establish the seed policies for the support and regulation of seed production, marketing and trade by the private sector,

(ii) prescribe procedures and standards for seed certification and testing, and

\121

(iii) establish a schedule of fees for licensing of seed merchants, field inspection and seed testing to cover the cost of the regulatory and support services provided by Central Administration for Seeds (CAS).

b. Complete CAS restructuring and reorganization into:

(i) a Central Administration for Seed Certification (CASC) with responsibility for all seed quality control and regulatory activities, industry support services, and seed related information/data, and

(ii) an interim (3-5 year) General Department for Seed Production (GDSP) with responsibility for production and conditioning of seeds not taken up by the private or cooperative sectors. The CASC and GDSP will be separate and distinct administratively and fiscally.

c. Sell, lease or put under private or private-like management at least two of the total of eleven CASC or GDSP seed processing plants. CASC or GDSP will provide custom hire services to the private and cooperative sectors on a market determined basis.

d. To enable the private sector to increase its participation in the production of certified seeds, commercially produced wheat, rice, and faba bean seeds distributed from CASC or GDSP plants will be priced at twice the market price for grain effective with the 1995/96 crop season. As a step towards achieving this goal, the price of commercially produced wheat, rice, and faba bean seed will be increased by at least 15 percent effective with the 1994/95 crop season for the new varieties registered in CY 1994.

e. PBDAC will distribute a maximum of 70 percent of the above mentioned commercially produced seeds, leaving 30 percent for the private sector.

11. By the end of March 1995, the GOE will eliminate the ban on red meat and poultry imports. Remedies to protect domestic producers against unfair trade practices may be pursued selectively in accordance with rules set forth in the GATT.

\2\

12. By the end of March 1995, a study will be conducted in collaboration with MALR to ascertain the economic impact on farmers of the 40 percent tariff on imported 20-85 HP tractors. The study will develop recommendations for reducing the tariff if warranted. The MALR will use the study results to negotiate with the MOF to reduce the tariff.

FERTILIZER POLICY REFORM RECOMMENDATIONS

1. Public factories should introduce a system of seasonal price discounts (2.5% to 7.5%) to encourage stockholding by dealers and farmers.

2. Avoid development of excessive market power among fertilizer dealers during the transition from a public to private system. Limit total individual contract tonnage to 75,000 MT annually (or 15% of total tonnage, whichever is less) for a period of two years (1994-95). Discontinue the current practice of offering volume discounts (or establish antitrust regulations).

3. Remove the subsidy on potassium sulfate. MALR should determine and publicize guidelines for using potassium chloride as a substitute fertilizer.

4. Adopt the principle of applying actual freight costs to fertilizer shipments, rather than "pan-territorial pricing." Private sector fertilizer distributors will be given full responsibility for fertilizer transport within a period of four years.

5. Fertilizer dealer and pesticide licensing requirements should be modified to reduce their restrictive nature, which unnecessarily limits private sector entry into the marketing of fertilizers and pesticides.

6. Ammonium nitrate procedures should produce and distribute standardized safety precautions for transport and storage of ammonium nitrate.

7. The MALR should prepare comprehensive fertilizer registration and quality control legislation covering analysis, weights and measures, bag labeling, sampling authority, and prosecution mechanisms for offenders.

WID CONCERNS

There is little empirical analysis available on the impact of structural adjustment on women. Certain inferences can be drawn, when account is taken of differences in the way men and women allocate labor, receive income, and consume or utilize resources, goods and services. There are three important differences:

(1) Women, like men, engage in paid work or income earning activities. In addition, however, they are almost exclusively responsible for unpaid household production, nurturing, and reproduction which often constrains their employment opportunities and access to resources for income earning activities.

(2) Women's earned incomes are generally lower than men's and their employments are usually more at risk as economic conditions shift or deteriorate.

(3) Women are primarily responsible for managing household consumption and often need to use their own resources to provide for food, children's clothing, education and other services.

Structural adjustment measures have the most complex effects for women including rural women. Some of these effects are:

(1) Women tend to be relatively well represented in public sector employment compared to other sectors. Cutbacks in public expenditure under Agricultural Policy Reform measures may thus diminish women employment and earning opportunities disproportionately. Faced with limited opportunities in the formal sector, women may seek informal sector employment, as will men. However, women's withdrawal from formal employment is more likely to be permanent.

(2) To the extent that male incomes fall in the short term under agriculture policy reform measures, a fall in their transfer payment to women for household expenses is likely. However, if male incomes rise, a rise in transfer payments to women does not necessarily follow. Thus increases in male incomes in agricultural production may not be available to women in their role as consumption managers for the household.

(3) As food prices rise, pregnant and nursing low-income rural women will decrease their food intake and the quality of their diet. Their health and that of their children will be damaged directly as well as indirectly through reduction of

their time and energy to devote to health and other care in the household.

(4) As a strategy for stretching budgets, women may purchase cheaper food items, which provide a lower quality nutrition or which require greater time for preparation, thus requiring a shift of time from income earning activities to unpaid labor in food preparation.

(5) As public expenditures on producer support services decline, and/or user fees are imposed, women as producers will be disproportionately affected because of the lag adjustment factor. Thus, women's already limited access to productive resources such as extension services and credit will further diminish.

(6) Girls' access to education, which is already limited, will decline further when government expenditures are cut under adjustment and when their labor is co-opted to replace lost household production time as their mothers, of necessity, shift into paid labor.

(7) The rise in food prices, which is promoted under agricultural policy reform programs, may not be sufficient to induce women to produce more food because women typically have severely limited access to agricultural extension, land and other inputs. They may thus be unable, even if willing, to respond to incentives for food production.

Annex I

INITIAL ENVIRONMENTAL EXAMINATION

UNITED STATES AGENCY for INTERNATIONAL DEVELOPM

USAID

CAIRO, EGYPT

THRESHOLD DECISION BASED ON
INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Egypt

Project Title/ID: Agricultural Policy Reform Program (263-K)

Funding (Fiscal Year and Amount): FY94 - FY98 $200 million

IEE Prepared By: Date:

Anne E. Patterson June 30, 1993

Anne E. Patterson
Environmental Advisor, NE/DR/ENR

Environmental Action Recommended: Negative Determination as pe
22 CFR 216.3(a)(2)(iii)

Associate Mission Director's Concurrence: Date:

John A. Foti 1 July 93

for Douglas Clark, AD/AGR

Decision of Environmental Coordinator, Bureau for the Near East: Approved: Gilbert S. Jackson

Date:

Clearances:

GWhaley, Mission Env. Officer	GRW	Date: 6/30
RErich, AGR/ACE	RE	Date: 6/30
PSullivan, LEG	PWS	Date: 6/30
KKerston, PDS/P	KK	Date: 6/30

INITIAL ENVIRONMENTAL EXAMINATION

1. Project Location: Egypt

2. Project Title/ID: Agricultural Policy Reform Program (263-K)

3. Funding (Fiscal Year and Amount): FY94 - FY98

4. IEE Prepared By: Date:

[signature] June 30th, 1993

Anne E. Patterson
Environmental Advisor, NE/DR/ENR

5. Action Recommended: Negative Determination as per 22 CFR 216.3(a)(2)(iii)

6. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

Background

The purpose of the Agricultural Policy Reform Program is to remove remaining policy barriers to private enterprise in agriculture, creating a liberal and competitive marketing system, and stimulating sustainable agricultural growth. The agenda of policy reform measures addresses four areas of concern: price and marketing policy; private investment; privatization; and subsidies. A total of $200 million in performance-based disbursements will be provided in FY94 - FY98. The Mission strategy is to stipulate that sector assistance dollars be used to repay U.S. Government debt in return for policy reform. The debt level, $156 million in 1994 and increasing to $187 million in 1997, is sufficient to absorb all dollars to be provided under this sector program.

One of the key areas where this program will encourage policy reform is the reduction of fertilizer and pesticide subsidies. Water supplies in Egypt are rapidly degrading, in large part due to the overuse and misuse of fertilizers and pesticides. Policy reform for these subsidies should have a beneficial impact on the environment. Although negative impacts have not been identified for any of the proposed activities of this program, there is always the possibility that alterations in agricultural practices could result in unforeseen negative effects on the environment. For this reason, the environmental status of the program will be reviewed periodically during implementation. Any required corrections in program strategy will be made on the basis of these findings.

Discussion

Pursuant to 22 CFR 216.3(a)(2)(iii), the originator of the propo program has reviewed the potential environmental impacts of the action summarized in the foregoing IEE, and has determined that subsidy reduction aspects of the proposed project, if implemente as described, will not have a significant negative impact on the environment, and in fact reduced use of fertilizers and pesticid would only have beneficial effects on the environment. To ensur compliance with A.I.D. environmental procedures, the effect of reduced pesticide and fertilizer subsidies will be monitored and documented. If a negative impact is identified in future, furth study will be done. The environmental status of the project wil be reviewed periodically during implementation by means of routi site visits by USAID/Cairo staff. Any required corrections in implementation will be made on the basis of these findings.

Pursuant to 22 CFR 216.3(a)(2)(iii), the originator of the propo project recommends a negative determination of significant environmental effect for the Agricultural Policy Reform Program, and requests NE Bureau approval of a negative threshold decision for these activities.

ENVIRONMENTAL IMPACT IDENTIFICATION AND EVALUATION FORM

ENVIRONMENTAL IMPACT INDICATOR AREAS/ENVIRONMENT CONSIDERATIONS*

A. **LAND USE**

1. Changing the character of the land through:	
a. Land clearing	N
b. Construction (roads, buildings, piping)	N
c. Extraction of minerals/natural resources	N
d. Creation of deposits of unwanted materials (waste spoils)	N
2. Alteration of natural barriers (dunes, marshes)	N
3. Foreclosing important future uses	N
4. Potential for endangering populated areas	N
5. Other factors:	
NONE	

B. **SURFACE AND GROUND WATER**

1. Effects on Quality	
a. Introduction of industrial pollutants	N
b. Introduction of agricultural pollutants	L
c. Introduction of urban/sewage wastes	N
d. Introduction of biomedical wastes	N
e. Potential for transnational impacts	N
2. Effects on Quantity	
a. Changes in water flow rates	N
b. Increasing probability of floods	N
c. Potential for changing demand/supply relation	N
d. Potential for transnational impacts	N
e. Potential for evaporation losses	N

C. **AIR**

1. Potential for increased NO_x, SO_x, HC, CO_2/CO emissions	N
2. Potential for increased particulate emissions	N
3. Potential increase of noxious odors, vapors, pathogens	N
4. Noise pollution	N
5. Other factors:	
NONE	

* N - No perceived environmental impact
L - Little environmental impact
M - Moderate environmental impact (substantiate)
H - High environmental impact (substantiate)
U - Unknown environmental impact

131

D. ENERGY

1. Potential for increased energy demand	N
2. Use of renewable energy sources	N
3. Plans for energy efficiency/conservation	N
4. Other factors:	
NONE	N

E. COASTAL AND MARINE RESOURCES

1. Introduction of biological/chemical pollution	N
2. Introduction of agricultural runoff	N
3. Mineral extractions	N
4. Impacts on fish/shellfish harvest	N
5. Potential for algal blooms	N
6. Potential for erosion (wind, sand, water)	N
7. Other factors:	
NONE	

F. BIOTA

1. Introduction of exotic/pathogenic organisms	N
2. Destruction/alteration of critical habitat	N
3. Potential for impact to endangered species	N

G. ANTIQUITIES PROTECTION

1. Potential for harm to historic sites	N
2. Increased access/use of historic sites	N

H. PESTICIDE USE (Required by 22 CFR 216)

1. Will pesticides be used?	N
a. Are they USEPA registered ?	NA
b. Are they "Restricted-Use," Canceled, or under "Special Review?"	NA
c. Are complete plans in place to train and fully protect applicators?	NA
2. Impacts on wildlife and aquatic organisms	NA

I. OTHER POSSIBLE IMPACTS (not listed previously)

1. _____
2. _____

Prepared by : Anne E. Patterson
Anne E. Patterson, NE/DR/ENR

Date: June 30, 1993

Project Location: Egypt
Project Title/ID: Agricultural Policy Reform Program (263-K)

132

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

RECORD OF CATEGORICAL EXCLUSION
FROM USAID ENVIRONMENTAL PROCEDURES

Project Location: Egypt

Project Title/ID: Technical Assistance For Agricultural Policy Reform Project (263-0219)

Funding (Fiscal Year and Amount): FY 94 - FY 98 $20,000,000

Prepared By: Date:

Elzadia Washington
Elzadia Washington
Mission Environmental Coordinator

Nov. 15, 1994
November 15, 1994

Environmental Action Recommended: Categorical Exclusion as per 22 CFR 216.2(c)(i), (iii) and (xiv)

Associate Mission Director's Concurrence: Date:

Robert E. Jordan
Associate Director, PDS

November 22, 1994

Decision of Environmental Coordinator, Bureau for Asia and the Near East:

Approved: Jeffery Goodson

Date: 5 Dec, 1994

Clearances:

SHassanein, PDS/ENV	Saif	Date: 11.17.94
RRhoda, OD/PDS/ENV	RR	Date: 11.17.94
RErich, AGR/ACE	RE	Date: 11.20.94
TGehr, PDS/PS	TG	Date: 11/21/94
FSullivan, LEG	FWS	Date: 11-22-94

133

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

RECORD OF CATEGORICAL EXCLUSION FROM USAID ENVIRONMENTAL PROCEDURES

1. Project Location: Egypt

2. Project Title/ID: Technical Assistance for Agricultural Policy Reform Project (263-0219)

3. Funding (Fiscal Year and Amount): FY 94 - FY 98 $20,000,000

4. IEE Prepared By: Date:

Elzadia Washington 11-22-94

Elzadia Washington
Mission Environmental Coordinator

5. Environmental Action Recommended: Categorical Exclusion as per 22 CFR 216.2(c)(i), (iii) and (xiv)

6. Discussion of Major Environmental Relationships of Project

Background: The overall purpose of the Agricultural Policy Reform Program is to remove the policy barriers to private enterprise in agriculture and to create a liberal, competitive marketing system. Program elements identified thus far are: (1) reform of price and marketing policy in cotton, sugarcane, livestock and fertilizer; (2) privatization of the processing, marketing and distribution of selected crops and inputs; (3) increased efficiency of public investment in research, land and water development; (4) removal of consumer subsidies on food and fiber; and (5) improvement of the sustainability of agricultural investment by dealing with environmental degradation and cost recovery issues.

The Technical Assistance for Agricultural Policy Reform Project component of the Agricultural Policy Reform Program will provide the needed technical assistance to conduct policy analysis, monitor progress, assist in implementation of privatization efforts, develop and monitor a "safety-net" program for people below the poverty line, and evaluate the socio-economic impact of the program. Over the life of the project, approximately $10 million in project assistance will be provided for this purpose. The technical experts, both expatriate and Egyptians, will be attached to ad hoc ministerial or inter-ministerial committees expressly created for this Program. These experts will also address environmental issues related to agricultural policy reform including water pollution arising from inappropriate use of pesticides and fertilizer, water logging and salinization related to excessive application or irrigation water, water pollution caused by industry and food contamination. Irrigation cost recovery, fertilizer price policy, and the environmental impact of market liberalization are policy issues being addressed that will impact directly on these crucial environmental concerns.

As policy reforms are accepted and implemented by the Government of Egypt (GOE), dollar disbursements (a total of $200 million) will be made to the Central Bank of Egypt through the Agricultural Policy Reform Program (263-K) component. The GOE will be required to use the dollar grants for the purchase of U.S. commodities and repayment of debt to the U.S. They will also be required to deposit the LE equivalent of the dollar grant into USAID's special account. These funds would then be used as financial incentives to GOE entities implementing the reforms.

The benefits of the technical assistance component of the Program will include thorough analyses and studies that will lead to the development and institutionalization of sound environmental policies with respect to land development and water use. Policy and socio-economic impact analyses will also lead to the removal of subsidies to public sector industries and selected agricultural inputs and food items; and the improvement in the sustainability of agricultural investments. All of which will ultimately lead to efficient use of natural resources.

Discussion:

In July 1993, the NE Bureau Environmental Coordinator approved a negative determination of significant environmental effect for the Agricultural Policy Reform Program as per 22 CFR 216.3 (a)(2)(iii) in July 1993.

Pursuant to 22 CFR 216.2(c)(i), (iii) and (xiv), the Technical Assistance for Agricultural Policy Reform Project is categorically excluded from further environmental review. Neither an initial environmental examination nor an environmental assessment is required for this action. The project will provide technical assistance, will conduct analyses and studies, and will develop the capability of Government of Egypt to engage in policy development planning in the agricultural sector. None of these activities will directly affect the environment and all are categorically excluded from further environmental review.

However, to ensure compliance with A.I.D. environmental procedures, the project will measure the environmental impact of proposed policy changes and make appropriate recommendation to remedy negative environmental effects. The environmental status of the project will be reviewed periodically during implementation by means of routine review of technical assistance reports and site visits by USAID and the GOE staff. Any required corrections in implementation will be made on the basis of these findings.

STATUTORY CHECKLISTS

ANNEX J -- STATUTORY CHECKLIST

5C(1) - COUNTRY CHECKLIST FOR EGYPT

Listed below are statutory criteria applicable to the eligibility of Egypt to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only. Answers are given in bold and are underscored.

A. **COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE**

1. **Narcotics Certification (FAA Sec. 490):** (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of nonagricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1995 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries, and programs identified in section 547 of that Act and other provisions of law that have similar notwithstanding authority.) If the recipient is a "major illicit drug producing country" (defined as a country in which during a year at least 1,000 hectares of illicit opium poppy is cultivated or harvested, or at least 1,000 hectares of illicit coca is cultivated or harvested, or at least 5,000 hectares of illicit cannabis is cultivated or harvested) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 30 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests

137

of the United States require the provision of such assistance? **Not applicable**.

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on March 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification. **Not applicable**.

2. **Indebtedness to U.S. Citizens (FAA Sec. 620(c):** If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? **No**.

3. **Seizure of U.S. Property (Foreign Relations Authorization Act, Fiscal Years 1994 and 1995, Sec. 527):** If assistance is to a government, has it (including any government agencies or instrumentalities) taken any action on or after January 1, 1956 which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without (during the period specified in subsection (c) of this section) either returning the property, providing adequate and effective compensation for the property, offering a domestic procedure providing prompt, adequate, and effective compensation for the property, or submitting the dispute to international arbitration? **No**. If the actions of the government would otherwise prohibit assistance, has the President waived this prohibition and so notified Congress that it was in the national interest to do so? **Not applicable**.

4. **Communist and Other Countries (FAA Secs. 620(a), 620(f) & 620D; FY 1995 Appropriations Act Secs. 507 & 523):** Is recipient country a Communist country? **No**. If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national

interest of the United States? **Not applicable**. Will assistance be provided directly to Cuba, Iraq, Libya, North Korea, Iran, Serbia, Sudan or Syria? **No**. Will assistance be provided indirectly to Cuba, Iraq, Libya, Iran, Syria, North Korea, or the People's Republic of China? **No**. Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? **No**.

5. **Mob Action (FAA Sec. 620(j)):** Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? **No**.

6. **OPIC Investment Guaranty (FAA Sec. 620(l)):** Has the country failed to enter into an investment guaranty agreement with OPIC? **No**.

7. **Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5):** (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? **No**. (b) If so, has any deduction required by the Fishermen's Protective Act been made? **Not applicable**.

8. **Loan Default (FAA Sec. 620(q); FY 1995 Appropriations Act Sec. 512 (Brooke Amendment)):** (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? **Not at present (2/1/95)**. (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1995 Appropriations Act appropriates funds? **No**.

9. **Military Equipment (FAA Sec. 620(s)):** If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) **Yes, taken into account by the Administrator at time of approval of Agency OYB**.

10. **Diplomatic Relations with U.S. (FAA Sec. 620(t)):** Has the country severed diplomatic relations with the United States? **No**. If so, have relations been resumed and have new bilateral

assistance agreements been negotiated and entered into since such resumption? **Not applicable**.

11. **U.N. Obligations (FAA Sec. 620(u))**: What is the payment status of the country's U.N. obligations? **Current, no arrears**. If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) **Not applicable**.

12. **International Terrorism**

a. **Sanctuary and Support (FY 1995 Appropriations Act Sec. 529; FAA Sec. 620A)**: Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? No.

b. **Airport Security (ISDCA of 1985 Sec. 552(b))**: Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.

c. **Compliance with UN Sanctions (FY 1995 Appropriations Act Sec. 538)**: Is assistance being provided to a country not in compliance with UN sanctions against Iraq, Serbia, or Montenegro? No. If so, has the President made the necessary determinations to allow assistance to be provided? Not applicable.

13. **Countries that Export Lethal Military Equipment (FY 1995 Appropriations Act Sec. 563)**: Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act? No.

14. **Discrimination (FAA Sec. 666(b))**: Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

15. **Nuclear Technology (Arms Export Control Act Secs. 101 & 102)**: Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified

arrangements or safeguards, and without special certification by the President? **No**. Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? **No**. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E(d) permits a special waiver of Sec. 101 for Pakistan.) **No**.

16. **Algiers Meeting (ISDCA of 1981, Sec. 720):** Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? **No. While Egypt was represented, it disassociated itself from the communique**. If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) **Not applicable**.

17. **Military Coup (FY 1995 Appropriations Act Sec. 508):** Has the duly elected Head of Government of the country been deposed by military coup or decree? **No**. If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? **Not applicable**.

18. **Exploitation of Children (FAA Sec. 116(b)):** Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? **No**.

19. **Parking Fines (FY 1995 Appropriations Act Sec. 564):** Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of August 23, 1994? **Egypt does owe such parking fines. 110% of their amount will be withheld from FY 95 DA or ESF funds for Egypt**.

B. **COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")**

Human Rights Violations (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? **No**. If so, can it be demonstrated that

141

contemplated assistance will directly benefit the needy? **Not applicable**.

C. **COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")**

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? **No**. If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? **Not applicable**.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

Answers are given in bold and are underscored. Except as otherwise indicated, all answers apply to both the Agricultural Policy Reform Program (the "Program") and the Technical Assistance for Agricultural Policy Reform Project (the "Project").

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? **Yes. See 5C(1) above**.

A. **CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS**

1. **Host Country Development Efforts (FAA Sec. 601(a)):** Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. **Regarding (a) through (e), agricultural policy reform measures will be aimed at liberalizing pricing and marketing policy, removing barriers to private investment, privatizing public sector firms, eliminating unnecessary subsidies, and creating the legal framework for independent commercial cooperatives. These reforms will tend to increase the flow of international trade, foster private initiative and competition, encourage development and use of cooperatives, discourage monopolistic practices, and improve technical efficiency in the agricultural sector. Neither the Program nor the Project will have a perceptible impact on (f)**.

2. **U.S. Private Trade and Investment (FAA Sec. 601(b)):** Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). **Program funds may be used by the GOE to purchase commodities and commodity-related services from private U.S. sources, and it is expected that a significant amount of such funds will be so used. Project funds will be used primarily to procure technical assistance and commodities from private U.S.**

<u>sources. Thus, these activities will encourage U.S. private trade with Egypt and private U.S. participation in the foreign assistance program</u>.

3. **Congressional Notification**

a. **General Requirement (FY 1995 Appropriations Act Sec. 515; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)? <u>Congress has been notified in accordance with regular Agency practice</u>.

b. **Special Notification Requirement (FY 1995 Appropriations Act Sec. 520):** Are all activities proposed for obligation subject to prior congressional notification? <u>Yes</u>.

c. **Notice of Account Transfer (FY 1995 Appropriations Act Sec. 509):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? <u>Not applicable</u>.

d. **Cash Transfers and Nonproject Sector Assistance (FY 1995 Appropriations Act Sec. 536(b)(3)):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted? <u>Yes</u>.

4. **Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? <u>Not applicable</u>.

5. **Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? <u>Based on past experience, it is expected that the People's Assembly will ratify the grant agreements for the Program and the Project in a timely manner</u>.

6. **Water Resources (FAA Sec. 611(b)):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established

\44

pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? **Not applicable**.

7. **Cash Transfer/Nonproject Sector Assistance Requirements (FY 1995 Appropriations Act Sec. 536).** If assistance is in the form of a cash transfer or nonproject sector assistance:

a. **Separate Account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? **Yes**.

b. **Local Currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? **The Program grant agreement and implementation letters will so provide**.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? **Yes**.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? **Yes**.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? **Yes**.

8. **Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? **Not applicable**.

9. **Local Currencies**

a. **Recipient Contributions (FAA Secs. 612(b) & 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. The Project grant agreement will require the GOE to contribute not less than L.E. 809,200 in cash and in kind. No GOE contribution will be required in connection with the Program.

b. **U.S.-Owned Currency (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country? No. If so, what arrangements have been made for its release? Not applicable.

10. **Trade Restrictions**

a. **Surplus Commodities (FY 1995 Appropriations Act Sec. 513(a)):** If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? Not applicable.

b. **Textiles (Lautenberg Amendment) (FY 1995 Appropriations Act Sec. 513(c)):** Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No.

11. **Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act):** Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? No.

12. **PVO Assistance**

a. **Auditing and Registration (FY 1995 Appropriations Act Sec. 560):** If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? Not applicable.

b. **Funding Sources (FY 1995 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"):** If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? Not applicable.

13. **Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)):** Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Case-Zablocki Act reporting procedures will be followed.

14. **Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):** Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Yes. Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Yes. Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? Yes.

15. **Abortions (FAA Sec. 104(f); FY 1995 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):**

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options including abortion.) No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? **No**.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) **Not applicable**.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) **Not applicable**.

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? **No**.

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? **No**.

16. **Cooperatives (FAA Sec. 111):** Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? **No**.

17. **U.S.-Owned Foreign Currencies**

a. **Use of Currencies (FAA Secs. 612(b) & 636(h); FY 1995 Appropriations Act Secs. 503 & 505):** Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. **Yes**.

b. **Release of Currencies (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country? **No**. If so, what arrangements have been made for its release? **Not applicable**.

18. **Procurement**

a. **Small Business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? **Yes**.

b. **U.S. Procurement (FAA Sec. 604(a):** Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section? **Yes**.

c. **Marine Insurance (FAA Sec. 604(d)):** If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? <u>Egypt does not so discriminate</u>.

d. **Insurance (FY 1995 Appropriations Act Sec. 531):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate? <u>Yes</u>.

e. **Non-U.S. Agricultural Procurement (FAA Sec. 604(e)):** If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) <u>Not applicable</u>.

f. **Construction or Engineering Services (FAA Sec. 604(g)):** Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) <u>Not applicable</u>.

g. **Cargo Preference Shipping (FAA Sec. 603)):** Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? <u>Yes, for the Program. No, for the Project</u>.

h. **Technical Assistance (FAA Sec. 621(a)):** If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? <u>Yes</u>. Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? <u>Yes</u>.

i. **U.S. Air Carriers (International Air Transportation Fair Competitive Practices Act, 1974):** If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? <u>No, for the Program. Yes, for the Project</u>.

j. **Consulting Services (FY 1995 Appropriations Act Sec. 559):** If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes.

k. **Competitive Selection Procedures (FAA Sec. 601(e)):** Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

l. **Notice Requirement (FY 1995 Appropriations Act Sec. 568):** Will project agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American-made? Yes.

19. **Construction**

a. **Capital Project (FAA Sec. 601(d)):** If capital (e.g., construction) project, will U.S. engineering and professional services be used? **Not applicable**.

b. **Construction Contract (FAA Sec. 611(c)):** If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? **Not applicable**.

c. **Large Projects, Congressional Approval (FAA Sec. 620(k)):** If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? **Not applicable**.

20. **U.S. Audit Rights (FAA Sec. 301(d)):** If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? **Not applicable**.

21. **Communist Assistance (FAA Sec. 620(h).** Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? **Yes**.

22. **Narcotics**

a. **Cash Reimbursements (FAA Sec. 483):** Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? **Yes**.

b. **Assistance to Narcotics Traffickers (FAA Sec. 487):** Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

23. **Expropriation and Land Reform (FAA Sec. 620(g)):** Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.

24. **Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

25. **CIA Activities (FAA Sec. 662):** Will assistance preclude use of financing for CIA activities? Yes.

26. **Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

27. **Export of Nuclear Resources (FY 1995 Appropriations Act Sec. 506):** Will assistance preclude use of financing to finance --except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology? Yes.

28. **Publicity or Propaganda (FY 1995 Appropriations Act Sec. 554):** Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No.

29. **Exchange for Prohibited Act (FY 1995 Appropriations Act Sec. 533):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

30. **Commitment of Funds (FAA Sec. 635(h)):** Does a contract or agreement entail a commitment for the expenditure of funds

151

during a period in excess of 5 years from the date of the contract or agreement? **No**.

31. **Impact on U.S. Jobs (FY 1995 Appropriations Act Sec. 545):**

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? **No**.

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? **No**. If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? **Not applicable**.

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? **No**.

B. **CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY**

[**This Part has been omitted because the Program and the Project are financed exclusively with ESF funds**.]

C. **CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY**

1. **Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? **Yes**. To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? **Yes**.

2. **Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes? **No**.

3. **Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).) **Superseded**.

4. **Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the

152

objectives of FAA sections 103 through 106? (For FY 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).) **Superseded**.

5. **Capital Projects (Jobs Through Exports Act of 1992, Sec. 306):** If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.) **Not applicable**.

<u>**ANNEX K**</u>

CERTIFICATION PURSUANT TO THE GRAY AMENDMENT

TECHNICAL ASSISTANCE FOR AGRICULTURAL POLICY REFORM PROJECT (NO. 263-0219)

I, John R. Westley, hereby certify, as Director and Principal Officer of the U.S. Agency for International Development in Egypt, that full consideration has been given to the potential involvement in this project of business concerns owned and controlled by socially and economically disadvantaged individuals, historically black colleges and universities, colleges and universities having a student body in which more than 40% of the students are Hispanic Americans, and private voluntary organizations controlled by socially and economically disadvantaged individuals.

The project paper to which this certification is attached discusses the efforts that will be undertaken in connection with each element of the procurement plan to maximize the participation of such organizations. At the time of each procurement action, every effort will be made to encourage the participation of these organizations and draw upon their knowledge and expertise.

John R. Westley
Director

3/23/95
Date

Annex L

GOE REQUESTS FOR ASSISTANCE

153

ACTION TO: AGR PD TI

1786 ACTION TAKEN .... DUE DATE 5/4
DATE .... INITIALS ....

ARAB REPUPLIC OF EGYPT
MINISTRY OF AGRICULTURE
MINISTER'S OFFICE

Mr. John Westley, Director
USAID Cairo

Dear Mr. Westley:

Let me first express my sincere appreciation for the role that you and members of your staff played in insuring that the Agricultural Policy Conference was a success from every viewpoint. The Conference was especially fruitful in identifying critical policy issues which must be addressed in the next few years in order to fully transform our agricultural and agro-industrial sectors to a free market and private sector led system. The conference recommendations in fact strongly support, in general terms, the sense of the preliminary policy agenda that was attached to the Concept Paper for the Agricultural Policy Reform Program (APRP), which we received attached to a letter from USAID dated March 16, 1995.

Concerning the APRP, we have reviewed the Concept Paper and are in general agreement concerning the design of the program and its supporting technical assistance package. We suggest therefore that you take the steps necessary to prepare the formal approval documents at your earliest convenience. My staff is prepared to work with their colleagues in USAID toward preliminary agreement on the final shape of the Program. Following this we can fine tune the program during our final negotiations.

When the appropriate steps are taken for formalizing the project, I will issue the necessary decree formalizing the implementation committees. These will include MALR, MOS, MPE and private sector representatives; nominated by the concerned Ministers.

I look forward to enhancing our future cooperation.

Youssuf Wally

Dr. Youssuf Wally
Deputy Prime Minister and
Minister of Agriculture and Land Reclamation

OTHER USAID PRIVATIZATION ACTIVITIES

USAID/Cairo's Privatization Support Project (263-0238) is actively involved in support of the GOE's privatization program on a number of fronts. Agreements with the Ministry of International Cooperation (MIC) and the Ministry of Public Enterprise (MPE), signed in September 1993 and February 1994 respectively, have lead to an active program of technical assistance in the following areas:

Public Affairs: The Privatization Project is working with the MPE in developing and distributing material that explains the privatization program to a wide variety of target groups. It is also working on approaches to communicate through the mass media. The outreach effort has just recently begun, but will expand in scope over the next year.

Organizational Development: Few of the organizations involved in promoting and executing privatizations have experience in areas critical to their success. The project is working with these key actors to strengthen their understanding and skills in areas such as corporate governance, strategic planning, investment banking, negotiations, and employee relations.

Sales Support: Experience in Egypt in selling companies is quite limited, although a number of new firms have recently been set up that will contribute to the professional handling of the sales of the companies being offered. The project is presently working directly with six public enterprise sector holding companies to prepare properties for sale through private placement, public offering, and employee/management buy-outs. Privatization Units set up by the project to assist the holding companies will at times execute much of the preparatory work or else assist the holding company in contracting out the work to brokers or banks.

Financial Instrument Development: There are very few financial instruments or mechanisms available in Egypt to facilitate the sale of public enterprise companies. The project is helping to exploit existing instruments and mechanisms as well as to develop new ones. Better management of common stock offerings, involving more institutional investors in active stock trading, promoting debt equity swaps, the development of convertible and other types of bonds, and a number of other activities are being undertaken in support of privatization and the greater involvement of local investors in the program.

Decision Making Support: With the preparation of each privatization, a multitude of policy, regulatory and organization impediments surface that can potentially block the offering. The project is developing mechanisms for reviewing these impediments, suggesting alternatives, and working with decision-makers to resolve the impediments.

In sum, the Privatization Project will work in close support with the privatization activities planned under APRP. The Project will take the lead in setting up Privatization Units in the relevant holding companies. These units will provide the technical expertise required to carry out the privatization activities. The other activities of the project will also be brought to bear in support of the privatization efforts under APRP. If required, additional and separate funds may be added to the Privatization Project to cover these activities.