

263-0177

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

JUL 15 1988

PDCA/1132

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST

FROM: ANE/PD, Ronald Venezia *Ronald Venezia*
SUBJECT: Waiver of PID for Proposed Telecommunications IV Project - Egypt

PROBLEM: AID/W has received a cable from Cairo indicating that the Mission is proceeding with development of a PP for this project (TAB A). The Mission is not planning to submit a PID for the project, unless we advise otherwise. AID/W waived the PID requirement in FY 1985 when the project was originally planned for obligation (TAB B). We need to advise Cairo whether the waiver of PID submission still stands.

BACKGROUND: A.I.D. project assistance to the telecommunications sector has amounted to \$242 million, consisting of switching and transmission equipment, construction, A&E services and training. Another \$78.7 million in equipment has been imported through the commodity import program. The major suppliers of U.S. equipment have been AT&T, Ford Aerospace, and Raytheon. A.I.D. assistance has contributed to the improvement and expansion of major components of the system in Cairo and Alexandria.

Telephone service has improved dramatically in Cairo and Alexandria with USAID's project assistance. This assistance has also allowed a significant expansion in the number of lines -- 30 percent in Cairo.

Telecommunications I (0054) assisted ARENTO to improve overall management, to train its personnel, and procure urgently needed equipment.

Telecommunication II (0075) replaced three obsolete Cairo telephone exchanges with modern electronic switching systems and associated outside plant. Additional TA and other related equipment were also provided.

Telecommunications III (0117) financed six electronic switching systems which are now operational in Cairo and Alexandria, serving approximately 150,000 subscribers.

Telecommunications IV (0177) is being developed as an FY 1988 shelf project. This project would finance two digital electronic switching systems and associated outside plant. The Mission does not intend to undertake another massive program in support of the telecommunications sector. However, it sees an opportunity to provide limited support for an exceptionally good performer in terms of both management and policy, assist with essential infrastructure for private sector development, and at the same time promote use of a U.S. firm to supply the technology.

DISCUSSION: Based on our familiarity with the proposed project, it does not appear to require a PID. AID/W PP approval is also unnecessary. However, there are currently some policy issues which we should communicate to the field. These issues will however, be addressed in a cable to the Mission.

The first issue concerns the fact that the proposed Telecommunications IV project involves a departure from the CDSS approved in FY 1987. Specifically, the CDSS prepared in early 1987 states:

"USAID's past investments in improving telephone service have removed an important obstacle to modern industrial development. But Egypt has now reached the stage where it should move into commercial financing. Concessional assistance is no longer appropriate."

The Mission rationale for the strategy shift given Egypt's balance of payments position, is that ARENTO has found it extremely difficult to obtain commercial loans to finance the cost of its continuing expansion programs. Furthermore, USAID considers the orderly expansion and modernization of telecommunications systems useful to the development of efficiency and enhancement of the profitability in all sectors of the Egyptian economy, particularly to support a growing private industrial sector. The Mission, furthermore, points out that policy progress in the telecommunications sector has been excellent, and ARENTO's strong management and technical skills are proven.



The program was originally planned for obligation in FY 1985 as a shelf project. It was believed that commercial financing was available. This has not been borne out. The international banking community - including EXIMBANK - has not been making loans to Egyptian Government entities. Given the lack of commercial financing and the importance of expanding the telephone system to support growth in Egypt (particularly in the business/commercial sector), a return to A.I.D.'s earlier strategy of financing for this project appears justified.

Both the House and the Senate have also taken an interest in the project. Questions coming from the Hill clearly indicate Congressman Obey's and Congressman Edward's interest in promoting telecommunications in Egypt. While we stated, in the Qs and As, that we were not then proposing to do the telecommunications project, we told the Congress that, "If the Government (of Egypt) expresses greater interest in telecommunications over other areas, A.I.D. would be willing to consider reordering our current priorities. We are also prepared to consider specific requests under the Commodity Import Program." With respect to the same issue, the Senate Foreign Operations Committee has recently indicated as follows:

The Committee notes that the Government of Egypt has requested assistance from USAID/Cairo with the extension of the communications system in the greater Cairo area. The latest digital technology is being sought from a U.S. manufacturer having an excellent record with past upgrading of Egypt's telecommunications. The Committee endorses the inclusion of telecommunications in the AID program for Egypt.

Given both the rationale for now providing A.I.D. financing to the telecommunications sector, plus the good performance of ARENTO and the support of the Congress, there appears to be no basis for further debating the strategy question with respect to the departure of the project from the CDSS. It does not appear that a PID would add to the information or rationale available to decide this issue.

The second issue deals with procurement. The first three telecommunications projects in Egypt were done by AT&T. AT&T has been very active in promoting itself with the GOE, the Mission and the Congress, and has pressed for a noncompetitive procurement. The basis for this does not, however, exist inasmuch as the technology for the Telecommunications IV project will be totally different than for previous projects.

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Specifically, these will be digital "switches", i.e. telephone exchanges, whereas the earlier projects were analog switches. The Mission has recently confirmed that procurement will be competitive. However, I recommend that we advise the Mission to specifically address this issue in the PP and indicate our support for the Mission's approach in our message to them.

Finally, since the earlier decision was made to waive the PID, both AID/W and the Mission have become more conscious of the need to address O & M questions in the course of all our Egypt infrastructure projects. While ARENTO is one of Egypt's better managed organizations, there is some legitimate concern about the O & M being done on the facilities provided under the previous projects. Thus, our message to the field should stress the importance of building into the new project, the means for assuring provision of the O & M required to protect both A.I.D.'s past investment and the investment in the Telecommunications IV project. This should include a reassessment of the status of O & M activities under ARENTO and identification of areas where further improvements are appropriate, for example, training, budgeting for O & M, appropriate rate structure, etc.

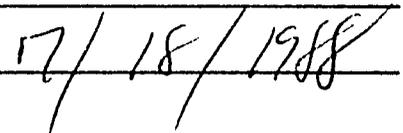
RECOMMENDATION: That you agree, by signing below, that the prior waiver of the PID for the Telecommunications IV Project should stand, and that ANE/PD should so advise the Mission by cable, addressing the issues discussed above.

APPROVED: _____



DISAPPROVED: _____

DATE: _____



1. Project No. and Title: 263-0177, Telecommunications IV
2. Project Funding: FY 1989: \$40 million
LOP: (FY 1989-93) \$40 million
3. Appropriation Account: ESF

a. Objectives: To assist the GOE in meeting the growing demand for public and private sector telecommunications services by providing 40,000 new telephone lines in areas in central and west Cairo.

b. Relationship with Agency Priorities and Mission CDSS: The 1987 CDSS states that concessional assistance to the telecommunications sector is no longer appropriate. However, due to the current economic situation, it is extremely difficult for the Arab Republic of Egypt National Telecommunications Organization (ARENTO) to obtain any commercial loans to finance the cost for its continued expansion programs. Given the importance of the expansion and modernization of telecommunications systems in developing the efficiency of all sectors of the Egyptian economy, particularly the growing private sector, the Mission considers this project a high priority.

Approximately 20 people will receive short term technical training in the U.S. in operations and maintenance of digital switches and equipment at a cost of \$250,000.

c. Policy Issues: Progress in policy reform has been greater in the telecommunications sector than in any other infrastructure project in Egypt. The Mission will continue to encourage ARENTO in its efforts to equate tariffs with the cost of service.

4. Problems to be Addressed: The present AID-financed telecommunications program consists of three separate projects (263-0054, 263-0075 and 263-0117) which has been treated as one integrated \$242 million program. This program financed 283,000 new telephone lines, the related outside plant and junction systems as well as technical assistance and training. Work under the current program is virtually complete, and as a result, significant progress has been made over the past few years to meet the demands for effective telecommunications service in Egypt. However, additional work remains to be done to provide the level of telecommunications services required to sustain and support economic development in Egypt.

The current telephone service to the two densely populated target areas of Cairo is inadequate, and there is no current opportunity for expansion. Due to rapid growth in both districts, the waiting list for telephone service goes back to 1975.

5. Target Group: Direct beneficiaries will be the 40,000 subscribers (private and public sector businesses, government offices, small scale commercial enterprises and private residences)

benefitting from the availability of improved services. Other direct beneficiaries are the approximately 320,000 Cairo residents living in the target areas. Secondary beneficiaries include all Egyptian and international subscribers who will be able to use new and reliable telephone services to the districts.

6. Request for Delegation of PID Approval Authority: PID for Telecommunications IV was waived by AID/W in 1985 (State 311144/84) based on the evaluation of Telecommunications Projects I, II and III which raised no significant issues.