PN-AAU-887

# Country Development Strategy Statement

# FY 1986

# EGYPT

**ANNEX K**

**SECTOR GAME PLAN STATEMENTS**

**APRIL 1984**

Agency for International Development
Washington, D.C. 20523

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CONTENTS


| | Page |
|---|---|
| ECONOMIC INFRASTRUCTURE | 7 |
| Water/Wastewater | 8 |
| Energy | 12 |
| Telecommunications | 16 |
| Roads | 20 |
| Decentralization (Local Development) | 23 |
| SOCIAL INFRASTRUCTURE | 29 |
| Population | 30 |
| Health | 33 |
| Nutrition | 36 |
| Education and Training | 38 |
| PRODUCTION | 43 |
| Agriculture | 44 |
| Industry | 48 |
| CROSS-CUTTING PROGRAMS | 54 |
| Science and Technology | 55 |
| Private Sector | 59 |
| Urban Development | 62 |
| Commodity Import Program | 66 |


TABLES


| | |
|---|---|
| K-1. Resource Requirements, FY 1984-FY 1990: Straight-Line ESF Level | 2 |
| K-2. Optimal and Policy-Constrained Levels by Sector, If Unconstrained by Resource Limitations | 69 |


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Egypt FY 1986 Country Development Strategy Statement

Annex K

SECTOR GAME PLAN STATEMENTS

This annex to the Egypt FY 1986 CDSS starts off with the resource requirements table (Tablle 3) from the main text of the CDSS, reproduced here as Table K-1. This table is discussed in Section IV of the main text.

The annex then presents the sector statements (or sector game plans) requested by the Near East Bureau in February 1984. Each sector statement follows the outline prescribed by the Bureau (except for the abbreviated statement on nutrition).

The sector statement budget plans lay out what the USAID considers to be optimal and feasible for each sector if funds were not constrained by policy problems or by the requirements of the other sectors. These budget plans are more inclusive than the projects appearing in the core program and shelf program presented in the resource requirements table (Table K-1) since some of the projects need further refining before reaching the shelf stage.

The statements are grouped under four categories: economic infrastructure, social infrastructure, production, and cross-cutting programs. The budget plans for the cross-cutting programs show only specific projects that are additional to related projects included in the other sectors.

Section II.E of the main text of our CDSS discusses in greater detail than is found in these sector game plan statements the policy questions that attach to each sector. It also distinguishes between optimal and policy-constrained programs for each sector and presents an average annual level of funding for them. The sector budget plans in this sector game plan annex present a detailed listing of the projects that constitute the optimal program for the sector. The desired annual average optimal and policy-constrained levels by sector if unconstrained by total resource availabilities are reproduced in Table K-2 at the end of this annex for convenient reference. The sum of the optimal levels is much higher than the $750 million per year in the Egypt program.

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TABLE K-1 RESOURCE REQUIREMENTS, FY 1984-FY 1990 STRAIGHT LINE ESF LEVEL

| Relation to Policy[1] | Sector[2] | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|---|---|
| | I. ECONOMIC INFRASTRUCTURE | 316.9 | 320.0 | 505.0 | 255.0 | 395.0 | 325.0 | 400.0 |
| PC[3] | Water & Sewerage (UD) | (117.9) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (200.0) |
| | 0100 Alex Wastewater | 31.9 | - | - | - | - | - | - |
| | 0173 Cairo Sewers II [4] | 81.0 | 95.0 | 95.0 | 95.0 | - | - | - |
| | 0174 Canal Cities II | - | - | - | - | 50.0 | 50.0 | 50.0 |
| | 0175 Cairo Potable Water | - | - | - | - | 45.0 | 45.0 | 60.0 |
| | 0176 Institutional Dvpmt. | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | - | |
| | (0161) (Prov. Cities Dvpmt.) | (45.0) | (-) | (-) | (-) | (-) | (-) | (-) |
| | Energy | (38.0) | (35.0) | (175.0) | (-) | (-) | (50.0) | (-) |
| PN | 0160 Aswan HDR (UD) | - | 15.0 | - | - | - | - | - |
| PN | 0033 Urban Elect Dist (UD) | 20.0 | 20.0 | - | - | - | - | - |
| PN | 0030 Shoubra (UD) | 18.0 | - | - | - | - | - | - |
| PO | 0179 Elect Generation (UD) | - | - | 175.0 | - | - | 50.0 | - |
| | Telecommunications | (-) | (50.0) | (50.0) | (25.0) | (100.0) | (25.0) | (100.0) |
| PO | 0117 Telecom III) | - | 50.0 | 50.0 | 25.0 | 100.0 | 25.0 | 100.0 |
| | 0177 Telecom IV ) | | | | | | | |
| | 0178 Telecom V ) | | | | | | | |
| | Roads | (-) | (50.0) | (80.0) | (80.0) | (80.0) | (50.0) | (-) |
| PN | 0180 North/South Road (UD) | - | 25.0 | 30.0 | 30.0 | 30.0 | - | - |
| PN | 0181 Cairo Ring Road (UD) | - | 25.0 | 50.0 | 50.0 | 50.0 | 50.0 | - |

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TABLE K.1 (Continued) RESOURCE REQUIREMENTS, FY 1984-FY 1990: STRAIGHT LINE ESF LEVEL

| Relation to Policy[1] | Sector[2] | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|---|---|
| | Decentralization (Local Development) | (166.0) | (85.0) | (100.0) | (50.0) | (115.0) | (100.0) | (100.0) |
| PN | 0161 Neighborhood Urban Serv. Urban Serv. | 34.5 | - | - | - | - | - | - |
| PN | 0161 Prov. Cities Dvpmt.[4] | 45.0 | - | - | - | - | - | - |
| PN | 0161 Basic Village Services | 80.0 | - | - | - | - | - | - |
| PN | 0161 Decentr. Sector Support | 6.5 | - | - | - | - | - | - |
| PO | 0182 Local Development (PS, UD) | - | 85.0 | 100.0 | 50.0 | 115.0 | 100.0 | 100.0 |
| | CIP Attribution to Macro-Sector I (non-add)[6] | (71.4) | (23.8) | (23.8) | (47.6) | (47.6) | (47.6) | (59.5) |
| | II. SOCIAL INFRASTRUCTURE | 55.1 | 10.0 | 25.0 | 35.0 | 35.0 | 30.0 | 30.0 |
| | Population | (-) | (-) | (10.0) | (10.0) | (10.0) | (10.0) | (10.0) |
| PC | 0144 Population | - | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| | Health | (9.1) | (-) | (2.5) | (10.0) | (10.0) | (10.0) | (10.0) |
| PN | 0184 Diarrheal Dis II | - | - | - | 10.0 | 10.0 | 10.0 | 10.0 |
| PN | 0015 Strengthening Rural Health | 2.6 | - | - | - | - | - | - |
| PN | 0136 Suez Community Health | 6.5 | - | 2.5 | - | - | - | - |
| | Education and Training | (46.0) | (10.0) | (12.5) | (15.0) | (15.0) | (10.0) | (10.0) |
| PN | 0125 Training (ST, PS, UD) | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| PN | 0139 Basic Education | 46.0 | - | - | - | - | - | - |
| PN | 0183 Ed Curriculum Reform | - | - | 2.5 | 5.0 | 5.0 | - | - |
| | CIP Attribution to Macro-Sector II (non-add) | (10.2) | (3.4) | (3.4) | (6.8) | (6.8) | (6.8) | (8.5) |

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TABLE K.1 (Continued) RESOURCE REQUIREMENTS, FY 1984- FY 1990: STRAIGHT LINE ESF LEVEL

| Relation to Policy[1] | Sector[2] | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|---|---|
| | III. PRODUCTION | 59.0 | 210.0 | 40.0 | 180.0 | 30.0 | 115.0 | 10.0 |
| | Agriculture | (59.0) | (40.0) | (40.0) | (56.5) | (30.0) | (20.0) | (10.0) |
| PN | 0132 Irrigation Management | 15.0 | 30.0 | 30.0 | 26.5 | - | - | - |
| PN | 0079 Small Farmer I, II (ST, PS) | 24.0 | - | - | 20.0 | 20.0 | 20.0 | 10.0 |
| PO | 0152 Nat Prod Campaigns (ST, PS) | 20.0 | 10.0 | 10.0 | 10.0 | 10.0 | - | - |
| | CIP Attribution to Production: Agriculture (non-add)[6] | (49.2) | (16.4) | (16.4) | (32.8) | (32.8) | (32.8) | (41.0) |
| | Industry | (-) | (170.0) | (-) | (123.5) | (-) | (95.0) | (-) |
| PO | 0185 Cement Plant Expan (UD) or 0186 Fertilizer Plant (UD) | - | 170.0 | - | 123.5 | - | 95.0 | - |
| | CIP Attribution to Production: Industry (non-add)[6] | (137.4) | (45.8) | (45.8) | (91.6) | (91.6) | (91.6) | (114.5) |
| | IV. SCIENCE & TECHNOLOGY | 19.0 | 20.0 | 10.0 | 10.0 | 10.0 | 10.0 | - |
| PN | 0140 Multi-Sect. S & T | - | 20.0 | 10.0 | 10.0 | 10.0 | 10.0 | - |
| PN | 0105 Min, Pet, Grndwater | 7.5 | - | - | - | - | - | - |
| PN | 0061 Dev Plan Studies | 7.0 | - | - | - | - | - | - |
| PN | 0123 Energy Policy & Renewable Energy | 4.5 | - | - | - | - | - | - |
| | V. PRIVATE SECTOR | - | 80.0 | 70.0 | 60.0 | 80.0 | 60.0 | 60.0 |
| PO | 0147 Prod Credit I [5/7] | - | 50.0 | 35.0 | 25.0 | 45.0 | 25.0 | 25.0 |
| PO | 0166 Prod Credit II[7] | - | 30.0 | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 |
| PN | VI. CIP | 300.0 | 100.0 | 100.0 | 200.0 | 200.0 | 200.0 | 250.0 |
| | CIP Attribution - other (non-add)[6] | (31.8) | (10.6) | (10.6) | (21.2) | (21.2) | (21.2) | (26.5) |
| PN | VII. OTHER | - | 10.0 | - | 10.0 | - | 10.0 | - |
| | PD&S | - | 10.0 | - | 10.0 | - | 10.0 | - |
| | | 750.0 | 750.0 | 750.0 | 750.0 | 750.0 | 750.0 | 750.0 |

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TABLE X (Continued) RESOURCE REQUIREMENTS, FY 1984-FY 1990: STRAIGHT LINE ESF LEVEL

| Relation to Policy[1] | SHELF (Non-Add) | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|---|---|
| | I. ECONOMIC INFRASTRUCTURE | | | | | | | |
| | Water and Sewerage | | | | | | | |
| PO | 0173 Cairo Sewerage (UD) | | 100.0 | 219.0 | - | - | - | - |
| PO | 0191 Alex Wastewater III (UD) | - | 90.0 | 130.0 | 225.0 | - | - | |
| PO | 0193 Cairo Water II (UD) | - | - | 100.0 | - | - | - | - |
| PO | 0173 Canal Cities II (UD) | 10.0 | 140.0 | - | - | - | - | - |
| | Energy | | | | | | | |
| PN | 0194 Urban Elect Dist II (UD) | - | 40.0 | - | 40.0 | - | 40.0 | - |
| PN | 0195 National Energy Cont.Cntr. | - | 40.0 | - | 40.0 | - | 40.0 | - |
| PO | 0196 Talkha Combined Cycle | 80.0 | - | - | - | - | - | - |
| PO | 0200 Shoubra Expansion (UD) | | 75.0 | - | - | - | - | - |
| | Decentralization (Local Devpmt) | | | | | | | |
| PO | 0192 Prov Cities Devpmt II | 45.0 | - | 50.0 | - | - | - | - |
| | II. SOCIAL INFRASTRUCTURE | | | | | | | |
| | Education and Training | | | | | | | |
| PO | 0187 Basic Education II | - | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| PN | 0189 Tech. & Vocational Trng. | - | - | 25.0 | 25.0 | 25.0 | 25.0 | - |
| | Health | | | | | | | |
| PO | 0170 Private Sector Health (PS) | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | |
| | Nutrition | | | | | | | |
| PN | 0188 Weaning Foods | - | 3.0 | - | - | - | - | - |
| | III. PRODUCTION | | | | | | | |
| | Agriculture | | | | | | | |
| PO | 0198 Pri Sect Agr Exports (PS) | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | - |
| | IV. SCIENCE AND TECHNOLOGY | | | | | | | |
| PN | 0105 Minerals, Petroleum, Groundwater (ST) | - | - | 9.0 | - | - | - | - |
| | V. PRIVATE SECTOR | | | | | | | |
| PN | 0190 Private Sect.Business Dvpmt. | - | 5.0 | 5.0 | 5.0 | - | - | - |
| PN | 0197 Private Sect.Feas. II (PS) | - | 5.0 | - | 2.0 | - | 2.0 | - |
| | VII. OTHER | | | | | | | |
| PN | 0199 Community Upgrading (UD) | - | - | 25.5 | - | 25.0 | 50.0 | - |

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TABLE K.1 (Continued) RESOURCE REQUIREMENTS, FY 1984-FY 1990: STRAIGHT LINE ESF LEVEL

NOTES:

= Non_Add

1/ Relation to Policy (for level of funding):

PO = Policy Optimal

PC = Policy Constrained

PN = Policy Neutral

2/ Projects that contain cross-cutting themes are indicated as follows:

ST = Science and Technology

PS = Private Sector

UD = Urban Development

3/ Water and Sewerage: PC except for PO in FY 1984

4/ $45 million for Provincial Cities Development may not be obligated in FY 1984; funding would be applied to Cairo Sewers.

5/ Funding tied to change in circular.

6/ Public sector CIP attributions: The attributions to sectors are based on percentages computed from assistance provided in the past (FY 1975 -FY 1983). These percentages are as follows: Economic Infrastructure, 23.8%; Social Infrastructure, 3.4%; Production (Agriculture), 16.4%; Production (Industry), 45.8%; Other (household consumption and government administration), 10.6%.

7/ Includes agro-industry inputs and marketing.

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Egypt: FY 1986 CDSS Sector Statement

WATER AND WASTEWATER SECTOR

**Development Problem:**

Over the past years, Egypt has been unable to budget adequately for water and wastewater facilities, with the result that the systems are overtaxed and do not serve much of the urban population. There are frequent system failures, locally severe pollution, and increasingly serious hazards to public health. Although the GOE has committed itself to significantly higher levels of investment expenditures for this sector in the current five year plan (LE 3.5 million), past neglect and the needs of a rapidly rising urban population will combine to create an enormous funding gap that must be filled in part by donor assistance.

**GOE Priority:**

In January, 1984, Egypt and the U.S. agreed to a Memorandum of Understanding recognizing the importance of improving Egypt's water and wastewater services R >resentatives of both Governments will meet annually to review progress during the previous year and the anticipated performance in the coming year. The reviews will include evaluation of funding, construction, institutional development, and progress toward the agreed economic targets.

**Proposed Solutions:**

The rehabilitation and expansion of water and wastewater services, primarly in Cairo, Alexandria and the Canal Cities, with concomitant policy and institutional changes to ensure a continuing GOE capacity to manage, operate, maintain, replace and expand water and wastewater systems.

**Policy Issues:**

The Memorandum of Understanding outlined the needed policy changes that were agreed to, subject to the approval of the Egyptian Peoples Assembly and the relevant Egyptian local authorities. The central policy issues will be a) obtaining this approval and the pace of implementaion. The agreement calls for the changes to be in place by July 1, 1989, when the construction program is to be completed. The management and administrative actions agreed to are:

(1) Tariff increases adequate to cover the cost of water and wastewater operations, maintenance, debt service, and routine improvements, as well as appropriate increases by the GOE in the size of the operations, maintenance, and investment budgets provided to fund the sector;

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(2) Provision of adquate facilities for training and technical services to support the sector and also an incentive system to maintain and recruit qualified staff;

(3) The establishment of autonomous local water and wastewater organizations, with the authority to retain service revenues for their own operating needs;

(4) The retention during the program of a construction management firm to ensure on-time completion of the projects.

Development Benefits: The benefits are direct in the form of immediate and prospective future improvements in public health and the quality of life in the major urban areas, and they will be lasting if the appropriate organizational and revenue raising changes are made.

Visibility: The problems caused by inadequate water and sewer facilities are highly visible to the Egyptian population, and the commitments of foreign donors (including the U.S.) are well known. There is limited knowledge of how much each country is contributing, or which facilities each is funding.

Capacity: Activity in this sector is complex and the Government of Egypt has shown very limted ability to manage it. Needs are consistently underestimated, or ignored, and chronically underfunded. A major emphasis of the USAID program is to provide training and technical services to support the sector and the establishment of autonomous local water and wastewater organizations. USAID has a better than average capacity to design and implement water and wastewater programs as a result of experience in Egypt to date. Considerable design work already has been completed, which can permit relatively fast disbursal of funds. Egypt's institutional capacity must be strengthened if the overall program in this area is to be a success.

Concentration: The water/wastewater sector is a major focus of project funding for Egypt. Geographic concentration is in Cairo, Alexandria and the Canal Cities, but some improvements in this sector are provided throughout the country under the Decentralization program. Funds have been used for construction and for technical assistance for training and institutional development. The emphasis has been, and will continue to be, on sewerage collection and, to a lesser degree, on sewerage treatment and potable water systems.

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Options: The Memorandum of Understanding sets the funding level at $1.2 billion over the period of calendar years 1982 through 1987, subject to U.S. Congressional approval of funds. Disbursements in excess of $200 million annually could be achieved if the desired policy changes are put in place rapidly. Procedures for judging progress are established in the Memorandum of Understanding. If policy changes are not made the USAID proposes to stretch out disbursements over a longer period, reducing funding to an average reducing funding to an average of $100 million per year as a minimum.

Next steps: The first annual program review of GOE performance was conducted during February/March, 1984 at which objective targets were established. The minutes of the final meeting have now been agreed to by the Minister of Housing & Development. Specific objectives for future years are to be the subject of subsequent annual reviews.

Budget Plan: See following table.

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## BUDGET PLAN FOR WATER/WASTEWATER
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | | Not Applicable | | | | |
| **Obligations Completed but Project Active** | | | | Not Applicable | | | | |
| 0089 Alexandria Sewerage | 13 | 2 | | | | | | |
| 0038 Cairo Water Supply (L) | 30 | 0.4 | | | | | | |
| 0038 Cairo Water Supply (G) | 8 | 53 | | | | | | |
| 0048 Canal Cities Water & Sewer (L) | 69 | 1 | | | | | | |
| 0048 Canal Cities Water & Sewer (G) | 6 | 103 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0100 Alexandria Wastewater | 24 | 175 | 31.9 | | | | | |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| Cairo Potable Water Distribution | | | - | - | - | - | 75 | 75 |
| Cairo Sewer II | | | 150.0 | 200 | 50 | - | - | - |
| Alexandria Wastewater III | | | - | 50 | 150 | 200 | - | - |
| Provincial Cities Distribution/Collection | | | - | - | 20 | 20 | 10 | 75 |
| Canal Cities Wastewater Treatment | | | - | - | - | - | 75 | 75 |
| Institutional Development | | | - | 5 | 5 | 5 | 5 | 5 |
| Total additional requirements | | | 181.9 | 255 | 225 | 225 | 165 | 230 |

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Egypt FY 1986 CDSS Sector Statement

ENERGY

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| Development Problem: | Electric power and natural gas systems are needed to provide appropriate infrastructure for industry, agriculture, and residential use. |
| GOE Priority: | High. |
| Proposed Solutions: | Continue AID's extensive past support for expansion and rehabilitation of the electric power system ($905.1 million obligated to date for power generation, transmission and distribution). Expand and improve the efficiency of Egypt's base generation capacity, which could involve several hundred millions of dollars, if the policy environment permits. |
| Policy Issues: | Overall need for increased energy prices and, in particular, for electricity tariff increases. To achieve the World Bank-proposed adjustment to world energy prices over ten years, substantial annual pe.entage increases in average energy prices (over 50 percent annually in the initial years) are needed.<br><br>A.I.D. has current policy of not financing new thermal generation capacity until there is an acceptable level of increase in electricity tariffs. While coordinating that restraint with the World Bank's broader restraint on lending for energy sector projects, AID should be prepared to offer case-by-case support for power projects other than base-thermal generation in order to meet its aggregate annual requirements for project obligations in Egypt. |
| Development Benefits: | An expanded, more efficient power system will contribute to overall economic growth by increasing the availability and reliability of power to industry; energy conservation and substitution of natural gas for oil will allow exports of a larger share of domestic oil production. |
| Visibility: | Physical visibility is limited, although the Shoubra El Kheima power plant has become a showcase for foreign donor effectiveness in rapid construction of a complex, multidonor project. AID support for the sector establishes useful and viable long term relationships for U.S. business interests because of U.S. competitiveness in the power equipment market. |

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Capacity: Relatively good GOE capacity. EEA is one of the better run GOE agencies. Most design and implementation work is done by U.S. contractors.

Concentration: Future funding of one or two major power plants would provide high concentration of AID project activities. Alternatively, if generating capacity is excluded on policy grounds, multiple smaller interventions would be more likely.

Options: USAID envisions three possible levels of financial support for electricity projects, depending primarily upon the actual and perspective rates of increase in electricity tariffs.

Optimal program: under a scenario where the GOE (a) agrees in principle to a ten-year program to move electricity tariffs to the level of long-run marginal power costs (about a 50 percent nominal increase annually in the early years) and (b) implements the first-year increase for such a program, AID would agree to help fund major thermal generating plants, as well as to continue support for other, non-generating activities. Annual funding for the sector would average more than $100 million.

Minimal program: under a scenario where the annual rate of increase in electricity tariffs falls below the local rate of price inflation (the scenario which prevailed until last year), AID would sharply limit its project activities and undertake only improvements in the distribution system. Annual funding for the sector would average about $25 million.

Intermediate program: If the GOE continues its recent pattern of modest increases in real electricity tariffs (e.g., about a 10 percent real increase from April 1983 to April 1984), AID would consider funding transmission, distribution, hydro-generation, plant rehabilitation, and other projects on a case-by-case basis. However, no funding would be offered for Quraymat or other new, base-thermal generating facilities

Next Steps: In the power sector, A.I.D. is preparing to fund a feasibility study for a major thermal (gas/oil) power plant at Quraymat and, where appropriate, will continue financing non-generation activities.

Since current and prospective AID support for gas-using industries (power plants, cement plants, a proposed ammonia fertilizer plant) may be running ahead of available natural gas supplies, USAID may assist EGPC with studies of -- and possibly with a

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follow-on project for-- accelerated development of Egypt's natural gas resources and extension of the gas distribution network. Any follow-on project for natural gas would also be contingent on reforms related to the highly subsidized domestic prices and/or to the current unattractive incentives for private-sector development of gas fields.

Budget Plan: See attached table.

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## BUDGET PLAN FOR ENERGY (ELECTRICITY)
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed but Project Active** | | | Not Applicable | | | | | |
| 0009 Ismailia Thermal Power | 132 | 118 | | | | | | |
| 0023 National Energy Control Center (L) | 36 | 5 | | | | | | |
| 0023 National Energy Control Center (G) | 0.1 | 2 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0030 Shoubra Power Plant | 119 | 71 | 18 | - | - | - | - | - |
| 0033 Urban Electric Distribution | 42 | 14 | 20 | 21 | - | - | - | - |
| 0166 Aswan High Dam Runner Replacement | 7 | 78 | - | 15 | - | - | - | - |
| **New Projects (i.e., No Obligations Made)[1]** | | | | | | | | |
| Utility Management | | | - | 15 | - | - | - | - |
| Alexandria Regional Control Center | | | - | - | 35 | - | - | - |
| Distribution Rehabilitation | | | - | - | - | 40 | - | 20 |
| Quraymat Thermal Power Plant[2] | | | - | - | 100 | 150 | - | - |
| Talkha Combined-Cycle Addition[3] | | | - | 80 | - | - | - | - |
| Generating Capacity Rehabilitation[3] | | | - | - | 10 | 20 | 20 | 20 |
| Total additional requirements | | | 38 | 131 | 145 | 210 | 20 | 40 |

[1] Shelf funding alternatives: Hydro (Aswan I Runner Replacement), $40 million; Canal Regional Control Center, $40 million; Feasibility Studies, $5 million.
[2] Excluded from minimal and intermediate funding programs.
[3] Excluded from minimal program.

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Egypt FY 1986 CDSS Sector Statement

TELECOMMUNICATIONS

Development Problem: Lack of an adequate telephone communications system is constraining development. Only about 1.2 percent of the population have telephones, which is low by regional standards.[1] In addition, existing service is unreliable. Poor service and insufficient telephone lines, particularly in the urban areas, inhibit scheduling, marketing and shipping of industrial and agricultural production, and aggravate traffic problems. Internationally, lack of good telecommunications links discourages trade and the establishment of joint business ventures.

GOE Priority: This constraint to development is recognized at all levels of the GOE. The need to remove the constraint and respond to public demand for improved service has resulted in support to this sector being assigned a high priority in the GOE development plan.

Proposed solution: The Arab Republic of Egypt National Telecommunications Organization (ARENTO) proposes to increase the number of telephones to 7 per 100 population by the year 2000. To assist ARENTO in achieving its system expansion and improvement goals, AID proposes to continue supporting institutional development of ARENTO as well as financing equipment and its installation. The institutional development will emphasize personnel managment, finance and billing, O&M and fundamental planning Technology transfer will take place in computers, analog and digital switching, fiber optics and microwave technologies which are used in expanding the communication system; and in administering and operating the system. AID will support substantial training in these areas. Also to be emphasized are installations that enhance ARENTO's revenue-generating capacity.

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[1] By comparison, the number of telephones per 100 population in other countries in the region are: Syria-2.3, Iraq-2.5, Israel-25.4, Jordan-1.6, Saudia Arabia-2.5, Sudan-0.3, Morocco-1.1, Lebanon 5.0

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Policy Issues: Telecommunications sector achievements are consistent with AID's prioritities in institutional development, technology transfer, private sector development and policy dialogue. The dialogue has been productive to date, ARENTO having increased tariffs as a result of project consultant recommendations, and the GOE having amended the charter legislation of ARENTO to provide greater autonomy from central government. This ongoing dialogue will be pursued with respect to the need to equate service charges with cost of service, and to retain qualified staff.

Development Benefits: Improved service and increased line availability will have direct benefits of increased private and public sector productivity. Important indirect benefits of improved telephone service include lower capital costs through provision of better equipment and more efficient operations, and the positive long-range influence of introducing and applying new technologies. There also will be positive social benefits which, although difficult to quantify, should have a major impact on social services delivery, including medical services, and on personal communications. 1/

Visibility: The CIP-financed microwave system, connecting approximately fifteen telephone central offices, has been installed and is quite visible. The first new 20,000 line exchange under the program also was placed in service December 15, 1983, an event which received wide publicity and GOE attention. As an initial result, AID assistance already has improved the availability of dial tone, and reduced call attempt rates, both very evident improvements. Visibility to the U.S. business community, both in Egypt and in the U.S., is high because of the availbility of both improved services and sales opportunities.

Capacity: ARENTO design efforts to date have been greatly augmented by consultant and supplier expertise. Full design responsibility will continue to be shared with overseas concerns given the complexity of the telecommunications

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1/ References include: AID-financed Cairo University/MIT Study of economic benefit of telecommunications, in which the benefits to 146 Egyptian Villages was assessed as 36 times its cost to the user; and Telecommunications and Economic Development, R.J. Saunders, J.J. Warford, and B. Wellenius, World Bank Publication, 1983.

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sector. ARENTO capacity to implement and operate its system is improving, but ARENTO will require continued institutional development efforts, particularly with respect to O&M. The project activity is complex but manageable. Disbursements tend to follow quickly once contracts are executed.

Concentration: The present effort is concentrated in specific exchange areas, and a fiber optics and microwave junction system in Cairo and Alexandria, with a microwave extension to Ismailia. Funding has been provided incrementally. Proposed funding assumes continued concentration in major urban areas, but consideration could be given to rural service improvement if funds were available.

Options: In order to build on an already established base, institutional development efforts should be increased independent of additional capital investments. The level of assistance for equipment installation in any one fiscal year can be varied according to the availability of funds. Of course, the level of AID assistance will have a direct relationship to the rate at which ARENTO can extend and improve service.

Next Steps: A project evaluation by USAID is to be conducted and completed by May, 1984. In the meantime USAID is reviewing several funding requests and continuing discussions with ARENTO, AID/W and the GOE concerning the proposed follow-on project activity.

Budget Plan: See following table

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## BUDGET PLAN FOR TELECOMMUNICATIONS
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| Obligations Completed and Project Terminated | | | | Not Applicable | | | | |
| 0075 Telecommunications II | 38 | 42 | | | | | | |
| 0017 Telecommunications III | 17 | 105 | | | | | | |
| Obligations Completed but Project Active | | | | Not Applicable | | | | |
| 0075 Telecommunications II | 49 | 31 | | | | | | |
| 0017 Telecommunications III | 17 | 105 | | | | | | |
| Existing Projects Requiring New Obligations | | | | | | | | |
| New Projects (i.e., No Obligations Made) | | | | | | | | |
| 0177 Telecommunications IV | | | - | 150 | - | - | - | - |
| 0178 Telecommunications V | | | - | - | - | - | 100 | 50 |
| Total additional requirements | | | - | 150 | - | - | 100 | 50 |

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Egypt FY 1986 CDSS Sector Statement

ROADS

Development Problem: The increasingly high concentration of Egyptians in urban areas has severely aggrevated traffic congestion in Cairo and Alexandria, and has placed a heavier burden on the major roads into these cities. Continued development of the country will worsen these already difficult road transportation problems unless something is done to upgrade the system. The most pressing needs apear to be for a major improvement in the North-South road from Cairo to Assuit, a ring road with penetration roads in Cairo, and better maintenance of the Cairo-Alexandria roads.

GOE Priority: Not surprisingly, Egyptians consider the traffic congestion in Alexandria and Cairo a serious national problem that many recognize will inhibit sustained growth. President Mubarak has endorsed the concept of a ring road for Cairo. Every one recognizes, however, that construction of the road and its feeder system will be difficult. General awareness of the need for improvements in the North-South roads is less, although Egyptians recognize the need to transport crops to the cities and export points.

Proposed Solution: Although the need for better roads is evident, there is insufficiant information available to determine the cost/benefit ratio of investment in this area, or the political and social problems associated with the construction of roads, especially for the Cairo ring road. Accordingly USAID has agread with the GOE to fund a feasibility study for the Cairo/Assuit road and continue further staff work on the ring road. Additionally, AID might want to consider funding research in road construction material and maintenance management needs.

Policy A principal issue is Egypt's poor record in maintaining existing roads. Closely related is the issue of user costs to provide for maintenance and ,possibly, for replacement of funds used for capital expenditures. The use of private contractors for building the roads, the degree of involvement of U.S. contractors, and the possible financing of costs through bonds are other key issues. A significant consideration is the development of roads as opposed to other means of transportation, e.g. railways and waterways. An important related issue is the amount of agriculture land that may be used by roadway construction.

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Development Benefits: The benefits of road projects would go directly to users in the form of shorter travel time, lower vehicle maintenance costs, better transportation linkage between cities and from Upper Egypt to Cairo/Alexandria. Indirectly, the population at large would benefit by a greater attractiveness of its major cities to tourists and foreign business ventures.

Visibility: Projects in this area are large and highly visible to the Egyptian population and leadership, but change will take place slowly because of the extended time necessary for construction. Moreover, the construction itself is likely to be very disruptive until completed, prevoking the inevitable negative reaction by the Egyptians and risking dissatisfaction by U.S. Government officials. Care must be exercised during implementation to minimize disruption.

Capacity: Sufficiant capacity to construct highways exists in Egypt. However, management of construction work and quality control are two areas that may require technical assistance from U.S. firms. U.S. engineering firms with overseas experience abound and USAID/Cairo has the technical resource required to implement and monitor the projects.

Concentration: Road project such as those that would be necessary to solve the development problem outlined in this sector are large and complex; funds would be concentrated in two or three, certainly no more than a half dozen, separate projects.

Options: The options will become clearer when the Cairo-Assiut road feasibility study is completed, and more staff work has been done on the ring road. It is likely that the options may boil down to one or two major projects, with a few small supporting projects, or no projects beyond feasibility studies.

Next Steps: The RFP for the Cairo/Assuit road feasibility study was issued on March 19. Selection of the contractor should take place by July 1, and the report should be completed approximately eleven months later. Further study of the Cairo ring road and its linkage North and South may continue during this period. A decision on the type and extent of U.S. financing beyond the feasibility study and in-house staff work required should be made shortly following the complation of the feasibility study in 1985.

Budget Plan: See following table.

BUDGET PLAN FOR ROADS
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| Obligations Completed and Project Terminated | | | | Not Applicable | | | | |
| Obligations Completed but Project Active | | | | Not Applicable | | | | |
| Existing Projects Requiring New Obligations | | | | | | | | |
| New Projects (i.e., No Obligations Made) | | | | | | | | |
| Cairo Ring Road | | | 50 | 50 | 50 | 50 | 50 | 50 |
| North/South Road | | | 50 | 50 | 50 | 50 | 50 | 50 |
| Total additional requirements | | | 100 | 100 | 100 | 100 | 100 | 100 |

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Egypt: FY 1986 CDSS Sector Statement

DECENTRALIZATION (LOCAL DEVELOPMENT)

Development Problem: Many people in the smaller Egyptian communities, both rural and urban, have no access to potable water, sewerage, small roads, reliable electricity, and other basic services. Rural and small urban industry cannot develop because basic utilities needed for them to operate are not present. Only minimal financial resources other than those provided through Decentralization Support I (DSSI) are being channeled from the center and utilized locally to support local human resources.

GOE Priority: Decentralization policy has been developed through the local government laws of the late 1970's. The explanatory memorandum for the Amendment of the Law of Local Government that became effective in 1981 states:

> "One of the main objectives of the Corrective Revolution of 1971 was to consolidate true democracy which means that the people rule their own affairs. To achieve greater benefits for the masses, one of the essential principles of democracy is that the people govern their own local affairs through their elected local representatives in all local units....Local government also guarantees mobilization of efforts and potentials of citizens in local units to participate in the socio-economic development plan and in the improvement of various public utilities and services."

President Mubarak and the Prime Minister regularly call upon the governorates and the localities to assume their responsibility for local development using their own resources. However, current allocations in chapter two (Operating and Maintenance) of the governorate and local unit budgets are insufficient to sustain existing infrastructure, so it has become essential to mobilize local resources that can be retained and used by local governments rather than relying on transfers from the central budget. A recent Local Revenue Survey indicates that harnessing additional local resources for local development is a recognized high GOE priority at local levels, but the central government has not yet permitted or encouraged the development of a broader local revenue base.

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Proposed Solution:

The solution has two phases, DSS I and DSS II. DSS I, which is currently ending, has provided funds, training and technical assistance, to begin to rebuild local infrastructure and local private enterprises, and to develop the local capacity to select, design and implement development projects. Local people have clearly demonstrated their desire and ability to develop their communities.

DSS II will focus on the following:

a. Mobilizing local resources

Authority and responsibility for local development now clearly resides in the governorates and the local units: this goal of decentralization is being achieved. Over the past decade billions of dollars have been remitted to the rural areas from villagers working outside Egypt. This resource has not been tapped to improve and maintain the basic infrastructure serving the rural villages and urban districts.

Institution-building at governorate and lower levels is not complete, and needs to be reinforced over the remainder of the decade, but it is now appropriate to move forward and assist the local councils to generate local funds for operating and maintaining basic services. Drawing local financial resources into the development process will enhance the autonomy of local councils and also reduce the burden of local development on the national budget.

b. Developing and maintaining basic infrastructure

DSS I has put in place extensive infrastructure and trained more than 5000 technicians, and DSS II will continue this infrastructure development and training. In the past, the GOE has deposited in the local units a maintenance fund equal to 10% of the USAID contribution for local projects. Recent evaluations of decentralization activities, however, indicate that maintenance of existing infrastructure is still a major problem. This will be addressed in DSS II through a greater emphasis on better use of existing maintenance funds and adding a maintenance design and implementation requirement when the sub-project is identified.

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c. Sustaining policy reform and democratic institutions

DSS I encouraged implementation of the GOE's decentralization laws written during the 70's; policy was reformed and now is being implemented. DSS II will continue to sustain this policy reform through increasing the autonomy of local government units. DSS II will involve USAID and the GOE in a policy dialogue concerning local revenue generation, retention and utilization.

DSS I and II are the only components of the AID program that directly promote development through democratically elected representatives. The decentralized strategy of local needs assessment and project identification requires decisions by the elected councils. Project design, implementation, and follow-up require joint decisions and actions by the executive and elected councils. The program provides substance and purpose to local democracy in Egypt.

d. Creating a climate conducive to development of private enterprise

The success of Local Development Fund activities and the private contracting in Basic Village Services sub-projects indicate a willingness of the local councils to use the resources of the private sector to develop their communities. Improved infrastructure, increased familiarity of contracting practices, more responsive local governments and similar benefits from DSS I have encouraged private sector activity. DSS II will continue this support to the private sector and will include additional mechanisms for private sector development, perhaps extending to small revolving loan funds for private sector enterprises.

In order to accomplish the four objectives stated above, initial allocations of funds will be provided to the Governorates so that they can decide how to implement their local development projects. The basic allocation would be supplemented by a second allocation that reflects revenues generated locally and used for local projects.

Policy Issues:

DSS II must influence national policy and local capacity to mobilize local funds that can be used, together with the human resources developed during DSS I, in local development. The critical policy issue that must be influenced by the end of DSS II is local revenue.

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Development Benefits: The program has benefited millions of rural and urban residents. The physical, economic, and social quality of life is enhanced directly by DSS activities, as all the recent evaluations have shown. Investments in economic and social infrastructure, supporting equipment, and local human resources are improving local and national production.

Democratically elected councils are a vital part of the strategy and are being strengthened significantly by their participation in local infrastructure projects.

Visibility: Already more than 5,000 local projects have been undertaken; this number could triple or quadruple by the end of DSS II. The physical presence and social awareness of DSS are very prominent in rural villages and urban neighborhoods. Credit given to USAID for focusing on real and immediate development problems is widespread among local elected leaders, governors and their executive staffs.

Conversely, knowledge of the decentralized activities among central ministry personnel, outside the Ministry of Local Government, is limited. Their interest is apparent only when they suggest that the resources could be better programmed and used from the center--which is contrary to USAID's view.

Capacity: DSS I has focused directly upon local capacity and institutional development. This has proven to be effective. In DSS II, similar strategies will be used to enhance and expand the range of capacities in the districts and governorates. Over the next three to five years, this capacity will be extended to cover local revenue issues.

During DSS I, USAID and the GOE have developed decentralised mechanisms of sector design and management that coordinate activities through low-key interagency committees and place primary responsiblity for activity implementation in the governorates and local units. As DSS I activities are phased out in the next 18 months, the Sector Steering Committee will become the principle coordinator, and careful consideration must be given to additional mechanisms required for sector monitoring, training and policy dialogue. The mode of providing technical assistance also will be examined.

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Additionally, the organization of LAD needs to be adjusted to reflect the change from project/activity managment to program/sector management.

Concentration: DSS II can be concentrated geographically or sectorally to meet GOE and USAID priorities, by issuing guidelines to governorates regarding the ways in which money can be spent. Care must be taken, however, not to dilute the decision-making role of local people, as the advantages of the decentralized strategy will be lost.

Currently the funds are concentrated in the poorest and neediest communities. Other useful options to be considered might include concentrating funds in selected areas of parallel AID project activities--such as potable water, sewerage, or roads.

Options: DSS II could expand in years 4 or 5 depending upon performance by local governments in revenue generation, project development, and capacity-building. Nevertheless, a minimum and known amount of multiyear funding must be committed to both rural and urban governorates so that planning and implementation procedures can be efficient.

Shelf activities can be developed for the sector to be "accelerated" to absorb unexpended funds from other projects in the Mission portfolio. Funding for such additional "shelf" activities might be predicated upon significant progress toward expanding the local revenue base. Projects in other sectors could be folded into the local development portfolio if they move toward a decentralized strategy of implementation.

Next Steps: USAID will proceed with the Second Sector Assessment in May/June 1984. A PAAD amendment for DSS will be developed in late summer for early FY85 obligation.

A local revenue working group will be established and involve the Governorates, Ministries of Finance, Planning, MIIC, Local Government, etc. with USAID/LAD and DPPE. Appropriate technical assistance will be provided to the working group. A policy dialogue about local revenue options and strategies will be started after the assessment (and the elections).

Budget Plan: See the table on the next page.

## BUDGET PLAN FOR DECENTRALIZATION (LOCAL DEVELOPMENT)
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|---|---|---|---|---|---|---|---|---|
| Obligations Completed and Project Terminated | | | | Not Applicable | | | | |
| Obligations Completed but Project Active | | | | Not Applicable | | | | |
| K605.1 Development Decentralization I (DDI) | 19 | 7 | | | | | | |
| K605.4 Decentralization Support Fund (DSF) | 37 | 63 | | | | | | |
| Existing Projects Requiring New Obligations | | | | | | | | |
| K605.2 Basic Village Services I (BVS I) | 128 | 17 | 80.0 1/ | | | | | |
| K605.5 Neighborhood Urban Services (NUS) | 36 | 18 | 34.5 2/ | | | | | |
| K605.6 Decentralization Sector Support (DSS) | - | 4 | 6.5 2/ | | | | | |
| K605.3 Provincial Cities Development (PCD) | 8 | 22 | 45.0 | | | | | |
| New Projects (i.e., No Obligations Made | | | | | | | | |
| Decentralization Section Support II (DSS II) 3/ | | | - | 75 | 150 | 150 | 125 | 100 |
| Total additional requirements | | | 166.0 | 75 | 150 | 150 | 125 | 100 |

1/$ ] million PP Amendment submitted to AID/W (March 23, 1984) for authorization ($70 million new funds, $10 million reallotted from SDS).
2/Authorized/Approved. NUS and SDS at MIIC awaiting FY 84 obligation ASAP.
3/This includes a FY 89 "shelf", but does not include possible "acceleration" in earlier years.

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SOCIAL INFRASTRUCTURE

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Egypt FY 1986 CDSS Sector Statement

## POPULATION

**Development Problem:** While fertility rates in the urban areas have started to decline, fertility continues high in rural areas. Without substantial progress soon in lowering the overall birth rate, the quality of life will continue to worsen as Egypt's dependence on foreign food expands dangerously and as infrastructural improvements fail to keep up with the escalating demands of a rapidly increasing population.

**GOE Priority:** Although a growing number of top GOE officials are recognizing that rapid population growth impedes economic development, many senior GOE economists and planners continue to favor long-term socio-economic development measures over specific family planning services. GOE counterpart contributions for family planning programs are not adequate.

**Proposed Solutions:** The umbrella population project is funded at $102.6 million, of which $20 million has already been obligated.

USAID plans to:

- Expand the coverage of the privately operated Family of the Future project to the smaller urban areas.
- Assist the Ministry of Health (MOH) in launching a rural-based family planning campaign. For this campaign to be successful, effective links need to be established with governorate officials, and GOE counterpart contributions need to be increased.
- Assist in the improvement of the quality of population statistics and fertility research programs.
- Stimulate greater involvement of the private sector in the State Information Service's population information campaigns.

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Policy Issues: Top officials have recently expounded the need for more vigorous family planning efforts. A National Population Conference held on March 29, 1984 is expected to stimulate a growing popular consciousness of this need. This is a sector where our policy interests appear to be mutual, but on which the rate of GOE implementation is of concern.

Development Benefit: An early reduction in national fertility would have salutary effects on the quality of life as per capita incomes improve and as infrastructure programs come closer to meeting overall needs.

Visibility: Benefits are indirect and cumulative and their visibility is largely in the long-term.

Capacity: AID has considerable experience in family planning programs. The MOH has been weak administratively, but some tightening up has recently taken place with respect to the staffing and management of population activities. Further improvements are expected, but these are not fast disbursing programs.

Construction: The rural-based family planning campaign is to be concentrated on two or three governorates on a pilot basis before country-wide extension.

Options: USAID population assistance in the public sector will be limited to pilot efforts unless more substantial GOE counterpart contributions are made. With increasing GOE support, USAID assistance can attain broader geographic coverage.

Next Steps: The recent National Population Conference is expected to produce a consensus on the next essential steps to be taken on improving the impact of family planning programs across the country. Actual implementation moves are not likely to be announced by the GOE until June 1984 at the earliest

USAID will review the recommendations of this Conference in light of the Population Assessment conducted in 1982 and establish or revise priorities accordingly among the activities to be financed under the umbrella population project.

Budget Plan: See table on following page.

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BUDGET PLAN FOR POPULATION
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| Obligations Completed and Project Terminated | | | | Not Applicable | | | | |
| Obligations Completed but Project Active | | | | Not Applicable | | | | |
| 0029 Family Planning | 47 | 20 | | | | | | |
| Existing Projects Requiring New Obligations | | | | | | | | |
| 0144 Population Project | - | 20 | 5 | 20 | 20 | 20 | 10 | 7.6 |
| New Projects (i.e., No Obligations Made) | | | | | | | | |

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Egypt FY 1986 CDSS Sector Statement

HEALTH

Development Problem: Mortality and morbidity from largely preventable diseases and fertility are unacceptably high for a country at Egypt's level of development.

GOE Priority: Although the GOE identifies health care as an important part of its equity strategy, government health services are underfunded and over-extended for curative care, and there is insufficient recovery of service costs.

Proposed Solutions: The current and projected USAID investment comprises health programs with LOP funding of $112 million.

USAID plans to:

-Continue a strong emphasis on the oral rehydration training (ORT) program.

-Improve the delivery of urban and rural health and nutrition services.

-Expand the use of self-financing schemes in health services delivery (private sector and insurance programs).

-Expand selective medical education programs that prepare health care workers for relevant, appropriate and effective community-based health care services.

-Expand the immunization program.

-Focus and expand biomedical research into major diseases affecting Egyptians.

These programs would require a USAID budget of $20-25 million per year. If the private sector and insurance programs do not receive appropriate GOE support, this level would be significantly reduced.

Policy Issues: The GOE has stated a clear policy of its intentions to move more aggressively on preventive measures in (1) combatting the major debilitating diseases and (2) strengthening the role of parastatal and private organizations in providing

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basic health care. There are positive signs of movement in the insurance area. This is a sector where our policy interests appear to be mutual, but where the rate of GOE implementation is of concern.

Development Benefits: There are a number of targets of opportunity in health and nutrition to reduce infant and child deaths from diarrhea and other diseases, to reduce child malnutrition, to reduce fertility and to reinforce and extend GOE interest in private sector and insurance programs that will put the country's health care system on a better financial basis. The productivity of the labor force and the quality of life of the general population will be improved by these programs.

Visibility: Health care programs are seen on all sides as humanitarian and "people to people" oriented. In particular, the ORT and immunization programs can be structured for very high visibility. The research activities are unlikely to have much near-term visibility.

Capacity: AID has considerable experience in the areas proposed (with the exception of research). The Egyptian Ministry of Health is weak administratively, and creative design and project leadership efforts will be required to ensure that many of these programs are implemented effectively and expeditiously. With the exception of ORT and immunization programs, these are not fast disbursing programs.

Concentration: All health programs are concentrated geographically on a pilot basis; as results are proven, consideration will be given to expanding their geographic scope.

Options: If the rate of GOE implementation is reasonably vigorous these programs could effectively utilize USAID funds of $20-25 million per year. If the private sector and insurance programs do not get appropriate GOE support, this level could be reduced by up to 50%.

Next Steps: An assessment of the sector, outlining what needs to be done, was completed in the fall of 1982 and has been under discussion with the Ministry of Health. However, the GOE has not yet determined its rank order for various activities.

Budget Plan: See following page.

BUDGET PLAN FOR HEALTH
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | Not Applicable | | | | | |
| **Obligations Completed but Project Active** | | | Not Applicable | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0015 Strengthening Rural Health Delivery Services | 8 | 5 | 2.6 | - | - | - | - | - |
| 0065 Urban Health | 9 | 28 | - | 5 | 3 | - | - | - |
| 0136 Suez Community Health Personnel Training | 7 | 1 | 6.5 | 3 | - | - | - | - |
| 0137 Diarrheal Diseases | 1 | 25 | - | - | - | 10 | - | - |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| Private Health Sector | | | - | 8 | 8 | 8 | 12 | 14 |
| Secondary Nurses Training | | | - | - | 4 | 4 | 2 | 2 |
| Expanded Immunization | | | - | - | 5 | - | 5 | - |
| Schistosomiasis | | | - | - | 2 | 3 | - | 5 |
| Total additional requirements | | | 9.1 | 16 | 22 | 25 | 19 | 21 |

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## Nutrition

**Problem:** Even through general status is good, iron deficiency anemia and poor weaning food practices are widespread.

**Proposed Solution:** We are proposing that this problem be addressed by two projects funded at $3 million each on 1) the provision of weaning food supplements and improving the knowledge of proper weaning practices and 2) iron fortification of a basic foodstuff such as bread.

**Budget Plan:** See table on next page.

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BUDGET PLAN FOR NUTRITION
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| New Projects (i.e., No Obligations Made) | | | | | | | | |
| Weaning Foods | | Not Applicable | 3 | - | - | 3 | - | - |
| Iron Fortification | | | - | 3 | - | - | - | - |

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Egypt FY 1986 CDSS Sector Statement

EDUCATION AND TRAINING

Development Problem:

Egypt's human resource base is inadequate to meet current and projected demands for the literate and skilled work force needed for economic growth: over 55 percent of adults are illiterate; there is a lack of workers with the technical skills needed for development; the quality of education from basic education through university education is deteriorating; young people receive training in fields that are not consistent with development needs and market demand.

Egypt has a compulsory 9 year system of free basic education to implement its policy of equality of educational opportunity. The public education system has expanded rapidly over the last few years, but as access to education has improved, its quality has dropped. Teacher quality is inadequate; materials and books are in short supply; urban schools are over-crowded, in need of repair, and ill-equipped; secondary school graduates who do not enroll in the universities find themselves ill-equipped for the job market; the curriculum and the examination system need to be revamped; universities are over-crowded and graduates are unqualified to enter the professions for which they have studied. Recurrent expenditure levels are grossly under-funded.

GOE Priorities:

The principal education objectives in Egypt's current five year plan are to increase access to basic education to 96 percent of 6-year olds by 1986/87 and to improve the quality of the system. The plan also calls for expansion of secondary technical school enrollment to 70 percent of total secondary school enrollment; enhancement of technology transfer through improvement of university level engineering education, and improvement of the quality of the labor force through training in Egypt and abroad.

The USAID agrees with and supports the GOE's quantitative goals for access to basic education. We are likewise concerned about the quality of the education provided by the system. We think that the GOE under-estimates the difficulties of keeping students in school until they become irreversibly literate and of expanding and improving the relevance of technical secondary education. We agree that university level engineering is a priority field that should be up-graded.

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Proposed: Solution

The USAID's interventions alone cannot solve Egypt's educational problem. They can contribute significantly to alleviating some of the education system's needs.

The USAID's current portfolio includes 7 projects with life-of-project funding of $235 million. These projects:

- contribute to expansion of the basic education school system in rural areas (5,279 classrooms in 10 governorates);
- contribute to qualitative improvements by providing pre-vocational commodities in all basic education schools (grades 1-9);
- provide equipment to secondary technical schools;
- support applied research participation by university professors;
- support in-country technical training and participant training in the U.S.;

Future projects will put greater emphasis on the qualitative aspect of education. Priority will be placed on helping strengthen GOE capacity to do manpower planning and educational planning.

In basic education we propose to establish a series of university-based model schools to provide support to up-grading primary school teachers through training of teacher trainers, and to provide textbooks, instructional materials and equipment to all basic education schools. In technical secondary education we will explore the possibilitiy of working in selected governorates to establish a user-oriented system by providing an integrated package of buildings, equipment and educational materials, and assistance in improving teacher training. At the university level, we propose to establish "centers of excellence" in a few selected universities. We are particularly interested in assisting Egyptian universities to improve the quality of engineering education.

It is our intention to concentrate the USAID's education and training portfolio on 4 project areas: Basic Education; technical education; Development Training; and higher education. We also propose budget support to the Ministry of Education to increase the ability of the system to provide supplies and to cover operation and maintenance costs. We will not work to expand components of the education system that are qualitatively inadequate without a demonstrated commitment on the part of the GOE to raise their quality. For example, we will not get involved in the

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massive provision of materials for technical secondary education without an involvement in teacher training and a commitment on the part of the GOE to modify incentive structures, including housing, to make it possible to retain good teachers for the system.

Facility with the English language is a key to communication with the outside world and to technology transfer. The rapid expansion of the education system in Egypt caused a serious decline in the quality of English language teaching and usage. The USAID should provide major support to improving the quality of English language instruction.

Policy Issues:

Should USAID support quantitative expansion without concomitant qualitative improvement?

Should USAID support expansion and modification of the secondary technical education system at this time without adequate knowledge of Egypt's manpower needs?

The GOE already is over-expanding enrollments in its institutions of higher education in relation to the demand for university graduates and the GOE's capacity to fund recurrent costs. Should we continue to seek ways to promote academic excellence by selective interventions, in the absence of a rational, systematic comprehensive plan for the expansion of the university system?

The GOE wants more of the training for technology transfer to be carried out in Egypt. Agency policy calls for a 25 percent increase in the number of participants trained in the U.S. How do we resolve these conflicting objectives?

Development Benefit:

The USAID's investment in education and training will increase the productivity and earning capacity of the individuals receiving training and of society as a whole by fostering improved literacy and greater technical skills. Further, all development ultimately upon an educated citizenry.

Visibility:

The buildings and commodities going into USAID-funded rural basic education schools are highly visible to Egyptians in rural areas, to the GOE leadership and visiting U.S. leaders. In the cities, where over half the Egyptian population now lives, manifestations of the basic education project stand out less but are visible to many people. The Peace Fellows and recipients of grants under the University Linkages project are visible to their peers.

Capacity:

The GOE's capacity to design and implement education and training projects varies from activity to activity. Capacity to manage the quantitative expansion and quali[illegible]ve

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improvement in basic education has been demonstrated in five governorates and lead a decision to add additional governorates and resources to the project. The determination of the GOE's managerial capacities for quantitative expansion and qualitative improvement of the secondary technical system has yet to be conducted. This is a prior step in learning what assistance USAID might contribute to this area. At university level, the GOE's managerial capacity to design and implement projects to improve quality is adequate-to-good. USAID capacity to manage education programs is adequate for the existing portfolio, but would have to be strengthened if major efforts in technical secondary education and English language are made.

A major handicap for any project in education and training is the GOE's failure to allocate adequate funds for recurrent costs for the systems that now are being built up.

Options: Within the education sector, contract building or commodity components of projects can be expanded or contracted depending on GOE response to quality issues; e.g. increased USAID support would be forthcoming for engineering education if the GOE changed the system by creating clusters of specialized departments in the universities instead of setting up departments covering all fields in all 12 universities. Support to engineering education and to "centers of excellence" can be linked to GOE success in bringing the number and nature (quality) of students and graduates in line with resources and with market needs. Within workforce planning and manpower development, the participant training, in-country training, and English language programs can be expanded or contracted.

Next Steps: In response to President Mubarak's concern with technical secondary education, the USAID proposes to fund a planning effort to help the GOE formulate a comprehensive program plan for technical secondary education. Specific project design will be based on the products of this effort. Concept papers and PIDs for university level centers of excellence, Basic Education Amendment II, and a national English language project will be prepared as shelf items. We also will prepare a PID and PP amendment to the Peace Fellows Project.

Budget Plan: The budget plan for education and training is shown in the following table. The table includes a re-ob of $10 million back to the University Linkages Project.

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## BUDGET PLAN FOR EDUCATION AND TRAINING
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | Not Applicable | | | | | |
| 0025 Technical & Feasibility Studies III | | | | | | | | |
| 0011 Technology Transfer & Manpower Development II | | | | | | | | |
| 0002 Technology Transfer & Manpower Development I | | | | | | | | |
| 0005 Local Cost Students Programs | | | | | | | | |
| 0001 Centrally Funded Manpower | | | | | | | | |
| **Obligations Completed but Project Active** | | | Not Applicable | | | | | |
| 0026 Technology Transfer & Manpower Development | 25 | 10 | | | | | | |
| 0061 Development Planning Studies | 14 | 2 | | | | | | |
| 0090.2 Vocational Training for Production | 1 | 16 | | | | | | |
| 0114 Vehicle Maintenance Training | 3 | 1 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0018 University Linkages | 5 | 13 | 10 | - | - | - | - | - |
| 0110 Peace Fellowships[1/] | 22 | 32 | (-) | (-) | (10) | (10) | (10) | (-) |
| 0139 Basic Education | 18 | 67 | - | 15 | 101 | 101 | 101 | 101 |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| Development Training[2/] | | | - | 11 | 26 | 26 | 26 | - |
| University Level Education | | | - | - | 35 | 35 | 35 | - |
| Technical Education/Vocational Training | | | (-) | (-) | 25 | 25 | 25 | 25 |
| Total additional requirements | | | 10 | 26 | 187 | 187 | 187 | 126 |

1/ Peace Fellows to be included in Development Training.
2/ Includes:
- English Language $10x4=$40 million.
- Participant Training $10x4=$40 million.
- Manpower Planning $7x5=$35 million.

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PRODUCTION

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## AGRICULTURE

Development Problem: There is substantial opportunity and need for "vertical development" of Egypt's agricultural lands through efforts to improve on-farm techniques of production and to develop Egypt's capabilities for production of higher value export crops.

GOE Priority: The GOE has stated agriculture is a high priority but has provided weak incentives to producers (prices of many major crops are highly repressed from world levels) and has budgeted inadequate funds for materials, supplies, and operating expenses in the Ministry of Agriculture.

Proposed Solutions: Continue strengthening the effectiveness and authority of the Agricultural Research Center over applied agricultural research and extension activities in Egypt. Continue support for small-farm credit activities, through village banks of PBDAC. Continue policy dialogue with the GOE on farm price reforms through PL480 and continue U.S. technical assistance on policy analysis for GOE decision makers (IFPRI, Water Research Center, and ARC). A new AID project is intended to support production and marketing of agricultural exports.

Benefits: One overall objective of our inputs to agriculture over the next five years will be to increase the real value of agricultural production by at least 4 percent a year as compared to 2.5 percent a year in the recent past. Nationwide improvements in credit availability and reform of farm credit practices by the PBDAC village banks (interest rate and input subsidies) would be goals of the national small farm credit project planned for FY1986. The ultimate benefit of the export marketing project would be to permit large-scale shifts by farmers from traditional field crops to high-value horticultural export crops.

In addition to the long term benefits, there are some potential short-term direct benefits likely in several areas where we have made positive demonstrations:

-extension campaigns for certain crops where research has demonstrated improved yields (rice and major cereals);

-irrigation structure replacement.

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Policy Issues: There are a number of policy issues on which we have agreement in principle by the GOE but limited action to date, including:

-higher farmgate prices for major export crops;

-increased role for the private sector in the supply of agricultural inputs that are now controlled by public-sector organizations and enterprises.

Ongoing USAID projects for research and extension have sought to exploit the policy neutral elements of the rational, longer-term process of agricultural development.

Options: AID's core support for the MOA's research and extension efforts should continue to be considered a policy-neutral activity. If the GOE were to raise procurement prices substantially for traditional agricultural exports or to liberalize private exports of these crops, the export promotion project might be expanded in size and scope by AID in response to those measures. The size and nature of the nationwide small farm credit project may be linked to the nationwide elimination or reduction of government subsidies of interest rates and agricultural inputs and to decontrol of private-sector marketing of farm inputs; moderate reductions in interest subsidies and substantial reductions in input subsidies have been achieved within the small farmer pilot project.

Visibility: The high level interaction by U.S. and GOE agriculturalists provides visibility at the leadership level.

As production campaigns are conducted on a larger scale (e.g., for rice in 1984), these may have relatively high national visibility and, to some extent, may be attributed to the United States. Some irrigation structure replacements (bridges) have good USG visibility at a local level.

Concentration: The intention is to move from 13 project activities to 3 basic programs. Moreover, there would be scope for incorporating under the umbrella project for research and extension, the related but uncoordinated activities in applied agricultural research currently funded by USAID's University Linkages and by AID/W's S&T projects.

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Capacity: Ministry of Agriculture capabilities to manage the research program are considered good and have been strengthened through past projects; in the future MOA will need less assistance in this area from resident AID contractors. MOA capabilities to design and manage the extension program have been less well demonstrated, so that significant ongoing amounts of technical assistance should be envisioned for the extension work. Experience with Ministry of Irrigation capabilities on the selection and construction of structure replacements has been positive.

Next Steps: The "umbrella" research/extension project is now under development. An amendment to extend the pilot small farm credit project has been submitted to AID/W. A PID for the agricultural exports project will be discussed further with the Ministries of Economy and Agriculture and should be completed during the first half of 1984.

Budget Plan: See table on following page.

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## BUDGET PLAN FOR AGRICULTURE
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | | Not Applicable | | | | |
| **Obligations Completed but Project Active** | | | | Not Applicable | | | | |
| 0027 Rice Research | 6 | 16 | | | | | | |
| 0070 Major Cereals | 27 | 20 | | | | | | |
| 0041 Agr. Develop. System | 12 | 3 | | | | | | |
| 0031 Agr. Mechanization | 14 | 26 | | | | | | |
| 0064 Aquaculture | 11 | 17 | | | | | | |
| 0116 Agr. Management | 2 | 3 | | | | | | |
| 0142 Data Collection | 0.7 | 4 | | | | | | |
| 0017 Egypt Water Use | 11 | 2 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0079 Small Farmer Production (credit) | 11 | 14 | 24 | - | 20 | 20 | 20 | 20 |
| 0132 Irrigation Management Systems | 15 | 23 | 15 | 30 | 30 | 26 | - | - |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| 0152 National Research and Extension (Prod. Campaigns) | | | 10 | 10 | 10 | 10 | 10 | - |
| 0198 Agricultural Exports | | | - | 10 | 10 | 10 | 10 | 10 |
| Total additional requirements | | | 49 | 50 | 70 | 66 | 40 | 30 |

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Egypt FY 1986 CDSS Sector Statement

## INDUSTRY

**Development Problem:** The restricted role of private sector industry and inefficiencies of public sector industry hamper industrial development, which is essential to Egypt's economic growth through increases in commodity output, productivity, foreign exchange earnings, and employment opportunities.

**GOE Priority:** The GOE places a high priority on industrial development, but it wants the public sector to maintain its dominant position at the same time that it wants the private sector to contribute to more rapid growth.

**Proposed Solutions:** USAID's proposed solutions are to encourage private sector industrial growth through credit and technical assistance to those elements of private sector industry that have the greatest chance of increasing the productive capacity of Egypt, and to contribute to increasing economic efficiency of public sector industry through selected interventions that will enable it to operate according to the rules of a market economy.

**Policy Issues:** The main policy issue for USAID support to private sector industry through intermediary credit institutions is the terms and conditions of bank credit funded by the USAID. These should be acceptable to the GOE, A.I.D., the banks, and private sector users themselves. The USAID's concerns are, on the one hand, to avoid the distortions induced by subsidizing equipment and raw material inputs to private sector producers, and on the other hand, to offset the higher prices of U.S. suppliers due to A.I.D. procurement regulations, U.S. shipping requirements and the currently over-valued U.S. dollar. We also are concerned with finding ways to provide direct support to private sector investors and entrepreneurs.

There are two sets of policy issues for USAID support to public sector industry in Egypt. The first set is concerned with pricing:

- rationalization of output prices to cover public sector enterprise costs, making any subsidies to consumers that are considered necessary by the GOE explicit in the GOE budget rather than implicit in public sector enterprise losses;

- equality of treatment in the pricing of energy inputs to private and to public sector firms;

- pricing of electricity inputs to energy-intensive public sector firms at economic (international) prices.

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The second set of issues concerns easing of the restrictions on entry of private sector firms into industrial production. The legal basis for restriction was eased by Law 43 of 1974, dealing with joint ventures, and Law 159 of 1982, which extended to domestic enterprises all the advantages of Law 43 except repatriation of profits out of the country. Industrial licensing remains the function of GOFI and the Minister of Industry. The present Minister, Gharouri, has been active in speeding up approvals. Continued USAID support to public sector industry may be seen by the GOE as a quid pro quo for its giving more favorable treatment to the private sector.

Development Benefits: The expected direct development benefits of USAID involvement in industry will be increased output, employment and foreign exchange earnings. In the case of public sector industry, we can ensure that the output is economically viable at international prices through ex-ante project analysis. In the case of private sector industry, supported by term credits through intermediary credit institutions, it is also possible to use economic viability as a criterion of choice.

The expected indirect benefit will be movement of Egyptian industry as a whole toward a market economy by increasing the importance of the private sector and the economic efficiency of the public sector.

Visibility: Visibility of industrial projects at the popular level is a matter for the publicity media.

The USAID is concerned that the GOE perceive that we are aware of their concern with industrialization and that we are willing to give the process our support by assistance public sector industry.

Significant USAID support of the private sector will be recognized and appreciated by businessmen in the U.S. and Egypt.

Capacity: We are optimistic about being able to work out a term lending mechanism for support to private sector industry, and to negotiate it with the MIIC, the Ministry of Finance, and the Central Bank of Egypt. We also expect to be able to develop a project relating to the identification, analysis and implementation of bankable private sector projects.

The major stumbling block to design and implementation of capital assistance to public sector industry remains the GOE's General Organization for Industry (GOFI). Concentrating on a single major industrial plant such as an ammonia fertilizer plant

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would minimize the delays imposed on a project by GOFI's administrative procedures. A cement plant, which would come under the jurisidiction of the Ministry of Housing and Development rather than the Ministry of Industry (and GOFI), also would avoid those delays.

Concentration: There has been no major new USAID capital assistance project for public sector industry since FY 1978. The GOE keeps requesting new funding for public sector industry as evidence of U.S. political support to Egypt. The USAID wants to increase the number of approaches to support of the private sector.

Options: For private sector industry, the USAID's main current task is to develop an effective mechanism for term lending to the private sector. We will continue to improve the Production Credit (commodity credit) program while seeking to establish a viable term credit project.

Production Credit I is now moving at a rate of about $65 million per year without revisions to the circular governing its implementation that we are now seeking from the MIIC. We estimate that a term credit project could move $35 million per year once it got under way.

We plan to complement this activity by designing a project to identify market opportunities and assist in the development and implementation of bankable projects for investors and entrepreneurs in areas that are economically and financially viable. Credit often is less of a constraint than are market information, managerial assistance, and access to and use of appropriate technology.

The longer run challenge is to find ways to provide direct support to industry sub-sectors with the greatest potential for improvement and for private sector growth. In these areas, we believe that some form of direct assistance to the private sector will have a catalytic effect on the growth of the private sector and consequently on the GOE attitude toward the positive potential of the private sector for Egypt's growth.

Three separate sub-sectors are under consideration as examples of this approach: suppliers to the expanding automotive industry and its aftermarket sales; suppliers to the apparel industry, as well as garment manufacturers themselves; and a possible overhaul of the food-processing industry. All three are sectors in which the GOE welcomes private sector expansion. All three offer opportunities for export promotion, appropriate import substitution, and assistance packages that U.S. resources are especially capable of providing.

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For public sector industry, the slow progress of the Industrial Production project of FY 1978 speaks against a new umbrella project for all of public sector industry. One option open to USAID is to co-finance with the World Bank a major economically viable project such as an ammonia fertilizer plant using natural gas as feedstock to replace the electrolysis process KIMA plant at Aswan.

If the questions of pricing of energy inputs to public sector cement plants and of their output of cement are resolved, another good candidate for USAID capital assistace to industry will be a new cement plant, which would be established juridically as a Law 43 company rather than as a public sector company even through it would be largely GOE-owned.

Next Steps: For the private sector component, the USAID will work out with the GOE a term lending mechanism that initially will be a term lending window to the existing Production Credit project. The USAID also proposes to develop a project for re-structuring a significant sub-sector in Egypt, e.g. food-processing, garmets, or the automotive "feeder" industries. The next steps are:

a. to make the existing short-term credit project (Production Credit I) more supportive of productive investment by including access to Law 43 companies, longer amortization periods, and additional private sector banks; and to replenish its funding by early FY 1985;

b. to design a term credit project acceptable to the USAID, the GOE, the banking community, and importers;

c. to find a mechanism for direct support of the private sector in key industrial sub-sectors, such as the food-processing industry and suppliers to the automotive and garment industries;

d. to refine investment promotion and business development components of on-going projects;

e. to examine possible new private sector initiatives.

For the public sector industry component, the USAID will formulate a project for possible financing of a fertilizer plant in FY 1985, following the negotiating lead of the World Bank. An ammonia fertilizer is not included in the current GOE five year plan.

Budget Plan: See following two tables.

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BUDGET PLAN FOR INDUSTRY (PRIVATE SECTOR)
(Projects Not Included in Other Sectors)
($ millions)

| Project Number and Title | Total Expended as of 12/31/82 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | Not Applicable | | | | | |
| **Obligations Completed but Project Active** | | | Not Applicable | | | | | |
| 0016 Develop. Ind. Bank I | 25 | 7 | | | | | | |
| 0045 Develop. Ind. Bank II | 0.8 | 1 | | | | | | |
| 0115 Tax Administration | 1 | 2 | | | | | | |
| 0097 Priv. Invest. Econ. Fund | 0.8 | 10 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0147 Production Credit I | 1 | 67 | - | 60 | 60 | 60 | 60 | 60 |
| 0112 Private Sector Feasibility Studies | 2 | 3 | - | 3 | - | 2 | - | 2 |
| 0159 Business Support & Investment | - | 9 | - | - | - | - | 2 | - |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| Production Credit II Long Term | | | - | 30 | 35 | 35 | 35 | 35 |
| New Private sector Initiatives | | | - | - | 10 | 10 | 10 | 10 |
| 0171 Business Development/Feeder Industries | | | - | 13.2 | 13.5 | 13.5 | 13.5 | 3.5 |
| Total additional requirements | | | - | 106.2 | 118.5 | 120.5 | 120.5 | 110.5 |

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BUDGET PLAN FOR INDUSTRY (PUBLIC SECTOR AND LAW 43 COMPANIES)
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | | | | | | |
| **Obligations Completed but Project Active** | | | | Not Applicable | | | | |
| 0010 Mehalla Textiles | 91 | 2 | | | | | | |
| 0012 Suez Cement | 99 | 1 | | | | | | |
| 0052 Qattamiya Cement | 79 | 16 | | | | | | |
| 0072 Port Said Salines | 10 | 3 | | | | | | |
| 0090.4 Innovative Prod. Activities | 0.5 | 2.5 | | | | | | |
| 0101 Industrial Production (L) | 7 | 39 | | | | | | |
| 0101 Industrial Production (G) | 15 | 68 | | | | | | |
| | 301.5 | 132.5 | | | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| 0185 Cement Plant Expansion or | | | | | | | | |
| 0186 Fertilizer Plant | | | - | 170 | - | 125 | - | 100 |

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CROSS-CUTTING PROGRAMS

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1986 CDSS Sector Statement
Science and Technology

Problem: Productive sectors of the Egyptian economy suffer from low and sometimes negative growth of productivity. Existing resources are not being adequately used to address the diverse technological, managerial, and training impediments to improved productivity. Low productivity results in high costs, large government deficits, and an inability to earn foreign exchange through exports.

GOE Priority: Egypt is committed to the mobilization of its S&T, managerial, and training resources to address national development problems. This is reflected in a very large system of universities and technical institutions. However, these resources suffer from the same lack of productivity found in the institutions they might serve. Although Egypt has a 5-year plan for S&T and for individual production and service sectors, there is inadequate coordination within and between sectors.

Proposed Solution: USAID's overall portfolio heavily emphasizes technology-transfer and S&T-type activities. There are 66 such projects representing an investment of $3 billion. The portfolio of projects in the Office of Science and Technology includes seven projects and ten activities with life-of-project funding at $107 million.

USAID plans to:

-- Develop a more coherent investment strategy based on an assessment of S&T needs and opportunities.
— Develop "supply-based" projects that:
-- Give particular attention to R&D management capabilities.
-- Support research and training program, not independent and unrelated projects.
-- Address research problems relating to the Mission's own portfolio of projects.
-- Give particular attention to A.I.D.'s worldwide S&T emphases.
-- Link suppliers and users of research more closely to one another.
-- Contribute to a more rational and efficient use and linkage of diverse GOE and U.S.-funded S&T activities.

-- Expand and develop new "demand-driven" projects, especially as they relate to the technological and management development of users in the private sector.

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Policy Issues:

1. To ensure the adoption and effective use of R&D, a greater role must be given to the user community in determining S&T priorities and the mechanisms for the transfer of technology.

2. Changes in budget levels and in the pattern of expenditures for S&T are necessary to ensure the generation of more useful research results through the timely implementation of projects, the commitment of professional staff, and the installation of adequate procurement and maintenance systems for major equipment.

3. Coordination between different research organizations working on similar development problems needs to be greatly improved and dissemination procedures for the promising research results need to be strengthened.

USAID assistance levels and direction would be designed to promote progress along these lines in the light of past and present programs of the various research institutions.

Development Benefits: Improved direction and coordination of research programs are expected to increase overall productivity significantly. The resulting expansion of agricultural and manufacturing production would provide additional employment opportunities and would permit a reduction in the budgetary and trade deficits.

Visibility: Because the S&T community is a highly literate and sometimes vocal elite, the program has some immediate positive political visibility, assuming that the program is appropriately structured. Demand-driven R&D also can have immediate visibility, although widely dispersed. Other benefits are indirect, cumulative, long-term, and less visible.

Capacity: Much technology transfer through research projects managed by USAID's office of S&T and other USAID offices already is taking place. The process could be improved and expanded gradually, but these are not fast disbursing programs.

Concentration: Egyptian S&T activities are widely dispersed among agencies and Ministries; the USG also uses a large number of mechanisms and US agencies to support S&T activities in Egypt. The USAID-financed assessment of Egyptian S&T is to make recommendations on focussing more sharply Egypt's research priorities and USAID's support programs.

Options: Specific recommendations on USAID assistance strategy and options reflecting comparative Egyptian S&T performance would culminate the assessment of Egyptian S&T.

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Next Steps: The USAID-financed assessment of Egyptian S&T is scheduled to be completed in June. This assessment will evaluate the current performance of S&T institutions and academic disciplines, and assess the relative advantages of different patterns and levels of U.S. support to Egyptian S&T programs.

The S&T and other offices of USAID would review the assessment report and then revise/establish priorities among proposed research activities to be financed by USAID.

Budget Plan: See table on following page.

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BUDGET PLAN FOR SCIENCE AND TECHNOLOGY
(Projects Not Included in Other Sectors)
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
|---|---|---|---|---|---|---|---|---|
| Obligations Completed and Project Terminated | | | Not Applicable | | | | | |
| Obligations Completed but Project Active | | | Not Applicable | | | | | |
| Existing Projects Requiring New Obligations | | | | | | | | |
| 0105 Minerals, Petroleum, Groundwater Assess. | 5 | 16 | 7.5 | 9 | - | - | - | - |
| 0123.2 Renewable Energy Testing | 0.1 | 5.2 | 2 | 10 | 6.9 | - | - | - |
| 0090 Industrial Productivity Improvement | 5.8 | 33.2 | - | 18 | - | - | - | - |
| 0123.4 Energy Policy Planning | 0.7 | 2.4 | 4.5 | - | 1 | - | - | - |
| 0061 Development Planning Studies | | | 7.0 | - | - | - | - | - |
| New Projects (i.e., No Obligations Made) | Not Applicable | | | | | | | |
| Science and Technology Development | | | 2.3 | 3 | 5 | 5 | 5 | 5 |
| Total additional requirements | | | 16.3 | 40 | 12.9 | 5 | 5 | 5 |

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Egypt FY 1986 CDSS Sector Statement

## PRIVATE SECTOR

**Development Problem:**

The restricted role of the private sector in the production and marketing of commodities (agriculture and industry) is a handicap to Egypt's economic growth.

**GOE Priority:**

The GOE places a high priority on commodity production in the five-year plan but the government and the bureaucracy are generally reluctant to see the role of the public sector reduced and that of the private sector enhanced.

**Proposed Solutions:**

USAID's proposed solutions are to encourage private sector industrial growth through credit and technical assistance, and to push for a wider private sector role in the marketing of agricultural inputs and outputs.

**Policy Issues:**

Price distortions are a serious problem in both agriculture and industry owing to high and uneven barriers to imports and to government controls on exports and domestic retail prices. As a result, credit funds for the private sector are vulnerable to misallocation unless the uses are targeted to economically viable activities (e.g, export activities).

In agriculture, specific regulatory issues include the need to expand the role of the private sector (a) in the marketing of inputs to agriculture (especially fertilizer) so as to ensure timely responses to farmers' requirements, and (b) in the marketing of agricultural outputs that are now monopolized or tightly controlled by the government.

In industry, the issues under discussion between the USAID and the GOE are finding an appropriate mechanism for extending term credit to producers through the banking system and determining terms and conditions for such credit when it is funded by the USAID.

The USAID is also concerned with identifying other effective means of direct support to private sector investors, businessmen and entrepreneurs.

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**Development Benefits:** The direct benefits of expansion of the private sector will be higher productivity in Egypt's industrial sector, with increased output, employment, and foreign exchange earnings.

**Visibility:** USAID support to the private sector will be visible to the business community in the U.S. and Egypt.

**Capacity:** Although past GOE development of credit projects has been implemented slowly, we are optimistic about working out a term lending mechanism for support to private sector industry and negotiating it with the GOE. We also expect to be able to develop a project relating to the identification, analysis and implementation of bankable private sector projects.

**Concentration:** The USAID is trying to increase (and not reduce) the number of activities in support of the private sector in Egypt. Support to the private sector is a high priority among the USAID's core projects.

**Options:** For private sector industry, the USAID is trying to develop an effective mechanism for term lending to private sector producers while continuing to improve--and replenish--the present short-term credit program. The USAID also is seeking ways to provide direct support to private sector producers in specific sub-sectors of industry. Three sub-sectors are under consideration: suppliers to the automotive industry; suppliers to the apparel industry and garment manufacturers themselves; and the food-processing industry.

**Next Steps:** For private sector industry, the next steps are:

a. to make the existing short-term credit project (Production Credit I) more supportive of productive investment by including access to Law 43 companies, longer amortization periods, and additional private sector banks; and to replenish its funding by early FY 1985;

b. to design a term credit project acceptable to the USAID, the GOE, the banking community, and importers;

c. to find a mechanism for direct support to private sector producers in key industrial sub-sectors, such as the food-processing industry and suppliers to the automotive and garment industries;

d. to refine investment promotion and bu[illegible]ss development components of on-going projects;

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e. to examine possible new private sector initiatives.

For agriculture, the USAID currently is preparing a PID on promotion of agricultural exports, an activity that will depend upon the private sector if it is to be successful.

Budget Plan:

Projects planned for support to the private sector are already included in the budget plans for industry and agriculture.

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Egypt: FY 1986 CDSS Sector Statement

## URBAN DEVELOPMENT

Development Problem:

Egypt's urban population was 19 percent of total population in 1907. By 1947 the urban population stood at 33 percent of total population, and at the beginning of USAID's major financial obligations 1975/76, the country's urban population was 44 percent. One out of every four Egyptians lived either in Cairo or in Alexandria in 1975. It is now conservatively estimated that by the turn of the century, over 55 percent of the country's population will be urban, and one out of every three Egyptians will be a resident of either Cairo or Alexandria.

With industry and modern services largely an urban based activity, rapid urbanization has had positive consequences in terms of rising per capita incomes. It has also created serious problems: the irreplaceable loss of agricultural lands in the Nile valley and the Delta; concentration of population growth in the Cairo and Alexandria metropolitan areas; and gross inadequacies of urban infrastructure and social services.

GOE Priority:

The GOE is seized with the need to repair and extend existing urban infrastructure, particularly the water and wastewater systems and roads. The GOE is also concerned about the growth of Cairo as a megalopolis. The GOE's response to the rapid urbanization taking place has been an attempt to create free-standing new cities in the desert in the hope that they will draw some of the burgeoning urban population away from Cairo and Alexandria. The GOE also is taking tentative steps toward upgrading some existing low-income areas of Cairo with social and physical infrastructure.

Proposed Solution:

The USAID-funded National Urban Policy Study (NUPS) by PADCO, completed in 1983, proposes an east-west rather than a north-south growth pattern of urban growth for Egypt—out into the desert rather than further encroachment on the agricultural land of the Nile valley. Following the lines of the NUPS, the USAID has suggested a strategy that entails:

-- exploiting the economic advantages of the Cairo and Alexandria metropolitan areas by deconcentrating their cores and by establishing close-in satellite settlements rather than free-standing d- -t cities;

-- preserving agricultural land by managing growth in the

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-- selecting standards for housing and urban services that are affordable by a broad portion of the urban population;

-- directing future growth toward the Canal cities and a limited number of Upper Egypt cities.

The USAID sees urban development primarily as a cross-cutting theme that should inform the sector infrastructure programs such as water/wastewater, roads, telecommunications, and local development (decentralization). Urban development also has its own specific program implications: the need for solid waste disposal in Cairo; urban in-fill related to the Cairo outer ring road; upgrading of informal settlements; and management of the Delta cities.

Policy Issues: The main issue affecting projects that the USAID would like to support is that of ensuring that adequate GOE funding for future maintenance and operation of infrastructure systems will be forthcoming.

On the negative side, we do not consider that free-standing desert cities adequately address the problem of urbanization. They are both costly and limited in their ability to attract major population flows. Consequently, we do not intend to support free-standing desert cities.

Development Benefits: The main benefits from intended USAID involvement in urban development will be rationalization and support of a process that will improve welfare, protect agricultural lands, and facilitate economic growth.

Visibility: The USAID's interventions in urban development will affect Egypt's major population concentrations in the Greater Cairo metropolitan area and in the Delta. Identifying the U.S. with urban improvements is a public relations task.

Capacity: The Egyptian institutions responsible for possible urban-related USAID projects include the Ministry of Development, the Joint Housing Projects Agency, and the General Organization for Physical Planning within the Ministry of Development, as well as the Cairo Governorate and the Governorates within the Delta. The capacity of these entities to design and implement major activities varies. While the Ministry of Development has considerable experience in major infrastructure design and installation, it will need assistance to implement the Ring Road project and expand its experimental urban upgrading activities. In addition, a major emphasis of USAID's urban program is to provide training and technical services to support Governorate activities both in Cairo and in the Delta cities.

Concentration: The projects specific to a USAID urban development program will be located in Cairo (solid waste management, urban upgrading, and urban in-fill related to the Cairo outer ring road) and in the Delta cities.

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Options: The limitation on project expansion in urban development is likely to be institutional capacity. Since lack of financial resources is one of the main factors affecting institutional capacity, the key to expandability will be the devolution of revenue-raising authority to the agencies responsible for projects.

Next Steps: For the projects specified, the next steps will be preparation of PIDs and discussions with the appropriate Ministries.

Budget Plan: See following table.

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BUDGET PLAN FOR URBAN DEVELOPMENT
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | | Not Applicable | | | | |
| **Obligations Completed but Project Active** | | | | Not Applicable | | | | |
| **Existing Projects Requiring New Obligations** | | | | | | | | |
| 0066 Low Income Housing and Community Upgrading | 20 | 17 | - | 20 | - | - | - | - |
| **New Projects (i.e., No Obligations Made)** | | Not Applicable | | | | | | |
| Solid Waste Disposal (including equipment imported under CIP) | | | - | - | 50 | 50 | 50 | 50 |
| Community Upgrading | | | - | - | 25 | - | 25 | 50 |
| Cairo Ring Road Urban In-Fill Activities | | | - | 10 | 10 | 10 | 10 | 10 |
| Delta Cities Growth Management | | | - | 25 | 25 | 25 | 25 | 25 |
| Total additional requirements | | | - | 55 | 110 | 85 | 110 | 135 |

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Egypt FY 1986 CDSS Sector Statement

## COMMODITY IMPORT PROGRAM

**Development Problem:** Egypt's balance of payments position is difficult but not desperate. By easing the current balance of payments constraint on economic activity, the USAID's Commodity Import Program (CIP) is a significant element in keeping the economy functioning so that development can continue.

**GOE Priority:** The GOE gives high priority to the CIP among assistance modes, as it is relatively quick-disbursing and flexible.

**Proposed Solution:** The USAID proposes continuation of the public sector CIP but at lower levels than in recent years in order to make room for major projects within a fixed $750 million ESF total.

**Policy Issues:** A preliminary issue is whether the GOE will be willing to accept a reduction in the CIP level in order to accommodate a large infrastructure or production project.

There is a continuing set of issues to be resolved concerning (a) accounting procedures for entering counterpart receipts into the CIP Special Account and (b) agreement on programming of withdrawals from the Special Account.

In view of the GOE's halting movements toward unification of some of Egypt's multiple exchange rates, the accounting rate for CIP dollars also will be an issue.

**Development Benefit:** The main development benefit from the CIP is that it helps sustain production. In addition, with half of the CIP going for equipment goods for government and public sector enterprise investments in the framework of the Egyptian Five-Year Social and Economic Development Plan, the CIP makes a direct contribution to the investments needed for future growth.

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Visibility: The CIP is meaningful to the government and public sector managers who receive allocations and to consumers and producers of products based on CIP-imported intermediate goods. Achieving greater visibility would be a public relations task.

Capacity: The traditional CIP and its implementation procedures are well established.

Concentration: The GOE would like to see more of the USAID's program concentrated in the CIP, but the USAID is proposing to reduce the levels of funding for it. Within the CIP, we expect to maintain the present degree of overall flexibility as well as the 50/50 division between (a) equipment and (b) raw materials and consumables.

Options: The main option is to change the level of funding for the CIP (up or down) according to the outcome of negotiations concerning other sectors.

Next Steps: The USAID has still to negotiate the terms of the FY 1984 CIP Agreement with the GOE.

The USAID will have to test the GOE's reaction to our proposal to reduce the CIP to make room for large infrastructure or industry projects.

Budget Plan: See the attached table. The item for "new projects" is the CIP line in the resources requirements table reproduced as Table K-1 above.

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## BUDGET PLAN FOR COMMODITY IMPORT PROGRAM (CIP)
($ millions)

| Project Number and Title | Total Expended as of 12/31/83 | Balance Under Existing Obligations | Additional Requirements: From Existing Authorizations, Amended Authorizations or New Authorizations | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FY 84 | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 |
| **Obligations Completed and Project Terminated** | | | | Not Applicable | | | | |
| K-026 | 80 | - | | | | | | |
| K-027 | 70 | - | | | | | | |
| K-029 | 100 | - | | | | | | |
| K-030 1/ | 149 | - | | | | | | |
| K-036 1/ | 65 | - | | | | | | |
| K-045B | 73 | - | | | | | | |
| **Obligations Completed but Project Active** | | | | Not Applicable | | | | |
| K-038 1/ | 437 | 1 | | | | | | |
| K-045A 1/ | 224 | 2 | | | | | | |
| K-052 1/ | 246 | 4 | | | | | | |
| K-053 1/ | 29 | 1 | | | | | | |
| K-054 1/ | 243 | 7 | | | | | | |
| K-055 1/ | 65 | 5 | | | | | | |
| K-601 1/ | 84 | 1 | | | | | | |
| K-602 1/ | 53 | 2 | | | | | | |
| K-603 | 177 | 52 | | | | | | |
| K-604 | 173 | 176 | | | | | | |
| K-606 | - | 300 | | | | | | |
| | 2,268 | 551 | | | | | | |
| **New Projects (i.e., No Obligations Made)** | | | | | | | | |
| Public Sector CIP | | | - | 100 | 100 | 200 | 200 | 200 |

1/ Includes funds earmarked for the private sector CIP (10% of each of the programs footnoted). The cumulative total of letters of credit issued under the private sector CIP was $138 million as of 12/31/83.

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Table K-2. Optimal and Policy-Constrained Levels by Sector
If Unconstrained by Resource Limitations
($ millions per year)

| Sector | Optimal | Policy constrained |
|---|---|---|
| ECONOMIC INFRASTRUCTURE | | |
| Water/Wastewater | 200 | 100 |
| Energy (Electricty) | 100 | 25 |
| Telecommunications | 75 | 50 |
| Roads | 100 | 100 |
| Decentralization (Local Development) | 100 | 50 |
| SOCIAL INFRASTRUCTURE | | |
| Population | 20 | 10 |
| Health and Nutrition | 20 | 20 |
| Education | 260 | 95 |
| PRODUCTION | | |
| Agriculture | 50 | 30 |
| Industry | 100 | 50 |
| Private Sector | ( 50) | (50) |
| Public Sector | ( 50) | (-) |
| CROSS-CUTTING PROGRAMS (not included elsewhere) | | |
| Science and Technology | 25 | 25 |
| Private Sector (see Industry) | - | - |
| Urban Development | 75 | 50 |
| COMMODITY IMPORT PROGRAM | 200 | 100 |
| TOTAL | 1,325 | 705 |

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