

UNCLASSIFIED

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



EGYPT

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 82

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND
USED FOR PLANNING PURPOSES IN THE FIELD AND IN
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY
POLICY.

**

*

COUNTRY DEVELOPMENT STRATEGY STATEMENT

USAID MISSION TO ARAB REPUBLIC OF EGYPT

JANUARY 1980

TABLE OF CONTENTS

	<u>Page</u>
I. ANALYSIS	1
A. Foreword	
B. The Political and Economic Base for AID's Program	1
1. Political	1
2. Economic	3
C. The Nature of Egypt's Economic Problems	6
1. Egypt's Past Economic Policy	6
2. The Future Direction of Egypt's Economy	12
D. Egypt's Plans, Progress and Commitment	18
1. Egypt's Development Perspective	18
2. Recent Economic and Social Performance (74-79)	20
E. Donor Assistance	25
1. Growth and Structure of Donor Assistance	25
2. Assistance as a Development Catalyst	27
3. GOE Perspectives on Donor Assistance	29
II. STRATEGY	29
A. Objectives	29
B. Approaches to GOE Policy: Economic Policy and Equity Policies	35
1. Overview	35
2. Economic Policy Objectives	36
3. Equity Policy Objectives	38
4. Equity with Productivity	39
5. Intersectoral Equity	40
6. BHN/PQLI	41
C. Areas of Program Concentration	43
1. Stability	44
2. Production and Productive Infrastructure (Agricultural & Industrial)	45
3. Management and Manpower	55
4. Social Infrastructure and Decentralization	56

	<u>Page</u>
5. Health and Population	61
6. Other Non-Strategy Activities	62
III. ASSISTANCE PLANNING LEVEL	63
A. Political Considerations	63
B. Relationship to Development Objectives	65
C. Strategy Implications for Implementation and Staffing Requirements	68

ANNEXES

- I. Egypt's Approach to Equity
- II. Balance of Payments
- III. Macro Economic and Sector Analysis
- IV. Agricultural Sector Strategy Update
- V. Labor Force and Employment
- VI. A Summary History of U.S. Assistance to Egypt
- VII. Donor Assistance Annex
- VIII. The Private Sector
- IX. Population Strategy Update
- X. PL 480 As A Development Resource

The following annexes are not printed with the FY 1982 CDSS for Egypt but may be obtained, individually, from the Egypt Desk, Room 5318 New State Department Building, phone 632-9048.

Annex I	Egypt's Approach to Equity
Annex II	Balance of Payments
Annex III	Macro Economic and Sector Analyses
Annex IV	Agricultural Sector Strategy Update
Annex V	Labor Force and Employment
Annex VI	A Summary History of U.S. Assistance to Egypt
Annex VII	Donor Assistance Annex
Annex VIII	The Private Sector
Annex IX	Population Strategy Update
Annex X	PL 480 as a Development Resource

I. ANALYSIS

A. Foreword

1.01 The following presentation represents an evolutionary step in strategy development which clarifies and expands upon last year's CDSS. It seeks to delineate more clearly overall program objectives; the conditions, assumptions and rationale which underlie these objectives; and the program implications of the approach.

1.02 It has not been possible to be completely faithful to the standard CDSS format. This presentation differs from that in two important respects. First, because of the breadth, magnitude and scope of AID's program in Egypt it has not been possible to cover all program issues in sixty scant pages. Therefore, while the CDSS is intended to be self contained, the reader will greatly benefit from a review of the ten attached annexes, particularly Annex I (Egypt's Approach to Equity) and III (A Macro and Sectoral Review of Egypt's Economy). Secondly, because of the overriding political objectives of the program, we have not sought to make an analysis of the poor the centerpiece of our strategy statement, but have instead attempted to reflect the concerns of Egypt's poor within the context of these objectives.

B. The Political and Economic Base for AID's Program

1. Political

1.03 The overriding U.S. foreign policy objective in the Middle East is the achievement of a comprehensive peace settlement between the Israelis and frontline Arab states. Over the longer

term our policy aims at a satisfactory evolution of political and economic relations in the area which, inter alia, will permit the U.S. continued access to commercial markets and petroleum supplies in the area.

1.04 Given its strategic location, size and historical importance, Egypt is critical to achieving this objective. It contains a major portion of the population of the Arab world. Its relations with other Arab countries heavily influence the stability of the area and access to vital oil supplies. Egypt's voice carries weight in Arab and Third World Forums. Finally, Egypt offers a potential market for U.S. exports, services and investment.

1.05 Thus, Egypt is essential to U.S. objectives, particularly during the next one to two years as a comprehensive settlement is developed, but also beyond this critical period when continued stability will be important to a strengthening of the peace climate.

1.06 The context within which the magnitude and composition of U.S. economic assistance to Egypt are arrived at is obviously directly related to its political objectives. U.S. economic assistance is predicated upon the belief that Egypt's continued participation in the peace process is closely linked to continued economic growth, social progress and prosperity at home. Domestic stability in Egypt is essential to its continued moderate role in the Middle East - and stability is dependent to a large degree upon continued economic progress. Conversely, Egypt is likely to be able to sustain continued economic progress only if it can avoid major confrontation in the area.

1.07 Traditionally in tracing the relationships between economic assistance to Egypt and U.S. foreign policy objectives it has been useful to separate these into the short and longer term. Short and long term objectives, however, frequently overlap. At the same time, there may well be tensions, if not incompatibility, between actions taken to meet short term as contrasted with long term objectives. It is essential that these tensions be recognized and minimized. Thus, while short term stability is of paramount importance to the Egyptian Government and the peace process, actions to promote stability and the peace process but which can seriously impede attainment of longer term economic objectives should be avoided. Similarly, while economic development over the longer term must involve both rural and urban populations, and must give particular concern to the poor in all parts of the country, in the shorter term political stability is determined in the cities where nearly half of Egypt's population lives - and particular attention must be given to targeting development programs in a manner which meets the desires and expectations of urban middle classes and poorer groups. In this context, Government workers (including the civil services), public sector and military) the emerging private sector, urban workers and intellectuals, students are particularly important to stability.

2. Economic

1.08 In general terms the nature of the economic and social conditions necessary to sustain and support U.S. political objectives in Egypt are: growth in real income, improved quality of life,

containment of population pressures, and positive future outlook. While these conditions are generally applicable to almost any developing country setting it is perhaps useful to place these in the Egyptian context.

(i) Growth in Real Income - In the short term what is required at a minimum is no significant deterioration in standards of living of the population - particularly those of the urban groups referred to above. This means wages or access to income should keep reasonably in pace with prices and that jobs increase consistent with growth in the labor force. It also means that government support to income in the form of subsidies, public sector employment, etc., should be rationalized in time phase with general improvements in economic conditions. In the longer term standards of living will have to increase. While foreign assistance can help promote raised standards of living, significant improvement can only be realized through further economic growth which, in turn, will require substantial capital expansion and improved productivity. This implies more effective economic management, a much greater concern about the productive impact of investment decisions, improved mobilization of savings, rationalization of prices and interest rates to permit a greater movement towards a market oriented economy, and continued improvement of the balance of payments through increased foreign exchange earnings, expanded exports, and reduction in the growth of imports.

(ii) Improved Quality of Life - The Egyptian Government

has assumed substantial responsibilities for the provision of such basic needs as food, clothing, health care, education, shelter, transportation and other social services to a substantial portion of the population, either directly in the form of budget allocations or indirectly in the form of subsidies and price controls. While this has given substantial protection to the welfare of the poor, the cost to the economy in terms of budget deficits and inflationary pressures has become increasingly hard to bear. Thus the value of this approach to equity is being increasingly eroded. While an abrupt change could not be brought about without major political and welfare repercussions, the real interests of the poor over time may well be better served by a gradual transformation of the system.

(iii) Containment of Population Pressures - The growth of population - now increasing at 2.8% per year - is a critical constraint on the longer term hopes of the Egyptian people to achieve economic betterment. Without a change in population growth patterns, the volume of resources required for education, social services and welfare will deeply inhibit progress towards greater productive economic activity and overall growth in national income. Equally, the inadequacy of family planning services, particularly in rural areas, robs individual families of personal choice about family size and the health of mothers and children. For these reasons, a far more pervasive concern with population issues and a far more effective family planning program must be imbued in thinking about all economic decisions. In the longer term, the rate of population increase

will be determined by a combination of family planning and social and economic development. To be effective in the longer term, however, a far more vigorous family planning effort has to be mounted now.

(iv) Positive Future Outlook - Short term dislocations are inevitable in a period of economic growth and transition. These dislocations are frequently more endurable if there is a general perception that the future economic outlook is promising and there are tangible signs that progress is being made. Ideally progress should be detectable in growth of real income, improvement of the quality of life, and reduction of population pressures; however, in the shorter term perceptions often have to be based on less tangible evidence. In 1980, AID programs have progressed to the point where their visibility, both in terms of completed activities as well as in the progress of those underway, is increasingly helpful to this end. Considerably more needs to be done to expedite implementation of program activities, and to bring about effective public knowledge of these accomplishments, which can enhance perceptions of progress. But in the last analysis the most important factor is that the Egyptian Government is perceived to be at least moderately successful in recognizing and efficiently dealing with its problems.

C. The Nature of Egypt's Economic Problems

1. Egypt's Past Economic Policy

1.09 The genesis of Egypt's present economic condition is traceable to policies brought about following the revolution of 1952.

The leaders who came to power at that time had no fixed economic philosophy but were determined to rid Egypt of foreign domination and reduce economic power of the land owner class. Their nationalism prompted measures to achieve rapid economic growth and development and their sense of social justice led to measures to improve the life of the average Egyptian.

1.10 Gradually and pragmatically the Government moved into a series of economic interventions. The first step was land reform. Foreign exchange difficulties caused by an overvalued exchange led to Government financial controls. Nationalism motivated the take-over of the Suez Canal and sequestration of French and British property after the 1956 war. Further nationalization of Egyptian-owned firms from 1960-63 represented a move on the part of the Government to consolidate power over the urban business community.

1.11 By 1964 the public sector included all mining, utilities, communications and finance, most manufacturing, transportation, wholesale and foreign trade and large construction firms. The private sector was subject to extensive Government regulation that included fixed prices, supplying raw materials and capital inputs.

1.12 Initial gains for the average Egyptian in this era were substantial. There was greater equity in the distribution of income and wealth, and increased consumption of a number of goods and services. A major measure for attaining the former was land reform. Before land reform, about 2,000 owners (out of a total of about 2.8 million) held about 20% of the land. After reform, at the highest

end of the scale, about 4,000 owners (out of 3.2 million) held just 7% of the land.

1.13 Another major factor was nationalization of large industrial enterprises which reduced the concentration of wealth at the upper end of the spectrum, and opened up opportunities for promotion and wider participation by those who had hitherto been excluded. Moreover, nationalization enabled the Government to legislate and police a number of laws which granted substantial benefits to workers.

1.14 The other reforms of the Government covered the fields of labor legislation, education, health and employment. The minimum wage in industry was raised. The condition of labor was improved by the introduction of an insurance scheme for industrial workers, increased sickness leave and higher sick pay, and effective constraints to the employer's ability to dismiss workers.

1.15 Public education was expanded rapidly. Government expenditure on education rose from about 3% of GDP in 1951-52 to about 5% in 1969-70. These increased expenditures enabled a sharp rise in the number of students to take place. 20 years after the revolution, the number of primary and preparatory students had tripled, and secondary students had increased by about 165%. The number of university students quadrupled. Increasingly numbers of persons with rural and poor urban backgrounds were provided university education and moved into governmental, industrial and professional positions which were previously dominated by members of a wealthy elite.

1.16 The Government's policies were also extended to health services. Health expenditures rose from about one-half of one percent of the GDP in 1952-53 to about 1.9% in 1975. The number of hospital beds more than doubled, from less than 36,000 in 1952 to about 77,000 in 1975; the ratio of beds to 1,000 of the population thus increased from about 1.7 to nearly 2.1 over the period. An elaborate rural health clinic network was established and professionally staffed which brought virtually every Egyptian physically within reach of at least minimal health services. There were also steady rises in availability of medicines at subsidized prices. In the area of nutrition, per capita consumption increased from about 2,300 calories per day in 1952 to nearly 2,600 twenty years later; and that of protein from 35 to 45 grams per day.

1.17 Programs for subsidization of basic commodities had a major impact on sheltering the poor from international inflation and assuring the availability of key food stuffs and clothing at reasonable prices. But the program embraced virtually all of Egypt's population and not just the poor. As costs of the program mounted in response to population growth and increases in world market prices budget deficits became increasingly burdensome.

1.18 As a result of these various programs a high degree of equity had been achieved but at great cost to the economy. Economic growth was less substantial than equity gains. During the last of the 50's and early 60's growth rates, although uneven, averaged about six percent, fueled in large part by foreign assistance from

the U.S. and Soviet Union. By the late 1960's, however, economic and social progress began to decline rapidly.

1.19 Following the 1967 war, Egypt's economy reached a virtual standstill. It was heavily in debt and a balance of payment crisis was developing. Its industry and infrastructure were badly deteriorated. Growth rates fell to below 3%. Social gains made earlier began to erode. By the early 70's Egypt had achieved a physical quality of life index of 43 - an impressive accomplishment for a country of its state of development; however, its disparity reduction ratio had sunk to 1.2%, indicating that little new progress was being made to improve quality of life factors.

1.20 Economic and social stagnation was caused by several factors. Foreign assistance had dropped off. A crushing defense burden, decisions to use investment resources for heavy industrial and land reclamation activities of questionable economic value and, an increasingly heavy subsidy bill, diverted funds from needed productive investment in capital plant and supporting infrastructure. But, beyond these factors, the cumbersome nature of the Government's economic policy structure was in good part responsible for lack of progress. The role of Government was all pervasive. The public sector was dominant representing 65% of value added in manufacturing and about 50% of total employment in industry. Decision-making was increasingly centralized and individual initiative and incentives de-emphasized. A range of subsidies, cost and price controls were layered throughout the economy. Resource allocations were made by the state rather than

by the market. Policies favored consumption rather than investment.

1.21 Another important influence was the pressure of Egypt's growing population. By 1978 the Egyptian population had reached close to 40 million (growing by 2.8% annually or 1 million) and was heavily concentrated in the 4% of the country's land area which is cultivated. Density of population in this area has now reached 1,030 people per square kilometer. Urban growth in several areas is on the order of 4% a year. Increasing urbanization -- in part, representing a migration of the rural poor and landless -- has put tremendous strains on urban infrastructure and social services. Housing shortages are now estimated to be about 1.5 million units. Population increase has become one of Egypt's most important problems.

1.22 Following the death of President Nasser, the specter of Egypt's increasing debt, its stagnating economy, and lack of success in its confrontation with Israel, led the Government to formulate a new set of policies. In 1974 President Sadat initiated the infitah or "openness" policy. Externally, infitah led to a new approach to foreign affairs - to reduce ties with the Eastern bloc, increased relations with the West and a peace initiative with Israel. Domestically, the policy called for a liberalization of the economy and governmental structure in particular encouragement of foreign investment, increased support to the domestic private sector and decentralization of economic decision making.

1.23 Initially, response of the economy was slow, however, by the mid-70's it began to pick up with increased foreign exchange made

available from the return of the Suez Canal and some of Egypt's oil fields, expatriate worker earnings, the growing tourism industry and substantial foreign assistance from the U.S., Arab States, the EEC, Japan, and international donors. While increased financial flows have spurred growth and have eased some of the symptoms of economic malaise, as Egypt enters a new decade most of the structural problems of its economy remain unchanged. (For a more complete description of macro-economic developments since 1975 see the next section on Egypt's Plans, Progress and Commitment).

2. The Future Direction of Egypt's Economy

1.24 Many of Egypt's more important economic problems stem from a set of past policies which have resulted in uneconomic resource allocations, lack of production incentives, consumption at the expense of investment, large budget deficits, balance of payments problems and a continued high rate of inflation. These problems are compounded further by a rapid growth of population and an unfavorable ratio of resources to population.

1.25 Despite recent economic gains Egypt remains fundamentally a poor country. Its leadership has a historic commitment to economic and social justice. Through past efforts the Government has managed to bring about a relative measure of well being to the Egyptian people but presently lacks the economic and structural base to support sustained economic progress. While further economic growth is possible through a continued high level foreign exchange earnings and foreign assistance, it is likely that sustained improvement in

standards of living and in quality of life can only be brought about through increased productivity and reduced population growth. A structural reform is required which pushes to the forefront policies and programs which inhibit population growth and increase productivity. But any reform of the economy will be inevitably destabilizing and will have potential for weakening Egypt's equity base initially, even as it establishes the longer term conditions needed to preserve that base - thus care needs to be exercised during the transitional phase in order to minimize destabilization and to safeguard equity to the maximum extent feasible.

1.26 The key structural reforms which are required in our view - and which are generally being pursued at this time by the Egyptian Government - are: reduction of population growth; movement towards a market-oriented economy; decentralization of decision-making both in political and in economic terms, rehabilitation and expansion of the capital plant; a restructuring of approaches to equity which protect the interests of the poor; and macro and micro policy changes.

(i) Population - While Egypt has a population policy and a long-term family planning program, its overall effort lacks adequate commitment, cohesive direction and effective coordination. There is need for a broad based recognition that population increase is the priority problem facing Egypt today. A strong program with a broad based family planning component should be mounted which offers positive incentives and material penalties to constrain family size.

(ii) Development of a Market Economy - Egypt has had a heavily, centrally-controlled economy which has sheltered the domestic

economy from the effects of international prices by price controls and by a range of subsidies. As Egypt today seeks to move its economy more in line with the international economy, existing distortions make rational economic decision-making extremely difficult. Only through moving towards a more market-oriented economy with higher productivity can present distortions be overcome and more rational economic decisions be made. The promise of infitah is a liberalization of the economy and an effort to substitute market terms for central direction. While the open door policy has been in existence since 1974, much of it still remains to be translated into action. For foreign investment, this means a better stimulation program, clarification of investment policies and a more efficient and equitable execution of existing rules and regulations by all branches of government. For the domestic private sector this means more financial and administrative incentives, improved and more effective credit mechanisms, access to improved technology, and reform of existing tax laws. For the public sector, this may mean selected transfer of some public sector industries into the private sector - but, more importantly, it means a transformation from a sheltered and centrally controlled climate into a more competitive situation. The transition both in the private and public sector - involves risk. Indeed there is no Egyptian Government policy which is viewed with more hesitation and suspicion than that of infitah. Great care must be taken in directing the transformation, therefore, since failure would endanger the broader policies which infitah represents and potentially the peace process itself.

(iii) Decentralization - Closely aligned with development of a market economy is the process of decentralization which is aimed at fostering local administrative initiatives in the interest of greater operational efficiency and at broadening the role and responsibilities of managers throughout the structure of the public sector. In an economy and society as wide ranging and diverse as that of Egypt, it has become clear that effective economic decision-making can take place only if those directly effected by decisions have an increasing role in the decisions themselves. Central imposition of agricultural policy has inhibited the natural inclination of Egyptian farmers to find the best economic approach to farming. Central direction of public sector industry has cause inefficiencies, lack of responsibility, and ineffective pricing policies. Central planning of local governmental activities has meant that the people concerned have had little voice in determining what kinds of social and other governmental services are most important to them and how they can best be enhanced. While the process of decentralization of decision-making, which has been initiated somewhat hesitantly and tentatively by the Egyptian Government, holds considerable promise for enhancing economic development and the perceptions of the Egyptian people about their role in that development, care must also be exercised to assure that sufficient technical and administrative capabilities exist at various levels of government and the public sector to permit effective movement in this direction.

(iv) Macro and Micro Policy Changes - To promote necessary

productivity and mobilization of savings a variety of macro and micro policy changes will be required over a period of time. These include, inter alia, liberalization of exchange and interest rates, reconsideration of the structure of consumer subsidies, tax reform, adjustment of agricultural input and output prices; restructuring of infrastructural rates for energy, water, etc. and rationalization of industrial pricing. Potentially, policy changes are fraught with the greatest danger for potential destabilization and dislocation. These must therefore be handled with extreme care with the tradeoffs between short and longer term effects of changes carefully assessed.

(v) Rehabilitation and Expansion of Capital Plant -

Large segments of public and private sector industry and infrastructure have outmoded and worn out equipment which must be replaced. Expansion, particularly of private sector industry and social and economic infrastructure, will also be important to increased productivity. A significant portion of public sector industry, however, may not offer positive economic rates of return on future investment. In addition, rehabilitation and expansion of infrastructure must be made in a framework of economic rationalization to reflect real costs, particularly those of energy.

(vi) Economic Stabilization Measures - Inflation which is now running in the order of 25% a year represents the greatest danger to stabilization. While some of Egypt's inflation has been imported in the form of increased international prices (energy costs being an exception) more and more it is traceable to government's

fiscal and monetary policies. With respect to government outlays, it is unlikely that defense spending can be lowered appreciably in the near term; and investment can be reduced only at the expense of growth. Subsidies therefore become logical targets for reduction of expenditures. Revenues need also to be raised. Tax evasion can be reduced and increased revenues collected on a variety of luxury and semi-luxury goods. With the exception of the Suez Canal and petroleum industries, much of Egypt's public sector produces little in the way of transferable profits owing to price controls as well as employment and wage policies. In another area, the government needs to offer greater incentives to channel foreign expatriate earnings into more productive sectors of the economy rather than in real estate where much expatriate worker investment now flows.

(vii) Restructuring the Equity Base - Egypt's approach to equity has been one of income supports (in the form of subsidies, price controls, etc.), public services, such as health, education and forced employment policies. Increasingly these have been paid for by "non real" budget deficits. It follows that if Egypt is to move increasingly to a market-oriented economy, these same distortions cannot continue as the primary base of the Egyptian Government's equity strategy. A restructuring of the equity base will be essential, in which increased productivity is the key - a productivity which provides "real" resources in the form of increased income in place of budget deficits and a productivity which provides more efficient social services.

D. Egypt's Plans, Progress and Commitment

1. Egypt's Development Perspective

1.27 The Government of Egypt's official development strategy is set forth in its five-year plan which was first prepared for the period 1978-1982. That plan presented broad development objectives, described major obstacles to development and outlined the general path development was to take. However, the plan's projected annual growth rate (10% - 12%) and general macro framework were over-optimistic and internally inconsistent. The plan also failed to establish priorities among objectives nor did it set any particular criteria by which priorities might be established.

1.28 The revised 1980-84 development plan has recently been presented to and approved by the People's Assembly. Although the details of the new plan are not presently available, its general strategy and objectives were presented in a GOE paper presented at the December 1979 Consultative Group Meeting. In comparison with the original 1978-82 Plan, that paper calls for an appreciably lower but still optimistic 10% growth rate. In real terms the investment targets in the paper are about the same. The new paper envisages a less rapid increase in domestic savings and a higher inflow of net foreign financing than we have provided in the CDSS. It makes some changes in investment priorities, placing increased emphasis on economic and social infrastructure in order to reduce constraints to increased productivity and in the case of social infrastructure to improve quality of life. Significant increases are also called

for in agriculture, irrigation and construction with reductions made in the industrial, petroleum and Suez Canal sectors.

1.29 Although the plan continues to be overly ambitious and does not attempt to order among priorities, it nonetheless represents a considerable improvement over the previous effort. Overall, it assesses fairly realistically the major constraints facing the economy and attempts to address these. It recognizes population growth as one of the key constraints to continued progress. It places new emphasis on rural development. The paper calls for a re-examination of the system of subsidies, but evidences a concern for avoiding social dislocations brought about by a reduction in such income support measures as well as the effects of greater reliance upon a market-type economy. Finally, the paper also places considerable emphasis on better economic and financial management within the government.

1.30 In general, Egypt's five-year plan represents a good analysis of Egypt's constraints and a fair strategy for addressing them. It would be misleading, however, to suggest that the plan represents unanimity of purpose within the government or a full consensus on development approaches. There remain considerable difference of views among the various ministries of the government on such key issues as: the nature and degree of subsidy and price rationalization and the pace at which these steps should occur; the depth and breadth of the open door policy; the approach to the problem of population growth; the public and private sector role in expansion of industry, infrastructure, and housing; and the relative emphasis of agricultural

investment on new lands/old lands. Moreover, at this time there exist few mechanisms within the government for resolving development issues and coordinating approaches to these. Understandably, Egypt's top leadership is frequently preoccupied with foreign policy considerations. Among the economic and line ministries concerned with the economy there has been inadequate concerted effort to coordinate views and activities. While some interministerial bodies such as the Supreme Council for Population have recently begun to function more effectively, there is an increasing need for coordination of planning and programs within the government.

1.31 In conclusion, the Egyptian Government has a good appreciation of the economic and developmental problems it faces and is developing a consensus on approaches to these constraints. It has a strong commitment to further development and to equity, but its leadership differs to a degree on how the two goals are to be achieved.

2. Recent Economic and Social Performance (1974-79)

1.32 The declaration of the "open door" policy in 1974 formally announced the process of transition toward economic liberalization. Exchange rate adjustments, encouragement of foreign investment, and institutional decentralization have contributed to the creation of a new economic environment. At the same time, Egypt's foreign exchange position has improved due to increased exports of goods and services as well as large inflows of foreign assistance. These developments have led to a period of rapid economic growth.

The prospect for sustaining this rapid progress in the 1980s is good provided that the GOE continues to address the remaining issues of structural and policy reform and economic management. However, many difficult decisions remain to be undertaken. The continuing large fiscal deficit in the public sector and significant price distortions are the paramount macro-economic issues in the short run. Low levels of domestic saving require special attention of the policy makers over the medium term.

a. Economic Growth , Investment, and Saving

1.33 Gross domestic product (GDP) at factor cost grew in real terms at about 9.0 percent per year during the period 1975-79. This rate is more than twice the estimated GDP growth rate of 3.9 percent during 1967-73. A closer look at sectoral growth rates reveals that the distribution sector grew at an average yearly rate of 15.5 percent as compared to 7.4 percent for the commodity sector and 7.9 percent for services. Much of the distribution sector growth is accounted for by the rapidly growing Suez Canal and Transport, Communications and Storage sectors. The slow overall growth in the commodity sector mainly reflects the size and slow growth of the agricultural sector. Although agriculture grew by about 3 percent in 1978, the long term growth trend of agricultural production has been about 1.5 percent per annum. Industrial sector growth (excluding petroleum) peaked at about 9 percent in 1977 (up sharply from below 4 percent in 1974), but fell back to about 6 percent in 1978 and 1979. The major growth performer in the commodity sector

is, of course, the petroleum industry, which has exhibited an annual growth rate of more than 33.7 percent during 1976-79.

1.34 During 1975-79, the level of national investment averaged about 25 percent of GNP - up sharply from the average of about 14 percent that existed during the previous five year period. Much of this higher level of investment was financed through savings of Egyptians working abroad and foreign assistance. Estimated domestic saving for 1979 is only about 8 percent of GDP - not significantly different from the level of the early 1970s. Although prospects for continued (if not rapidly increasing) inflows of workers' remittances and foreign assistance in the near future are good, medium to long term growth depends on achieving larger domestic savings.

b. Public Finance, Monetary Growth, and Inflation

1.35 Public finance is one of the most urgent concerns in the Egyptian economy. Total revenue falls short of total expenditures by a large margin. Table 3 at the end of this paper shows the magnitude of overall deficits. Although the apparent 1979 deficit was aggravated in part due to the budgetary impact of moving all imports and exports to the unified exchange rate adopted in January, 1979, there can be no doubt that the large public sector deficits exert severe inflationary pressure on the economy through large money supply increases resulted from extensive bank financing of the deficit.

1.36 Two main reasons for deficits are the subsidy payments and the shortfall between the surplus generated by the public economic enterprises and public investment expenditures. The GOE has

taken some steps to keep the subsidy bill from increasing further - in part by restricting eligibility for rationed commodities. Current projections are for a subsidy bill in 1980 at about the same level as in 1979.

1.37 Statistics show that two companies, EGPC and Suez Canal Authority, account for 68 percent and 70 percent of all transferred profits in 1978 and 1979 respectively. The balance of transferred profits were approximately equal to the deficits of other public enterprises. The GOE has begun to address this problem. In the presentation of the 1980 budget, the GOE set aside the public enterprises budget from the general budget to separate out the performance of the public enterprises. More importantly, GOE officials have indicated the government plans to require all public enterprises to have pricing policies that permit them to cover costs and earn a profit.

1.38 The Egyptian Government also is in the process of increasing revenues. A new sales tax on manufactures was announced in late 1979. A reform of customs tariffs is to be undertaken. In addition, prices of some goods have been increased recently -- gasoline, cigarettes, electricity, soft drinks, unrationed sugar, etc. The Government is seeking to improve its tax administration as well including the collection of customs duties and direct taxes. In the latter category emphasis is being placed on reaching groups that heretofore have been able to evade the tax system.

c. Balance of Payments

1.39 The balance of payments situation has improved markedly

in recent years. Egypt's foreign exchange earnings increased from about \$2.6 billion in 1975 to an estimated \$6.9 billion in 1979. Much of the increase comes from four major sources -- workers' remittances, Suez Canal dues, tourism receipts and petroleum exports. During 1979 the four sources accounted for more than 65 percent of total foreign exchange earned in that year. As exports of goods and services rose, so did imports. Overall imports, including estimated unofficial imports through free zone areas, increased from about \$5.1 billion in 1975 to an estimated \$8.5 billion in 1979.

1.40 While trade balance deficits grew at the annual rate of 12.1 percent during 1975-79, the services balance surplus registered a faster growth rate of 35.9 percent annually during 1976-79 (1975 was excluded due to the unusually low service balance surplus in that year). The net result has been that the deficit on current account declined at the annual rate of 10.6 percent. In real terms, the current account deficit declined even faster. (A more detailed description of the balance of payments situation appears in Annex II).

d. Social Performance

1.41 Recent social performance is difficult to assess with any great degree of accuracy due in large part to lack of available social indices since 1975. Recent improvements in economic performance, however, have been accompanied by social changes which provide at least modest cause for optimism. Real wages in several

important employment areas (urban construction, rural migrant labor, for example) have increased significantly in the second half of the 1970s. Employment appears to have grown faster than the growth in the labor force - implying improvements in net employment levels. Limited urban income data suggests that although inflation has been a problem in the 1970s, the incomes of the urban poor have been sufficiently elastic to keep pace with or exceed inflation.

1.42 On the other hand, there has been noticeable decline in the access of the poor to social services. First, recent social investment policy has done little to alleviate the basic gap between rural and urban income levels and economic policies have positively reinforced the intersectoral differences. Second, declining levels of social investment coupled with high population growth have begun to erode the social base laid in the 1950s and 1960s. Literacy and school enrollment appear to be declining from peaks in the early 70s. Infant mortality has not declined in recent years and may be rising slightly. Third, allocative inefficiencies at all levels of the economy have limited growth and productivity. As a consequence, Egypt's relative place among LDCs has declined and by inference the relative well being of Egyptians has similarly declined.

E. Donor Assistance

1. Growth and Structure of Donor Assistance

1.42 The level, structure and role of Donor assistance in Egypt's development process can be readily disaggregated into three distinct phases during the Seventies. During the early Seventies, donor

assistance flows were very modest in magnitude, of limited significance as a development tool, and mainly from Bloc countries.

1.43 The importance of donor assistance as a development tool increased strikingly during the second phase, from 1973 to 1977. Table I in Annex VII points out that disbursements from foreign assistance which had been less than \$100 million per annum in the first three years of the decade jumped sharply to \$800 million in 1973. Over the next several years assistance flows moved sharply but erratically upward to a \$2.9 billion peak in 1977. During this phase assistance as a share of imports ranged between 30 percent and 56 percent. The growth and fluctuation of assistance during much of the Seventies reflected two basic trends: (1) wide swings in the level of Arab Donor assistance; (2) steady annual increases in assistance from other Non Bloc Donor sources.

1.44 After peaking at \$2.9 billion in 1977, disbursement levels dropped sharply to \$1.7 billion in 1978 and roughly \$1.2 billion in 1979. This sharp downturn reflects a drying up of assistance from Arab Donors but masks the strong underlying upward trend in other Donor assistance. Overall foreign exchange availability remained favorable because of the emergence of several positive developments. Assistance from Non Bloc western donors doubled from the 1976 level of \$540 million to an estimated \$1.135 billion in 1979. Worker remittances and petroleum exports were up dramatically as were Suez Canal earnings. Foreign direct investment expenditures negligible in the early Seventies, reached an estimated

\$500 million in 1979. Foreign oil companies are believed to account for roughly 50 percent of this total. The spread of non-petroleum direct investment was quite wide.

1.45 Table II, in Annex VII, surveys in detail the third phase decline in assistance on a commitments basis. Commitments fell off marginally in 1978. This reflected the net effect of a \$300 million decline in commitments of international financial institutions, mainly the IBRD, and a \$127 million decline in OPEC commitments. A \$229 million recovery in the commitments level of the international institutions in 1979 (\$229 million) was offset by declines in non-US DAC Donor commitments (\$214 million) and OPEC commitments (\$38 million). The sharpest drop in OPEC Commitments were in 1977 since GODE and other Arab Donor commitments were sizeable in 1976. It should be noted that sharp shifts in non-US DAC Donor commitments in large part reflect the rigidity of the programmatic timing cycle as is the case with the U.K., i.e., a triennial commitments cycle.

2. Assistance as a Development Catalyst

1.46 The sizeable and continuing influx of foreign assistance since 1973 has set into motion and later accelerated recent development gains. These flows continue to be critical to the GOE's ongoing effort to modernize, revitalize and rationalize the economy's infrastructure, productive capacity and economic management skills. Initially, foreign assistance injected a new robustness into a stagnating economy sapped by war preparedness expenditures and an ineffective economic policy structure. Assistance flows have helped

assure the availability of imports critical to the production process. Renewed exposure to western economic analysis, technical skills and methodologies have also provided development planners with fresh thinking and alternative formulations for improving the efficiency and performance of the economy. This process continues.

1.47 Assistance flows have continued to be required to advance the process of rehabilitation and expansion of the country's basic infrastructure and productive capacity, preconditions for raising productivity and output. The importance of this effort is reflected in the still heavy commitment of major donors to telecommunications, power and railroad. Table III in Annex VII indicates that approximately 60 percent of non-U.S. donor assistance in 1979 was directed to projects in the energy, power, transportation and communications areas. The French have focused their 1979 commitments on transportation and communications as have the Japanese. World Bank commitments to increasing energy availabilities have been quite heavy in 1979. Education and population programs also accounted for a considerable share of World Bank resources. German commitments have favored in roughly equivalent amounts project activities designed to increase energy availability, food availability and manufacturing capacity. Commitments in 1979 to human resource improvement, or basic human needs, apart from the U.S. have been mostly in the form of technical assistance. Japanese and U.K. commitments in these areas were relatively sizeable in 1978. Japan and West Germany also made CIP type commitments of roughly \$70 million in 1979.

3. GOE Perspectives on Donor Assistance

1.48 The GOE perspective regarding the optimal utilization of assistance has changed with the regularization and expansion of these flows and with improved priority assessment by the GOE. During the mid-70s the GOE primarily concerned itself with the "capture" of assistance. Consequently, domestic resource flows favored the support of foreign assistance financed projects. Relating assistance flows to Egyptian priority investment activities has become an increasingly important concern to the GOE. And with donor encouragement the government is making a more concerted effort to determine its priorities. Increasingly, national investment patterns will tend to be more consistent with development priorities and less the consequence of ad-hoc funded activities and interest.

II. STRATEGY

A. Objectives

2.01 As it enters the decade of the 1980s, Egypt is part way in a transitional move towards greater liberalization of its economy and governmental structure. This CDSS addresses U.S. strategy for assistance to the Egyptian economy for a five-year period during which the policies of liberalization will be put to critical test. Our strategy for the 1982-1986 period will be aimed not at the totality of the economic transformation (for despite the size of the U.S. program proposed for the FY 82-86 period, U.S. project assistance will represent less than 10 percent of total GOE investment during this period) but at the more vulnerable and critical

sectors of the economy during the transition.

2.02 Our strategy recognizes that there has been a major rundown in Egypt's capital stock which must be remedied if growth is to take place. It recognizes that Egypt has achieved considerable progress in equitable distribution of national output but that to maintain and reinforce equity considerations will require new approaches. It also recognizes that Egypt needs to reintegrate its domestic economy with that of the world rather than sheltering itself from these forces. It is based on an assumption that Egyptian leadership is serious in its desire to establish a market-oriented economy and in its efforts to decentralize decision making more broadly in the political and economic spheres.

2.03 During the period of the CDSS the primary criteria for our strategy will be the concerns of stability, productivity and equity. Each of those criteria, if pursued independently, would lead to a substantially different strategy. It is clear, however, that under almost any foreseeable circumstances U.S. strategy will be based on a mix of these considerations - although each criterion will not necessarily have equal weight at all times during the next five year period.

2.04 During the last part of the 1970s while Egypt's important peace overture was being made and its economy beginning to recover from earlier stagnation, economic stability was at the forefront of U.S. assistance strategy. Also, for the critical next one to two year period, as a Middle East peace settlement is being negotiated,

we expect that stability considerations will continue to be of overriding importance to U.S. objectives. To this end, U.S. balance of payments assistance and the increasing weight of program accomplishments flowing from prior year efforts will be primary action elements for stability. In addition to these efforts, however, it is unlikely that any new program initiatives (beyond additional balance of payments assistance) could be mounted in sufficient time to affect stability objectives more than marginally in the next two years.

2.05 As a peace settlement is realized, and assuming the economy continues to improve in reasonable measure, economic stabilization will likely diminish as the central U.S. concern. Increasingly, in the next two years, the concerns of productivity and equity should move to the center stage of our strategy. Nonetheless, stability will continue to be a program concern and the U.S. must be prepared, as it has in the past, to be responsive to changing economic and political circumstances with flexibility.

2.06 The issue of productivity is at the very core of the liberalization of the Egyptian economy. Our investments will be made where impact on productivity (i.e., improved returns to all factors: capital, labor, management, and land) will be greatest. Considerable investments will continue to be required to rehabilitate and expand the industrial, infrastructural, and agricultural base in Egypt. At the same time, however, our strategy will look at the context in which investments are being made in order to emphasize the most efficient use of resources. Thus, an emphasis on management, planning

and attention to key issues associated with productivity will also be an important element of our strategy.

2.07 A structural change in the productive elements of the Egyptian economy will require a reorientation of social policy. The productivity of social investments will need to increase in tandem with productivity of economic investments. In addition, the foundations of current Egyptian equity policy: free access to social services, direct consumer subsidies, and mandated public sector employment, will require revision to insure that favorable distributional features of the economy are sustained without inhibiting greater productivity in the economy. Our strategy calls for continued investment in social infrastructure, but also stresses the productivity of social systems as well, particularly those associated with health.

2.08 While the dominant themes in our strategy for FY 82-86 are productivity and the preservation of social equity, our approach to social services is informed by an even more basic principle. Recognizing that gains in the Physical Quality of Life Index in Egypt have come very slowly since the late 1960's and that the Disparity Reduction Rate (DRR) in the key indicators of infant mortality and literacy has dwindled to about 1% per year, our program strategy in these areas will concentrate on a direct, explicit effort to secure gains in PQLI and especially an improvement in the DRR's for infant death and literacy. The data and analysis underlying this strategic choice are developed in the Annex on equity. While this focus does not preclude other kinds of investments in the social sector, it is

our intent to concentrate the overwhelming majority of our program effort in the social services area in programs which combine:

- Direct impact on literacy or infant mortality levels
- National level focus
- Promise of measurable effect on PQLI and DRR rates during the 1980's
- Low unit costs and maximum population coverage
- Application of proven technology rather than research and development or gradual institutional development

It is our intent to have in place by the midpoint of the CDSS period (about 1984) a set of national level programs in the areas of primary school access, control of infant diarrhea and fertility limitation which have a high probability of producing major measurable gains in PQLI and DRR performance over the five year period.

2.09 In terms of program targets, our strategy will key to those selected indices of GOE performance which are closely related to productivity and equity considerations. While it will not be possible (given the size of our program relative to overall investment demands) to link program outputs directly with target results, we believe the combination of our selected investments and U.S. influenced policy changes should make a strong and probably decisive contribution to the following accomplishments during the period of the CDSS.

1. Growth - GOE plans have generally called for an average growth rate of over 10 percent. We believe a more realistic target would be 7-8 percent.

ii. Growth in National Savings - Increases in national savings should be a reasonable measure of increased productivity brought about by improved management, interest rate adjustments, and revised factor prices. A reasonable target would be to increase substantially the present national savings rate from 14 percent to 21 percent and within this target to increase the portion of investment financed internally to that financed by foreign inflows.

iii. Public Sector Industry - With the exception of the petroleum and Suez Canal sectors, the balance of public sector industry provides almost no transferable profits to the GOE budget. Over the period of the CDSS, our strategy will seek to identify specific public sector industries with economic potential and place these on self-sustaining profit making basis.

iv. Productive and Social Infrastructure - Through adjustments on rates and tariffs, management techniques, and continued investment, we will put the power, telecommunications, ports, water and sewage subsectors in a position where their rates will fully cover operating expenses, retire debt and finance an increasing portion of plant expansion.

v. Agriculture - Through a combination of institution building, improved technology and revised incentives, we will assist the GOE to maintain the recent average annual growth rate of 3 percent and lay the basis for an increase to 4 percent by 1986.

vi. Education - Our strategy will seek to improve access to primary schools with an emphasis on enrollment of females in rural

areas. The national average for female enrollments is between 45% and 50%. There are nine governorates, largely rural and located in Upper Egypt where female enrollments fall below the national average. A reasonable target would be to raise female enrollment in these governorates to the national average and to move national primary enrollment levels from the 65% range to the 75% - 80% range.

vii. Population - With population now increasing at the rate of 2.8 percent per annum, a dramatic change is not likely by 1986; however, we would hope to lower the rate to 2.3 percent by this time.

viii. Health - Our program concentration will be a lowered infant mortality. With a concentrated campaign, which we believe possible by 1982, we would hope to reduce the present rate from 116 to 80 by 1986.

B. Approaches to GOE Policy: Economic Policy and Equity Policies

1. Overview

2.10 Experience during the past five years has underscored two key issues in setting the agenda for an effective USAID/GOE policy dialogue. First, the policy agenda must be selective, short and well-focused. Economic policy is not centrally established and managed in the GOE and it is usually the case that different agencies of the GOE have different and often conflicting policy objectives and policy responsibilities. Engaging all of these agencies and organizations on a wide range of issues is both unrealistic and infeasible. For USAID to be effective in pursuing important policy

revisions on the part of the GOE we have to define our own priorities and target our policy efforts clearly. Second, it is essential to make strategic choices about the level at which we seek to bring about policy change. Some policy adjustments must perforce be sought at the macro level, but in many cases it is more appropriate and more effective to aim for policy changes at mid or micro levels. For example, there is little immediate prospect for success in securing an overall GOE policy shift with respect to realistic energy pricing, but in the context of our electric power investments we have laid the basis for an input into electricity pricing. Similarly, the organizational complexities of an integrated policy approach to improving the terms of trade for the agricultural sector are forbidding, but specific elements of the problem such as rationalizing fertilizer prices and easing controls of output prices for specific crops are potentially tractable elements of a USAID/GOE policy dialogue.

2. Economic Policy Objectives

2.11 During the 1982-86 period we will be focusing our program on goals of improved productivity and growth in the context of general economic liberalization. Distortions in commodity and factor prices have been central to the problem of low productivity in Egypt and substantial efforts to rectify those distortions will be our central policy concern. Egypt's inherent factor endowments reflect a considerable bias towards labor. Land is limited and capital relatively scarce. By comparison Egypt has a large and relatively well-educated

manpower base. Yet present factor prices, particularly the tendency of government to subsidize capital for public sector investment, has limited returns to labor and contributed to the low efficiency of the industrial sector. Price controls in the agricultural sector (both on the input and output side) have had considerable effect on the overall efficiency of that sector. At the same time, the scarcity of capital for new investment has been augmented by government banking policies which tend to discourage savings and to keep capital outside of the formal finance channels. At the macro level our basic policy agenda is centered on three issues:

- (a) Return to market-based factor prices;
- (b) Policies which increase savings and bring capital into the formal financial markets;-
- (c) Relaxation of both input and output price controls in the productive sectors (esp. industry and agriculture).

Through sectoral programming and, at times, through individual projects, we will select precise policy objectives which relate to these goals. These objectives will be incorporated into our overall sectoral discussions with the GOE and directly into project design when appropriate. It would not be realistic to catalogue an anticipated agenda of mid and micro policy level issues for a period extending out to 1986. This agenda will be the product of the development of new sectoral programs and will clearly change over time. If, for example, major gains are made on rationalizing the price for cash sales of

fertilizer, our attention will move towards similar adjustments in the (heavily subsidized) credit sales of fertilizer. Similarly, progress in moving the interest rates paid on savings accounts and other savings instruments will result in our directing attention more directly towards interest policies on the lending side.

3. Equity Policy Objectives

2.12 Any AID program of the magnitude of U.S. bilateral assistance to Egypt inevitably has multiple objectives: economic, political and developmental. A concern with equity, social welfare and the quality of life in Egypt derives from and must be encouraged by all of these objectives. Even more importantly, the Government of Egypt continues to place major (if not, indeed, paramount) importance on equitable social development.

2.13 The task for USAID strategy in Egypt is not then one of deciding whether to concern itself with equity (the answer to that question is implicit in both U.S. and Egyptian objectives) nor is the question how much to concern ourselves with equity (for equity is of intrinsic concern in every aspect of our program). Rather, the issue is in what ways shall USAID be concerned with equity?

2.14 Three major areas or modes of involvement are suggested by the examination of the history and status of equity and equity policy in Egypt:

- Equity in the context of economic liberalization:
- Equity with Productivity
- Intersectoral equity: Improving life of the rural poor

- PQLI/BHN: Especially reducing the threat of deterioration in literacy and infant mortality indicators

4. Equity with Productivity

2.15 Many of the most important equity issues in USAID's programming in 1982-86 will arise in areas not conventionally associated with equity-oriented programming: industrial investment, private sector promotion, power and utility policy, and macro-economic policy. In the past, Egypt relied on policy tools in the equity area which were consistent with central planning and associated with low overall economic growth. These policies have already begun to show signs of weakness in the early years of the liberalization of the economy and are going to face even more severe challenge. We can and should play an active role in assisting the GOE to evolve a policy structure which promotes equity without introducing the economic distortions which have crippled Egyptian productivity and promoted sub-optimal resource allocations. These include:

- Careful attention to factor pricing. Avoidance of biasing factor prices in favor of capital and preventing the market from allocating fair returns to labor.
- Improved Egyptian tax policy. Seek effective balance between income transfer objectives and growth objectives in the tax structure.
- Revised and targeted subsidy policy. Use subsidies where they offer real efficiencies over other income

transfer devices, but insure that benefits are effectively targeted on the poor.

- Investment incentives which encourage productive, job creating investments rather than short term, quick return speculation.
- Policies which encourage the mobilization of private capital for responding to demands for social infrastructure - especially housing.

5. Intersectoral Equity

The dominant structural feature of the Egyptian economy with respect to equity is the institutionalization of unfavorable terms of trade against the rural sector. While slight imbalance in the urban/rural terms of trade may (a la John Mellor) promote high employment (and thereby equity), the persistent and severe imbalance which characterizes the Egyptian economy is inconsistent with equity objectives. USAID strategy in this area will be to work at both the macro and mid-levels of the economic policy framework of the GOE to move for a softening in these terms of trade. This includes a direct concern with the freeing-up of agricultural prices, reduction or elimination of acreage controls and liberalization of the marketing process both with respect to agricultural inputs and outputs. Changes in agricultural policy, although important, are only a part of the problem of the urban/rural gap. Even under the freest market situation agriculture can only grow at one-third to one-half the rate of the economy at large in Egypt. Growth in non-farm economic activity in the rural sector will be an absolute necessity to an overall improvement in the relative

position of the rural population. Present GOE policy implicitly and explicitly works to the disadvantage of the growth of non-farm rural employment. Productive infrastructure and financial markets have been consciously concentrated in a few urban areas. USAID will pursue a wide variety of avenues to insure that the prerequisites to non-farm urban sector growth are more effectively met by the Government of Egypt in the areas of credit, power, marketing, infrastructure, etc. At the same time, USAID will make major investments in rural social infrastructure through the decentralized structures of local government.

6. BHN/PQLI

2.17 Over and above the broad strategy of the CDSS to pursue growth and equity in the context of economic liberalization and an emphasis on improved productivity there is an important and inescapable imperative for the U.S. assistance program in Egypt to confront the fundamental elements of the quality of life for Egypt's poor. While there are needs in a wide range of areas, three facets of the PQLI situation in Egypt are beginning to sound serious alarm signals:

- Infant mortality levels are far too high for a country with Egypt's health infrastructure and medical human resources and may actually be increasing.
- Primary school enrollment levels (percent of school-age children enrolled) are decreasing after years of sustained expansion and more than 30% of Egypt's

children are not attending school. Already there are signs that this trend is impacting on overall national literacy levels. Egypt cannot afford to permit this backslide.

- Despite worldwide trends towards levelling or declining fertility in a large number of LDCs, Egypt's population growth rate seems to be on an upward curve. Both the infant mortality and school enrollment problems above are probably directly related (both as causes and consequences) to this demographic fact.

2.18 AID's primary BHN/PQLI strategy for the FY 82-86 period will be to work with the GOE to better use its social infrastructure base in these three key areas of infant mortality, primary school enrollment and fertility. While we will continue to do some broader programming in the health, education and population sectors, our basic strategic emphasis will focus on making a sizeable impact in these three areas. In the case of school enrollment it is clear that physical access is one of the key constraints and AID anticipates a major investment in primary school classrooms - especially in rural areas. In the case of infant mortality we have identified infant diarrhea as important causal factor and plan to move to a national and sustained infant rehydration program during the CDSS period. In the fertility area USAID strategy has been frustrated by a considerable ambivalence on the part of elements of the GOE towards an active government role in family planning. Evidence of far stronger

support for family planning at the provincial level points to a multi-pronged fertility strategy with growing emphasis on community based delivery of services and information executed less through central ministries and increasingly through governorates and local authorities. It is fair to point out that success on other USAID equity targets whether BHN issues or broader equity and growth issues will be in no small measure contingent upon success in coming to grips with fertility levels in Egypt. If money alone could alter population growth rates, population programming would have a far larger share of the total of our investment. Indeed, if fertility programs begin to show real promise in the early part of the CDSS period the analytic priority USAID attaches to population would be reflected in revised budget levels for population.

C. Areas of Program Concentration

2.19 The analysis in Part I presented a summary of the major development issues facing the Egyptian economy during this period, underscoring those we see as salient to our development strategy. The preceding section developed policy concerns and central themes which govern the identification of specific development objectives at both the macro and sectoral levels. This section moves from analysis and broad policy concerns to outline the essential strategic criteria which will form our investment policy in specific sectors of the Egyptian economy. Because of obvious clusterings of strategic concerns the strategy criteria have been grouped under the following headings:

1. stability
2. production and productive infrastructure
3. management and manpower
4. social infrastructure and decentralization
5. health and population

Recognizing that there is both a need and value to have some flexibility to respond to very specific development requirements in Egypt, a sixth category of investments are those which are not directly related to the CDSS strategy.

1. Stability

2.20 As noted earlier, once a peace settlement is achieved and assuming a reasonable degree of continued economic progress, economic stabilization measures should place less claim on U.S. resources than has been the case in the past. The PL 480 program and the Commodity Import Program will continue to be the primary vehicles for U.S. contributions to economic stabilization, mainly through the provision of consumer items, raw materials and intermediate goods. Continued economic stability will also depend on the Egyptian government's effective use of macro policy instruments. Generally, we will look to the IMF and IBRD to take the lead on macro policy considerations as they relate to economic stabilization; however, we should also be prepared to assist the deliberations in ways consistent with our foreign policy objectives.

2.21 We foresee a continued high level of PL 480 wheat during the period of CDSS, because of its effective use as a tool for stability,

because of its importance to the diets of the poor and because Egypt will continue to need some level of balance of payments support throughout the CDSS period. We plan to phase out the CIP as a stabilization tool by the end of 1982, assuming Egypt's balance of payments position continues to improve. As in the past, however, the U.S. must be prepared to increase CIP levels for stabilization purposes if conditions warrant. In this context, as will be noted farther on, we plan to continue the CIP as an implementation mechanism for rehabilitation and expansion of productive sector and productive infrastructure once the CIP is phased out as a stabilization mechanism. In the event of a rapid downturn in the economy, this element of the CIP could readily be converted to stability purposes. Thus, the continuation of the CIP will afford the U.S. a degree of needed flexibility.

2. Production and Productive Infrastructure (Agricultural & Industrial)

2.22 A key element of our strategy during the 1982-86 period will be to improve overall productivity within Egypt's economy, particularly that of the industrial, agricultural and infrastructure sectors. The sector which offers the greatest potential for productivity gains, total contribution to growth, and increase in employment is the industrial sector.

2.23 The largest component of the Egyptian economy is the agricultural sector; however, growth potential in this sector is limited and even under the most optimistic assumptions it will continue to lag far behind the industrial and services sector in growth performance. Our investment in direct production capacity therefore has to balance the concerns of

of growth potential versus scale. On this basis we have weighted the industrial and agricultural investment in the approximate ratio of 7:2 over the CDSS period. An equally complex balancing problem is posed by the issue of the proper mix of productive infrastructure investment versus direct production capacity investment. The backlog of deferred investment in agriculture infrastructure (largely the irrigation system) is proportionately larger than in the industrial sector and so the productive infrastructure element of our investment plan is weighted considerably more heavily towards agriculture than the direct production element.

2.24 Under assumptions of steady progress in economic liberalization we have a strategic preference for investment in new plant or plant upgrade over supporting infrastructure investments, because we see quicker and more substantial growth impact from direct production investments. The relation between production and infrastructure is, however, a dynamic one, and we will monitor closely the growth in demand for economic infrastructure (especially power and transport requirements) to insure that industrial demand does not outstrip supply. This CDSS proposes an investment mix which is weighted towards production capacity as against new infrastructure, reflecting our judgment that the 1982-86 period will witness considerable progress in the liberalization of the Egyptian economy. Were this assumption to prove over-optimistic there might be a limit to the number of financially and economically justifiable production investments available and we would alter the balance towards economic infrastructure. In short, the dynamic

relationship between the sectors argues for a posture of flexibility which permits us to be responsive to the pattern and pace of economic liberalization over the first half of the 1980s.

2.25 As a corollary to a strategic emphasis on productivity and growth increases, our investment strategy in production will be geared to promotion of economic liberalization (both expansion of the private sector and increasing the shift of the public sector towards a market-oriented, competitive basis). This concern with liberalization in conjunction with productivity translates into two sets of investment criteria for production investment, one relating to rehabilitation of existing plant and one for new plant investment.

(i) Existing production capacity in industry includes considerable numbers of public sector facilities. Our policy will be to invest selectively in rehabilitation of existing plants where there is clear evidence of a potential for gains in productivity (not simply gains in output) and where such investments will not thwart the emergence of more competitive or productive private enterprises. In general, we will not aim to add significant new plant capacity to public enterprises but rather to restore or upgrade existing plants to obtain the maximum value out of past sunk investment. We anticipate considerable selectivity on both financial and economic grounds to avoid financing in facilities or production areas with either a poor historical record in Egypt or with only limited future potential.

(ii) Our strategy for investment in new capital plant will begin with a bias towards private sector enterprises. In areas of traditional private sector operation and in new production areas we intend to

restrict financing of new plant exclusively to private sector enterprises. In some areas of basic industry where there is little record of private sector performance or little GOE willingness to bring in the private sector we will consider investment in public sector new plant. Our strategy in this sector emphasizes the necessity for rigorous application of both economic and financial criteria to investment selection to insure that new plants will (a) be viable within the framework of severe price distortions in Egypt, and (b) be both economically and financially viable under conditions of real pricing so that they will not be hostages to present GOE economic policy. At this time we do not plan to give investment preference to either export or import substitution industries. In view of the current process of economic transition in Egypt and given the reasonable size of the internal market we anticipate that some industrial investments of both types may be warranted and that issues of efficiency, productivity and economic/financial returns will provide the proper yardsticks for investment selection.

a. Public Sector Strategy

2.26 There remains considerable potential within the public sector for productivity gains in selected industries. In accordance with the criteria outlined above, our strategy will seek to rehabilitate existing plant facilities rather than embark upon new ventures in the public sector. Our approach will be to couple investment in rehabilitation or expansion of plants with planning and management improvements, emphasis on revised factor prices and new technology. We will also continue efforts to improve the impact of public sector industries on the environment. Another important element of our strategy will be to emphasize decentralized management, thereby permitting public sector enterprises to have more

direct voice in purchases of raw materials, hiring and firing and other management prerogatives common to the private sector. Our objective will be to identify and assist public sector industries with the greatest economic potential to place themselves in a profit-making position by 1986.

b. Private Sector Strategy

2.27 We have multiple strategic objectives with respect to the private sector in Egypt. We start from the premise that gains in productivity and growth in the industrial and service sectors will depend in large measure on the overall expansion of the private sector. We see a need for expansion along a number of axes:

- i. geographic - private sector development outside the primary cities.
- ii. expansion of scale - movement of the private sector back into enterprises which have in recent decades been the preserve of the public sector.
- iii. size - encouragement of smaller sized enterprises which have been constrained by lack of access to credit, raw materials, etc.
- iv. diversification - movement of private entrepreneurs into new products and services.
- v. numerical expansion - significant numbers of new firms in the private sector at all scales of operation.
- vi. rural industrial growth - a special strategic concern with the growth of private sector off-farm enterprises in the rural sector.
- vii. expansion of private sector employment.

In terms of priorities, we have pursued a general strategic approach of beginning with the larger and better established private sector firms whose primary requirements are capital and commercial credits. From this beginning, during 1978 we moved towards institutional development programs which aimed at improving financial services, feasibility studies, and financial markets as well as simply expanding the availability of FX to private businesses. This extended our programmatic reach to medium-sized private sector enterprises. During the CDSS period of 1982-86 we anticipate maintaining and augmenting these programs but broadening our private sector strategy to reach smaller and less sophisticated enterprises, particularly because these firms represent one means of more equitable distribution of AID financed resources. We expect the CIP private sector program to work in close tandem with our project activities in meeting sector objectives.

2.28 We also plan to devote additional attention to creating a more favorable business environment by working with the GOE to strengthen incentives and thereby encourage the undertaking of new investments by domestic and foreign firms. This will include efforts which will assist the GOE to identify and remove anachronisms and anomalies in existing business laws and regulations. We also plan to consider ways which will encourage more labor intensive investments. A final area of concentration will be aimed at upgrading business and labor skills. (For additional discussion of the private sector see Annex VIII.)

c. Agricultural Strategy

2.29 Overall, our agricultural sector strategy is directed toward generating growth in production and in labor productivity. This is to be achieved through simultaneous, though not precisely parallel, activities

in agricultural technology, institutional development and agricultural policy. By 1982 we expect that ongoing project activity will provide a technical base for farmers to begin to raise production of all major crops. Institutional development projects now underway should result in self-sustaining organizations capable of transmitting technology and inputs to farmers. In addition, the analytic base should be laid for informal changes in agricultural policies to be made by Egyptian planners. The gross effect of ongoing projects by 1982 will be to establish a technological and institutional basis for greater efforts aimed directly at production.

2.30 We anticipate that the 1982-86 strategy will continue to emphasize policy and planning technology and institutional development. Within these three areas, however, there will be a shift forward to emphasize the planning of specific action programs to provide the production factors needed to implement the new technologies (particularly inputs such as fertilizer and water) and to develop the institutions, both public and private that provide these factors. We plan to provide the GOE with further assistance which will be directed at providing additional information on such policy areas as input output pricing, alternative investments in agriculture, land development options and the like. Two additional areas are likely investments for our strategy. We are now looking at the agricultural inputs area with an expectation that additional resources coupled with market changes might lead to relatively quick production gains. The other area which is likely to receive increased attention is the water delivery and drainage system with involvement likely at all levels from primary to on-farm systems.

2.31 In terms of objectives, we believe that some revision of last

year's targets may be in order. In last year's CDSS we projected a growth rate of 4 percent. This target was based upon GOE plans and estimates of the land required to feed a growing population. It was recognized that this rate was above historical trends. In fact, despite two years of favorable weather, higher output prices and greater input utilization overall growth has not reached 4 percent. In addition, higher output was expected from new lands and export of high value crops. With new analysis now available, that prospect appears less likely. Our conclusion is that while a 4 percent growth rate is desirable and may be obtainable by the end of the CDSS period, a 3 percent level is probably more realistic.

2.32 It also appears probable that earlier estimates of agricultural employment gains should be scaled downward, in part because of lowered estimates for growth in the sector. Secondly, the continued rise in agricultural wages relative to subsidized capital keeps labor substitution unattractive. Finally, the amount of employment expected to be created by land reclamation now appears lower in light of rising costs of energy and water which have raised substantial questions about the future economic viability of reclamation activities. In sum, we believe that agriculture is even less likely than was thought previously to be a source of significant numbers of new jobs. Off-farm employment, agriculture-related and otherwise, offers better promise for real employment growth. (For additional discussion of agriculture, see Annex IV.)

d. Infrastructural Strategy

2.33 Exclusive of agriculture, the key investment areas in the productive infrastructure sector fall into four groupings:

- 1) electric power generation/transmission/distribution
- 2) telecommunications
- 3) transport: road, rail, river
- 4) ports, harbors, and port facilities

Our strategic posture with respect to each of these categories of investment is a flexible one, but our experience and knowledge varies considerably among the subsectors.

- 1) Electric Power

2.34 With almost half a billion dollars of USAID investment already in electric power, we believe we do not have a major strategic interest in further heavy investments in generation and transmission during the first half of the CDSS period (i.e., through 1984). By the latter third of the CDSS period, however, it may be that overall economic and industrial growth will have been sufficient to warrant a follow-on round of investment in new capacity. We foresee considerable possibilities for investments in distribution of electric power both in provincial cities (where growth rates are fastest in Egypt) and to rural areas (if sufficient productive demand can be identified in the rural sector).

- 2) Telecommunications

2.35 During the 1975-82 period our investment has concentrated on rehabilitation of the existing telecommunications plant in Cairo, combining technical upgrading of the switching system with modest extensions of service. It appears that the European telecommunications consortium will be providing most of the remaining priority needs within Cairo and Alexandria over the CDSS period and as a consequence our interest in this sector will be confined to possible investments in upgrading some provincial links to the central system and possible investments in

rehab/upgrade of intra-city telecommunications plant in selected provincial municipalities.

3) Transport

2.36 Our experience in the transport sector has been limited to date. We have made some investments in rolling stock (railroad bogies, trucks, inter-city buses, intra-city buses) but almost no direct investment in basic transport infrastructure (roadbed in the rail area, highways, etc.). In part, we have elected to leave these investments to other major donors, especially the IBRD. In part, our caution has stemmed from a concern that some of the costly primary investments may not offer especially high returns. There is evidence, however, that the highest returns may lie in the area of tertiary and secondary roads linking agricultural areas to major road and rail trunks. No major transport investments are anticipated without careful analysis of real needs, but it is this area of farm to market roads which stands out as an important potential investment area. In the urban sector we may also want to re-examine options in the area of mass transit in Cairo. There is increasing evidence that intra-city transport in Cairo is one of the bottlenecks to gains in productivity and economic growth in the region. Our interest in Cairo mass transit is a tentative one, however, as there are major managerial and policy obstacles to identifying an economically sound and efficient investment choice. We anticipate working with the Cairo authorities on exploring possible programs in this area. River transport remains another area which may offer some potential. Rising energy costs increase the attractiveness of barge transport for bulk commodities.

4) Ports and Harbors

2.37 Over the 1975-82 period we have made substantial investments

in the port cities of Egypt and in upgrading the navigational facilities for the Suez Canal. While additional investment opportunities exist in this subsector, we do not see it as a priority candidate for U.S. resources during the FY 82-86 period.

3. Management and Manpower

2.38 Improved management, particularly in the public sector, and effective use of manpower resources are critically important elements of improved productivity. During fiscal years 1980 and 81 we plan to invest a total of \$34 million in a variety of management areas including such categories as middle management training in the public and private sectors, management of infrastructure, the agricultural sector, provincial government, etc. This has been the subject of discrete project undertakings in management, but also an important element of almost all of our project undertakings. Our approach has been to provide middle level and above managers in the government and public sector plants with relatively short term technical and administrative courses. We recognize other factors such as incentives, decentralization, etc., are also important elements of management, but unlike training, these elements have to be supplied by the Egyptian Government, albeit with our encouragement. We plan shortly to undertake a more comprehensive review of approaches to management and expect by the beginning of FY 82 to narrow the focus of our investments in this area so as to concentrate on a relatively fewer number of management constraints.

2.39 In terms of manpower considerations, the question arises as to the need for increased training to meet demand for skills. Government vocational training programs run by both educational and industrial agencies have demonstrated little relevance to the demand side of the labor market. Out-migration to the Arab states had a seriously disruptive effect on the

supply of some key skills through the mid-70s, although evidence suggests that these distortions in manpower supply have largely been offset by the capacity of local enterprises to recruit and train replacement cadres internally. It remains to be verified that there is a continuing need for skills in areas which cannot be met by in-house training on the part of employers, but it is clear that public investment in skills training has had little, if any, impact on the quality of the manpower base in Egypt. Improvements in industry-based technical training may represent an area for potential investment. The World Bank has been very active in the area of public sector vocational training - and evaluation is needed of the real impact of the bank's interventions to date. We plan to make a limited investment to orientate vocational training to market demands whereby the user industry would finance the training it has a need for.

4. Social Infrastructure and Decentralization

2.40 For the purpose of this discussion, social infrastructure consists of the shelter, water, and sewerage systems and the educational sector. While the productivity focus of the CDSS places strong emphasis on investments in the productive sectors of Egypt's economy, we continue to attach major importance to certain categories of social infrastructure investment. The social sectors have also evidenced declining productivity in Egypt and, as in the case of agriculture and industry, constraints to productivity lie both in the areas of management and capital plant. The central management concern in all social sectors relates to over-centralization of the planning, design and delivery of social services in Egypt. Our primary strategic objective on the management side of the productivity problems in the social services area is to support and accelerate GOE efforts to decentralize both the technical and financial

management of service delivery. At the same time we are planning selected capital investments in basic areas of social infrastructure, particularly potable water, sewerage - primarily in rural areas and secondary urban centers in Egypt. We anticipate considerable complementarity between our programming for new and upgraded capital plant on the one hand and improved management on the other. Our strategic criteria for social investment during the FY 82 to FY 86 are considered below:

a) Locational Strategy: Provincial and Rural

2.41 Over the FY 82-86 period we anticipate a basic shift in the focus of our social infrastructure investments away from the primary cities and towards a new range of targets including secondary cities in the rural governorates, district towns and villages. In part, this shift is a natural sequel to very substantial investments in water, sewerage and shelter which are being and will be made in Cairo and Alexandria during the FY 75 to FY 81 period. It is also a natural outgrowth of our strategy regarding decentralization. Finally, it is motivated by a recognition that considerations of social and economic equity warrant particular attention to social investment in those areas which have been under-represented in GOE investment allocations.

2.42 We anticipate some modest investments in service delivery capacity and have identified a special need with respect to primary school capacity (discussed below); however, our primary concerns in the area of social infrastructure are in the areas of public utilities and environmental sanitation.

2.43 Factors of scale and features of the Egyptian administrative structure both support our pursuit of a two-pronged investment strategy in social infrastructure. One element of this strategy aims

at providing very low cost services at the village level and improving the capacity of village government to finance and administer basic services. The other element of our strategy in this area relates to working with governorates and selected secondary cities to improve overall capacity at these levels with respect to planning, technical skills, revenue collection, and other management of urban services.

b) Shelter Sector Objectives

2.44 We have two broad strategic objectives in the shelter area. First, we are interested in assisting the GOE in developing shelter policies which demarcate public and private sector responsibilities in ways which improve overall sectoral efficiency. Second, we are concerned with promoting both policies and institutional changes which insure that overall patterns of shelter investment are not biased against the poorer elements of the population. During the period of the CDSS we expect some shift away from direct AID investment in residential construction towards investments which facilitate the improved performance of the formal and informal private sector in the provision of shelter. These investments may be in the area of construction lending, mortgage lending, improved land service and/or upgraded local urban planning capacities. Two important studies, one an intensive examination of national urban policy options and the other an analysis of the informal housing sector will provide empirical basis for selection of shelter investments during FY 82 - 86.

c) Decentralization

2.45 Productivity in the area of social services and public utilities is disastrously low in Egypt. Major legal and institutional changes are needed at all levels to achieve the social returns which should be realized from both the capital and manpower investments which

Egypt has made in the social sector.

2.46 While past USAID programming has included some specific efforts to provide technical assistance to ministries and agencies in the social sector in the area of management, logistics and performance evaluation, our strategy over the period of this CDSS will be to look at the use of broader instruments to improve overall management in the sector. The most important of these relates to budgetary and administrative decentralization. Efforts to shorten logistical lines of social service delivery and narrow the span of control for managers in the social sector have already begun to pay dividends in improved productivity. Our policy will be to work for substantial decentralization of both finance and administration in all of our social sectoral programming. (As noted earlier, decentralization will be a major component of our industrial strategy.)

2.47 In tandem with investment in physical plant expansion, we plan to emphasize the importance of raising both utility rates and maintenance performance in order to underpin investments properly. Our social infrastructure efforts will aim at leaving in place governorate and municipal utilities organizations which are administratively and fiscally competent to finance and manage current operations, rehabilitation and replacement of capital plant and gradual extension of the capital plant. Without major progress on this front our investment in new infrastructure would face the same certain fate of unfunded depreciation which has undermined the major share of past social investment in Egypt.

d) Special Strategy for Primary Education

2.48 The education sector, excluding the universities, has been marked by surprisingly high levels of productivity in terms of

remarkably low unit costs. By the mid-1970s, for example, primary education was reaching more than two-thirds of the school-age population at an annual recurring cost of about \$20 per pupil. In contrast to areas like environmental sanitation and public shelter investment, it is not sector productivity concerns which inform our investment strategy in primary education. (That is productivity in terms of per unit cost, not necessarily the efficiency of the system for providing an appropriate education.) Our strategy in education derives in greater part from direct Basic Human Needs/PQLI concerns. Population growth is outstripping institutional capacity in primary education in Egypt. While absolute enrollments have continued to grow at marginal rates, the percentage of school-age children entering primary school in Egypt has begun to decline. More seriously, the percentage of female enrollments (especially in rural areas) has begun to decline steeply. Much of the enrollment growth of the 1960s and 1970s was achieved by increased intensity in the utilization of capital plant (double and triple shifts became commonplace in primary schools). This increase in facility usage was the key in holding costs down in the sector and was a vital element in overall sectoral productivity. It appears, however, that the returns to increasing utilization rates have been largely exhausted. Class sizes are growing rapidly (with the probability of diminishing returns in educational quality) and sheer access to schooling appears to be increasingly difficult. Recognizing that both economic and social factors account for some of the enrollment gap, nonetheless we intend to make a frontal assault on the problem of physical access. Our strategy in this regard will be to invest in new primary classroom capacity (school expansions and new facilities) in areas where the enrollment gap is greatest. In those parts of Egypt where separate classrooms are required for female students,

these will be our number one priority. Our strategic criteria will be essentially beneficiary criteria (i.e., access both in the physical terms and the policies associated with access) and will tend to be biased towards girl students, rural students and upper Egyptian students, all of whom face greater problems of access to primary schooling.

2.49 As in the case of other social infrastructure investment, we anticipate investment through decentralized financial channels, with governorates as the key administrative counterparts in the primary school programs.

5. Health and Population

2.50 Health and population issues have a direct relevance to improvement of the quality of life of Egypt's poor and are closely connected with an improved status of Egypt's physical quality of life index (PQLI). As noted above, population increase is in large part responsible for Egypt's relatively poor performance in improving its PQLI position in recent years. As in the case of educational infrastructure, Egypt's health infrastructure has been outstripped by population increase. More directly, health concerns are reflected in two of the three components making up the PQLI - infant mortality and life expectancy. Life expectancy in Egypt, at birth, while far below the industrialized Western world, is better than many developing countries at comparative stages of development, in large part a reflection of Egypt's widespread health network and relatively good nutritional status. On the other hand, Egypt's infant mortality rate is unacceptably high by developing country norms. The focus of our strategy for the period of the CDSS will be targeted against the interrelated objectives of reducing infant mortality and population growth. In the case of population the mainstay of our efforts will be an

emphasis on strengthening the delivery system for family planning services, balanced with supportive information, education and communication services to promote awareness and stimulate demand. It is our belief that the Egyptian Government is increasingly sensitive to the dimensions of its population problem, and is much more willing to pursue new approaches to contraceptive prevalence. During the period of the CDSS it is likely that a variety of community level family planning/village development projects now underway will result in a general model being developed which, with our support, can be replicated in rural areas. In addition, in urban areas an expanded retail sales program for contraceptives could prove to be a strong complement to the existing delivery system.

2.51 In health we plan a three-part approach to reduction of infant mortality. First, we plan to continue efforts to improve the institutional framework for the delivery of health services both in rural and urban areas. Infant care will be a prominent part of this effort. Secondly, we also will continue with measures to improve sanitation by expanding the upgrading of water and sewage facilities from the primary cities to provincial and rural areas by the end of the five-year period. These efforts will be strengthened by information activities aimed at better sanitation practices. Third, we plan a frontal attack on the root cause of infant mortality, diarrheal diseases through a widespread program of oral rehydration throughout Egypt.

6. Other Non-Strategy Activities

2.52 Given the size of AID's program in Egypt, the variety of interests which surround it, and its overall political objectives, there will continue to be a variety of activities carried out under the program which

are not central to this strategy. These will often be of a political nature in which visibility and/or quick impact are the primary criteria and not longer term economic rationale. Examples of this are the Peace Fellowship program and perhaps some (but not necessarily all) activities associated with the Sinai. Others may be at the periphery of the strategy but of real substantive concern to AID as an agency, for example, renewable energy. Finally, other activities, while not directly related to the central strategy may well have spin-offs which will be of importance to increased productivity and/or equity such as science and technology activities, mineral, petroleum and groundwater assessments, etc. As in the past, we should be prepared to continue a number of these activities. But these activities, while important, should be viewed as discrete, and in most instances, will not represent initial steps to wider investment.

III. ASSISTANCE PLANNING LEVEL

A. Political Considerations

3.01 In Egypt more than in most countries, the level and composition of U.S. assistance is directly related to underlying U.S. political objectives, as well as to development objectives. The primary political considerations are twofold.

3.02 First, the level of U.S. assistance (or more precisely changes in the level) have major political significance. Changes (particularly relative to that for Israel) would be interpreted as reflecting a change in U.S. political support to Egypt. As previously stated in the FY 1981 CDSS, we conclude that during the period when active and delicate negotiations are underway, the U.S. must be perceived by all the

negotiants in the Middle East as being fully-supportive of Egypt. Although a precise determination of this period is not possible, we believe maintaining the current level of U.S. assistance commitments will be required at least through FY 1982. If the peace process proceeds satisfactorily, it may be possible in FY 1983 to begin the process of reducing AID financial support. We have assumed in our analyses as we did in last year's CDSS, that political relationships will, in fact, permit this change to begin in FY 1983 but obviously that assumption will require constant re-analysis. Because of the particularly great political importance of wheat in Egypt and the continuing need for large wheat imports, we also conclude that the annual PL 480 Title I program cannot be reduced below 1.5 million tons of wheat during the entire period of the CDSS without running unacceptable political risks.

3.03 The second political consideration is the requirement that internal Egyptian economic (and hence political) stability be maintained while delicate and potentially controversial negotiations are underway and fundamentally different regional relationships are developing. This requirement has become even more important given the new tensions that have developed in the Middle East. In effect, domestic political stability is essential for Egypt to have the internal strength and flexibility necessary to carry out her foreign policy. We believe the key requirement here is, at a minimum, to maintain existing levels of well-being for key elements of the population. As has been described elsewhere, the commitment of \$2.3 billion in U.S. CIP and PL 480 Title I program financing has successfully assisted the Egyptian economy to move forward in the short-term through ensuring an adequate availability of key consumer and industrial commodities. Anticipated progress

in developing the economy's own productive and foreign exchange earning capabilities is such that a phase-out of the CIP program for stabilization purposes should be possible during the period of the CDSS. However, it is essential that domestic stability be maintained. Given the potential volatility of Egypt's own export earnings (tourism and workers' remittances), we must constantly be prepared to adjust the size of the CIP program within the overall AID level in response to unexpected short-term developments.

B. Relationship to Development Objectives

3.04 As discussed in the macro-economic annex we project a decrease in real terms of Egypt's gross need for foreign financing for the latter part of the CDSS planning period. Given continued inflation, however, the nominal need for foreign financing is likely to increase slightly. During the same period, there will be a major growth in disbursements under foreign project financing and CIP financing that is targeted toward specific sectoral objectives. As a result, the need for foreign donor and generalized balance of payments financing should drop significantly, as shown in Annex II. In keeping with this, we have projected a total of \$1,350 million in CIP and PL 480 for the FY 1982-86 period.

3.05 Although the overall level of U.S. assistance is projected to drop appreciably during the 1982-86 period, we are assuming that the GOE's need for increased foreign financing will be met by the IBRD and other donors. Within the context of U.S. assistance itself, however, it should be pointed out that the real level of resources provided during the 1982-86 period will be greatly diminished over previous years. In Table II at the back of this paper an effort has been made to assess the impact of U.S. inflation on the real value of our assistance levels. As can be seen, and as discussed there in more detail, it is dramatic. By 1982,

although our nominal commitment will be the same as it was in 1978, its real value will be only two-thirds of that of 1978. In the following years, as the nominal value itself falls, the decline in the real value will be even more precipitous. In addition, if cost overruns continue to be a serious problem, an increasing portion of these rapidly declining commitments will have to be used to cover such shortfalls.

3.06 While the macro-economic and sectoral analysis available to us has continued to improve over the past year, and the GOE has also improved its sense of priorities, the quantitative basis for assessing appropriate priorities for detailed sectoral assistance allocations is still limited. Similarly, the various sectoral assessments being carried out in Egypt do not, as yet, in most instances, provide a quantitative basis for assessing assistance needs in terms of sectoral development potentials. As a result, the allocations discussed below and presented in Table I at the end of this paper are largely based on qualitative assessments and subject to refinement in subsequent CDSSs.

3.07 With regard to the development of the productive sectors, we believe our allocations to agriculture (\$260 million) represent close to the maximum that can be absorbed through programs in agricultural technology, agricultural policy, and institutional development.

3.08 In industry, the admittedly-incomplete information available to us indicates that \$730 million should enable us to make a major contribution to the expansion of the private sector as well as to the rehabilitation, modernization, and completion of those existing public sector industrial investments that are potentially economically-viable. Institutional constraints to increasing resource flows are our first priority in the private sector. As these constraints are addressed, it will be possible

to expand our programs in this area. Finally, there may be certain new public sector industrial investments that can be shown to be essential for overall industrial development. If so, we will be prepared to allocate funds to them.

3.09 In total, we anticipate AID commitments to the industrial sector will peak in 1983 and then drop off sharply as our objectives for public sector industry and private sector expansion are met.

3.10 By the end of the CDSS period, we anticipate that U.S. and other donor commitments will substantially be addressing the key bottlenecks in the industrial production infrastructure area. In particular, electrical generation, port development, and commodity storage and handling investments should be meeting priority national needs, as well as the needs of the larger urban centers where two-thirds of the urban population are located. We will also be looking at possible requirements in the telecommunication sector that are not being addressed by other programs. Our overall allocation of \$300 million is a relatively low proportion of the probable level of foreign exchange requirements of investment in these infrastructure areas for the 1982-86 period. This is reflective of the enormous overall financing needs in these areas and the capability of other donors to provide substantial financing. Given that the IBRD is providing the main support to drainage of old lands and our belief that development of new lands appears at this time to be uneconomic other than on a limited basis during the period of the CDSS, we do not foresee developing assistance activities in agricultural infrastructure (primarily water drilling system) that would require financing beyond the \$300 million we have projected. We will, however, continue to develop and review information on new land development to assess its viability.

3.11 As discussed above, our efforts in the population/health area are focused on reorienting, strengthening and expanding outreach of existing systems rather than constructing additional facilities. We believe that these allocations are the maximum that can be effectively utilized by Egypt and indeed are predicated on a fairly rapid increase in absorptive capacity. The relatively low U.S. contribution to Egyptian expenditures in these areas is not reflective of the priority we assign to this sector but rather to the fact that the basic staff and facilities are already in place--we are seeking to make the systems more effective.

3.12 Our allocations to social infrastructure represent a considerable increase over the amounts foreseen in last year's CDSS. This reflects our decision to support a significant expansion in primary school physical facilities. Our allocation in the urban shelter/water/sewage areas reflect our objective of shifting the bulk of housing investment to the private sector and our expectation that our program in social infrastructure will increasingly move away from the largest Egyptian cities to a broader distribution of smaller cities. In this context we have also increased our level of planned support to decentralization activities in Egypt.

C. Strategy Implications for Implementation and Staffing Requirements

3.13 By 1982 AID assistance to Egypt independent of the PL 480 program or U.S.-owned excess pounds will have reached close to five billion dollars. Of this amount, approximately three billion dollars will be in the form of project assistance. The total number of projects under active implementation at that time should number about 100. In addition, during the period from 1982-86 we propose to obligate over \$2.3 billion, of which close to three-quarters of that amount will be project assistance. The weight

of prior program activity will be such that, even taking into consideration reduced funding levels which are planned to begin in FY 83, the total number of active projects will probably not fall significantly below 75 by the end of FY 86.

3.14 The implications of these figures are clear. There is no AID program underway today and almost certainly no assistance program in the past with a heavier implementation schedule than that before the USAID mission in Egypt. Obviously, there is need for the U.S. and Egypt to think in the broadest and most innovative terms possible and to select modes of implementation which will maximize the development impact of the AID program while husbanding scarce management resources.

3.15 While the need for innovation is clear, we recognize that there are limitations that will be placed upon program implementation. First, from both the U.S. and Egyptian perspectives there are definite limitations on the number of U.S. direct-hire personnel that can or should be assigned to the AID program in Egypt. Beyond this, in the Egyptian view, any mode which is overly "U.S. intensive," whether direct-hire or U.S. contract intensive, is likely to be resisted. (In this connection, it is worth noting that the concept of host country contracting has not proven to be a particularly labor savings device from the standpoint of U.S. management time. In fact, the contrary has been the case.) Secondly, given that U.S. objectives are related to total performance of the economy and in a like fashion Egyptian expectations as to U.S. assistance equally broad, it would not be possible to concentrate total U.S. resources in one or two sectors of the economy, as tempting as this might be from an implementation standpoint. Finally, while AID should be prepared to operate as flexibly as possible in Egypt, it is clear that from the standpoint of program

probity and congressional oversight, it would not be possible nor desirable to relax many of the standard AID requirements concerning the contracting process, competition, voucher review, etc. Nevertheless, we must continue to weigh the risks that might be associated with new implementation modes against their potential advantages given the other constraints that exist.

3.16 With these constraints in mind, it is our intention to employ a range of implementation devices in implementing program strategy. During the past five years, as we have gained experience in a number of sectors of the economy and as strategic objectives have become clearer, it has been possible to begin to deploy blocks of resources against program targets. By 1982, it should be possible to organize larger programs which will be directed at such targets as provincial city development, agricultural infrastructure, infant mortality, rehabilitation of public sector industry, and private sector lending.

3.17 In general, we foresee using three broad program mechanisms in implementing much of our strategy, each of which should permit the utilization of larger blocks of resources in a management efficient manner.

(1) Use of the CIP - As noted earlier, we plan phaseout of the CIP for stabilization purposes in FY 82. The CIP, however, has proven to be an extremely effective mechanism for financing capital equipment and replacement parts and we plan to continue the program for this purpose after FY 82. We see the CIP as an important element of our industrial and infrastructural strategy and perhaps for our agricultural strategy as well. We plan to use it to finance equipment needed to rehabilitate and/or expand existing plants in instances where technology is known,

little or no engineering is required, and the importing firms have a proven capability for managing and implementing similar activities. Obviously, the dividing line between projects and CIP activities will often be fine and we will have to monitor the allocation process carefully to ensure that proper program safeguards are not sidestepped.

(ii) Use of GOE Implementations Mechanisms - Where it appears feasible and appropriate, we plan to use GOE implementation and administrative mechanisms to carry out program objectives. This would include program activities involving substantial local costs, requiring relatively uncomplicated construction and only modest amounts of technical assistance. It may also involve some budget support, sectoral loans and possibly blockgrants. This approach would appear to be appropriate for a range of provincial activities, such as providing basic services to villages, on farm infrastructure, and possibly school construction.

Fixed amount reimbursement may become an element of the approach.

(iii) Use of Intermediaries - In instances where substantial technical assistance and/or engineering is required and the use of foreign exchange is substantial, we will look to intermediaries to the maximum extent possible. This will include the use of contractors as intermediaries (such as in the present Industrial Production Project), the use of collaborative assistance modes and expanded use of voluntary agencies. We plan to use this approach in connection with the public sector industries (the more complicated rehabilitation efforts not covered under the CIP), private sector activities, and perhaps provincial city

development as well.

3.18 At the present time, the authorized U.S. direct-hire personnel level for USAID/Egypt is 130 (against approximately 115 on board). It is likely that personnel levels will peak in FY 80 and slowly begin to diminish in succeeding fiscal years. In the future, we plan to reorient and train increasing numbers of Egyptian employees to replace U.S. direct-hire personnel wherever possible. In addition, the modes of implementation outlined above should also bring about some savings in personnel. As pointed out earlier, however, the number of active projects under active implementation in 1986 will probably total in the neighborhood of 75, an implementation load which will still require substantial U.S. support. Secondly, as the program size diminishes, the weight of the program should shift from larger industrial and infrastructural projects to more U.S. labor intensive basic human needs activities. It is likely, therefore, that during the period of the CDSS, a wholesale reduction in U.S. personnel will not be possible.

TABLE I

COUNTRY DEVELOPMENT STRATEGY STATEMENT

PROPOSED US FISCAL YEAR OBLIGATIONS
(\$ Millions)

Category	Current Planned		Proposed CDSS Levels					1982-1986
	1980	1981	1982	1983	1984	1985	1986	Total
Stability	<u>585</u>	<u>520</u>	<u>350</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>1350</u>
CIP	<u>335</u>	<u>270</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
PL 480 I	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>1250</u>
Production	<u>188.1</u>	<u>126.9</u>	<u>335</u>	<u>310</u>	<u>277</u>	<u>50</u>	<u>28</u>	<u>1000</u>
Industry	<u>130.1</u>	<u>106.9</u>	<u>260</u>	<u>240</u>	<u>212</u>	<u>25</u>	<u>-</u>	<u>737</u>
Agriculture	<u>58</u>	<u>20</u>	<u>75</u>	<u>70</u>	<u>65</u>	<u>25</u>	<u>28</u>	<u>263</u>
Production Infrastructure	<u>123.5</u>	<u>91</u>	<u>150</u>	<u>200</u>	<u>100</u>	<u>75</u>	<u>75</u>	<u>600</u>
Industry	<u>105</u>	<u>40</u>	<u>75</u>	<u>125</u>	<u>50</u>	<u>25</u>	<u>25</u>	<u>300</u>
Agriculture	<u>18.5</u>	<u>51</u>	<u>75</u>	<u>75</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>300</u>
Social Infrastructure	<u>78</u>	<u>261</u>	<u>80</u>	<u>95</u>	<u>50</u>	<u>65</u>	<u>10</u>	<u>300</u>
Urban Shelter/ Water/Sewage	<u>40</u>	<u>216</u>	<u>50</u>	<u>40</u>	<u>30</u>	<u>30</u>	<u>-</u>	<u>150</u>
Education	<u>38</u>	<u>20</u>	<u>30</u>	<u>30</u>	<u>20</u>	<u>10</u>	<u>10</u>	<u>100</u>
HIGS	<u>-</u>	<u>25</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>
Decentralization	<u>37.3</u>	<u>30</u>	<u>40</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>20</u>	<u>150</u>
Title III (non add)	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>-</u>
Other	<u>37.3</u>	<u>30</u>	<u>40</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>20</u>	<u>150</u>
Management/Manpower	<u>48.8</u>	<u>46</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>25</u>
Peace Fellowship	<u>30</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other	<u>18.8</u>	<u>16</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>25</u>
Population/Health	<u>46.5</u>	<u>52.6</u>	<u>40</u>	<u>37</u>	<u>41</u>	<u>55</u>	<u>70</u>	<u>243</u>
Population	<u>7</u>	<u>4</u>	<u>15</u>	<u>15</u>	<u>20</u>	<u>30</u>	<u>45</u>	<u>125</u>
Health	<u>23</u>	<u>32.1</u>	<u>10</u>	<u>8</u>	<u>8</u>	<u>12</u>	<u>12</u>	<u>50</u>
PL 480 Title II	<u>16.5</u>	<u>16.5</u>	<u>15</u>	<u>14</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>68</u>
Miscellaneous Non- Strategy	<u>24.3</u>	<u>14</u>	<u>15</u>	<u>12</u>	<u>10</u>	<u>8</u>	<u>5</u>	<u>50</u>
Total Economic Asst.	<u>1131.5</u>	<u>1141.5</u>	<u>1015</u>	<u>939</u>	<u>763</u>	<u>538</u>	<u>463</u>	<u>3718.0</u>
Total PL 480 Title I	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>1250</u>
Total PL 480 Title II	<u>16.5</u>	<u>16.5</u>	<u>15</u>	<u>14</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>68</u>
Total AID Assistance (Excluding HIGS)	<u>865</u>	<u>850</u>	<u>750</u>	<u>650</u>	<u>500</u>	<u>250</u>	<u>200</u>	<u>2350</u>

TABLE 2

U.S. AID COMMITMENTS AND DISBURSEMENTS
IN
NOMINAL AND REAL TERMS
(\$ Millions and Percentages)

(1) Year	(2) Infla. Factor	(3) Nominal Oblig.	(4) Real Oblig.	(5) As of % of GNP	(6) Nominal Disb.	(7) Real Disb.	(8) As a % of Fixed Investment
1975	.81	\$261	\$322	<u>5/</u>	\$ 16	\$ 20	<u>5/</u>
1976	.87	795	914	<u>5/</u>	131	151	<u>5/</u>
1977	.93	699	752	<u>5/</u>	261	281	<u>5/</u>
1978	1.00	750	750	<u>5/</u>	488	488	<u>5/</u>
1979	1.13	835	739	5.1	447	396	12.4
1980	1.24	865	698	4.4	730	589	17.2
1981	1.36	850	625	3.7	800	588	15.8
1982	1.50	750	500	2.7	850	567	14.6
1983	1.65	650	394	2.0	750	455	10.9
1984	1.82	500	275	1.3	550	302	6.7
1985	2.00	250	125	0.5	500	250	5.1
1986	2.20	200	91	0.4	400	182	3.4

- (1) U.S. fiscal years for AID commitments. Calendar years for all else.
- (2) Actual U.S. inflation rates for industrial products used through 1979. A 10 percent annual rate is assumed thereafter.
- (3) The obligation shown for 1976 includes the interim quarter.
- (4) Real obligations are expressed in 1978 prices.
- (5) Because of problems of exchange rate valuation, percentages were not calculated prior to 1979.
- (7) Real disbursements are expressed in 1978 prices.
- (8) See note (5).

Explanatory Notes:

The basic AID commitment level reached its current nominal value of \$750 million in 1978. Using this year as a base, the real values of past and projected AID commitments are shown in column (4). As can be seen, they decline steadily even though nominal commitments during FY 1979-81 are up because of the special supplementary appropriation of \$300 million. By the first year of this CDSS period (FY 1982) the real value of the \$750 commitment projected for that year will have fallen to only two-thirds of the value of the 1978 commitment - although in nominal terms they are identical.

The relationship of AID commitments to the Egyptian economy are shown in column (5). AID commitments in 1979 equalled 5.1 percent of Egypt's GNP. With the anticipated real growth in the Egyptian economy and the adverse impact of U.S. inflation by 1982 the real value of U.S. commitments will have fallen to 2.7 percent of GNP. By the last year of the CDSS period, projected AID commitments will have fallen to 0.4 percent of Egypt's GNP--less than one-tenth of their current relative significance.

Columns (6) and (7) of Table 2 present projected AID disbursements in nominal and real terms, respectively. Real disbursements are shown as peaking in 1979 and 1980 and declining steadily thereafter.

Column (8) shows the relationship between AID disbursements and total gross fixed investment in Egypt. The real value of AID disbursements (both project and balance of payments assistance) will reach a peak of 17.2 percent of fixed investment in 1980. By 1982, the percentage will have fallen to 14.6 percent and by the end of the CDSS AID disbursement will represent only 3.3 percent of total Egyptian investment.

96*

TABLE B
GOE REVENUE AND EXPENDITURE ^{1/}
(LE Millions)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Total Revenue	1,524	2,015	2,755	3,173	4,440
Total Expenditure	2,917	3,280	4,025	5,254	6,960
(Subsidy)	(622)	(434)	(650)	(684)	(1,280)
Overall Deficit	1,383	1,265	1,270	2,081	2,520

Structure of Deficit Financing (%)

Overall Deficit	100	100	100	100	100
Foreign Financing	15	39	36	34	27
Domestic Financing	85	61	64	66	73
(Bank Financing)	(54)	(41)	(34)	(38)	(40)
Overall Deficit/GNP	29	19	16	21	21
Bank Financing/GNP	16	8	6	8	9

1/ Estimates

Source: USAID/Cairo

POPULATION STRATEGY UPDATE

■ 1980 EGYPT CDSS .

(INCLUDES NEAC ISSUES PAPER AND
NY TIMES NEWSPAPER ARTICLE)

COUNTRY DEVELOPMENT STRATEGY STATEMENT

POPULATION STRATEGY UPDATE

USAID MISSION TO ARAB REPUBLIC OF EGYPT

JANUARY 1980

ANNEX IX

POPULATION STRATEGY UPDATE

1.01 The USAID Egypt March 1978 Multi-Year Population Strategy Statement suggested a USAID population strategy of strengthening the governmental family planning delivery system, stimulating demand for services through information, education and communication, and maintaining readiness to respond to targets of opportunity towards fertility reduction. Since enunciation of that USAID strategy, the GOE has moved on a number of fronts which deserve mention. Additionally, some discrete activities have shown promise that expansion will move Egypt towards its population goals.

The Demographic Situation

1.02 Egypt's population has increased from 2 million in 1800 to 41 million in 1979. The average annual population growth rate over this period (1800 - 1979) was 1.68 percent. Currently, data from the Government of Egypt's Central Agency for Public Mobilization and Statistics indicate the population growth rate may be as high as 2.8 percent. Continued growth at that level would lead to a population in the year 2000 of 74 million. United Nations and GOE population projections, which assume either an initial lower rate of growth or modest declines in fertility, estimate Egypt's population in the year 2000 in the range of 66 - 70 million.

1.03 A vigorous and successful population program strategy could result in a crude birth rate of 2.0 percent by the year 2000 - essentially a two-child family. This would mean an 1.8 percentage point reduction in the current 3.8 percent birth rate over twenty years. In order to reach a 2.0 percent birth rate, effective contraceptive usage would have to increase

from the current 16 - 19 percent use among married women of reproductive age to 60 percent. The resultant population in 2000 from such an effective strategy would be in the range of 56 - 60 million, or some 10 - 14 million people smaller than current high and medium level population estimates.

1.04 A substantial reduction in the population growth rate can significantly improve Egypt's development prospects through greater domestic savings, decreased imported food requirements, a greater ability to provide adequate mother and child health services, greater assurance of the GOE being able to provide a child's primary education and reduced housing requirements. The key is how to effect a reduction in the population growth rate.

1.05 The Multi-Year Population Strategy Statement details the history of the family planning program, which the GOE officially initiated in February 1966 under a Supreme Council for Family Planning headed by the Prime Minister. From 1968 to 1973 the major focus of the program was on the provision of clinic-based family planning services. During this period, the Family Planning Board was the agency responsible for providing program leadership, direction, monitoring, and supervision of family planning service delivery.

1.06 From 1973 to 1975, the GOE focus was on a population growth reduction policy. The Family Planning Board became the Population and Family Planning Board (PFPB). The PFPB plan emphasized population growth reduction through socio-economic development and population redistribution rather than the delivery of family planning services.

1.07 Since 1975, the PFPB has focused on a population growth reduction program with an emphasis on reduced population growth as well as improved population distribution and characteristics. The Ministry of Health is responsible for the delivery of family planning services and has sought

to strengthen as well as seek more effective means of delivering family planning services.

Recent Developments

1.08 In December 1979, Dr. Mamdouh Gabr, Minister of Health and Chairman of the Supreme Council for Population and Family Planning of Egypt made a statement entitled Egypt's Population Perspective to the Egypt Consultative Group meeting in Paris.

1.09 The Minister's statement is a forceful, cogent call for action to upgrade family planning services, accelerate socio-economic development, and intensify population/family planning information, education and communication activities. What is now required is a GOE plan of action. Recently, there have been some encouraging program activities that might lead to an evolving population program strategy.

1.10 In an area of Cairo, the Egyptian Family Planning Association has launched a community-based contraceptive retail sales (CRS) program, which has met initial success. In addition to continuing to improve the delivery of urban health services, an expanded CRS program in Cairo, Greater Cairo and Alexandria could provide the GOE with a new tool for generating increased contraceptive prevalence in the large urban areas.

1.11 In the rural areas, the USAID supported "Menoufia" Project, with the house-to-house distribution of contraceptives and oral rehydration salts, has achieved impressive results in terms of local interest and support, increased family planning use, and rehydration in cases of infant and child diarrhea to reduce child mortality.

1.12 Additionally, the GOE's Population and Family Planning Board's Population Development Project, which seeks to institutionalize family

planning at the village level, reportedly has resulted in increased contraceptive use levels in some project areas. The data, however, remain sketchy and need further study. In the interim, USAID has made a pilot grant of \$500,000 for the Board's PDP in 10 village councils in Fayoum and 32 village councils in Gharbia.

1.13 USAID recognizes that the speed with which the population/family planning program is implemented in Egypt is a decision of the Egyptian Government. Nevertheless, as a major financier of development projects, we share with the Government a responsibility to insure that the development projects we finance help the poor, and where possible, attempt to influence a reduction in fertility so that each individual couple may be able to have wanted children that can be supported within a healthy environment.

1.14 We will continue to monitor the above developments and as we move forward with assistance to the GOE population and family planning program, we hope to be able to have a better understanding of development assistance in areas other than family planning that may contribute to reduction in fertility. As a step in gaining that understanding, for a broader population program that will key in on population growth, we will support research that addresses the population-development equation and will encourage the GOE and donor agencies who are designing new development programs to share with us information on programs that seem to have potential for influencing fertility reduction.

1.15 Within USAID we are developing mechanisms that will result in greater attention being given to possible population ramifications of projects whose major project purpose is not related to population, but which might be modified in design or during implementation to contribute to the

national population program.

Summary

1.16 The 1978 Multi-Year Population Strategy Statement's emphasis on strengthening the delivery system for family planning services, properly balanced with supportive effective information, education and communication services to promote awareness and stimulate demand, remains the mainstays of the USAID population assistance strategy. It is USAID's assessment that the Egyptian Government is increasingly sensitive to the dimensions of the population problem, and is much more willing to pursue new approaches to improving contraceptive prevalence and, related to reducing infant mortality.

A variety of community-based family planning-cum-village development projects underway might yield a generic model suitable for intensive support in rural areas. Likewise, in urban areas, community based contraceptive retail sales could complement the formal delivery system and could become a significant factor in expanding coverage.

memorandum

DATE: March 8, 1980

REPLY TO
ATTN OF: NE/TECH/HPN, Lenni KangasSUBJECT: Egypt: NEAC Issues Paper on "Population Strategy,
Update"

TO: See Distribution

The Issues Paper for the NEAC review of the USAID/Egypt
"Population Strategy Update" is attached.

The NEAC Review will be held on Tuesday, March 11, 1980
at 10:00 A.M. in Room 6439.

Distribution:

AA/NE, Mr. J. Wheeler, 6724, NS
 DAA/NE, Mr. A. White, 6724, NS
 AA/NE, Mr. E. Vinson, 6732, NS
 NE/DP, Mr. B. Langmaid, 6723, NS (4)
 NE/PD, Mr. S. Taubenblatt, 4720, NS, Mr. R. Bell, 4720, NS
 NE/TECH, Mr. C. Weinberg, 4443, NS, Ms. K. MacManus, 4443, NS
 NE/TECH, Dr. P. Benedict, 6664, NS
 NE/PD, Mr. L. Rosenberg, 4712, NS, Mr. S. Lintner, 4709, NS
 NE/PD, Mr. M. Kingery, 4712, NS
 *PPC/PDPR, Mr. B. Sidman, 3938, NS
 *PPC/PB, Mr. J. Segal, 3731, NS
 PPC/WID, Ms. A. Fraser, 3245, NS
 GC/NE, Mr. J. Mullen, 2638, NS
 CM/ROD, Mr. H. White, 733, SA-14
 SER/COM/NE, Mr. R. Looper, 811D, SA-18
 DS/DIU/DI, Ms. N. Thompson, 813, SA-18 (4)
 NE/PD, Ms. G. Shivers, 4709, NS (2)
 NE/EI, Mr. G. Kamens AND Desk Officer (If Egypt or Israel Project)



NEAC ISSUES PAPER

EGYPT: "POPULATION STRATEGY UPDATE"

A. Background

1. The USAID/Egypt "Multi-Year Population Strategy Statement" prepared in March, 1978 remains a valid document. The "Population Strategy Update" of January, 1980 submitted as Annex IX to the FY82 CDSS however, is neither comprehensive or specific enough to be regarded as an "update" or amendment to the Multi-Year Statement.

2. The CDSS document gives appropriate prominence to population/family planning issues, Examples:

p.5 "The growth of population-now increasing at 2.8% per year-is a critical constraint,...to achieve economic betterment."

p.6 "To be effective in the longer term, a far more vigorous family planning effort has to be mounted now."

p.13 "A structural reform is required which pushes to the fore front policies and programs which inhibit population growth and increase productivity."

also on p. 13 "A strong program with a broad-based family planning component should be mounted which offers positive incentives and material penalties to constrain family size."

3. These are strong, thoughtful and, given Egypt's situation, entirely appropriate statements. They mesh well, furthermore, with the concepts put forth in Planning Minister Dr. Abdul Meguid's statement to the Consultative Group meeting December, 1979. If implemented they would push Egypt's population policy from the "soft" category into the "comprehensive" and "moderately restrictive" categories on the Kangas population policy spectrum (attached).

B. Critique of the "Population Strategy Update"

1. Given the above statements in the CDSS, the "Update" is mild, modest, tentative and generic by comparison. It is inconsistent, furthermore, with the substance, tone and policy guidance well-laid out in the CDSS proper.

2. The "Update" is almost silent on the already agreed - upon (September, 1979) project amendment to replicate the Menoufia experience in four more Governorates.

3. The document ignores essential operational actions, urged upon the GOE at the December 19, 1979 Consultative Group meeting by AA/NE Mr. Wheeler, including:

- a) the major donor meeting to be convened this spring by the GOE
- b) a timetable for improving logistics and inventory controls
- c) the need for IUD training and retraining
- d) a shift to "prevalence programming" whereby service goals would be increasing users rather than recruiting new acceptors.
- e) the urgent and overdue need to strengthen the MOH staff concerned with managing the USAID P/FP grant (now, one person, part-time).
- f) the need to rationalize demographic measurement activities so that periodic surveys are mounted to inform program administrators of current contraceptive prevalence, geographic coverage and method mix. ("If you can't measure it, you can't make it, because if you can't measure it, how do you know if you have it made?")
- g) The "Update" is silent on the very substantial (\$4.0 million) information, education and communications (IE&C) sub-project. Funding available for this activity is greater than that provided for any country IE&C effort in the world thus far.

4. Although many of us do not necessarily feel we are ignorant of Mission thinking and actions about these matters, it is disappointing that the "Update" ignores them.

C. Issues

The Project Review Committee on March 5 raised the following issues:

1. should the "strategy update" be regarded as an acceptable amendment to the 1978 Multi-Year Population Strategy Statement?

Recommendation: Advise USAID that the present update is not adequate and request a revised, more comprehensive statement by June/July, 1980. The PRC felt we should not wait for the next CDSS.

2. What are Mission and GOE intentions regarding
a) replication of the Menoufia experience in four more governorates and b) supporting the Population Family Planning Board's "Population Development Project" (PDP)?

Whereas the "Update" mentions that "community-based family planning-cum-village development projects underway might yield a generic model suitable for intensive support in rural areas," many observers believe the model already has been adequately enough demonstrated to warrant further support now.

Should we ask the Mission for a more specific statement on prospects and plans to support the Board's PDP effort? Should we encourage them to move faster on this front?

3. Should we urge the Mission to intensify its dialogue with the GOE on the operational items mentioned in Section B, para. 3 above? In advance of the planned donor meeting this Spring?

4. Given the priority assigned by the Mission to population matters, is USAID population staffing adequate to handle an enlarged program? (There are now two full-time population officers supported by three others primarily concerned with health.)

Egypt's Soaring Population Mars Dream of New Life

By CHRISTOPHER S. WREN

Special to The New York Times

CAIRO, March 1 — The teeming crowds that jostle along the battered pedestrian overpass in downtown Tahrir Square have been given another reminder of the congestion closing in on them.

"Look around you," admonishes a recently erected billboard that tends to get obscured by the crush of shoving bodies. "We have a population problem. One baby is born every 20 seconds."

The billboard is part of a new Government campaign hammering the message that Egypt faces a discouraging future unless its booming population growth is brought within limits.

The country's population will reach 42 million this spring and it keeps expanding at a rate of 100,000 more citizens each month. The Government anticipates a total of 66 million Egyptians in 20 years, but this seems low to some demographers who have analyzed the birthrate. They estimate that Egypt could have 70 million to 74 million people by the year 2000.

President Anwar el-Sadat's wife, Jihan, opening a recent family planning symposium here, urged that a balance be found between the country's development rate and its population growth. "I don't say that the Egyptian people are not aware of the problem but their awareness is still vague and far from the real dimensions of the problem," she said.

45% of People Under Age of 15

As it is, Egypt cannot produce enough food, housing and schools to keep pace with its population. With 45 percent of the population under the age of 15, according to the Minister of Health, Dr. Mamdouh Gabr, the situation seems bound to worsen as the young people grow up and have children of their own. This may leave Egypt indefinitely dependent on aid from donors like the United States.

Mr. Sadat's regime has grappled halfheartedly with the population problem, but has been uncertain what to do and unwilling to spend much money. It hopes that one of its benefactors, among them the United States, the World Bank and the United Nations Fund for Population Activities, will come up with a solution.

The Population and Family Planning Board, the fruits of which go back 15

years, has received a low priority in the Government budget. Mrs. Sadat, who has four children, is an active worker for family planning. But her husband has preferred to speak of solving the problem by reclaiming and settling the desert, a dream that will be costly and difficult.

The national growth rate is 2.81 percent a year, well above the 2.31 percent recorded in the 1976 census. By comparison, the average world rate is 1.8 percent. Dr. Aziz al-Bindari, chairman of the Population and Family Planning board, said that the goal was to trim the growth, four times that of the developed West, to a manageable 1 percent a year.

Egypt experienced a falloff in its birthrate from the mid-1960's to 1973, which Dr. Bindari attributed to the shock of defeat in the 1967 war and the widespread conscription of young men. When the soldiers were demobilized after the 1973 war and got married, the birthrate climbed to its present 38.7 births per 1,000 people. The death rate now is 10.6 per 1,000.

Crowding in the Nile Valley

The problem is already acute for Egypt because 99 percent of its population lives on just 4 percent of the land, giving the Nile Valley and Delta one of the highest densities in the world.

Metropolitan Cairo, which had eight million residents in the 1976 census, keeps growing, with a density exceeding 250,000 people a square mile in some working-class districts like Rod el-Farag. One American study estimates that the capital's population may double to 17 million residents in 20 years.

The continuing popularity of large families has undercut efforts to promote birth control. At a consultative meeting with aid donors last December, the Minister of Health reported that 85 percent of the population knew about family planning but that the desired number of children still averaged 5.4.

"Children are still considered a display of femininity and virility, a source of pride, of security and of economic returns with minimal cost," said Dr. Gabr.

Resistance remains strongest in the countryside, where the farmer wants lots of children for labor in the fields and as a form of survival insurance for his old age. "The cultural values handed down to

him by his forefathers teach him that children are his support and protection from the vicissitudes of fortune and times of adversity," said Yehya Ahmed, secretary of the Rural Information Council.

Women, in turn, feel valued only if they bear children, with sons traditionally preferred over daughters.

Badrawy M. Fahmy, executive director of the General Association for Family Planning, has cited a recent study in which nearly 45 percent of the urban married women interviewed — and 57 percent in the countryside — had no intention of using contraceptives. Only 17 percent of the married couples practice birth control, according to Dr. Gabr. Other specialists think the figure is actually lower.

A Problem of Bureaucracy

Some of the delays in promoting birth control have come from the ministries entrusted with family planning. "You know how long it takes a bureaucracy to recognize an added responsibility," said Hamed Fahmy, who represents the United Nations Fund for Population Activities here. "There is resentment and reluctance to take it on."

Though health clinics have been set up within walking distance of most Egyptian villages, past service was so shoddy that visits dropped off in the late 1960's.

A recent Ministry of Health survey disclosed that only 40 percent of women using contraceptives, mostly pills, visited the clinics for assistance. An equal number patronized the local pharmacy while the rest sought out untrained neighbors like midwives and barbers.

Awareness has developed that Egypt's population problem cannot be solved by handing out contraceptives, but must be addressed by remodeling social, cultural and economic habits. Dr. Bindari has sidestepped the cumbersome state bureaucracy and solicited community participation through the local village councils.

Dr. Bindari believes that family planning will prosper as part of a broader self-help program that helps provide employment for women and proper schooling for children. "I'm postulating that a small change in the income of individuals, coupled with efforts to change the value system, can have tremendous bearing on social behavior, including fertility," Dr. Bindari said.

The program run by Dr. Bindari has set up cottage industries like sewing to give women skills and a small income outside the home. In some villages, he won over the headman by presenting him with a motorcycle, a symbol of virility. With the backing of the village councils, local women volunteers — called rayadat, or pioneers — have gone from house to house answering questions about birth control and sometimes dispensing pills.

By the end of August, the program had taken root among 274 village councils representing 1,471 villages in 12 of Egypt's 16 provinces. The use of contraceptives has risen as high as 42 percent among some test groups of women.

Little Money for Birth Control

Despite its promising success, Dr. Bindari's project has lacked sufficient Government money to be applied nationwide. The United States aid program in Egypt, which is providing over \$1 billion a year, allocated only \$17 million for family planning over the last three years.

Egypt's overwhelmingly Moslem majority has yet to be convinced that the Koran does not prohibit family planning. Cairo's Al Azhar University, which has been called the Vatican of Islam, has resisted advocating birth control but did set up an Islamic Center for Population Studies and Research to examine the problem.

If population growth continues unabated, several Egyptian and Western forecasts have given a gloomy prognosis:

Urban sprawl annually consumes 40,000 to 60,000 acres of cultivated land, which is more than is being reclaimed from the surrounding desert.

Egypt already imports nearly four million tons of cereal grains a year, much of it from the United States. With the current birthrate, it will need to import twice as much grain by the year 2000.

Egypt will have to double its doctors, hospital beds and other medical facilities in 20 years just to maintain the existing level of health services. There will be over 12 million school-age children, nearly twice the present number, without sufficient schools or teachers.