



XD-AAY-892-A
MAY 1988

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

EGYPT

MEMORANDUM

DATE: May 5, 1988

TO: Marshali D. Brown, Director

THRU: John A. Patterson, AD/PDS
Vivikka Mollidrem, PDS/P

FROM: Janna Laudato, PDS/P

SUBJECT: Mission Reaction to Bob Zimmerman's Program for Cost Recovery.
Recurrent Cost Study: Progress & Potential in Key Project Areas (2/1988).

Opinions on the usefulness and feasibility of Bob Zimmerman's recommendations vary substantially between offices. The primary factor differentiating responses is the emphasis each USAID Office places on this issue and the amount of time spent with counterparts on the topic.

- In Health, development of the Cost Recovery in Health Project has provided a forum for discussion and study. This office intends to carry out most of Bob's recommendations.
- The Education Office's immediate focus has been to assist the MOE in improving the quality of education and improve efficiency in managing resources. The Office of Education and Training staff are concerned that the report overstates MOE progress. Certain ideas such as advertising on copybooks are still "under consideration". The concept of utilizing a portion of tutoring fees has been raised by educational leaders, not by the MOE itself.

Under the Basic Education Project, schools are now actually collecting community contributions. HRDC/ET staff will push this idea, implement pilot maintenance programs, and develop guidance to the MOE on the use of these funds. Development of improved maintenance systems will be a priority for next year.

- In irrigation, progress may be faster than Bob expected since legislation is not required to pilot test water user association models with cost recovery.
- In agriculture, progress may be slow since approaches to provide extra O&M funds have not been developed. As some ARC institutes have begun cost recovery efforts, staff will discuss the topic with counterparts to determine their interest in further study.

Each office's response to report recommendations is detailed in the attached table.

This study focused Mission attention on cost recovery in a positive manner and gave much-needed recognition to progress. As the Action Decisions on the Evaluation Summary indicate, the Program Office believes that a similar study should be carried out next year and expanded to cover projects in Development Resources. Ideally, next year's effort would include more discussion with GOE counterparts and other Egyptians. Many Egyptians recognize the effect of GOE financial constraints on service quality and are discussing cost recovery options. Through discussions, USAID can identify those views that are most consistent with its own and build on these in subsequent talks.

The RIG/A draft report "Audit of Income Generating Projects" on the sale of contraceptives and oral dehydration salts has important implications for cost recovery efforts. As our most successful projects move from pilot to sector wide and cost recovery is incorporated, we are going to have to give careful attention to financing mechanisms and management structure. I understand Bill Gelabert will call a meeting shortly to discuss this report. As we work through these issues, the Mission may want to develop a USAID/Cairo policy statement about cost recovery, project and sector level approaches, and appropriate financial management options.

Finally, cost recovery should be an important "supporting element" in the Mission's vision statement. Our programs attempt to achieve quality in research, education, and services which is impossible to maintain without increased government efficiency and cost recovery measures. The GOE's financial independence is an important goal necessary for real collaborative development and political cooperation.

cc: Bob Zimmerman, ANE/E
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Priority Recommendations

Education:

1. Significantly increase implementation of feasibility studies of the private school option at least at secondary and university levels.

2. Undertake a feasibility study of the concept for autonomy for district and village level schools.

3. Initiate discussion with the MOE to encourage lifting of tight rules that restrict development of the cooperative school concept.

Health:

1. Complete the analysis necessary to permit early negotiation and implementation of all four components of COSTREP.

2. Reconsider USAID's experience with the Suez Community Health Project to find new possibilities for continuing USAID involvement in a capacity building effort. Use funds remaining in the current project to support residual activities and expand cost recovery

3. In view of the adverse impact the serious nursing shortage creates on any cost recovery initiatives, USAID should accelerate discussions with the MOH to improve nurse training programs.

Reaction

- The Minister of Education is encouraging Higher Institutes for Technical Education. At least one will be private and supported by local businesses.

- The Minister has several concerns about private schools: standards, fees and equity. He is not yet ready to strongly and broadly support the private school option.

Long term effort. HRDC/ET is assisting the MOE to standardize examinations and other steps that have to be completed first.

HRDC/ET is studying the current situation to understand the constraints of current MOE laws.

Underway

- HRDC is developing a University Linkages component to expand Suez Canal Medical School concepts to new academic disciplines and schools, including private institutes. Proposals funded will include cost recovery mechanisms as well other key elements.

- An evaluation of the project is underway and decision on whether to request extension of the PACD will be made later. Jim Sarn has suggested that Suez Canal Medical School develop a proposal for Special Account funding.

HOPE and USAID are now finalizing a project paper to expand the successful Assuit nursing school program.

Irrigation and Agriculture:

1. Complete ASAP all studies on water user organizations and develop relevant approaches based on this research.

2. With GOE project, research and extension staff participation, study the feasibility of developing fees for service in response, for example, to requests by commodity groups or commercial private firms.

3. Undertake a feasibility study on the lifting of all price controls on rice and simultaneous application of a small tax on production as a means of raising revenue for research O & M.

4. Explore within USAID the legal feasibility of indirect support for a GOE endowment for research O&M costs.

- AGR/IR will utilize a new contractor mobilizing in late FY 88 to pull together all current work on the value of water, review current legislation, and develop several models to pilot test. If successful, the MOI is prepared to request new legislation.

- The Agriculture Office noted that cost recovery models have not been utilized elsewhere; however, some ARC institutes have begun to charge fees for services. Staff will discuss the topic with counterparts to determine their interest in further study.

- The policy reform agenda is currently focused on cotton prices. With the end of compulsory delivery and price controls, a production tax would be difficult to assess and collect.

The original suggestion was to tax high water use crops such as rice and sugarcane to provide funds for irrigation system O&M. Differences in water usage will be reflected in rates charged to water user associations.

- USAID has agreed to provide \$22.8 million to cover recurrent costs in return for improvements in research management. USAID's contribution could be matched with an equal GOE contribution to establish an O&M endowment.

When the endowment concept was initially proposed, USAID response was mixed. With USAID management support, staff could request further study of the legal issues.