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BY THE COMPTROLLER GENERAL

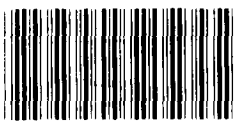
Report To The Congress

OF THE UNITED STATES

U.S. Assistance To Egyptian Agriculture: Slow Progress After Five Years

In 1975, the Agency for International Development (AID) undertook a high-level development effort aimed at helping the Government of Egypt increase agricultural production. However, with $357 million obligated to fund the program, most of the projects are only now getting underway.

Project implementation problems are a primary reason for slow progress. However, full benefits of U.S. assistance would not be realized even with improved progress unless AID places greater emphasis on developing Egypt's ability to extend technology to the farmer and unless Egypt undertakes policy changes to provide an environment more conducive to agricultural development.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on U.S. assistance to Egyptian agriculture since 1975.

Copies of this report are being sent to the Director, Office of Management and Budget; Secretary, Department of State; and the Administrator, Agency for International Development.

Milton J. Socolar

Acting Comptroller General
of the United States

U.S. ASSISTANCE TO EGYPTIAN AGRICULTURE: SLOW PROGRESS AFTER FIVE YEARS

D I G E S T

Since 1975, the Agency for International Development (AID) has committed more than $357 million to projects aimed at increasing food and agricultural production in Egypt. However, only $61.8 million of these funds has been spent, and the impact of the projects on Egyptian agriculture has been negligible.

Problems in project implementation have been the main cause for slow progress. These include contracting delays, insufficient Egyptian support, inadequate AID monitoring, and the lack of staff and expertise of some U.S. contractors, including universities. Even with speedy project implementation, the program's impact will be limited unless policy changes, which provide an environment for agricultural development, are undertaken and unless more attention is given to developing an extension service capable of delivering the technology now being developed.

The Administrator of AID needs to develop a strategy for extending new technology to farmers in order to assure that program benefits reach small farmers. (See ch. 2.) To provide a supportive policy environment, the Administrator should

--Reach a formal understanding on the Government's plans to address economic and agricultural policy issues. (See ch. 3.)

--Assess the effect of U.S.-financed imports on local producers. (See ch. 3.)

To speed project implementation, the Administrator should

--Assist Egyptian ministries in implementing AID procedures and contracting regulations. (See ch. 4.)

--Define project monitoring responsibilities with respect to project site visits and relations with U.S. contractors and Egyptian officials. (See ch. 4.)

--Reassess the ability of responsible Egyptian ministries to utilize effectively the level of assistance programed for the agriculture sector. (See ch. 5.)

--Reassess U.S. university involvement in agricultural development programs. (See ch. 5.)

--Work with the Egyptian Government to establish the necessary authorities and procedures to insure timely processing of AID-financed commodities through Egyptian customs. (See ch. 5.)

TECHNOLOGY NOT REACHING EGYPTIAN FARMERS

In line with Egypt's need to increase food and agricultural production, U.S. development strategy is aimed at (1) technology development, (2) institutional development, and (3) Egyptian policy reform. Many U.S.-funded agricultural projects are designed to help accomplish goals in technology and institutional development. Even though the linkage between research in Egypt and the extension services to the Egyptian farmer is poor, U.S. strategy has not been keyed to improving that linkage or developing methods to transfer technology to the ultimate user--the farmer.

Various AID designed agricultural projects now beginning to be implemented have extension service components. However, GAO found that such efforts are aimed at specific crop and/or land problems and do not confront the overall problem of establishing an extension service system encompassing local as well as national government bodies in Egypt. Such a system should provide appropriate channels for technology to flow from universities, research farms and laboratories, and libraries to Egyptian farmers, most of whom till small plots along the Nile River. (See ch. 2.)

GAO believes the Egyptian farmer is the determinate factor as to the extent of food and agricultural production increases. So, to effectively apply the universal belief that the use of modern technology will increase production, technology must be transmitted to and used by the Egyptian farmer.

POLICY REFORM

Policy reform is necessary to permit increased agricultural production. The existing package of

pricing, supply, marketing, and credit policies has led to inefficient resource use and low agricultural growth.

Short-term gains in production are possible if policies are changed. Over the long term, adoption of new technology will depend on adequate price incentives and freer access to resources.

Efforts to promote policy reform have yielded limited results. AID encourages policy reform through specific projects and dialogue with Egyptian policymakers. Some results have emanated from project negotiations. (See ch. 3.)

Mechanisms established to promote a dialogue with Egyptian policymakers have not been fully exploited. Under the 1979 agreement funding the Commodity Import Program, the United States and Egypt agreed to hold periodic discussions on economic issues. Yet, only the initial meeting was held; no subsequent meetings or sector working groups were convened as originally envisioned. GAO believes that, to guide the policy dialogue, a formal understanding which outlines Egyptian plans to address agricultural policy and other economic issues is needed. (See ch. 3.)

Egypt's policy of providing affordable food to all the people has increased food imports financed, in part, by the U.S. Commodity Import and Public Law 480 programs. However, the adverse effects of these imports on local producers are not being assessed or actions implemented to alleviate them. GAO believes the effects of U.S.-financed imports on local producers should be assessed. (See ch. 3.)

UNEXPENDED FUNDS INDICATES PROBLEMS

The continually expanding gap between total U.S. aid funds committed to finance specific agricultural projects in Egypt and the amount expended indicates program difficulties. In fiscal year 1977 AID's first disbursements were made even though $76.7 million had been obligated in 1975 and 1976. Between the end of 1977 and the end of 1980, the gap separating funds obligated and funds expended for agricultural assistance increased from $160 million to $296 million. This continually growing gap, coupled with substantial variances between actual expenditures and annually estimated expenditures, indicates project implementation has progressed slower than originally planned. (See ch. 4.)

PROJECT IMPLEMENTATION PROBLEMS

Implementation delays, ranging from a few months to over 3 years, have characterized each of the agency's agricultural projects. The problems creating these delays are neither new to AID nor unique to Egypt. However, the size of U.S. assistance to Egypt has magnified their impact. To varying degrees, each of the parties involved in project implementation--AID, the Government of Egypt, and the U.S. contractor--has contributed to the extensive delays. For example, AID's:

--Contractor selection procedures are time-consuming and difficult for Egyptian representatives to comply with. (See p. 38.)

--Monitoring of project activities is inadequate and poorly defined. (See p. 40.)

--Use of insufficient data in designing projects has contributed to less effective project implementation. (See p. 40.)

The Government of Egypt has contributed to the delays with inadequate support of project activities. It has not always supplied full-time project counterparts and logistical assistance which has delayed project starts and added to project delays. (See p. 49.)

The contractor's difficulties in providing adequate staff to implement the projects has further added to the problems. In Egypt, most of AID's implementation experience in agricultural projects has been with universities. (See p. 45.)

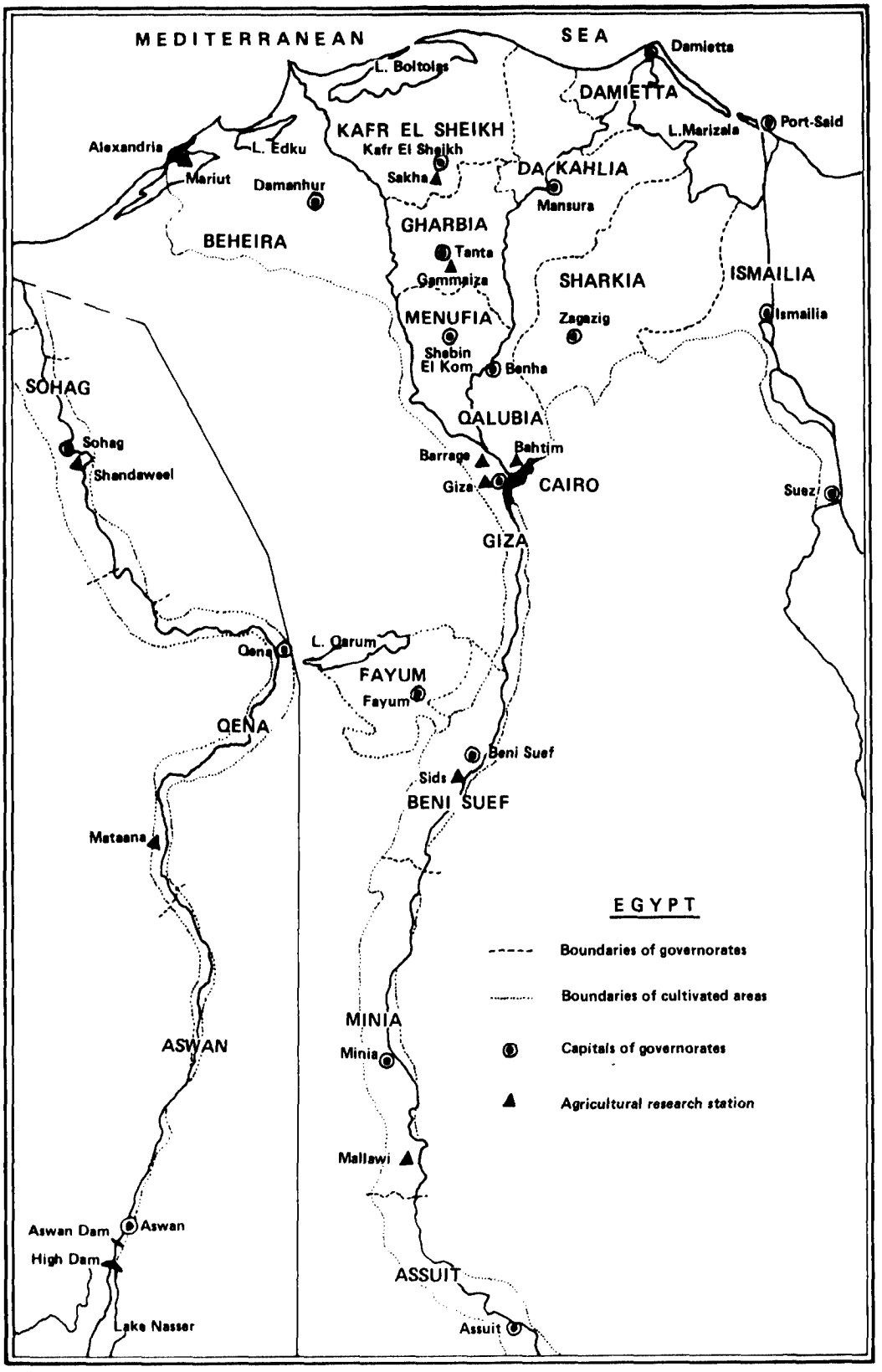
The problems associated with U.S. policies, practices, and procedures are more amenable to direct resolution by AID than are those attributable to the Government of Egypt and the private contractors. Nevertheless, steps must be taken to overcome problems caused by each party before the full benefits of U.S. assistance can be realized.

AGENCY COMMENTS AND OUR RESPONSE

AID said the data and other material in the report is correct and it generally agreed with the conclusions and recommendations regarding project implementation. But it felt the report did not clearly describe the purpose of the agricultural program in Egypt and the content of some U.S.-financed agricultural projects, particularly those with extension service components.

Both AID and the Department of State were concerned with GAO's discussions and suggestions related to agricultural policy and pricing. (See apps. V and VI.)

GAO recognizes that increasing production of food and agriculture in Egypt is one of several AID approaches to improve the life of Egyptians. Furthermore, GAO is aware that self-sufficiency in agricultural production is not a goal of U.S. assistance and that increased production of certain Egyptian agricultural and industrial products will serve to cover continued imports of cereal and foodgrains. GAO reiterates, however, that additional attention to delivery of improved technology to the Egyptian farmer is vital to the overall agricultural development scheme. GAO believes Egypt's informal extension system cannot be relied upon to transfer technology from the scientists to Egyptian farms.



SOURCE: Contemporary Egyptian Agriculture, HA. El-Tobgy, Second Edition, 1976.

Contents

ABBREVIATIONS

AID	Agency for International Development
CID	Consortium for International Development
CIP	Commodity Import Program
ESF	Economic Support Fund
GAO	General Accounting Office

CHAPTER 1

U.S. AGRICULTURAL PROGRAM IN EGYPT--

INTRODUCTION

Agriculture has traditionally been a mainstay of the Egyptian economy. Thus increasing agricultural productivity has been an important element in the large economic assistance program mounted by the United States since 1975. The agricultural assistance program has, however, progressed slowly. This report examines the reasons for slow progress, and some actions needed to improve the impact of the program.

BACKGROUND

The Economic Support Fund (ESF), formerly designated Security Supporting Assistance, 1/ provided $4.2 billion (1975-80) for economic assistance in Egypt. Additional food aid valued at $1.2 billion has also been provided under Public Law 480. (See table, p. 3.) Another three-quarters of a billion dollars annually is planned for development in Egypt over several years in the 1980s. ESF is generally defined as economic assistance provided certain countries or areas in support of U.S. security and political interests and represents a fusion of political and economic objectives.

The Foreign Assistance Act of 1961, as amended, provides the basis for ESF and defines the Congress' intended uses and limits of such aid. The Congress emphasized the importance of economic goals for ESF programs and stressed that the monies be used, when possible, in ways consistent with the 1973 New Directions legislation.

An objective of the United States in the Middle East is to influence the Egyptian-Israeli peace accord to encompass all parties of the Arab-Israeli dispute in a comprehensive peace settlement. The Sinai Accord reached between Israel and Egypt following the October 1973 War was the catalyst for an influx of U.S. economic assistance to the Middle East to support the peace. The overall objective of the U.S. assistance is to create a climate more receptive to peace in the region. In addition to continuing a tangible and positive expression of the U.S. commitment to Israel's security and economic well-being, the administration translated the overall goal into programs designed to

--foster internal political and economic stability in the Middle East,

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1/The International Security Assistance Act of 1978 (P.L. 95-384, Sept. 26, 1978) replaced Security Supporting Assistance by establishing an Economic Support Fund.

--maintain moderate regimes in that region, and

--strengthen U.S. bilateral relations with Arab states.

To this end, the high level of U.S. assistance to Egypt is based on the belief that President Sadat's peace initiatives are crucial and that his efforts will be supported and enhanced by a strong and growing economy becoming able to meet the Egyptian people's basic needs and expectations for a better life.

U.S. ECONOMIC COMMITMENT TO EGYPT

Initially, aid to Egypt was partially aimed at supporting Egyptian reconstruction, a specific, short-term objective. The U.S. commitment to the peace process has since expanded the assistance programs and buttressed the long-term nature of U.S. economic involvement in Egypt. Long-range development efforts and large aid levels are projected there into the 1980s.

Program composition

ESF allows the flexibility to use types of assistance not ordinarily provided under regular U.S. development assistance programs. To meet the established high levels of assistance, large amounts of program and capital development aid have been programed for Egypt. Such aid includes commodity-import financing and funding of large-scale public work and industrial projects.

In broad terms, U.S. assistance is aimed at encouraging economic growth by

--rebuilding public infrastructure,

--improving industrial technology,

--expanding the private sector,

--increasing agricultural production, and

--decentralizing development decisionmaking activities.

Assistance is also allocated to increase employment opportunities, improve family planning services, upgrade water and sewerage services, and enhance primary education. Following is a summary of U.S. assistance to Egypt. (See app. I for annual commitments.)

Areas of U.S. assistance (note a)	Fiscal years 1975-80		
	Loan	Grant	Total
	----------(millions)----------		
Commodity Import Program	$1,735.0	$ 140.0	$1,875.0
Infrastructure	301.0	723.1	1,024.1
Project Planning	-	129.7	129.7
Transportation, Industry Commerce & Finance	330.4	261.2	591.6
Food & Agriculture Production	154.3	203.6	357.9
Social Services (population, health, education, etc.)	-	227.5	227.5
	2,520.7	1,685.1	4,205.8
Public Law 480	1,152.6	66.6	1,219.2
Total	$3,673.3	$1,751.7	a/$5,425.0

a/About $81.2 million in Egyptian pounds are not included.

The Agency for International Development (AID) has for several years annually programed $750 million for developmental loans and grants and about 1.5 million tons of Public Law 480 food assistance (valued at $300 million in 1980). The United States has also provided an additional $300 million in ESF to be obligated over a 3-year period (1979-81). ($85 million was programed in 1979; $115 million in 1980; and $100 million is scheduled for 1981.)

The justification advanced for Commodity Import Program (CIP) use is normally to temper internal political and economic stability through the influx of fast-disbursing assistance. The visibility of commodity imports also demonstrates U.S. involvement in and commitment to the Egyptian economy.

The Public Law 480--food--shipments also demonstrate U.S. involvement while helping to fulfill a primary need in Egypt. Through that program many Egyptians are better fed. In the past, the large Public Law 480 program was justified on economic as well as political grounds. However, Egypt's strong balance-of-payments performance in 1979 and 1980 weakened the economic case.

Setting the assistance levels

Political and security justifications for extending ESF monies are determined by the State Department, which is also responsible for setting the aid levels necessary to satisfy those objectives. That responsibility is exercised in cooperation with AID, which administers the program.

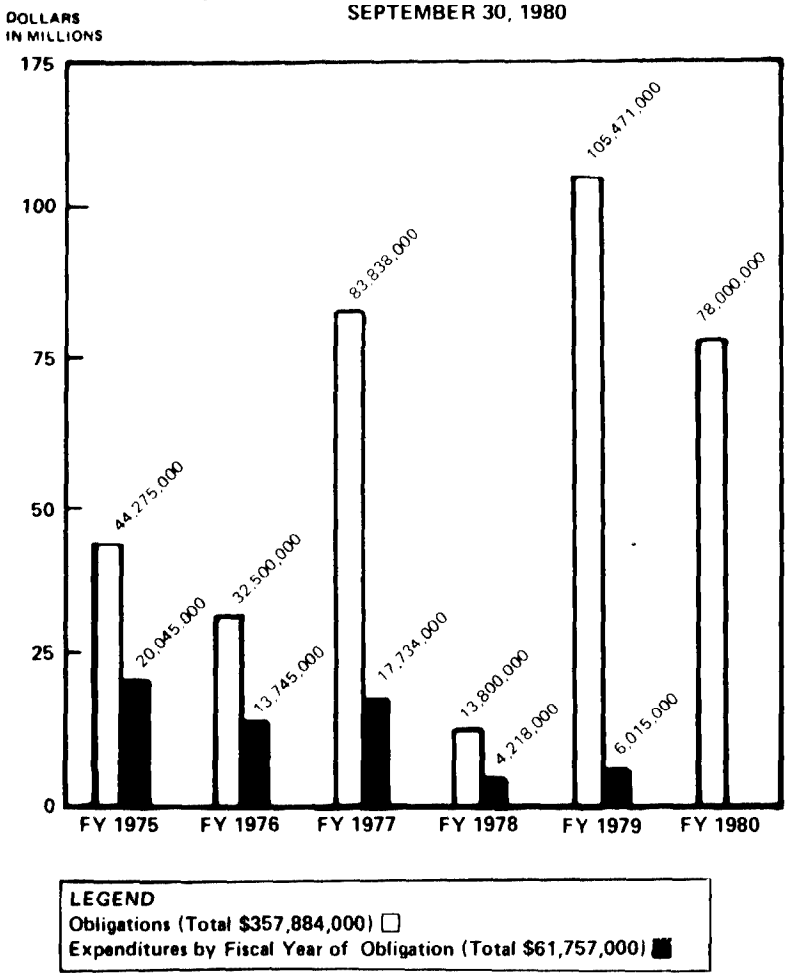
The development assistance levels to Egypt have remained constant since 1976 at $750 million. Even though the U.S. zero-based budget process theoretically considers several program options, a number of advocates contend that any diminution of U.S. ESF assistance--either generally or to specific recipients--would convey a signal which would adversely affect U.S. political objectives. Aid to Egypt is currently expected to continue at the same level for several more years.

AGRICULTURAL ASSISTANCE PROGRAM

From 1975-77, AID stressed developing capital or public works and industrial type projects to construct and equip grain silos, irrigation facilities, etc. In 1977, the emphasis shifted to designing and implementing projects providing technology to improve and increase domestic food and agriculture production.

The September 30, 1980, fiscal status of U.S. funds committed, by year, to the Egyptian agricultural program is exhibited in the chart below.

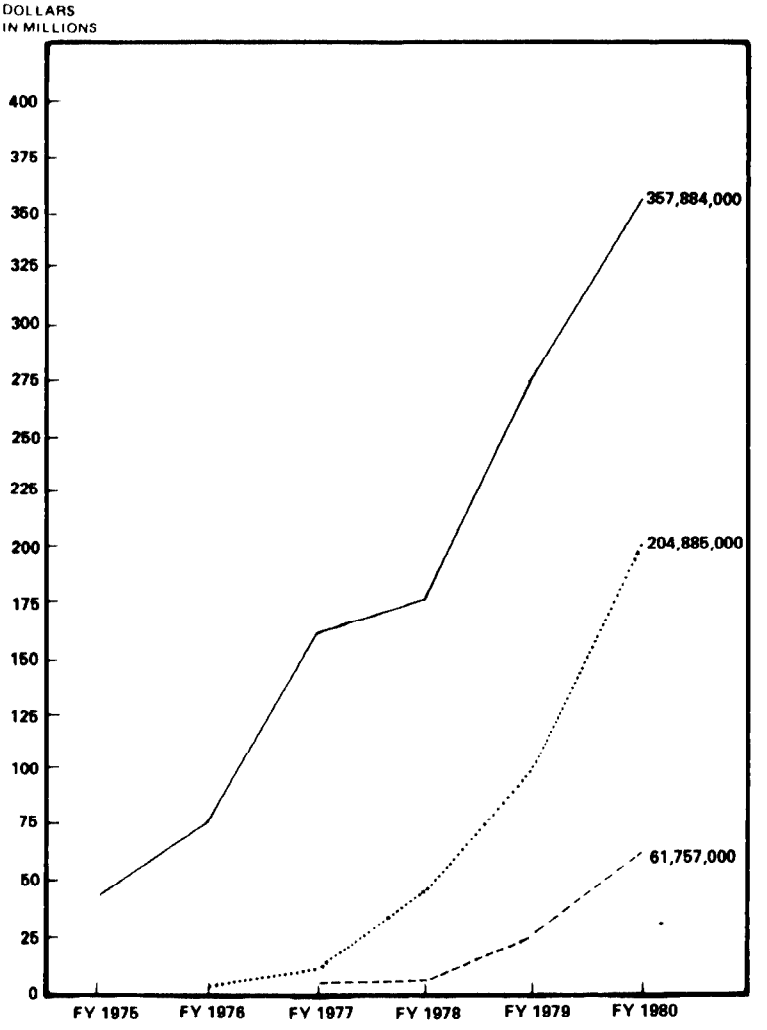
COMPARISON OF OBLIGATIONS INCURRED BY FISCAL YEAR AND CUMULATIVE EXPENDITURE ACTIVITIES RELATED TO THOSE OBLIGATIONS AS OF SEPTEMBER 30, 1980



SOURCE: AGENCY FOR INTERNATIONAL DEVELOPMENT, OFFICE OF FINANCIAL MANAGEMENT.

As shown above, about 44 percent of the funds obligated in 1975-76 have been expended and 21 percent of the 1977 obligations were expended through fiscal year 1980. (See app. II for summary of individual projects.) Following is a graphic presentation of the cumulative status of the U.S. obligations and plans to fund agricultural projects in Egypt.

COMPARISON OF OBLIGATIONS WITH ESTIMATED AND ACTUAL EXPENDITURES OF AID AGRICULTURAL PROJECTS IN EGYPT THROUGH SEPTEMBER 30, 1980



SOURCE: AGENCY FOR INTERNATIONAL DEVELOPMENT, OFFICE OF FINANCIAL MANAGEMENT AND AGENCY CONGRESSIONAL PRESENTATIONS, FY 1975 - 1981

Cumulatively, since the program began in 1975, only about 17.3 percent ($61.7 million) of the funds obligated ($357.9 million) to cover specific program/project costs had been expended as of September 30, 1980--68.3 percent of the total expenditures occurred in fiscal year 1980. (See app. IV for pipeline analysis of each project.)

AID's methodology for carrying out agriculture projects in Egypt encompasses:

--Giving the Government of Egypt, primarily the Ministry of Agriculture, full responsibility for implementing the agreed-upon project.

--Offering/providing, per AID's contract approval process, the Ministry advice and assistance in (1) selecting, (2) negotiating, and ultimately (3) contracting with U.S. experts (affiliated with U.S. firms and/or universities) for actually carrying out major segments of the AID-designed projects.

--Offering/providing the Ministry and the U.S. contractor(s) advice and assistance in accordance with AID's procurement approval process in obtaining commodities determined needed to accomplish project objectives.

--Processing and paying vouchers (usually through Letters of Commitment with U.S. banks) for valid Government of Egypt claims of costs incurred in project implementation.

--Monitoring and evaluating the progress of project implementation.

A constant AID theme in attempting to accomplish project objectives in Egypt is that the Government of Egypt must be the responsible manager and implementor of U.S.-funded projects. Underlying this theme is the principal of "learning by experience" which AID chooses to override the time advantages that may be gained if a more "turnkey" style of project assistance were utilized. Following that principle, AID's handbook says that an acceptable life of project will not be more than 6 years. AID usually programs 4 to 6 years for completing agriculture project objectives in Egypt.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review sought to assess the progress of the Egypt agricultural assistance program and identify how program impact could be improved. The review focused on (1) U.S. policies and strategies concerned with economic assistance to Egypt, (2) Government of Egypt policy impact on agriculture development and thus the

Egyptian farmer, and (3) AID's designing, programing, and implementing of selected U.S.-funded projects in Egypt. This required detail audit work at AID headquarters in Washington, D.C., and the AID mission in Cairo, Egypt. The review also included work at the Departments of State and Agriculture and the World Bank in Washington, and with their appropriate representatives in Egypt.

We reviewed legislative developments regarding U.S./Middle East relations and U.S. foreign assistance overall. We also gave attention to previous GAO and AID Auditor General reports concerning U.S. assistance to Egypt since, and including, 1975.

Our work at AID headquarters in Washington consisted of interviews with appropriate officials, primarily officials in the Bureau for the Near East, the Office of the Controller, and the Board for International Food and Agricultural Development. We reviewed and analyzed records pertaining to AID's

--identifying of agricultural development needs in Egypt,

--designing of specific projects as proposed instruments for improving domestic food and agriculture production,

--programing approved projects for U.S.-funding in Egypt, and

--implementing and evaluating U.S.-funded projects in Egypt.

Those records included studies, proposals, and plans prepared by the U.S. Department of Agriculture, and U.S. private-sector experts and consultants. We also reviewed reports issued by the AID Office of the Auditor General in Egypt.

Work in Egypt was done at the AID Mission, U.S. Embassy, and Government of Egypt offices of the ministries of agriculture, irrigation, reclamation, and supply in Cairo. We interviewed appropriate officials of both the U.S. and Egyptian Governments as well as some of the U.S. contractors employed by the Egyptian ministries, and reviewed records pertaining to agricultural development needs in Egypt and selected U.S.-funded projects currently being implemented.

We also made onsite observations of selected development projects, including an Egyptian cooperative organization in Alexandria, an agricultural research center in Kafr el-Sheikh, a university in Tanta, a poly vinyl chloride pipe factory in Beni Suef and three Government farms west of the Delta area of Egypt. At each of these locations we met Egyptians and in some instances American contractors and discussed related AID-funded projects.

AID, the State Department, University of California/Davis and the Consortium for International Development (CID) received copies of the draft of this report for their review and comments. Comments provided by both AID and the State Department appear in this report as Appendices V and VI with brief summaries at the end of chapters 2, 3, 4 and 5. University of California/Davis and CID comments appear in Appendices VII and VIII. Those matters which we deemed relevant to the report are incorporated, as appropriate, in chapters 2 and 5.

CHAPTER 2

AID STRATEGY FOCUSES ON TECHNOLOGY DEVELOPMENT BUT NEGLECTS EXTENSION

Despite some achievements, the future of Egyptian agriculture is troubled. Agricultural production grew slowly during the 1970s, rising by only 2 percent annually, thus lagging behind sharp increases in food consumption. In addition, salinity problems, coupled with inadequate drainage threaten soil fertility. New technology, strengthened agricultural institutions, and policies which encourage more efficient resource use comprise the AID strategy to promote agricultural growth. However, insufficient attention has been given to transferring technology to the Egyptian farmer.

Egypt is one of the oldest agricultural areas in the world, the Nile Valley and Delta region having been under continuous cultivation for at least 5,000 years. However, most of Egypt is uninhabited desert and, with 98 percent of the people confined to only 4 percent of the land, it is also one of the world's most densely populated countries.

Egypt is still in many ways an agrarian society. About 40 percent of the population depends on agriculture for employment and the sector is a major export earner and contributor to national income. Production is predominantly in the hands of small farmers. As a result of land reforms initiated immediately following the 1952 revolution, 95 percent of the farmers cultivate 5 feddans (about 5.19 acres) or less, accounting for about 57 percent of the total cultivable land area.

Today, policies are under consideration which will shape the direction of Egyptian agriculture. The food security issue continues to occupy the attention of policymakers. Egypt in the past tended to aim at self-sufficiency in all crops except wheat. AID has encouraged adoption of a self-support policy--of increasing agricultural and other exports in line with comparative advantage to cover the costs of agricultural imports.

The new lands debate represents another unresolved issue. Although Egypt has favored investments in new lands development, AID has focused on the production to be gained from the old lands and has encouraged policymakers to re-evaluate their commitment to desert reclamation.

AID STRATEGY FOCUSES ON TECHNOLOGICAL CONSTRAINTS TO DEVELOPMENT

The AID development strategy places a heavy emphasis on technology development. Of the 12 technical assistance projects funded between 1975 and 1980, 7 address the technology constraints on growth. Of these seven, four concern production technology,

covering rice, wheat, maize, fish, and poultry production; two focus on developing appropriate farm tools and machinery; and one project addresses water management technology.

The heavy emphasis on technology evolved because Egypt has already achieved very high productivity and, unlike many other developing countries, Egyptian farmers already use modern technology. A new technological base was believed necessary to permit further productivity gains. Moreover, this need coincided with the U.S. strength in agricultural technology relative to other donors.

The technology emphasis reflects other factors as well. When the AID program was resumed in 1975, the small AID mission was severely strained to program the large amounts of assistance. Projects such as the technology projects which were relatively easy to design, received priority over complex projects. At the same time, AID was operating without detailed information or experience on Egyptian agriculture. Thus, areas which were later perceived as problematic--such as the input supply system--were believed to be working well. In contrast, technology was an easily identifiable resource to support long-term development.

Emphasis on technology is balanced by projects addressing other production constraints. For example, shortcomings in the credit and marketing system are addressed, to a limited extent, by the Small Farmer Production and Cooperative Marketing projects. In 1980, the fertilizer project concentrated on supply problems. Additional AID involvement is anticipated.

Institutional development and policy reform are also key in the AID strategy

In addition to technology development, the AID agricultural development strategy sets forth two additional goals: institutional development and policy reform. Institutional development is facilitated under every project through formal and informal training and the provision of facilities and equipment. Project teams of U.S. technicians and their Egyptian counterparts are organized outside normal organizational units. The focus is initially on starting the process of delivering research services. Once this phase is achieved, greater attention should be given to determining the appropriate organizational place to sustain the process.

Institutional development in the agricultural sector centers almost exclusively on strengthening central Government agencies. The Ministry of Agriculture is a prime target of nine projects and the Ministry of Irrigation is targeted in another. Two projects are aimed at strengthening village or farmer organizations. Village credit banks will be aided by one project; fruit and vegetable cooperatives by another.

Policy reform is the third major goal of the AID strategy. 1/ Short-term gains in production are believed possible with policy change. Over the long term, adoption of new technology is contingent on new policies which provide adequate production incentives and allow freer access to supplies.

Many agriculture projects aim at some form of policy change. For example, two projects, the Agricultural Development Systems and Data Collection and Analysis projects, aim at building an institutional capacity into policy analysis. Reform is also encouraged through a dialogue between U.S. and Egyptian officials on policy issues.

NEW LANDS DEVELOPMENT

Since the AID program was initiated, the Egyptian Government has expressed interest in U.S. participation in new lands development. The possibility of reclaiming desert land and making it arable appeals to the Egyptians because land is in such short supply. The Egyptian Government views new lands development as a means of attaining food security, reducing the balance-of-payment drain, increasing employment opportunities, and stemming the tide of rural-to-urban migration. However, past reclamation efforts have generally been disappointing; new lands have contributed little to increased domestic food supplies.

New lands development began in 1953; however, it was not until the 1960s, in anticipation of the additional water to be made available by the Aswan High Dam in 1965, that the large-scale reclamation began. About 900,000 feddans have been reclaimed--an increase of approximately 17 percent in the cultivated land area. Only about half of this area is actually in production, however, and only about one-third of the reclaimed land is even marginally profitable. Furthermore, more resources than anticipated have been spent to reclaim the land. The desert lands are significantly lower in inherent productivity than lands in the Delta and areas bordering the Nile and require substantial inputs in irrigation and drainage, roads, and other infrastructure.

The Government believes that low productivity is largely attributable to poor management and insufficient funding and continues its strong commitment to land reclamation. A goal has been set to reclaim approximately 2.3 million feddans by the year 2000, but Egypt cannot finance such an effort and is heavily reliant on external assistance.

Although aware of Egyptian interest in obtaining U.S. assistance for new lands activities, AID has nonetheless emphasized efforts to increase the productivity of old lands. For example, there has been increasing interest in rebuilding the irrigation

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1/Policy reform is discussed in greater depth in chapter 3.

system. The technology underlying the productivity of old lands has been deprived of maintenance and investment funds since the mid-1960s. As a result, a major and costly rebuilding of irrigation structures is needed to protect the productivity of old lands. AID believes that the economic rate of return on investments in old lands surpasses that of new lands, so new lands activities have been approached cautiously.

In the late 1970s, AID envisioned two possible new lands projects: one seeking to improve productivity on land with already substantial sunk cost, but with low productivity; and the other a reasonably large-scale research effort to try out agronomic and irrigation techniques which might apply under various management systems. As an inital step, AID contracted a U.S. consulting firm to undertake analytical work identifying major project constraints. The ensuing report, issued in January 1980, delineated the already known agronomic, irrigation and drainage, and management constraints and added a new major factor: the energy-lift coefficient. The study cast further doubt on the advisability of pursuing a large-scale program, particularly on land requiring a high-water lift.

This study emphasized for AID the need to proceed slowly in supporting new lands development. Although the latest AID strategy statements do not rule out future new lands interventions, U.S. activities in the reclamation area will be more restricted than previously anticipated. AID is presently contemplating a $50-million effort to include adaptive research trials in various new lands areas to determine what crops can be grown and at what levels. This information is intended to provide AID and the Egyptian public and private sectors with firm empirical data upon which to base longer term planning.

Nevertheless, the Egyptian Ministry of Land Reclamation questions the conclusions of the AID contractor. Ministry officials believe the report is based on unfounded and unrealistic assumptions. Given Egypt's adverse man/land ratio and commitment to food security, new land activities will likely retain a high government priority and pressures for increased AID support will remain unabated.

NEED FOR EFFECTIVE EXTENSION SERVICES

A system for transferring improved technology to farmers is essential to increasing food and agricultural production. However, in Egypt this system has been ineffective, in part because the extension service lacks linkages with agricultural research facilities. Most applied agricultural research is done at research institutes which are part of the Ministry of Agriculture. Although the extension service is a subdivision in that ministry, communications between extension and research at the central level are very limited and at the field level nearly nonexistent. In addition to operating independently, the research

institutes and the extension service develop their programs centrally, with essentially no input from farmers or local organizations. Some adaptive research is also done at Egypt's agricultural colleges, but contacts with extension agents and efforts to extend findings are also negligible there.

The extension service is beset by a number of additional problems which limit its effectiveness. For example:

--There is a significant shortage of extension agents. The Egyptian Government reorganized the extension service in 1976 to improve effectiveness in the field. Revised plans call for an extension agent in each of Egypt's approximately 4,300 villages, but less than half of these villages currently have agents.

--The extension function in Egypt is frequently linked with regulatory activities. In villages with no agents, individuals acting in an extension capacity--called agriculture advisors--also enforce government regulations such as crop quotas and infringements of agricultural law. Combining these activities has made the farmers distrustful and reluctant to accept any extension assistance.

--Transportation is inadequate, severely limiting the geographical area the extension agent can cover. Agents are frequently posted near their homes and must arrange their own transportation. This often results in irregular attendance and infrequent meetings with farmers.

--Salaries for extension agents are low, even by Egyptian standards, and agricultural graduates entering the extension service often do so because they have no alternative employment.

--Training for extension agents is poor, providing them only a cursory knowledge of their subject area. Consequently, if agents are uninformed in one area, the farmers tend to question their credibility in all areas.

From the outset of renewed U.S. assistance to Egypt in 1975, AID has been aware that the lack of an effective extension system was a serious obstacle to improving agricultural productivity.

In 1976, an agriculture survey 1/ placed high priority on restructuring agricultural research, teaching, and extension. Similarly, in designing an important project--the Agricultural Development Systems project, which was one of AID's earliest technical assistance efforts in Egypt--the importance of a viable extension service and the need to strengthen that capability in Egypt was emphasized. Nevertheless, AID chose not to develop a project aimed specifically at strengthening the overall extension system. AID was uncertain about the extent of completed research available for dissemination. AID was also aware that extension projects in other recipient countries had generally been disappointing. Thus, it decided upon a crop- or area-specific approach whereby programers would treat extension as a sub-element in certain agricultural projects. The possibility of developing an overall extension project at some future date was left open.

After 5 years of AID development activities in Egypt, the lack of an adequate extension capability remains a major impediment to transmitting technology to the farmers. Neither AID nor Egypt has yet developed a comprehensive data base, thus, they are still uncertain as to the types and amounts of information there is to extend. We were told that there is no central repository for the data and that such information would be difficult to obtain. However, Egyptian scientists associated with AID projects contend that there is ample information ready to disseminate and that yields in crops such as wheat, corn, and rice could increase significantly if known technology was made available nationwide.

Extension inadequately addressed in early projects

In two early projects--Agricultural Development Systems and Water Use and Management--plans for extending research were vague. Although a need for extension was cited in the project design stage there was no elaboration as to how it would occur. So, although both projects have either developed or are developing technology to increase agricultural productivity, it is questionable whether this technology will be made available to farmers on a large-scale basis.

Water Use and Management project

This project, under implementation since May 1977, is entering its final pilot/demonstration phase. (See app. III.) However, to date, local extension agents have not been contacted at any of the project sites, nor have plans been formulated for

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1/"Egypt, Major Constraints to Increasing Agricultural Productivity," Foreign Agricultural Economic Report, No. 120, June 1976. This survey was completed by the U.S. Department of Agriculture at the request of the Egyptian Ministry of Agriculture and AID.

disseminating the information over a wider area. In fact, contractor staff responsible for developing these plans are uncertain as to how Egypt's extension system operates or even whether there are extension agents located in the area of the project sites. Extension activities associated with the project have consisted primarily of involving small numbers of local farmers in project activities. For example, at one project site in the Delta region, approximately 30 local farmers allowed project technicians to use their land to test possible solutions to certain previously determined problems.

Similarly, the project staff has had little contact with the extension service at the headquarters level or with the Egyptian scientific community. A November 1980 mid-project evaluation by a private consultant and an AID official noted that practically all of the project results are in 47 staff papers which are meant only for internal distribution. It added that although the most important applicable project results were in the field of agronomy, the Ministry of Agriculture's extension directorate had not received a single publication resulting from the project.

Agriculture Development Systems project

The University of California/Davis became involved in the Agriculture Development Systems project in 1976 when a reconnaissance team visited Egypt to discuss the proposed project. The project plans, approved in June 1977, emphasized the need to strengthen Egypt's extension capabilities and proposed that an extension feasibility study be undertaken. A university report noted that, from the outset, the Egyptians insisted that the project include an agricultural extension/community development component. Nevertheless, further action did not occur until June 1979 when a university team visited Egypt to assess the extension system and develop plans for potential assistance. AID shelved the plans, judging them to lack insightfulness and nothing further has been done to develop an extension subproject.

Overall implementation of the project has been slow, with most activity focused on horticultural research. The horticulture sub-project plans, approved in March 1980, listed as one goal the creation of a greater capacity within the Egyptian research community to extend research and technology. Nevertheless, those plans did not specify how this extension would be accomplished. In fact, little has been done either to extend research findings that are available or to develop a comprehensive extension strategy for horticulture. We understand that extension is expected to take place by farmers observing research results on demonstration plots and by researchers relaying their findings to the farmers.

Problems with extension in newer projects

Newer AID projects, such as Major Cereals, Rice Research and Training, Agricultural Mechanization, and Small Farmer Production

have incorporated extension elements into the overall project plans. AID anticipates these projects will help create a viable extension system implemented in particular areas and for particular crops. It notes, however, that the more widely applicable results will have to be disseminated by the Egyptian Government. In these projects, AID has made a serious effort to confront the extension dilemma, but the AID strategy attributes a greater capability to Egypt's extension system than it actually possesses. Results from particular areas and crops cannot be disseminated more widely until the underlying weaknesses of the extension system are addressed. It is questionable whether this can be accomplished through the piecemeal approach AID has chosen to pursue.

The World Bank reported 1/ in 1977 that a crop- or area-specific approach usually weakens the extension system further by diverting financial and staff resources from the regular line extension service and duplicating the work of regular extension service staffs. The World Bank report also stated that such schemes tend to dissipate efforts and obscure the need for basic reform of the extension service.

Major Cereals project

The Major Cereals project, with a projected cost of $47 million, is the largest AID technical assistance project in Egypt. CID contracted with the Government of Egypt in January 1980 to assist in the project implementation. The project is intended to help the Egyptians establish a research/extension capability in cereal grains on a regional basis and stimulate an increase in production of those grains. Forages and grain legumes are currently being added in an amendment to the contract. According to the project plans, a key element will be to establish a pilot extension program with special links to the research effort. Four research/extension centers are to be established to provide research and backstop support for eight governorates. 2/ At the time of our review, 67 extension agents had been selected to serve as district agronomists, each responsible for conducting an effective extension educational program in cereal production in his assigned district.

1/"Agricultural Extension, The Training and Visit System," World Bank, May 1977.

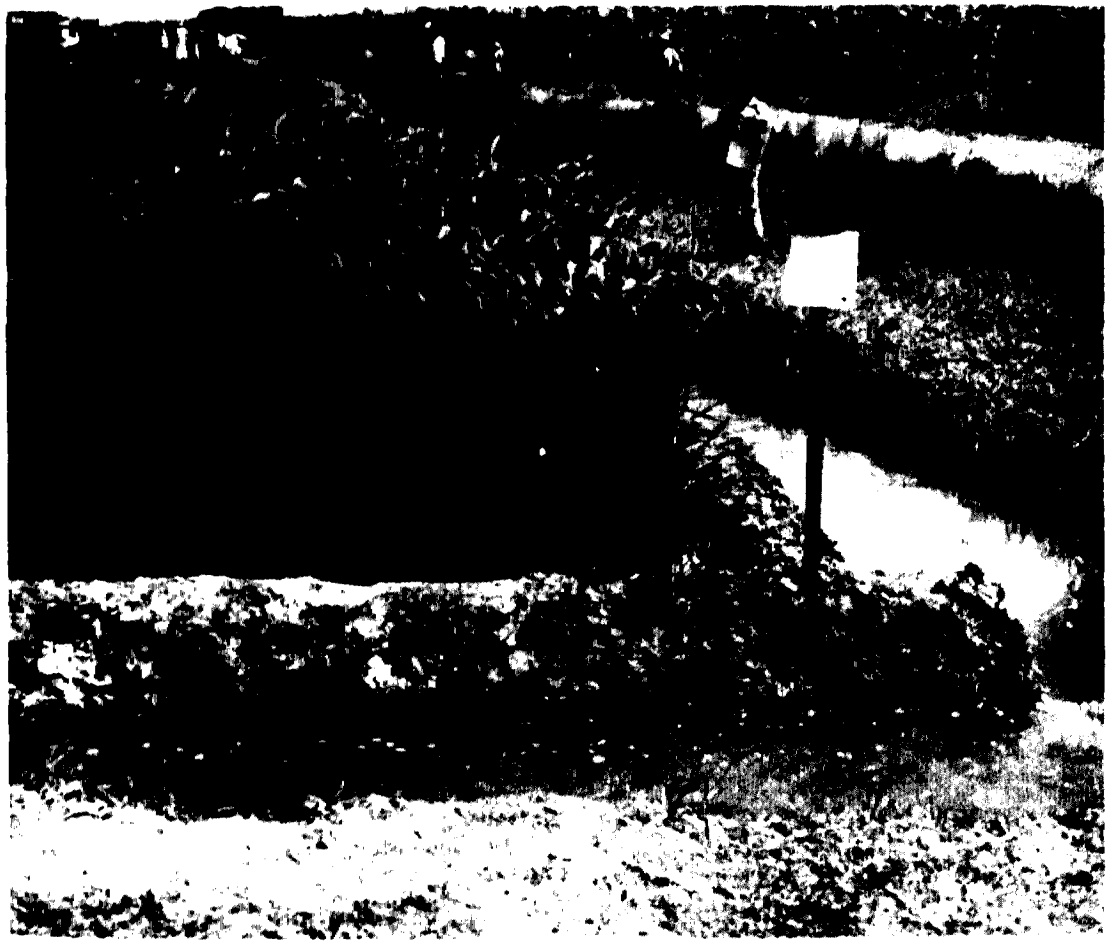
2/Egyptian Government organization below the national level in descending order is made up of governorates, districts, cities and towns, and villages.

Rice Research and Training project

The AID-funded rice research project takes the same approach as the cereals project, although with funding of about $9.8 million, on a smaller scale. The rice project plans call for establishing communications between researchers and farmers by training a team of 20 rice-production extension specialists who will be assigned to 6 rice-producing governorates in Egypt. Once in the governorate, the specialist will be responsible for on-farm demonstrations for rice production techniques and will work with the extension staff in the governorate to which he was assigned. Some overlap of governorates involved in the cereals and rice projects is expected.

CID officials, in commenting on our draft report, said

"Communications have been initiated with the University of California to integrate activities of the rice project with those of the Major Cereals project. A working relationship has already been initiated and will continue to grow between the Water Use and Management project and the Major Cereals project."



HIGH-YIELD RICE BEING GROWN IN AN AGRICULTURAL RESEARCH CENTER IN KAFR EL-SHEIKH. AN INADEQUATE EXTENSION SERVICE HAS LIMITED THE SPREAD OF SUCH NEW TECHNOLOGY.

Agricultural Mechanization project

The purpose of this project is to help build Egyptian capabilities to plan, support, and carry out an appropriate farm mechanization strategy. This $40 million project is to increase the effectiveness of selected programs and to develop capabilities required for designing and pursuing alternative mechanization options. Part of the project strategy involves creation of a machinery management extension unit to work with the extension service and Agricultural Bank in order to increase farmers' understanding of and access to mechanical equipment.

Small Farmer Production project

The Small Farmer Production project plans call for developing a system to improve small farmers' access to production improvements. The project is to be carried out on a pilot basis in eight districts located in three governorates. Establishment of closer working relationships between the extension service and village banks is to be accomplished by adding an agricultural financial analyst to the staff of each bank in the pilot areas. The analyst will work with the bank manager, a cooperative agriculturist, and local extension agents to form a farm management team. Project plans call for 27 extension agents to be involved in the project. Each agent will be supplied with a motorcycle and limited equipment and supplies needed for presentations.

Problems with project design

In each of these projects, AID is attempting to develop a viable extension capability within a limited sphere of activity. However, in an approach of this type difficulty arises in consistently addressing the broad range of issues. For example, these projects will in most cases be operating in different crop and geographic areas and using different extension agents. The cereals, small farmer production, and rice projects will have extension activities in 12 different governorates in Egypt. There is no single governorate in which all three projects have activities and only five governorates where two projects have activities. Thus, in a given area, an extension agent may receive training in one crop, but not in others. For optimal effectiveness, extension agents should be capable of giving farmers sound advice on the full range of their farming operations, especially in Egypt where small farmers grow a variety of crops year round.

Another question concerns whether the Egyptian Government can meet the level of staffing required to replicate the projects. For example, the Small Farmer Production project is operating on the assumption that an improved village bank management system can be expanded to include Egypt's 750-bank network. However, whether there are enough trained extension agents to cover this network is questionable. Similar replication problems can be foreseen in the cereals and rice research projects. Concentrations of extension agents may be feasible on a small-scale basis,

but, because the extension service is understaffed and has problems attracting qualified graduates, it is unlikely that such concentrations could be replicated nationwide without a substantial increase in extension service funding.

A third question concerns the use of salary incentives as provided for in the project plans. One AID official said that this was an ideal assumption made by many project designers and should not be considered realistic. Further, even if project participants do receive salary incentives, whether pay scale increases in these amounts would be forthcoming nationwide is doubtful. Thus, additional means of motivation/compensation need to be explored, especially if the projects are to be replicated. For example, improved transportation and living quarters could facilitate recruitment of qualified extension agents.

Project implementation problems

Of the four projects with extension components, in September 1980 only the cereals project had been under implementation for longer than 6 months, and we identified several problems which could affect its ultimate success.

--Egyptian scientists associated with the project believe that the U.S. contractor's staff does not have adequate expertise to address the project's extension component. They believe such expertise is critical to success. The Egyptian project co-director explained that although he was dissatisfied with the contractor's extension staff, he felt compelled to accept it. AID staff expressed similar reservations. In January 1981, the U.S. contractor said that these relationships had improved.

--As of early October 1980, the 67 Egyptians working as district agronomists on the project had not received their salary incentives. The Egyptian project co-director said the incentives had been withheld because he was dissatisfied with their performance. A number of the group were stationed in Cairo and had refused to work in the project areas away from Cairo. The American contractor representative said that the district agronomists were extremely bright and competent, but morale was low and some of them had threatened to quit. We were later told that the Egyptian co-director replaced about one-quarter of the original 67 who had rejected work away from Cairo. They were replaced with individuals recommended by local extension authorities. The individuals replaced had already received 2 months of training, according to AID staff.

CONCLUSIONS AND RECOMMENDATIONS

AID's agricultural development strategy keys on three goals: technology development, institutional development, and policy reform. Recognizing that food and agriculture production in Egypt must be increased, AID strategy has given heavy emphasis to technology development. However, the transfer of technology has been seriously hampered by the lack of an effective extension system. Although AID has long recognized that a problem existed, it has not adequately attacked the underlying factors which created the problem: (1) lack of linkages between research and extension, (2) low salaries paid to extension agents, (3) inadequate transportation and training, (4) mistrust of farmers because of the regulatory functions associated with extension, and (5) insufficient extension staff.

AID contends that, in the early years of programing in Egypt, the amount of information to extend was unknown. We believe such a shortfall bearing upon an important development issue would ordinarily require corrective action. However, AID has yet to undertake a significant effort to develop a comprehensive data base. Further, Egyptian scientists believe that corn, wheat, and rice production could substantially increase if known technology were made available nationwide.

Extension activities in early AID projects have been negligible, although these projects either have or soon will have information to extend. In the past year, four new projects have been initiated containing extension elements. However, implementation problems involving the extension component of one project have already begun to emerge. Furthermore, a World Bank report, in discussing extension across a wide range of developing countries, notes that efforts to cope with extension service problems in a piecemeal fashion have in most cases met with little success and may have even made the situation worse.

An ultimate objective of the AID assistance program in Egypt is to increase production and, in so doing, improve the living standards of the small farmers. For this to occur, the technology coming out of AID projects as well as the technology already available in Egypt's research centers must be transmitted to the farmers who will be using it. We believe that for AID's agricultural assistance program to reach its full potential, AID must place higher priority on helping the Egyptian Government to quickly establish an effective extension system. AID must, therefore, refocus its strategy so that the extension service is treated as a separate entity requiring an undivided effort for its revitalization.

We, therefore, recommend that the Administrator, Agency for International Development, require that the developmental strategy for future U.S. agricultural assistance to Egypt be revamped to include a concentrated, organized effort to develop a method for effectively transferring technology to the Egyptian farmer.

AGENCY COMMENTS AND OUR RESPONSE

AID expressed concern that the introduction to the report may imply that the U.S. assistance was intended to, or could have had, a major effect on Egyptian agriculture during the first 5 years and that self-sufficiency in food production is the purpose of the Agency's assistance program in Egypt. The Agency said that food imports are likely to continue and even increase in the cases of cereals and foodgrains even though significant production gains are realizable in Egyptian agriculture. The Agency also said that the first agricultural projects were testing efforts with the assumption that the U.S. and Egyptian Governments and other donors would later fund greatly expanded programs of applied technology; therefore, a major effect on Egyptian agriculture was not expected at this time.

We are aware that both Egyptian and U.S. officials expect Egypt to be a net importer of cereals and foodgrains even past the turn-of-the-century. We did not mean to imply food self-sufficiency is the purpose of U.S. assistance to Egyptian agriculture when we refer to efforts to increase food and agricultural production in Egypt. The comments from AID were considered and appropriate changes were made to remove any implications that we viewed food self-sufficiency as the program's purpose.

Also in this report, we are merely saying that, after 5 years and with commitments of more than $357 million, little measurable development has occurred. We are aware that U.S. monies committed to the assistance to Egyptian agriculture did begin to flow faster in 1980 and that the Agency's plans call for the accelerated movement of funds to continue in, and after, 1981. However, the fact that only 29.4 percent of the funds committed during, and prior to, fiscal year 1977 were spent as of September 30, 1980 (see app. II) indicates the U.S.-funded projects are moving slowly, whether the projects involve research, application of technology, construction of storage facilities or improvement of irrigation and drainage facilities.

The Agency agrees that the quality of the formal extension service is relatively low, but maintains Egypt has a fairly well-developed informal extension service consisting of cooperative/agricultural credit institutions, progressive farmers and landlords, local agribusiness enterprises, school teachers, local governments, and some radio and newspaper communications on farming. AID assumes this informal system is working based on Egyptian agriculture's "high" productivity. In addition, AID stated that:

--Extension in isolation is not likely to produce significant results. Of equal or greater importance are the (1) timely availability of reasonably priced agricultural supplies, such as fertilizer and pesticide, and (2) establishment of proper market signals.

--Some items which hamper the effectiveness of the extension system (i.e., low salaries, farmer mistrust, insufficient staff) require fundamental changes by the Egyptian Government with respect to budget outlays and salary levels.

--Although there is some on-shelf technology which could be extended now, AID is not certain whether such technology existed in 1975-76 or whether it was developed since.

AID concluded that these factors suggest the need for a cautious approach to extension. AID acknowledges that over time the extension base will need to be broadened; however, it has not decided whether this will be done by expanding extension activities within research projects underway or through broadened assistance to the extension service, per se. (See app. V, pp. 62.)

We do not totally agree with AID's contention that Egypt benefits from a fairly well-developed informal extension service. The fact that Egyptian farm yields are high does not necessarily mean that there is an effective informal extension system in operation. There are a number of interrelated factors affecting crop yields, of which extension is only one. In fact, the possibility exists that productivity is high in spite of an ineffective extension system. The information obtained during our review leads us to conclude that this indeed is the case.

There is no evidence that an informal system is in operation nationwide. Our discussions with Egyptian officials and U.S. contractor staff working on projects in Egypt indicate that cooperative/agricultural credit institutions play a negligible role in extending technology to the Egyptian farmer. In past years, they had been involved in extension activities, but this is no longer the case. In addition, any network of progressive farmers, landlords, and school teachers is likely to be relatively less accessible to the poorer farmers who are the mainstay of Egyptian agriculture. Unless this group participates in the benefits of growth and development, AID will not have achieved its objectives in Egypt.

AID states that evidence of a deficient extension system would exist if farm yields were low compared to demonstration plots set out by research stations. Egyptian research scientists associated with AID projects have told us that this indeed is the case. They cited corn, wheat, and rice as crops for which yields at experimental stations were substantially higher than the national average. A November 1980 evaluation of AID's Water Use and Management Project came to a similar conclusion. It noted that some of the project's most remarkable results involved yield increases resulting from improved pest control techniques, zinc application and other agronomic practices. For example, zinc application by itself has the potential for significant to dramatic yield increases.

AID has yet to undertake a comprehensive effort to develop a data base on the extent or quality of onshelf technology presently available for dissemination in Egypt. We believe such information is of critical importance in evaluating the needs of Egyptian agriculture and in formulating a research extension strategy. Similarly, hypotheses concerning the suitability or acceptability of such technology to the Egyptian farmer are of little relevance until the nature of that technology is determined.

In summary, we agree that the lack of an effective extension system is but one of a number of interrelated problems facing Egyptian agriculture. However, we believe it is a problem which has not received adequate attention. In 1976, a report prepared by the U.S. Department of Agriculture in cooperation with AID and the Egyptian Ministry of Agriculture stated that in order to meet Egyptian production requirements, a complete revamping and strengthening of the present structure of extension, research, and training would be required. In our opinion, the situation after 5 years of AID activities in Egypt remains virtually unchanged.

The State Department, in commenting on our report, agreed that more could be done to develop an effective means to extend agricultural knowledge and technology to Egyptian farmers. In particular it cited the rather extensive body of agricultural research information generated by use of the Special Foreign Currency Program funds administered by the U.S. Department of Agriculture. It emphasized the importance of exploring means to ensure the timely dissemination of the results of such studies. (See app. VI, p. 72.)

On the question of new lands, AID maintains that its project investments and approaches are generally consistent with those of the Egyptian Government. (See app. V, p. 62.) However, as we note in our report, AID's cautious approach regarding new lands ventures has intensified in the past year, with AID stating that its new lands activities would be even more restricted than previously indicated. On the other hand, while there is reported to be disagreement within the Egyptian cabinet regarding the pace at which Egypt should proceed with new lands development, public statements continue to support development of new lands and official targets remain at around 2 million acres of land reclaimed by the end of the century.

CHAPTER 3

POLICY REFORM IS SLOW

A complex system of price controls and subsidies has evolved over the past 25 years. The avowed goals of these controls are a fair return to farmers and affordable food for the urban poor. Though food for the urban poor has been provided, agricultural and food policies have limited productivity while also subsidizing the middle and upper classes. Without changes, agriculture will act as a drag on the economy and prevent the achievement of development targets.

Policy reform is accorded high priority in the AID agricultural development strategy. The current set of Egyptian policies controlling agricultural production is viewed as "perhaps the most fundamental constraint to an accelerated expansion of the sector." Yet, AID finds the promotion of policy reform to be highly sensitive to direct U.S. intervention. Food issues touch upon an area of fundamental concern to all Egyptians, making changes potentially destabilizing. Moreover, Egypt is extremely sensitive to foreign interference in domestic policy. As a result, AID has adopted a low-key approach to policy reform, emphasizing the definition and analysis of critical policy issues.

POLICY REFORM NEEDED TO REALIZE AGRICULTURAL POTENTIAL

Government regulation dominates Egyptian agriculture. Although rural Egypt is characterized by a large number of farmers tilling small parcels of land, few farm decisions are actually made by the farmers. Instead, the Government largely decides what will be grown and how, where, and at what prices the crops will be sold. This system is often blamed for inefficient resource use, low investment levels, and low productivity growth.

The system of Government control and intervention began in the years following the 1952 Revolution. Implementing a land reform program, the Government was faced with the task of reorganizing the agricultural sector. Most farmers worked small parcels, lacked access to credit, and their objectives were based on survival. Further, the serfdom conditions had hardly prepared farmers for a free market system. Thus, during this transitional phase, the Government had to fill the decision-making vacuum. The Government supplied production inputs (such as fertilizer and pesticides) and credit through public cooperatives which all farmers were required to join. Over the next decade, production controls and marketing quotas were introduced; farmers were required to sell all their cotton and a portion of their wheat, rice, onions, and other major food crops to the Government. Fixed prices, usually below world market prices, provided farmers with minimum income security.

Government intervention provided the means to realize agriculture's contribution to national development goals. Consistent

with the development theories of that time, agriculture was seen as generating the "surplus" needed to finance industrial expansion. Marketing interventions and price controls permitted the Government to tap this surplus. The Government purchased cotton and rice--the major Egyptian export crops--at low, established prices and resold them at higher world market prices. The resulting profits went to the Government.

A second national development goal to be served by agriculture was the provision of affordable food to the masses. Production controls were implemented for the major food crops, which were purchased by the Government at set prices and resold to consumers at low--often subsidized--prices. During the 1960s, prices for wheat, corn, and sugar were comparable to world prices. As world prices escalated rapidly in the 1970s, however, Government set prices did not keep pace. By 1980, for example, the price of wheat had fallen to 54 percent of the world price.

Policy intervention, often initiated in response to short-term needs, has not significantly changed as the rationale faded. As a result, unforeseen and unintended effects on the composition of production, agricultural productivity, and the performance of Government institutions ensued and rural incomes have been depressed.

Production growth shaped by agricultural policy

Although production controls were intended to assure a stable supply of the major crops, actual production has tended to shift from traditional food and export crops to those products not subject to marketing and price controls. Controls were never extended to some crops, including most fruit and vegetables and berseem (Egyptian animal feed). Prices for these crops were allowed to rise in line with market trends, making them much more profitable than controlled crops. As a result, land allotted to fruit and vegetable production has more than tripled since 1950, while cotton acreage declined from 1.8 million feddans in 1950 to 1.2 million in recent years.

Yields have also suffered and Egypt no longer leads the world in yields as in the sixties. Low productivity growth linked with inefficient use of resources has resulted from pricing, input distribution, and credit policies. For example, because of the profitability of berseem compared to cotton, farmers often plant cotton late, thereby accepting lower yields in order to take extra cuttings of berseem. Or, farmers divert scarce fertilizer which has been allocated for cotton to other, more profitable crops. Yet, the returns to the economy are higher for cotton exports than for many other crops, but these relatively high returns are not reflected in cotton prices paid to farmers.

Other effects are also apparent:

--Supplies of fertilizer are limited even though increased fertilizer use would be expected to increase yields; fertilizer, sold to farmers at subsidized prices, is restricted to hold down the subsidy budget.

--Productivity suffers as public institutions fail to distribute enough fertilizer, pesticides, and water when needed.

--Poor water management leads to water-logging and salinity problems which reduce yields.

--Subsidized fuel costs and interest rates encourage mechanization over labor-intensive production methods.

--Private investment is hindered by the unavailability of medium and long-term credit.

--Low earnings in agriculture provide little incentive for private investment in that sector.

Effects on institutions are also apparent. Government cooperatives charged with the enforcement of production controls have evolved into extensions of government bureaucracy, depriving farmers of a true farmer-directed movement. And agricultural credit banks, responsible for providing farm supplies and collecting farm products have not become mature financial intermediaries capable of guiding investment in agriculture.

Agricultural policies depress rural incomes

Agricultural policies have had significant effect on income in Egypt. These effects are apparent in the distribution of income within agriculture and between agriculture and other sectors.

Agriculture is indirectly taxed through the price management system; the implicit tax is collected by purchasing crops at prices below what the Government receives for exports or pays for similar food imports. With the spectacular rises in world food prices since 1973, the gap has widened, thus increasing the implicit tax on agriculture. The tax on agriculture is disproportionately high; the net tax after consideration of input subsidies is estimated at 30 percent. This exceeds the tax burden for the economy as a whole--25 percent--although incomes in agriculture are 25 percent less than the national average.

The drain on agricultural incomes is substantial. Between 1973 and 1976, the Government earned LE 892 million 1/ (about

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1/Egyptian pounds.

$1.3 billion) on cotton alone, after payment to growers. The cotton revenue covered all State expenditures for the agriculture sector during this period including explicit subsidies on all crops, the current expenditures of the Ministries of Agriculture and Irrigation, and all State investment in agriculture. In addition to cotton revenues, the Government also benefits from the sale of other export crops and the low price paid for food crops.

Within the agricultural sector, the tax burden is inequitably distributed, falling heavily on the small farmers. The tax burden varies by crop; smaller farmers tend to dominate production of traditional controlled crops, such as cotton, which are most heavily taxed. Exploiting the profitable opportunities in production of uncontrolled products, such as meat or fruit, requires investment and the long-term credit that is generally unavailable to small farmers. As a result, larger farmers and urban investors who dominate production of these uncontrolled crops escape taxation on their products.

Price increases evidence increased attention to production incentives

Beginning in 1978, Government-set prices on agricultural commodities evidenced an increased commitment to preserving farm profitability. Prices on cotton, wheat, onions, and other crops were increased by over 30 percent during 1979 and 1980. While signifying an increased emphasis on incentives to achieve production goals, the price increases do not fundamentally alter the relations described above. Farmers' costs have also risen sharply. Labor costs have increased over the past several years as have fertilizer prices, pest control costs, and land taxes.

REFORM PROMOTED THROUGH POLICY ANALYSIS AND ECONOMIC DIALOGUE

AID efforts to promote reform aim at defining and focusing Egyptian attention on difficult policy issues. Direct intervention in policy by prescribing policy actions is not believed to be an appropriate U.S. role. Throughout this century, Egyptian history is characterized by efforts to rid the country first of colonial and then Russian influences. U.S. officials are thus cautious about appearing to directly interfere in domestic decisions. As a result, AID depends on the International Monetary Fund and the World Bank to lead in pressing for policy reform. Nevertheless, AID influence is substantial.

The United States has a large stake in Egyptian development: the stability on which foreign policy gains is based depends on meeting expectations of improved economic well-being. And Egypt's turn from socialism to a market economy to remedy its economic ills provides an additional challenge to the West.

U.S. officials believe that they can influence policy through assistance in analyzing the consequences of adopting alternative policies. Development of the analytical base for policy reforms

is provided under several agricultural projects. The AID strategy also calls for the analyses to be supplemented by an economic dialogue on policy issues between AID and Egyptian officials.

Changes in "micro policy" are often addressed through specific problem-oriented projects. Several projects--Water Use and Management, Poultry Improvement, Aquaculture Development, Small Farmer Production, and Agricultural Mechanization--involve examining the policy reforms needed to stimulate growth, meet producer needs, and achieve project goals. AID officials point to several accomplishments as a result of their efforts. In 1980, the Commodity Import Program (CIP) was increased by $50 million to permit the Egyptian Government to free up to $50 million to finance additional fertilizer imports. The fertilizer transaction was intended to increase the total availability of fertilizer and to test new approaches in fertilizer distribution and pricing in Egypt. Although some experts contend that increased fertilizer use would quickly boost production, the Government has followed a restrictive policy. Fertilizer is normally sold to farmers at about half the cost; increasing fertilizer supplies thus means increasing the budget for fertilizer subsidies. Moreover, changes in fertilizer policy receive a particular priority within AID because the development of new technology is premised on the assumption that farmers will have freer access to fertilizer supplies.

Although import delays and shortfalls in the amount of domestically produced fertilizer mean that overall targets for fertilizer distribution were not reached in 1980, policy innovations are being introduced. Part of the AID-financed supplies will be imported and distributed by the private sector whose involvement is expected to augment the services already provided by established public organizations. The subsidy is also being reduced to demonstrate that farmers are willing to pay the higher price for more fertilizer. These policy innovations were agreed upon as part of the negotiations leading to the signing of the fertilizer loan agreement. In succeeding years, the Government fertilizer policy will provide the true measure of success in this experiment with a reformed fertilizer distribution policy.

Similarly, negotiations for the Small Farmer Production project led to changes in credit policy. Medium- and long-term credit has been largely unavailable to small farmers. Credit allocation was based on collateral rather than ability to repay, effectively excluding small farmers. The AID-funded project provides for the expansion of medium- and long-term credit and the introduction of new lending criteria.

AID officials also point to other accomplishments. Egyptian policymakers now recognize that irrigation policy must cover on-farm water management. And, they have begun to reevaluate the tradeoffs between lift and gravity irrigation.

In addition to assistance oriented to specific subsector problems, AID initiated two projects aimed at building the capacity for policy analysis. The first, the 1977 Agricultural

Development Systems project was intended to provide the analytical base for sector planning and programing. Due to implementation difficulties 1/ to date, the project has failed to generate the desired results. In 1980, the Data Collection and Analysis project was initiated to undertake studies of such problems as pricing policy and investment priorities. The project is to respond to the Minister of Agriculture's need for analysis of current policy issues in order to more forcefully argue for reform.

Although this latter project is just starting, the effort is promising. It follows on the success of three independent AID-funded studies. The first, an assessment of the fertilizer situation provided the basis for experimentation with fertilizer distribution. The second, examining the feasibility of new lands development, prompted some rethinking of Egypt's commitment to desert reclamation. A third study reviewing the current agriculture situation and policy agenda is also regarded by AID officials as having contributed to the reform effort.

Mechanisms to facilitate policy dialogue not fully utilized

Efforts to focus Egyptian attention on critical policy issues are also advanced through periodic meetings between Egyptian policymakers on one hand, and AID and U.S. Embassy officials on the other. The dialogue is both informal and formal.

Informal discussions with Egyptian policymakers occur frequently. Although no documentation of these talks exists, AID officials say they consistently raise policy issues and express U.S. concerns at program-related meetings and at social engagements.

Several mechanisms exist for formal policy discussions, such as, in the case of agricultural policy, (1) the CIP, (2) fertilizer transaction, and (3) Public Law 480 self-help agreements. These mechanisms have not, however, been fully exploited.

The 1979 CIP agreement provided for an economic dialogue on policy issues, and in February 1980, an initial meeting was held. AID developed an agenda covering four key macroeconomic issues, one being the Egyptian budget and the inflationary effect of food subsidies on it, and five sector issues including agricultural pricing and new lands development. As envisioned at that time, the initial discussion would be "pursued in more detail in subsequent meetings of the economic and technical ministries directly concerned." At the initial meeting, Egyptian and AID officials agreed to hold additional meetings on broad economic topics and to establish working groups on sector issues. As of October 1980, no working group had yet been established or follow-up meetings held.

1/Implementation problems are discussed in chapters 4 and 5.

Discussions of agricultural policy were also envisioned under the fertilizer transaction. Testing changed distribution and subsidy practices was to provide the basis for discussing the relationship between fertilizer prices and output pricing. AID officials believe that project negotiations involving the Ministries of Economy, Planning, and Agriculture officials contribute significantly to policy formulation. Yet, no formal discussions had been held between the signing of the agreement in June 1980 and our October 1980 visit.

Public Law 480 self-help measures

The food aid (Public Law 480) program requires the institution of self-help measures to insure that the external assistance does not lead recipient governments to neglect development of internal potential to meet basic needs.

About seven to nine measures are included in the Egypt Public Law 480 agreement each year. Most concern agricultural development and food policy, although one or two may focus on family planning or health priorities. Specific areas covered include pricing, planning and policy analysis, investment priorities, mechanization policy, food subsidies, organization of research, and private-sector participation in agriculture. The measure calls for the Government to study, analyze, or reassess these issues.

Although in theory, subsequent year allocations of food aid should reflect compliance with self-help measures, the measures themselves tend to be carried over from year to year until AID is satisfied with progress on the particular area. Specific actions or programs are not undertaken to address the measure; progress is usually linked with other program and project activities. Nor does action, or lack thereof, on self-help measures affect future program levels; both sides are well aware that the Public Law 480 allocation is based on foreign policy considerations and the importance of food as a determinant of political stability.

Despite its limitations in generating concrete action, Public Law 480 is of some value as an instrument for policy reform. Self-help measures provide a basis for discussions of U.S. concerns with Egyptian policymakers. From time to time, written and oral inquiries about progress are made to involved ministries. Each December, the Government submits a report summarizing activities which respond to the measures.

AGRICULTURAL POLICY REFORM TIED TO FOOD POLICY

Some progress in restructuring agriculture policy is possible by raising farm output prices and relaxing Government controls. Egypt's food policy, however, places limits on this restructuring effort. Not all crops are subject to Government price controls

and even for most of those that are, fixed prices apply only to the portion sold to the Government. The other output is used to satisfy household consumption or is sold on the private market. Free market prices are, however, heavily influenced by Government policies at the consumer level.

The fundamental aim of Egypt's food policy is to provide an adequate supply of basic commodities at affordable prices to a rapidly growing urban population. The complex controls on agriculture are a major element in the system created to achieve that goal. Food subsidies are a second.

To meet the objective of low food prices, a food rationing and subsidy system was introduced during the 1950s. Bread is provided in unlimited quantities at a fraction of production costs; the price of a standard loaf of bread has rarely changed since the 1930s. A large number of other items are subsidized and rationed. For most items, consumers are guaranteed a certain quantity at the subsidized price. Additional quantities are sold by government food stores at a reduced subsidy, but their availability is not guaranteed. Those willing and able to pay higher prices can also purchase food items on the private market. Uncontrolled commodities such as fruits and vegetables are also supplied by private merchants. Prices on many such items are, at times, limited by Government-imposed ceilings.

During the 1960s, the cost of the subsidy program was low, but the spectacular rise in world food prices since 1973 sharply escalated program costs.

Food Subsidies for Selected Years

	Net outlays in Egyptian pounds	Percent of Government revenues
	(million)	
a/1970-71	3.2	0.4
1975	408.7	26.8
b/1979	952.3	23.8

a/Fiscal year ended June 30, 1971.

b/Estimated.

The food subsidy costs more than doubled between 1975 and 1980. Bread subsidies comprised the largest single item, accounting for about half the subsidy costs during most of the period but rising to about two-thirds of the planned subsidy budget in 1980.

Increases in the subsidy budget coincide with an increase in the budget deficit. Widening of the budget deficit is regarded as

the root cause of inflation in Egypt which reached a 25-percent annual rate by 1980.

The availability of inexpensive food has also affected consumption. Stimulated by low food prices, rising incomes, and a population growth rate of nearly 3 percent, food consumption has increased sharply over the past few years.

Gradual approach to reforming subsidy system favored

Neither U.S. nor Egyptian officials believe that radical changes can be instituted. Food riots, which erupted in January 1977, following the announcement of price increases, provided graphic proof of the politically destabilizing effects of sharp price rises.

Rationalization of the subsidy system is believed possible by targeting food subsidies on those in need. Currently, all Egyptians, regardless of income, have equal access to subsidized food. Two approaches are commonly suggested. First, food subsidies could be restricted to low income groups by restructuring the rationing system along the lines of the U.S. food stamp program where only the poor would receive ration coupons. Alternatively, subsidies could be limited to a few basic items to which the poor devote a high share of their budget. In that case, subsidies on such luxury items as poultry and meat would be eliminated.

The Egyptian Government has yet to commit itself to such restructuring of the subsidy system. Instead, Egypt has introduced incremental changes which will gradually slow the rate of increase in subsidy costs. In recent years, prices for some items have been gradually raised. And the quality of the cheapest bread was reduced to shift consumers to somewhat-less-subsidized, higher-quality breads.

Egypt is also trying to reduce bread-making costs by establishing large government-run bakeries instead of encouraging growth of the numerous small, private bakeries currently existing. The action, while modestly affecting the subsidy burden, carries its own set of costs. The sophisticated baking equipment imported under CIP exhibits a choice of capital-intensive over labor-intensive production methods. Moreover, the program fails to exploit the growth potential of the private-sector whose revitalization is looked to as the basis for long-term development and employment growth.

Actions in 1980 signal reduced commitment to food policy reform

Although dissatisfaction with the pace of change existed, policy reforms were largely perceived by AID to be headed in the right direction. Recent actions suggest, however, that Egyptian recognition of and commitment to economic reform has lessened.

In May 1980, a new cabinet was announced. Replacement of the economic leadership also signaled replacement of the economic policies of the previous leadership. Included among the policies announced by the new Government was a freeze on the prices of basic subsidized commodities.

An increased commitment to expanding the availability of subsidized food items also appeared. Although basic rations of many items are guaranteed, the availability of additional supplies is not. Since May, the Government has increased food imports and, at times, flooded the market with subsidized commodities. During Ramadan, the Islamic holy month, supplies of many commodities increased sharply over the previous year: chicken deliveries increased by 99 percent, flour by 100 percent, and fish by 36 percent.

The reordering of priorities was prompted by the acceleration of inflation in early 1980 and concern that economic benefits of the peace agreements were difficult to discern. A direct attack on rising prices by freezing or reducing prices, increasing wages, and reducing tariffs, was deemed necessary. Yet, the initiatives are expected to exacerbate efforts to gain control over the underlying cause of inflation, the budget deficit.

These initiatives also have disturbing implications for Egypt's long-term development. Recent economic gains are being increasingly consumed by higher levels of food imports rather than productively invested. Although increases in consumption are desirable for equity and for political reasons, many believe the appropriate balance between consumption and investment is not being achieved. These actions have elicited concern on the part of the donor community.

Effects of food imports on local production not being addressed

Even before the recent surge, food imports had steadily increased for several years. Rising demand, stimulated in part by low food prices, far outstripped the ability of local production to keep pace. Food imports increased by 74 percent between 1975 and 1979. In 1980, food imports jumped by another estimated 50 percent.

Many of the imported food items are also produced in Egypt but possible adverse effects on domestic producers, or the actions needed to alleviate them, are not carefully assessed. Yet, the basis for concern exists. The increased availability of subsidized commodities beyond guaranteed amounts has undercut the higher-priced, private market. Moreover, in the case of poultry prices, the arrival of poultry shipments is reportedly easily detected by sharp drops in poultry prices. Lentils provide another case. Lentil production could be stimulated by higher producer prices, yet Egyptian farmers receive less than one-third the price paid for imported lentils.

A recent request for CIP financing of frozen fish is also illustrative. In discussing the Egyptian rationale for financing frozen fish under CIP, an AID memo states that Egypt wishes to increase imports and promote a bigger role for public sector retail outlets. Also, the increased availability would as in the case of imported poultry, exercise a downward pressure on open market prices. Comparing private-sector retail prices for six species of fish with public-sector prices for imported fish of the same varieties, the memo identifies that significant price differences exist for all--over 200 percent for four of the six varieties. However, we saw no evidence that an assessment was made of the fish industry's price structure, profit margin, or potential for reducing prices without eliminating incentives for continued or expanded domestic production.

The effect of U.S.-financed wheat imports is less clear. Wheat prices paid to Egyptian farmers are low compared to world market prices and large, rapidly increasing amounts of wheat are being imported. Increases in wheat production may be achievable under altered agricultural and food pricing policies, but the gains would only marginally alleviate the dependence on imports because wheat competes with higher valued crops for scarce productive land.

Food imports are financed, in part, by U.S. aid through the CIP and Public Law 480 program. Wheat, flour, and corn are imported under the Public Law 480 program while CIP-financed imports include corn, frozen chicken, cottonseed oil, and lentils.

CONCLUSIONS AND RECOMMENDATIONS

Policy reform has been slow. Some progress is evident on project-related issues but many accomplishments are in the form of arousing interest and concern, not firm action. Where specific actions have occurred, they tend to be linked to project negotiations. Moreover, much remains to be done in the area of agricultural pricing.

AID regards the policy dialogue as a key element in the strategy to reform agricultural and food policy, yet mechanisms created to facilitate this dialogue have not been adequately exploited. Unlike project-related negotiations, no event is contingent on resolution of these policy issues. We believe that an event-specific focus is needed to give momentum to the economic dialogue provided for under the CIP agreement.

Agricultural policy is linked to food policy. However, reform of the latter poses a particular challenge. Food policy sets short-term political risks against long-term development benefits, touching upon a fundamental concern of all Egyptians. Yet the economic costs of no progress are also high and delay makes changes more difficult. Continued U.S. concern is required.

Current food policy had led to rapid increases in food imports, financed in part, under the AID Commodity Import and Public Law 480 programs. AID financing provides implicit support for Egypt's food import and consumption policies. We believe this support requires that close attention be given to the adverse effects of imports on domestic producers. Assessing the effects of rapidly increasing food imports would provide the basis for determining the desirability of U.S. financing as well as provide the analytic basis for Egyptian policymakers to evaluate the implications of food import policies and the actions needed to alleviate the impact on local producers.

Therefore, we recommend that the Administrator, Agency for International Development:

--Require that a formal understanding be reached and incorporated into future CIP agreements, thereby outlining Egyptian Government plans to address agricultural and other economic policy concerns.

--Assess the effects of U.S.-financed imports on local producers and on Egyptian development.

AGENCY COMMENTS AND OUR RESPONSE

Both AID and the Department of State disagreed that Egyptian plans to address economic policy concerns should be part of the CIP agreement. AID argued it would be counterproductive since the ramifications of price changes are sufficiently unclear to argue against establishment of a rigid time schedule for change and that the appearance of conditionality would be resented by the Egyptian Government.

Similarly, the Department of State objected to attaching conditionality to the program. It also argued that the conclusion that mechanisms to facilitate policy dialogue are not fully utilized is overstated since the reorganization of the Egyptian Cabinet in mid-May slowed the followup to the initial meeting. It also stated that there is an ongoing dialogue and cited a meeting of top-level officials in December 1980.

We did not intend to suggest that a time schedule on pricing reform be established and agree that such rigid requirements would be counterproductive. Therefore, our recommendation is worded to avoid such an interpretation. However, we continue to believe that requiring a statement of Egyptian plans to address agricultural and other policy concerns as part of the CIP agreement is not unreasonable, particularly since a basic purpose of the CIP is economic stabilization.

With respect to comments that the conclusion on the economic dialogue is overstated, it should be noted that between the initial meeting in February and the Cabinet reorganization in mid-May, there were no efforts to followup on the initial discussion.

We believe that economic reform efforts would benefit from a sustained, structured dialogue on policy concerns; informal discussions complement but do not substitute for substantive discusions of economic reforms and their ramifications.

CHAPTER 4

AID PROJECT MANAGEMENT PROCEDURES

NEED STRENGTHENING

Development efforts in Egypt's agriculture sector are centered on increasing domestic food and agricultural production. AID has designed, and the U.S. and Egyptian governments have formally agreed on, many U.S.-financed activities as part of the overall Egyptian effort to increase production.

AID agricultural development program difficulties are immediately evident in the growing "pipeline"--unliquidated obligations or the gap between the amount of U.S. funds obligated and the amount expended. When fiscal year 1977 ended, the program pipeline was about $160 million. The gap grew to $170 million in 1978; to $260 million in 1979; and by September 30, 1980, the gap represented $296 million.

There are several reasons for the slow disbursement rate. AID's practice of obligating funds for the estimated life-of-project costs in lump sums creates immediate pipelines. Because some projects are expected to continue through 1983 and 1984, only nominal expenditures for these projects were expected before fiscal year 1981.

We also recognize that project-related activities--personal services; ordering, receiving, and placing commodities; training Egyptians to eventually continue projects; contractors working under cost-reimbursement arrangements; claims being processed, many by way of letters-of-commitment in U.S. banks; etc.--are all occurring daily for which disbursements are pending or have not been recorded. Therefore, pipeline figures alone, at a particular time, are not exact measurements of project progress. Nevertheless, the continually growing AID pipeline, coupled with a large variance between actual expenditures and annual expenditure estimates, indicates that project implementation has progressed slower than was originally planned. (See chart II, p. 5.)

AID normally programs the life of an agriculture project in Egypt to be 4 to 6 years. However, delays beginning early and continuing throughout the project extend the project life. (See app. III.) The reasons for these delays stem from a broad range of problems common to most AID agricultural projects in Egypt, including contracting delays, deficiencies in project design, inadequate Government support of project activities, and staffing problems associated with university contractors. The problems we have identified are not new, nor are they unique to Egypt--although their effects may be magnified there because of the size of AID assistance to that country. Some of these problems may seem insignificant; however, their cumulative effect has been to create substantial delays in project implementation and to ultimately lessen the effectiveness of AID assistance.

WHAT CAUSES PROJECT IMPLEMENTATION DELAYS?

Successful project implementation requires that each party--AID, the contractor, the Egyptian Government--effectively carry out its designated project responsibilities. Deficient performance by any of these parties can adversely affect project implementation. In Egypt, problems stemming from inadequate performance by each of these parties have contributed to extensive project delays.

An elaboration of the roles and responsibilities of AID and Egypt in project implementation is useful in understanding the dynamics of AID assistance programs. AID policy stipulates that the recipient country will be responsible for carrying out U.S.-funded development assistance programs. Only in exceptional cases where the recipient country cannot effectively manage a particular development project will AID intervene and become involved in project management. This policy is in line with the common principle that the doer will "learn by experience" and certainly provides a meaningful challenge for developing countries.

In Egypt, AID collaborates with the Egyptian Government to (1) identify agricultural development needs, (2) design projects which address those needs, and (3) plan the strategy for carrying out the U.S.-funded projects. AID will also assist the applicable Egyptian ministry, or suboffice therein, to identify U.S. universities or firms qualified to provide the assistance which AID determined was needed to implement the project. Egyptian officials are responsible for negotiating and letting the contracts--with U.S. universities and/or firms--and all management actions applicable to carrying out the project. AID retains monitoring responsibility over the project implementation process, but Agency officials in Cairo contend that success or failure of U.S.-funded projects depends on Egyptian control and management of the project.

CONTRACTING PROCEDURES ARE TIME CONSUMING

The failure to negotiate host-country contracts in a timely manner has been a serious bottleneck to effective project implementation. Contracting delays are more the norm than the exception. Reasons for these delays cover a broad range of problems from Egypt's lack of familiarity with, and acceptance of, AID contracting regulations to reluctance of U.S. firms to conduct business in Egypt.

The nature of the contractor selection process itself is time-consuming and conducive to delay. Under AID procedures, contractors are first rated on the basis of technical competence (i.e., experience, capacity, reputation, strength, and potential for success). Financial negotiations are only conducted with the firm ranked highest on technical competence. If these negotiations fail, financial negotiations must be conducted with the

second-ranked firm. Conducting financial negotiations with a second- or third- ranked firm is time-consuming and project start up is delayed. Moreover, if the technical specifications for the project are complex, preparation of technical proposals may also take a long time.

Host-country contracting also lengthens the time frame for contracting. AID policy holds that the host government handle contract negotiations. The policy is based on the belief that contracting experience is part of institutional development and that early involvement by the implementing agency will lead to strong host-country commitment to the project. Yet, AID contracting procedures are complex and learning the process requires time. Moreover, although one Egyptian agency may gain experience and familiarity with the process, new projects frequently involve new implementing agencies which must go through the same learning process.

Delays occur for a variety of reasons. In one case, for example, the Egyptian agency contended that AID procedures did not take precedence over Egyptian procedures. They also disagreed on the content of the contract, arguing that engineering consultants were not needed to supplement in-house capability. Resolution of these conflicts consumed several months.

Recruiting U.S. contractors is also problematic and a source of extended delays. In the case of a rice research project, no response was received for a request for proposals. The four potential contractors believed that the project requirements involved more than they could administer. AID encouraged the potential contractors to visit Cairo to discuss the project. One of the potential contractors--a leading U.S. university in rice research--entered into discussions. Following additional months of consultations, however, the university declined to participate. Approximately 3 years after the grant agreement was reached, Egypt signed a contract with another university whose performance on another project was less than satisfactory.

Difficulties in recruiting a U.S. contractor were also encountered in a project aimed at establishing irrigation pipe-making plants. The bid closing date was extended several times since interested firms had difficulty meeting the technical specifications of the project. Eventually all but one of the firms withdrew from the bidding.

As demonstrated by these problems, contracting delays are not unusual. Alleviating these problems requires effective and adequate AID assistance throughout the process. This has not, however, always been the case. For example, in one project, Government requests for assistance during financial negotiations went unheeded; AID officials only urged the Egyptian agency to continue negotiations because the contractor had not yet offered its best deal. After several more months of Egypt/U.S. contractor negotiations, AID concluded that the original cost proposal was fair and reasonable at which time the contract was let.

Recent changes may, however, improve AID's capacity to provide adequate and effective support. In 1980, two contract specialists were added to the mission staff. AID now anticipates that the increased staff resources will permit the mission to respond more quickly and effectively when problems occur in contracting.

PROJECT DESIGN

Project design is a complex process. Goals and purposes are defined, necessary financial and technical resources identified, an implementation plan developed, and the responsibilities of the Egyptians and U.S. contractors clarified. Project design should also reflect any unique local characteristics affecting project implementation which may have been apparent in past projects. AID has not given adequate attention to the latter factor in Egyptian project design.

The design of AID agricultural development projects calls for (1) full-time Egyptian counterparts and (2) certain level of technical skills to be possessed by these counterparts. Yet, in practice, these conditions are frequently not met. Project design fails to reflect these realities.

Technical expertise and availability are not the primary basis on which Egyptian counterparts are assigned to projects. Although great care is exercised in selecting an Egyptian to be project co-director, the selection is primarily based on a candidate's position and tenure in Government, and on ability to speak English. An Egyptian selected on the basis of position in the Government may retain previous responsibilities, thus, limiting the time available for the project and slowing project implementation.

PROJECT MONITORING

AID's input into the project implementation process is provided through monitoring project progress. AID project monitoring in Egypt is not systematic, therefore, much is left to individual project officer initiative. There is neither a clear understanding of what monitoring should encompass, nor guidelines spelling out project officers' responsibilities. As a result, AID, Egypt, and the contractors are uncertain about the extent of AID responsibility in monitoring and assisting in the implementation of AID-funded projects. Some project officers feel they are primarily mediators--someone to smooth the ruffled feathers of host-country personnel and/or contractors. Others viewed themselves as bankers, with a primary function of keeping the funds flowing. Similarly, there are no requirements that project officers visit project sites periodically to validate the information they receive in activity or progress reports. In fact, many believed that they did not have sufficient time to visit project sites to ensure that the contract was progressing satisfactorily. Some believe that not enough emphasis is given to

monitoring and that today's project officers are more generalists than technicians and, in many cases, do not have the background to adequately monitor and evaluate contractor performance.

AID is now revising its monitoring guidelines. A general approach is outlined to assist project officers in overseeing all aspects of project progress, including

--assuring that U.S. funds are being disbursed in accordance with statutory requirements;

--assuring that goods and services financed are utilized effectively; and

--making judgments on the continuing appropriateness of project designs.

The revised guidelines will also state that, because of the variety of programs and projects, no uniform monitoring and reporting system exists. Project officers are expected to establish a suitable project monitoring system and to operate it effectively.

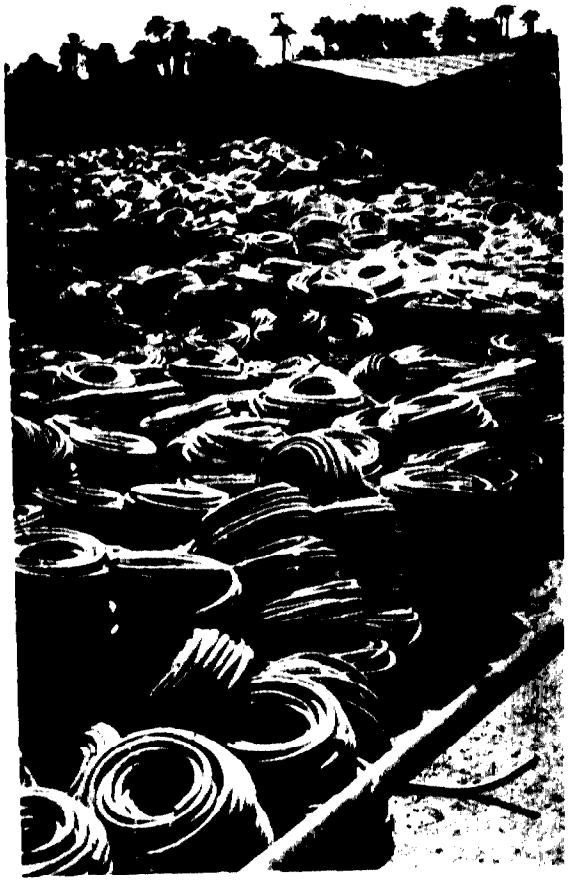
Donor coordination

Project monitoring also requires coordination with other donors where effective utilization of AID provided resources is dependent on other donor resources. Problems in meeting these requirements--and the resultant impact of achieving project goals--are illustrated by the irrigation pipe project.

The project funded $31 million for the establishment of three plants to manufacture perforated plastic pipe as part of the irrigation drainage system in Upper Egypt. The plastic pipe could only be used after the Egyptian implementing agency installed the cement collector pipe. Production of the cement collector pipe is funded under a separate World Bank project.

Although use of the plastic drainage pipe is contingent on progress of the World Bank project, the AID mission did not become aware that the World Bank project was significantly behind schedule--and thus that the plastic pipe could not be used--until the three plants were near completion. By May 1980, the first of the plants was producing plastic pipe at near full capacity. By September 1980, over 1,600 miles of pipe had accumulated in the open yard of the plant; storage facilities were not included in project plants because immediate installation of the pipe had been anticipated. World Bank officials stated that 2 more years may lapse before the concrete pipe is produced and installed.

AID officials were not accurately advised even though they consulted with the implementing Egyptian agency on the status of concrete pipeline installation. The AID mission did not attempt to verify the information or to consult the World Bank on project



LACK OF U.S. AID/GOVERNMENT OF EGYPT/WORLD BANK PROJECT CO-ORDINATION RESULTED IN NON-UTILIZATION OF HUNDREDS OF MILES OF PLASTIC DRAINAGE PIPE AND FORCED PRODUCTION TO NEARLY STOP.

progress. Thus, alternatives for addressing the plastic pipe project's overproduction problem--such as retooling some of the plants for production of cement pipe or shipping the pipe to another region--were not explored. As a result, the plants will operate, at best, at less than full capacity for a long period and the project outputs will not be effectively utilized.

The situation came about due to weaknesses in the system for coordinating with other donors. Responsibility for coordinating with the World Bank and obtaining information on the project was not clearly assigned. Although World Bank officials perceived their contact for this project to be the AID mission's agriculture office, this office had not been assigned responsibility and did not discuss the project with World Bank officials. Within the AID mission, responsibility for implementing this project is assigned to the office handling industrial projects, not the agriculture development office.

CONCLUSIONS AND RECOMMENDATIONS

AID and its predecessor agencies have been involved in agricultural development programs in developing countries since the 1950s. Furthermore, AID and the Government of Egypt have struggled to implement agriculture projects over the past 5 years. Using the learn-by-experience principle, AID should now be able to more effectively plan for project implementation by taking into account recurring delays when designing a project. Some of these delays are an almost inevitable consequence of established project implementation and contracting procedures, such as the need to

negotiate with more than one bidder and for Egyptian implementing agencies to familiarize themselves with AID procedures. Others, such as the difficulty in getting qualified U.S. contractors to work in Egypt, result largely from circumstances beyond AID's control.

There are a number of areas, however, in which AID can take action to reduce time-consuming delays and promote more efficient project implementation. Specifically, although under AID policy the Egyptian government is responsible for implementing AID-funded projects, Egypt's role in implementation does not absolve AID of responsibility for monitoring project implementation to the extent that timely and efficient use of U.S. resources is accomplished and development objectives are realized. We believe AID management of this critical function could be improved. AID needs to clearly define appropriate monitoring procedures, including periodic visits to project sites, and to clarify coordination responsibility with other donors.

In addition, AID must be willing and able to assist the Egyptian Government in implementation and contracting matters which are significantly affected by Agency procedures or which the host government has had, or is having, difficulty in administering. The recent addition of contracting specialists to the AID mission should help alleviate earlier problems. The training courses on implementation procedures which AID is providing to project officers are also a positive step. We encourage AID to continue its initiatives in these areas.

We also recommend that the Administrator, Agency for International Development:

--Clearly define AID project officers' monitoring responsibilities, including relations with U.S. contractors and Egyptian officials and periodic visits to project sites.

--Clearly assign responsibility for coordinating with other donors on specific projects.

--Assist Egyptian ministries in understanding and applying established U.S. procedures and regulations which affect project implementation.

The Administrator should also take action to cause programers of future development projects, particularly agricultural projects in Egypt, to fully use and consider AID's extensive experience and all available information in designing those projects. This effort should be directed to developing ways to minimize the costs of potential implementation problems.

AGENCY COMMENTS

The Agency is in general agreement with our recommendations on project implementation as contained in this chapter. (See app. V, p. 63.)

CHAPTER 5

HOST GOVERNMENT SUPPORT AND U.S. UNIVERSITY CONTRIBUTIONS ARE CRITICAL TO PROJECT EFFECTIVENESS

In this chapter, we discuss how insufficient support of project activities by the Government of Egypt and the staffing problems of U.S. university contractors have had a negative impact on AID's agricultural assistance program in Egypt. The Congress has directed AID to increase participation of U.S. universities in programs of agricultural research and institution building. Among other things, the Congress intended that AID use the expertise available in the universities to transmit U.S. technology to the developing world. However, university contractors in Egypt have had difficulty in both filling staff positions and in providing the quality of expertise necessary to effectively implement AID projects.

Similarly, AID assistance to Egypt--intended to demonstrate U.S. support for the actions taken by the Government of Egypt in promoting peace in the Middle East--must be viewed within its political context. AID recognizes that both Egypt and itself are involved in a mutual learning process whereby Egyptians become familiar with AID contractual and implementation requirements while AID familiarizes itself with Egypt's traditional legal and organizational requisites. In view of these considerations, AID has moved slowly in dealing with Egyptian shortfalls in project support.

DIFFICULTIES IN RECRUITING PROJECT STAFF

Much of AID's agricultural experience in Egypt has been with universities. Acting alone or as part of a consortium, U.S. universities are involved in implementing four projects. Although three different institutions are serving as lead universities for these projects, 1/ they have all experienced problems in recruiting competent staff for long-term assignments in Egypt. These problems have resulted in delays in project implementation and in allegations of low quality performance by some technicians provided by these contractors. Several factors have contributed to the problems. Some, such as tax problems associated with overseas employment and the sometimes onerous living conditions in developing countries are not unique to universities. However, the constraints posed by the universities' tenure and promotion policies as well as their seemingly inadequate commitment to overseas development work have played major roles in limiting staff availability.

1/The universities involved are the University of California/ Davis, and New Mexico State and Colorado State acting as lead universities for the Consortium for International Development, a group of Western universities.

The Consortium for International Development (CID), in January 1981, concurred that staffing has been difficult and said that a major cause for that problem has been the deterioration in financial rewards permitted under AID policies. CID said that the current tax situation and limitations on incentives make it less rewarding for university personnel to serve overseas now than in the 1960s. We are not addressing that issue in this report, however, it will be pursued in a review we are presently conducting on Title XII legislation and its implications.

Title XII and university commitment to overseas development work

Title XII, the Famine Prevention and Freedom from Hunger amendment, is part of the 1975 International Development and Food Assistance Act and establishes a goal of increasing world food production. Title XII places major emphasis on increasing participation of qualified universities in the planning and implementation phases of food, nutrition, and agricultural development programs.

To fully realize the intent of Title XII, universities must be willing to release productive staff from domestic teaching and research duties to work overseas for long-term assignments. With respect to work in Egypt, they have been reluctant to do this. All three university contractors--University of California/Davis, acting alone, and New Mexico State and Colorado State Universities acting as lead universities for CID--have had difficulty in staffing their projects.

The University of California/Davis experience has been the most troublesome. Egyptian officials visited the university in the spring of 1976 to discuss a collaborative relationship between the university and the Ministry of Agriculture and related offices in Egypt. University representatives then visited Egypt in September 1976 and began project reconnaissance. AID had high expectations for this project--Agricultural Development Systems--which Cal/Davis played a major role in designing. The broad objective of the project was to create an institutional capability within the Egyptian Ministry of Agriculture and related agencies to plan and conduct a variety of work in agricultural development. AID envisaged that Cal/Davis would generate ideas for new projects and would be the cornerstone of the AID agricultural assistance program in Egypt. According to Cal/Davis, the AID Mission's expectations of what the university was prepared to do were unrealistic and unpalatable to the faculty and thus were never accepted by the university. In any case, staffing problems have plagued the project and project implementation has been extremely slow. As of September 30, 1980, only 7.5 percent of the obligated project funds had been spent. These problems appear to reflect the university's lack of commitment to making the project work.

The university has not provided adequate long-term staff to move the project along and visits by Cal/Davis consultants have

been short and irregular. The project's first chief-of-party (a horticulturist) arrived 1 year after the project began. Nominations for the first two candidates for that position were withdrawn by the university after they had been approved by AID and the Egyptian Government. Prior to July 1980, the only other staff members stationed in Egypt were the business and administrative officers; however, the business officer was involuntarily removed from his post because of Egyptian dissatisfaction with his performance. Due to the slow project implementation, the former dean of the university law school replaced the original chief-of-party in June 1980. In July, an associate director in Economics/Social Sciences and another in Agricultural Science joined the staff.

Cal/Davis has used short-term consultants to provide inputs into the project; however, visits by these consultants have been exceedingly brief. For example, seven of the nine consultants visiting Egypt from April through June 1980 stayed less than 2 weeks. Similarly, 15 consultants went to Egypt between September 1979 and January 1980; the average stay was 13 days. Several AID officials in Cairo said that, in most cases, at least 1 month in-country is the minimum time required to make a meaningful contribution to a development project.

In commenting on a draft of this report, Cal/Davis stated that brief frequent visits by consultants were useful. It said that persons readily available for long-term appointment in Egypt on short notice were likely to be retired, inactive, or looking for a vacation or a sinecure. It felt it was better to have good people for short periods than mediocre people for a long time.

Although the problems experienced by the Agricultural Development Systems project have been the most obvious, other university-assisted projects have had similar difficulties.

--The Rice Research project required almost 3 years after the grant agreement was signed before an approved contract was let by the Egyptian Government. This delay was partially attributable to an apparent lack of interest by U.S. universities in implementing this project. For instance, the first request-for-proposals sent to four universities in rice-producing States went unanswered. AID contacted the universities and, in January 1979, all four sent a representative to Egypt to discuss the project. After several false starts--during which time the university which was AID's first choice abruptly dropped out of contention--AID finally in June 1980, got the University of Cal/Davis to agree to serve as lead contractor. The department within that university's system which handles the Agricultural Development Systems project will not be implementing this contract, but several people familiar

with the university believe that rigidities within the overall system contribute to staffing delays. Although the contract was signed in June 1980, as of October 1980, Cal/Davis had only one full-time staff member posted in Cairo--the business officer who had earlier, at the request of the Egyptian Government, been removed from the Agricultural Development Systems project.

--An AID audit report issued in June 1980 on the Water Use and Management Project 1/ concluded that the project contractor--CID--had not fulfilled contract terms which stipulated the types and levels of permanent and short-term field-staff required. The report pointed out that, as a result, the project was behind schedule in several areas and that the staff shortfall may have been the reason for the divergent areas of activities CID pursued under this project. The report noted the project was about 1 year behind the original planned completion date. Although CID and AID officials in Cairo disagree with the report's conclusion, an AID official noted that CID did have difficulty recruiting qualified staff for certain positions. He attributed the problem essentially to the tenure system which does not reward overseas experience.

--CID, with New Mexico State University as the lead university, signed a contract with the Egyptian Government in January 1980 to assist in implementing the Major Cereals project. However, we learned CID was having difficulty filling 3 of 11 project positions in Egypt. According to CID, as of January 1981, nominees had been selected and were being considered by the Egyptian Government for two of the remaining three positions. Further, several Egyptians associated with the project commented that CID was not making its most competent technicians available to the project. The Egyptian project co-director expressed particular concern that the staff sent over by CID would not be able to adequately address Egypt's extension problems.

University personnel system: a major barrier to recruiting staff

The university tenure and promotion system was frequently cited as a major impediment to more effective involvement in

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1/Audit report on "Water Use and Management Project," 6-263-80-7, June 10, 1980, Area Auditor General/Egypt, AID.

overseas development. Although the degree of this problem varies at each university, we spoke to staff associated with four university-assisted agricultural projects in Egypt; all agreed that overseas development work was not beneficial in achieving tenure status; some felt it was detrimental. Most of the problem appears to be that some peers view technical assistance abroad as being unrelated to the traditional research, training, and extension assignments on which individuals are typically evaluated. Peer committees are said to have difficulty evaluating and documenting staff performance on international assignments. With little substantive information upon which to base recommendations, the committee is reluctant to recommend promotions. In addition, those individuals who have achieved tenure are often not inclined to interrupt their careers for the time required to work on overseas projects. These factors seem to support why there are few tenure track faculty working on projects in Egypt. Most of the university-associated project staff are either recent hires, retired, or about to retire. For example, the former dean of the Cal/Davis law school is the only tenured member of the Cal/Davis faculty assigned full-time in Egypt on the Agricultural Development Systems project. Project documentation reviewed in October 1980 did indicate another tenured faculty member would join the project staff in July 1981. In the Water Use and Management project, four of the eight members are tenured; two of the four are ready to retire.

Long-term staff assigned to projects are frequently assisted by short-term consultants. However, the effectiveness of these consultants has at times been questioned. For example, the mid-term evaluation of the Water Use and Management project noted the motivation and dedication of the eight advisors stationed in Cairo, but commented on disruptions created by short-term consultants. It stated that about 8 staff years of short-term assistance had been furnished under the host-government contract and added that some of the "short-termers" were apparently graduate students whose stay in Egypt was of more benefit to their own dissertations than to project progress. It further noted that Egyptian team members estimated that more than half of the short-termers were not useful to the project.

INADEQUATE EGYPTIAN SUPPORT HAS DELAYED PROJECTS

Inadequate support by the Egyptian Government, particularly in failing to provide (1) full-time co-directors for some projects, (2) adequate staff support in other projects, and (3) sufficient logistical assistance has contributed to the slow pace of project starts and to implementation delays.

In AID's technical assistance projects, management of project activities is divided between a representative of the Egyptian Government and the U.S. contractor. The co-directors are jointly responsible for allocating funds to project activities and for determining overall project policy. Because of the key role the co-director plays in determining the ultimate success

of the project, the Egyptians are very careful in selecting appropriate individuals for the position.

According to an AID official in Cairo, project co-directors are selected on the basis of their success as reflected by their position and tenure in the Government and their ability to speak English. The first qualification is particularly critical in view of Egypt's cumbersome bureaucracy. People skilled in the workings of the Egyptian Government can be extremely useful in handling procedural problems. A high-level Egyptian official can also be authoritative in presenting project-related positions to the Government. However, the criteria for success has also created difficulties. For many projects, the Egyptian co-director devotes only part of his time to managing the project because he is also filling a high-level ministry position.

A specific case is the cereals project. Although the contract between the U.S. contractor (CID) and the Egyptian Government stipulates that the Egyptian co-director would be assigned full-time to the project this has not happened. The co-director has retained his position as Director General of the Agriculture Research Center. According to AID and CID staff, his limited allocation of time to the project has slowed down the establishment of necessary organizational procedures. CID project staff also commented that, because the Egyptian co-director is part-time, the lengthy planning sessions required to give the project adequate direction have been difficult to arrange. The lack of a full-time co-director has also caused delays in the Agricultural Development Systems and Agricultural Mechanization projects. In the latter project, the AID project officer said that cooperation with the Egyptian co-director had been satisfactory, but because of his high-level (Under Secretary) position in the Government, he was hard-pressed to devote the time required for this somewhat complex project. The apparent interest of other donors in providing mechanization assistance to Egypt, the project officer said, makes it particularly important that Egypt closely coordinate development efforts.

Inadequate Egyptian staff support

Problems relating to Egyptian staff support have been manifested in other ways as well. Contractor personnel in one project said that the Egyptian staff assigned to the project lacked the expertise needed to adequately do their jobs. Consequently, the contractor staff was spread thin in having to provide extra training and perform much of the work that had been programed for the Egyptian counterparts.

In another project, the Egyptian co-director's style of operation and lack of rapport with the U.S. contractor was a serious obstacle to successful project implementation. The U.S. contractor said that management decisions intended to be made jointly were usually made unilaterally by the Egyptian co-director without the contractor's input. The contractor was pessimistic about the project's future.

In several other projects, Egypt has delayed appointing counterpart professional staff. In these projects U.S. contractor staffs arrived in Egypt to find that the Egyptian staff had not been selected. In one case, the Egyptian Government was waiting for its first choice for a team leader to complete a 2-year contract with another donor.

An AID official close to the situation said that AID faced a number of constraints in dealing with the sensitive issue of counterpart selection. He explained that Egypt uses a rigorous set of criteria in selecting counterparts. While AID might not always agree with those criteria, AID felt obliged to accept them. Furthermore, since the Egyptian Government has emphasized that the best people would be selected for the co-director positions, AID is reluctant to challenge its choices. Some project management problems also stem from conflicts in the way the U.S. contractors and Egyptian representatives operate. Egyptian officials are usually accustomed to a highly centralized form of management while the contractors frequently come from a decentralized environment.

Problems in logistical support

In addition to supplying staff for projects, the Government of Egypt is responsible for providing other support inkind, as well as local currency. We also identified a number of problems in this area, particularly with regard to delays in providing funds for salaries, incentives, and training; in providing office space for the contractor; and in helping project equipment clear Egyptian customs.

For example, in the Major Cereals project, as of October 1980--10 months after the contract was signed--Egypt had provided neither training funds for project participants nor salary incentives for the project's extension agents. Both training and salary incentives had been agreed upon in the contract. We understand that the training funds had not been provided due to a cash flow difficulty in Egypt's Ministry of Agriculture. The salary incentives, however, had not been released by the project's Egyptian co-director.

Similarly, in the Water Use and Management project, the Ministry of Irrigation gave a salary bonus to Irrigation Ministry personnel only. Egyptian staff from other ministries who were working on the project were excluded. We understand that as of January 1981 this Ministry-support problem has been resolved.

In June 1980, the AID Auditor General reported that Egyptian local currency support of the Water Use and Management project had been less than required by the grant agreement. In part as a result of this shortfall, the report concluded that U.S. project funds had been used improperly in a number of instances.

Additional delays in project implementation have been attributed to problems in moving project commodities through customs and in the lack of adequate office space. One contractor said that the Egyptian Customs Department's reluctance to honor either the contract agreement or President Sadat's order declaring project goods exempt from duty was a continuing problem which severely impeded the project's progress.

CONCLUSIONS AND RECOMMENDATIONS

The universities participating in technical assistance projects in Egypt have had difficulty assigning qualified technicians to assist in these efforts. An apparent lack of commitment on the part of the universities as well as a tenure system which inhibits staff recruitment for overseas positions have led to this problem. A result has been considerable delays in project implementation and allegations of low quality performance by some university contractors.

We recognize that U.S. universities are a great potential source for improved technology needed to increase food and agriculture production in Egypt. But a method for harnessing that potential and transferring the technology to Egypt has not been developed. We believe that the universities, AID, and the Government of Egypt should assess the contribution of U.S. universities to agricultural development in Egypt and determine what role universities can realistically be expected to play in future development. A key question seems to be whether universities can overcome internal policies and constraints which limit the resources they commit to U.S. assistance programs in Egypt.

The Egyptian Government is responsible for providing counterpart staff, local currency, and logistical support to AID projects. In so doing, Egypt plays a key role in successful project implementation. However, Egyptian performance in some of these areas has been inadequate and has contributed to project delays. In part, we recognize these problems may result from the numerous demands placed on an overburdened government. For example, in attempting to provide the most qualified co-directors for AID projects, Egypt has selected many high-level officials who are unable to devote full time to project activities. Similarly, problems in supplying timely logistical support and in moving project goods through customs may be partially attributed to an unresponsive bureaucracy in which interdepartmental conflicts are common. Finally, Egypt has its own way of doing business, which in some cases is not a common U.S. or AID way. Nevertheless, these problems however seemingly insignificant they may be, have created delays which ultimately lessen the effectiveness of AID's assistance.

Project delays due to such logistical problems as clearing AID-financed commodities through customs are correctable. The unacceptable delays suggest the need for AID to review procedures governing the movement of these commodities.

Direct AID intervention regarding Egypt's assignment of counterpart staff and project support is difficult. Adequate Egyptian support, however, is critical to successful project implementation and realization of project goals. We believe that a means of encouraging better Egyptian support should be embedded in the system for funding AID assistance to Egypt.

We recommend that the Administrator, Agency for International Development, initiate actions to reassess the optimal degree of U.S. university involvement in U.S. agricultural development programs in Egypt. In making this assessment, consideration should be given to the problems affecting current university performance and the universities' willingness and ability to alleviate those problems in assisting in future projects. We further recommend that AID, in establishing future levels of project assistance to the agriculture sector, thoroughly consider whether the Egyptian ministries responsible for project implementation have the ability to effectively absorb the additional assistance programed.

We also recommend that AID working with the Egyptian government establish the necessary authorities and procedures to insure the timely processing of AID-financed commodities through Egyptian customs.

AGENCY COMMENTS

The Agency is in general agreement with our recommendation concerning project implementation as contained in this chapter. (See app. V, p. 63.)

SUMMARY OF U.S. ECONOMIC ASSISTANCE TO EGYPT AS PROGRAMMED BY FISCAL YEAR, 1975-1980

Areas of Assistance	FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	Total
Commodity Import Program	$150,000,000	$315,000,000	$440,000,000	$300,000,000	$ 320,000,000	$ 350,000,000	$1,875,000,000
Project Planning	1,900,000	17,000,000	26,400,000	24,350,000	15,000,000	45,070,000	129,720,000
Infrastructure	30,000,000	173,000,000	123,010,000	221,000,000	305,800,000	171,320,000	1,024,130,000
Transportation, Industry, Commerce, and Finance	35,000,000	255,600,000	21,000,000	180,900,000	54,000,000	45,100,000	591,600,000
Food and Agriculture Production	44,280,000	32,500,000	83,840,000	13,800,000	105,470,000	78,000,000	357,890,000
Social Services (population, health, education, etc.,)	---	2,800,000	5,000,000	10,700,000	34,700,000	174,250,000	2,274,450,000
Total	261,180,000	795,900,000	699,250,000	750,750,000	834,970,000	863,740,000	4,205,790,000
P.L. 480, Title I & III	98,130,000	186,120,000	180,690,000	176,460,000	226,020,000	285,200,000	1,152,620,000
P.L. 480, Title II	12,590,000	5,550,000	11,960,000	6,450,000	13,960,000	16,090,000 a/	66,600,000 a/
Total	$371,900,000	$987,570,000	$891,900,000	$933,660,000	$1,074,950,000	$1,165,030,000	$5,425,010,000 b/

a/Includes about $1.11 million programmed for section 204 projects (Catholic Relief Services and CARE).
b/Does not include about $81.22 million in Egyptian pounds.

SOURCE: Agency for International Development.

APPENDIX I

APPENDIX II

STATUS OF U.S.-FUNDED AGRICULTURAL PROJECTS IN EGYPT
AS OF SEPTEMBER 30, 1980

Project Number	Project Title	First Year Obligation	Cumulative Obligation	Projected Life of Project Obligation	Cumulative Expenditures	Fiscal Year 1980 Expenditures	Fiscal Year 1980 as percent of Total Expenditures	Unexpended Obligations Total	Unexpended Obligations Not Sub-obligated
				AID AGRICULTURAL LOANS					
263-0028	Grain Shortage Silos	$ 44,275,000 FY 75	$ 44,275,000	$ 44,275,000	$20,045,000	$10,480,000	52.3	$ 24,230,000	$ 13,479,000
263-0019	PVC Pipe Drainage	31,000,000 FY 76	31,000,000	31,000,000	12,245,000	8,929,000	72.9	18,755,000	16,819,000
263-0035	Canal Dredging Equipment	26,000,000 FY 77	26,000,000	26,000,000	7,933,000	7,758,000	97.8	18,067,000	53,000
263-0037	Grain Storage/ Distribution	42,000,000 FY 77	42,000,000	42,000,000	6,422,000	5,150,000	80.2	35,578,000	30,162,000
263-0040	Irrigation pumps	11,000,000 FY 77	11,000,000	11,000,000	189,000	---	---	10,811,000	---
Loan Totals		$154,275,000	$154,275,000	$154,275,000	$46,834,000	$32,317,000	69.0	$107,441,000	$ 60,513,000
				AID AGRICULTURAL GRANTS					
263-0017	Water Use and Management	$ 1,500,000 FY 76	$ 7,000,000	$ 7,000,000	$ 4,768,000	$ 1,640,000	34.4	$ 2,232,000	$ ---
263-0027	Rice Research and Training	2,367,000 FY 77	9,767,000	9,767,000	605,000	605,000	100.0	9,162,000	541,000
263-0041	Agricultural Development Systems	1,200,000 FY 77	12,900,000	12,900,000	971,000	586,000	60.4	11,929,000	3,931,000
263-0060	Poultry Improvement	471,000 FY 77	4,542,000	4,700,000	2,103,000	574,000	27.3	2,439,000	2,433,000
263-0064	Aquaculture Development	3,500,000 FY 78	27,500,000	27,500,000	1,086,000	1,073,000	98.8	26,414,000	24,000,000
263-0031	Agriculture Mechanization	21,000,000 FY 79	40,000,000	40,000,000	1,000	1,000	100.0	39,999,000	39,999,000
263-0035	Canal Dredging Equipment	5,200,000 FY 79	5,200,000	5,200,000	343,000	343,000	100.0	4,857,000	12,000
263-0070	Major cereals	30,000,000 FY 79	47,000,000	47,000,000	1,442,000	1,442,000	100.0	45,558,000	20,642,000
263-0079	Small Farmer Production	25,000,000 FY 79	25,000,000	25,000,000	93,000	93,000	100.0	24,907,000	21,155,000
263-0095	Agricultural Cooperative Marketing	5,000,000 FY 79	5,000,000	5,000,000	3,511,000	3,511,000	100.0	1,489,000	413,000
263-0096	Small Scale Agricultural Activities	1,700,000 FY 79	1,700,000	4,000,000	---	---	---	1,700,000	756,000
263-0040	Irrigation pumps	8,000,000 FY 80	8,000,000	8,000,000	---	---	---	8,000,000	3,718,000
263-0116	Agricultural Management Development	5,000,000 FY 80	5,000,000	5,000,000	---	---	---	5,000,000	5,000,000
263-0142	Data Collection and Analysis	5,000,000 FY 80	5,000,000	5,000,000	---	---	---	5,000,000	5,000,000
Grant Totals		$114,938,000	$203,609,000	$206,067,000	$14,923,000	$ 9,868,000	66.1	$188,686,000	$127,600,000
AID Agricultural Project Totals		$269,213,000	$357,884,000	$360,342,000	$61,757,000	$42,185,000	68.3	$296,127,000	$188,113,000

SOURCE: Agency for International Development, Office of Financial Management.

CHRONOLOGY OF SELECTED U.S.-FUNDED AGRICULTURAL PROJECTS IN EGYPT

1. PVC PIPE DRAINAGE PROJECT

Project objective: The project is part of large International Bank for Reconstruction and Development-sponsored scheme to construct a drainage system for 500,000 feddans 1/ in Upper Egypt. The AID portion will provide the necessary equipment, materials and technical assistance for the in-country production of poly vinyl chloride (PVC) drainage pipe.

Originally estimated life of project: FY 1976 - FY 1982

Estimated cost of project: $31,000,000 (loan)

Significant project planning and implementation dates:

Project paper approved	June 1976
Loan agreement signed	July 1976
Terminal date for conditions precedent met	June 1977
Contract between Government of Egypt (GOE) and U.S. contractor signed	Oct. 1978
Contract between GOE and 2nd U.S. contractor signed	June 1979
Project assistance completion date (current estimate)	Nov. 1981
Terminal disbursement date	Dec. 1982

Current status of funds as of September 30, 1980: 39.5 percent has been disbursed; 60.5 percent remains unexpended of which 89.7 percent is not sub-obligated.

2. WATER USE AND MANAGEMENT PROJECT

Project objective: To develop and demonstrate in pilot areas improved management of irrigation water to increase agricultural production, strengthen water management research institutions and extend findings to the Egyptian farmer.

Originally estimated life of project: FY 1976 - FY 1981

Estimated cost of project: $7,000,000 (grant)

Significant project planning and implementation dates:

Project identification document approved	Feb. 1976
Project paper approved	June 1976

1/One feddan equals 1.03805 acres.

Grant agreement signed	June 1976
Contract between AID and a group of U.S. universities signed	May 1977
Project assistance completion date (current estimate)	June 1982
Terminal disbursement date	Dec. 1982

Current status of funds as of September 30, 1980: 68.1 percent has been disbursed; 31.9 percent remains unexpended, all of which is sub-obligated.

3. CANAL DREDGING EQUIPMENT PROJECT

Project objective: To finance a portion of the foreign exchange costs for technical assistance and equipment to assist GOE in restoring and maintaining irrigation water supplies and drainage canals and to enhance the capability of Egypt's principal public sector entities engaged in canal maintenance.

Originally estimated life of project: FY 1977 - FY 1981

Estimated cost of project: $31,200,000 ($26,000,000 loan and $5,200,00 grant)

Significant project planning and implementation dates:

Project paper approved	Sept. 1977
Loan agreement signed	Sept. 1977
Terminal date for conditions precedent met (loan)	Apr. 1978
Contract between GOE and U.S. contractor signed (loan financed)	Apr. 1978
Grant agreement signed	Aug. 1979
Terminal date for conditions precedent met (grant)	Oct. 1979
Contract between GOE and U.S. contractor signed (grant-financed)	July 1980
Project assistance completion date (current estimate)	Nov. 1982
Terminal disbursement date	Mar. 1983

Current status of funds as of September 30, 1980: 26.5 percent has been disbursed; 73.5 percent remains unexpended of which 0.3 percent is not sub-obligated.

4. RICE RESEARCH AND TRAINING PROJECT

Project objective: To provide new information and knowledge for rice production by establishing a coordinated rice research training program and developing qualified researchers

and training specialists. The project does not attempt to directly address any national goal for increased rice production.

Originally estimated life of project: FY 1977 - FY 1981

Estimated cost of project: $9,767,000 (grant)

Significant project planning and implementation dates:

Project identification document approved	Sept. 1976
Project paper approved	July 1977
Grant agreement signed	Sept. 1977
Terminal date for conditions precedent met	June 1980
Contract between GOE and a U.S. university signed	June 1980
Project assistance completion date (current estimate)	Sept. 1982

Current status of funds as of September 30, 1980: 6.2 percent has been disbursed; 93.8 percent remains unexpended of which 5.9 percent is not sub-obligated.

5. AGRICULTURAL DEVELOPMENT SYSTEMS PROJECT

Project objective: To improve the delivery of agricultural development services to small farmers by systematically strengthening the planning, implementation and management of public sector agriculture institutions in Egypt.

Originally estimated life of project: FY 1977 - FY 1982

Estimated cost of project: $12,900,000 (grant)

Significant project planning and implementation dates:

Project review paper approved	Jan. 1977
Project paper approved	Sept. 1977
Grant agreement signed	Sept. 1977
Terminal date for conditions precedent met	Mar. 1978
Contract between GOE and a U.S. university signed	Jan. 1979
Project assistance completion date (current estimate)	Sept. 1983

Current status of funds as of September 30, 1980: 7.5 percent has been disbursed; 92.5 remains unexpended of which 33 percent is not sub-obligated.

6. POULTRY IMPROVEMENT PROJECT

Project objective: To develop programs which will assist Egypt in meeting its long-term goal of increasing poultry meat and egg production.

Originally estimated life of project: FY 1977 - FY 1980

Estimated cost of project: $4,700,000 (grant)

Significant project planning and implementation dates:

Project identification document approved	Jan. 1977
Project paper approved	May 1977
Grant agreement signed	Aug. 1977
Contract between GOE and a U.S. contractor signed	July 1978
Terminal date for conditions precedent met	Sept. 1978
Project assistance completion date (current estimate)	June 1981
Terminal disbursement date	Dec. 1981

Current status of funds as of September 30, 1980: 46.3 percent has been disbursed; 53.7 remains unexpended of which 99.8 percent is not sub-obligated.

7. AGRICULTURAL COOPERATIVE MARKETING PROJECT

Project objective: To develop more efficient and effective private agricultural marketing cooperatives, provide sufficient capital and credit in the form of a revolving loan fund for increased production of fruits and vegetables and to establish an Egyptian institutional capability to provide management, cooperative development and marketing guidance to other cooperatives.

Originally estimated life of project: FY 1979 - FY 1983

Estimated cost of project: $5,000,000 (grant)

Significant project planning and implementation dates:

Project identification document approved	Feb. 1979
Project paper approved	July 1979
Grant agreement signed	Sept. 1979
Contract between GOE and a U.S. private voluntary organization signed	Sept. 1979
Terminal date for conditions precedent met	Oct. 1979
Project assistance completion date (current estimate)	Sept. 1983

Current status of funds as of September 30, 1980: 70.2 percent has been disbursed; 29.8 percent remains unexpended of which 27.7 percent is not sub-obligated.

SOURCE: Agency for International Development

APPENDIX IV

STATUS OF AID'S PLANNED AND ACTUAL PIPELINES OF AGRICULTURAL PROJECTS IN EGYPT AS OF SEPTEMBER 30, 1980

Project Number	Project Title	Cumulative Obligation	Pipeline 9/30/79 (Obligations less Expenditure)	Pipeline 9/30/80 Obligations less Expenditures Planned	Pipeline 9/30/80 Obligations less Expenditures Actual	Percent Actual to Planned Pipeline	Percent 9/30/79 Pipeline to 9/30/80 Pipeline
			AID AGRICULTURAL LOANS				
263-0028	Grain Storage Silos	$ 44,275,000	$ 34,710,000	$ 22,710,000	$ 24,230,000	106.7	69.8
263-0019	PVC Pipe Drainage	31,000,000	27,684,000	14,684,000	18,755,000	127.7	67.7
263-0035	Canal Dredging Equipment	26,000,000	25,825,000	5,825,000	18,067,000	310.2	70.0
263-0037	Grain Storage/ Distribution	42,000,000	40,728,000	30,728,000	35,578,000	115.8	87.4
263-0040	Irrigation pumps	11,000,000	10,811,000	9,811,000	10,811,000	110.2	100.0
Loan Totals		$154,275,000	$139,758,000	$ 83,758,000	$107,441,000	128.3	76.9
			AID AGRICULTURAL GRANTS				
263-0017	Water Use and Management	$ 7,000,000	$ 3,872,000	$ 2,762,000	2,232,000	80.8	57.6
263-0027	Rice Research and Training	9,767,000	9,767,000	9,017,000	9,162,000	101.6	93.8
263-0041	Agricultural Development Systems	12,900,000	12,515,000	11,335,000	11,929,000	105.2	95.3
263-0060	Poultry Improvement	4,542,000	3,013,000	13,000	2,439,000	18761.5	80.9
263-0064	Aquaculture Development	27,500,000	3,487,000	487,000	26,414,000	5423.8	757.4
263-0031	Agriculture Mechanization	40,000,000	21,000,000	12,300,000	39,999,000	325.2	190.5
263-0035	Canal Dredging Equipment	5,200,000	5,200,000	2,000,000	4,857,000	242.9	93.4
263-0070	Major Cereals	47,000,000	30,000,000	22,000,000	45,558,000	207.1	151.9
263-0079	Small Farmer Production	25,000,000	25,000,000	23,500,000	24,907,000	106.0	99.6
263-0095	Agricultural Cooperatve Marketing	5,000,000	5,000,000	1,000,000	1,489,000	148.9	29.8
263-0096	Small Scale Agricultural Activities	1,700,000	1,700,000	1,050,000	1,700,000	161.9	100.0
263-0040	Irrigation Pumps	8,000,000	---	---	8,000,000	---	---
263-0116	Agricultural Management Development	5,000,000	---	---	5,000,000	---	---
263-0142	Data Collection and Analysis	5,000,000	---	---	5,000,000	---	---
Grant Totals		203,609,000	120,554,000	85,464,000	188,686,000	220.8	156.5
AID Agricultural Projects Totals		$357,884,000	$260,312,000	$169,222,000	$296,127,000	175.0	113.8

SOURCE: Agency for International Development, Office of Financial Management.

APPENDIX V

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

THE INSPECTOR GENERAL

JAN 29 1981

Mr. J. K. Fasick
Director, International Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

Thank you for the opportunity of providing comments on the draft report of the General Accounting Office titled "U.S. Agricultural Assistance to Egypt: Little Progress After Five Years" (ID-81-19). We hope the attached Agency comments and the additional information presented will be helpful in preparing the final report. If you or members of your staff should have any questions or wish to discuss any of the matters covered in our response, please let me know.

Sincerely yours,

Herbert L. Beckington
Inspector General

Attachment

GAO note: Draft report page numbers referred to in appendixes V through VIII have been changed to correspond with pages in the final report.

APPENDIX V

January 28, 1981

COMMENTS OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT

ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT TITLED

"U.S. AGRICULTURAL ASSISTANCE TO EGYPT: LITTLE PROGRESS AFTER FIVE YEARS"

We appreciate the opportunity provided the Agency for International Development (A.I.D.) to review and comment on the draft of the proposed report titled, "U.S. Agricultural Assistance to Egypt: Little Progress After Five Years." We believe the data and other factual material presented in the draft are generally accurate. We are also in general agreement with the General Accounting Office's (GAO) findings and recommendations with regard to project implementation, per se. We wish to note here, however, that many of the implementation problems recorded in the report are neither new nor specific to Egypt. Rather, they are generic in nature and tend to be inherent to the development process. Both in Egypt and throughout the Agency as a whole efforts are constantly underway to better anticipate, alleviate and minimize the effects of these inherent problem areas. See, for example, A.I.D.'s response of April 22, 1980 to the GAO's draft report titled, "AID Slow in Dealing with Project Planning and Implementation Problems," ID-80-33, issued July 15, 1980, and our response of September 16, 1980 to the final report. These two responses discuss several recent Agency initiatives for improving project planning and implementation. Further comment is also included later in this response with regard to project implementation.

While we are in general agreement with the GAO's recommendations on project implementation, we have substantial reservations and substantive disagreements with the discussion and recommendations in the report which relate to program content and agricultural policies. These concerns include the report's introduction and the implied objectives of the A.I.D. agricultural program contained therein, and the discussions and recommendations relating to extension, agricultural policy environment and agricultural pricing, and the "New Lands dilemma." Our comments below address these concerns.

Report Introduction - We find the report's introduction misleading, particularly to the reader who may not be familiar with the agricultural setting in Egypt. The report's heading is "U.S. Agricultural Assistance to Egypt: Little Progress After Five Years." In addition, the opening paragraph states: "Since 1975 A.I.D. has committed more than $352 million to projects aimed at increasing food and agricultural production in Egypt ... the impact ... on the Egyptian farmer and the economy has thus far been negligible." While actual program impact at this point is relatively small, the inference of these remarks is that United States assistance was intend to, and could have had, a major effect in the first 5 years but has failed to do so. This is not the case.

United States assistance was resumed at a time when growth in the agricultural sector was minimal but productivity relatively high. Yields in Egypt for most important crops are some of the highest in the world. Under these circumstances A.I.D. concluded that while dramatic short-term production increases in the sector were unlikely, significant gains in productivity could be realized over a period of time through a series of technology development efforts, as well as changed market conditions. Before technology could be applied, however, more analysis was needed of farmer practices and agronomic considerations such as water use, cropping patterns, the credit and marketing systems, etc.

The first A.I.D. projects, therefore, were deliberately structured to develop technology packages which when completed and tested could be applied on a broader scale. These projects were in the main "first phase" or "testing" efforts and it was assumed that A.I.D., the Government of Egypt (GOE) or other donors would later fund greatly expanded programs of applied technology. Thus, for example, the Water Use and Management project will serve in large part as the basis for an expanded effort in irrigation; and the Rice and Major Cereals projects will likely result in a broader effort perhaps in the area of agricultural inputs. These "second stage" or "extending" efforts we expect will have major impact on Egyptian agriculture. In contrast, initial project efforts are by design research-oriented and modest in scale. Therefore, even if all of A.I.D.'s agricultural projects were on schedule (which they are not), we would not expect to have had major impact on Egyptian agriculture at this time.

Further with regard to the introduction, we believe the juxtaposition of the first 2 sentences may mislead the reader as to the purpose of our agriculture program in Egypt. Having noted in the first sentence that food consumption in Egypt is rising faster than food production the reader may assume that the A.I.D. agriculture program discussed in the second sentence has as its objective reversing this trend. As the report correctly notes later on page 9 , "A.I.D. has encouraged adoption of a self-support policy, that is a policy of increasing agricultural and other exports in line with comparative advantage in order to cover the costs of agricultural imports." Thus, while we believe that significant production gains are realizable in Egyptian agriculture, the need for food imports is likely to continue and to increase, particularly for cereals and foodgrains. The financing of such imports would be from

agricultural, industrial, mineral and other exports. In this context, the opening statement, while correct, sets self-sufficiency in food production for Egyptian agriculture as the purpose of A.I.D.'s assistance program, an objective we neither endorse nor believe feasible.

A.I.D.'s Role in Extension - The report recommends that A.I.D.'s agricultural strategy in Egypt be revamped "to include a concentrated organizational effort to develop a method for the effective transfer of technology to the Egyptian farmer." We wish to make several points on extension in Egypt:

1. The fact that agriculture productivity is already high in Egypt and the quality of its formal extension service is relatively low suggests that Egypt benefits from a fairly well-developed informal extension service. Such an informal system is in fact known to exist in Egypt. It consists of the cooperative/agricultural credit institutions, progressive farmers, progressive landlords, local agri-business enterprises, school teachers, local governments, and some radio and newspaper communications on farming. The effectiveness of this informal system may well be enhanced by the geographical configuration of Egypt's productive lands which facilitates the transmission of information.

Evidence of a deficient extension system, broadly defined, would exist if crop yields are sharply different among farms of similar land quality and/or farm yields are low compared to farm level demonstration plots set out by research stations. Field observations and data suggest that these circumstances do not exist in Egypt. Moreover, the results of the total extension services efforts, formal and informal -- functionally defined as the transfer and adoption of improved farming technology from centers of knowledge to farms -- has been to achieve farm yields in Egypt nearly equal to those realized with the highest type United States technology used in similar irrigated agriculture -- i.e., the Imperial Valley and other parts of California. Clearly this performance could not have been achieved without a reasonably effective information transfer mechanism, be it formal, informal or a combination thereof.

2. Extension in isolation will likely not produce significant results. Of equal if not greater importance to increasing agricultural productivity are the timely availability at reasonable prices of key inputs -- fertilizer, pesticides, etc., -- as well as the establishment of proper market signals.

3. As the GAO report has correctly pointed out, the effectiveness of the extension service is hampered, inter alia, by low salaries, mistrust on the part of the farmer, insufficient staff, lack of linkages between research and extension, and inadequate transportation and training. At least the first three of these factors are not likely to be reversed by technical assistance but require fundamental changes on the part of the Egyptian Government with respect to budget outlays, salary levels, etc. Nor can such changes be made in isolation. Inadequate salary levels, for

example, are a systemic problem which affects Government productivity generally in Egypt, and which must be resolved on a Government-wide basis.

4. The report refers to the existence of on-shelf technology which is not being disseminated. There are undoubtedly some items that could be extended now. Whether such technology existed in 1975/76 or whether it was developed since that time or stimulated by interaction with A.I.D.-funded researchers, is less certain. Also, the availability of technology does not automatically mean that it is suitable for the environment facing the Egyptian farmer. The acceptability of on-shelf technology is not established in many instances since on-farm research is virtually unknown.

All of these factors suggest the need for a cautious approach to extension on the part of A.I.D. Our approach has been not to seek a general improvement of the extension service until technologies could be offered that are better than those already in use by the farmer. With high yields already prevalent, inappropriate interventions could well do more harm than good. These technologies should begin to come on line in the not too distant future. There are specifically built into our technology packages research-extension linkages, through which extension personnel are being trained in the technologies concerned and are being assisted to carry this technology to farmers in specific areas. We believe technology-centered research/extension linkages, at this time, will be far more effective than broad support to the extension service without adequate training in specific technologies. We are aware, however, that over time there is going to be need to broaden the base of extension personnel capable of delivering the technologies involved -- whether this should come through expanded extension activities within the research projects underway or through broadened assistance to the extension service per se is something, we believe, that can be decided only as we progress further along the course already underway.

The Policy Environment - The report recommends that A.I.D. require "that a general understanding be reached and incorporated into future Commodity Import Program (CIP) agreements thereby outlining GOE plans to provide adequate incentives to farmers and addressing other economic policy concerns." As the report has noted earlier, our approach to policy reform has emphasized the definition and analysis of critical issues in order to help Egyptian leadership better deal with policy rather than to force policy decisions through conditionality. We continue to favor this approach and believe that proposed by the GAO would likely prove counter-productive. We base this view on several considerations: First, the price structure within the agricultural sector is sufficiently complex and the ramifications of possible price changes sufficiently unclear to argue against the establishment of a rigid time schedule for change until more is known about the prospective results. Second, we are persuaded that most policymakers in Egypt are aware of the need for increases in the prices paid to farmers but favor a cautious approach for the reasons cited above. Third, the issues associated with

price increases through the economy remain of extremely sensitive political concern to Egyptian leadership. While United States assistance in analyzing problems has generally been welcomed, the Egyptian Government would greatly resent any effort on the part of the United States to conditions or even to create the appearance of conditionality, being attached to assistance. We do plan, however, to continue the provision calling for continued economic dialogue in the Fiscal Year 1981 CIP agreement. We would not, however, favor the establishment of more specific and formal mechanisms than this.

We would also like to offer some observations with respect to agricultural pricing, per se. The first is with regard to the statement on page 34 of the draft report that "on the basic issue of agricultural pricing, no significant progress has been achieved." While this statement is true in its broadest context (i.e., farm-gate prices on major crops remain subject to Government determination rather than market forces), it is incorrect in its implication that there have been no changes in farm-gate prices on specific crops since the resumption of A.I.D. assistance. Without necessarily suggesting any A.I.D. influence on farm-gate price determinations, we do wish to note that these prices have steadily risen. For example, in 1978, significant price increases were decreed for wheat (14%), rice (18.5%) and dry beans (27%). In 1979, the Government increased the price paid to farmers for cotton by 29% and for lentils by 40%. Notable increases in 1980 included sugar cane and sesame (30% each), fava beans 25% and lentils (a further 14%). The GAO may wish to amend its draft report in this regard to avoid any misinterpretations.

The second is with relation to the linkage (or lack thereof) between food imports and domestic farm-gate prices. In effect, the Government of Egypt has established two parallel price systems. The first is essentially a set of food prices designed to achieve certain social objectives. Food enters this system from both imported and domestic sources. Consumption is a determinant of the retail prices set by the Government rather than of the imported or farm-gate prices of the commodities traded. While these two sources of supply are linked through the total economy they do not compete for the market in the traditional sense. This is due to the second of the two parallel price systems -- a set of local farm prices designed to achieve some set of farm income and production levels. Egyptian farmers in reality face a market isolated from world prices for both inputs and outputs. The determination as to whether this set of prices is an effective incentive to production is made not by equating these domestic prices to the cost of imports, but rather by measuring whether production intensive technology is actually used and whether expected resultant high yields are being achieved.

In Egypt high yielding varieties of wheat, rice and cotton are universally planted, high levels of plant protection material are used on crops needing these materials and high (but not optimum) levels of fertilizer are used on all crops. High yields result. The implication of the report that no incentives to production exist is overstated. Farmers do

pay implicit taxes, but there is no particular reason why they shouldn't as long as the overall incentive structure with its mix of taxes, subsidies and prices result in high land productivity.

All of the above is not to say that the present incentive and pricing structure is optimal from an agricultural growth perspective. Various studies show that production gains are possible from raising farm prices for inputs and outputs. Indications are that pricing both inputs and outputs at recently prevailing international price would result in more cotton and horticultural crops at the expense of wheat and meat/milk production. Accordingly even more wheat would need to be imported. While the economy would be in a better position to pay for such wheat the real financial ability of the Government to do so would depend upon income distribution policy.

Since the GOE is aware that more total income could be generated from the agriculture sector through a higher degree of crop specialization, and alternative price policies, one can only assume they have assigned some risk factor to initiation of major changes and that in their view the existing system is serving them reasonably well.

New Lands - The discussion of New Lands suggests that A.I.D. policies and programs are at variance with the priorities of the Egyptian Government. While there is keen interest in New Lands in the GOE, and at the highest level, the language in the draft report overstates and misrepresents the GOE position. For example, Egypt's "Development Strategy-Economic Management and Growth Objectives 1980-1984," dated November 1979, states in part as follows:

> "Investments in agriculture are being concentrated in areas which are capable of providing higher yields within a short time lag. Raising yields from presently cultivated lands as well as the economic exploitation of already reclaimed lands represent the thrust of the agricultural growth strategy." This policy statement goes on to note that Egypt also, "... will have to identify viable reclamation projects in order to absorb some of the increase in population and to provide gainful employment opportunities in the agriculture sector. It is recognized that vast reclamation projects are excessively costly and at best require lengthy gestation periods." Finally, it concludes that, "Ventures in the New Valley will need to be fully appraised before any major investment will be allocated."

This GOE statement presents a different, and more balanced, picture of Government investment priorities and attitudes towards New Lands than that contained in the draft report. We also believe that A.I.D. project investments and approaches are generally consistent with those of the Government of Egypt as stated in the cited policy document.

Project Implementation - As indicated above we are in general agreement with GAO's major recommendations on project implementation. As also indicated many of these problem areas are ones with which the Agency has

been grappling over time and throughout the developing countries. With specific reference to the A.I.D. Mission in Egypt, actions had been initiated in most of the areas suggested by the GAO prior to the audit. The Mission has, for example, worked out uniform contracting procedures for use by GOE entities in negotiating host country contracts with U.S. firms. These procedures are helping to reduce contracting delays such as those noted by GAO that affected earlier contracting transactions under our Egypt program. The Mission is also establishing standards for project monitoring, although it should be recognized requirements will vary considerably among projects. The Mission has also stepped up training for project officers on implementation.

Such initiatives by the Mission parallel actions taken by the Agency generally. With regard to implementation training, for example, the Agency has developed and is pilot testing a new course for project officers. The Near East Bureau of A.I.D. last fall revised and reissued its Handbook for Project Managers. Aware of certain problems affecting the performance of Title XII contractors, A.I.D. and the Board for International Food and Agricultural Development have established a working group on improving university support of A.I.D. programs.

We are nevertheless fully aware, as suggested by the GAO, that continuous attention is required by A.I.D. in these areas.

In concluding our remarks on implementation we wish to underscore the GAO's report that 68.3 percent of the cumulative expenditures under our agricultural projects in Egypt occured during the last fiscal year. While the initiation of our agricultural projects lagged, and in some cases significantly behind our expectations, we also believe that this expenditure record in FY 1980 is evidence that implementation problems are being addressed and are being overcome. While the delays in implementation are regretable, such delays will not necessarily affect the full achievement of the objectives of the individual projects. Certainly these project delays do not represent project failures, as suggested by the GAO on page 37 of its report.

In view of the clarifications and corrections elaborated above we also find the sub-title of the draft report to be misleading. We suggest the title of the report be changed to: U.S. Agricultural Assistance to Egypt: A Critical Examination After Five Years.

We hope the above comments will be helpful to you in revising and finalizing the report. We are also attaching a brief list of factual corrections and supplemental comments for your consideration in finalizing the report.

Attachment: a/s

Data Corrections and Supplemental Comments

1. On page 1 the report states that ESF has provided $5.4 billion in economic assistance in Egypt. The total in ESF assistance is $4.2 billion. The total cited in the report includes $1.2 billion in PL-480 assistance.

2. Several references to implementation delays imply an expectation or norm that implementation, defined as having the contractor on board, should begin immediately following the signature of the Project Agreement. Page 37, for example, states that, "The majority of them started, or will start, more than 18 months after the A.I.D./GOE grant or loan agreements were signed." There are, of course, several actions which must take place following signature of agreements prior to the arrival of contract personnel. These include satisfaction by the GOE of conditions precedent stated in the Agreement, solicitation of expressions of interest/prequalification from potential suppliers and the appraisal/shortlisting of the same, issuance of detailed terms of reference for the required services, preparation of final proposals by shortlisted firms and the evaluation and ranking thereof, completion of contract negotiation between the GOE and the top ranked proposer, opening of Letters of Commitment/Credit, and contractor mobilization. While the time required to complete these steps will vary from project to project, an average of ten to fourteen months is reasonable. Thus the "delays" cited by GAO are overstated and misleading as to the real extent of implementation slippage.

3. We believe the last sentence of the first paragraph on page 27 would be more accurate and clearer to the reader if it were revised to read, "As a result, larger farmers and urban investors who dominate production of these uncontrolled crops, escape the implicit taxation on their agricultural output that is experienced by smaller farmers of controlled crops. (Added language underlined).

4. As previously discussed informally, we believe the IMF and World Bank might take exception to the characterization of their role in the report with regard to policy reforms. On page 27 we would suggest that the second paragraph be revised to substitute "discussing the need" for "pressing" in line 2 and "seek" for "press for" in line 4.

5. With regard to the economic dialogue provided for under the CIP Agreement as discussed on pages 27 and 28 of the report, it should be noted that the Agreement specifies that such a dialogue will take place "at least annually." Thus the letter and spirit of that provision has been met. The failure to convene the supplementary meetings, of course, resulted from the change in government in May, 1980, and the need for the new officials to get on top of their new responsibilities.

Moreover, the "CIP" economic dialogue is just one of many fora and occasions we utilize to discuss policy concerns. Other formal occasions include the negotiation of PL-480 self-help measures and the Egypt Consultative Group annual meeting. There are numerous less formal occasions. These include frequent meetings of the Mission Director with Deputy Prime Minister Meguid, meetings with other Ministers, meetings in the course of visits to the United States of senior GOE officials, and visits to Egypt by senior United States officials such as that of Under Secretary of State Richard Cooper in December, 1980, and Deputy A.I.D. Administrator Joseph Wheelerin January, 1981. Finally, many important economic policy issues are pursued within the context of individual projects. The draft report reflects a very limited picture of the totality of our economic dialogue with the GOE.

6. On page 32, the discussion of the automatic bakeries is not germane to the substance of the report. Further, the report's discussion of this transaction fails to review many important considerations which led to A.I.D.'s agreement to finance this transaction. For these reasons we believe this paragraph should be deleted from the final report.

APPENDIX VI

DEPARTMENT OF STATE

Washington, D.C. 20520

January 30, 1981

UNCLASSIFIED
MEMORANDUM

TO: M/COMP/EX - Mr. Quaid 2/2/81

FROM: NEA - Morris Draper MD

SUBJECT: NEA Comments on Draft GAO Report: US Agricultural Assistance to Egypt

NEA would appreciate your passing on our comments, outlined below, on the Government Accounting Office's draft report entitled US Agricultural Assistance to Egypt: Little Progress After Five Years to Thomas R. Brogan, Deputy Associate Director at GAO.

At the outset, we commend the preparers of this report for a very extensive and impressive effort to deal with a complex and important subject. In general, we concur with the overall findings, and we support two of the three principal recommendations that emerge from those findings. Our comments are intended constructively to amplify and clarify some omissions and apparent misunderstandings in the draft and to urge caution on the proposed recommendation that the USG seek a formal understanding with the Egyptian Government to increase the price of agricultural crops. To facilitate your review, our comments are in the same serial order as the chapter headings in the report.

Chapter I: Introduction.

The project implementation problems which are a principal focus of this and the fourth chapter, are most appropriate for discussion by the Agency for International Development (AID). AID is forwarding its comments separately. We agree that project implementation has been slower than AID or State anticipated for a variety of reasons well-described in the report. These will be further articulated in AID's response. We wish to note, however, that disbursement rates for both project and commodity aid are increasing; AID anticipates that disbursements should slightly surpass the rate of new commitments in FY 1981.

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The initial sentence of the introduction states that Egypt's food consumption far exceeds the present production ability of the country's farmers. This is somewhat misleading since it implies that Egypt might be capable of complete self-sufficiency in domestic food production. It is the consensus of informed observers that Egypt is not likely to be completely self-sufficient in food projection for the foreseeable future. Indeed, the Egyptians themselves distinguish between "food security"--meaning an adequate supply of domestically produced and imported food at reasonable prices--and self-sufficiency in domestic production. The latter is not the Government's policy. To take but one example, Egypt has not been a net exporter of food grains since shortly after the Second World War. No one argues that Egypt should seek to return to self-sufficiency in grain production; rather, there must be a simultaneous improvement in productivity both in agriculture and export-oriented inudstries to ensure that future foreign exchange income will suffice to cover the cost of those food imports that will continue to be needed.

On page 3, the second paragraph on PL-480 should be amended to note that our PL-480 shipments help to fulfill a primary need, since Egypt imports 3.5 million tons of wheat annually over and above our PL-480 aid. The Government pays world market prices for most of this amount.

Chapter 2: AID Focuses on Technology but Neglects Extension.

In the first paragraph on page 9, GAO seems to endorse 5% annual increase in domestic agricultural production as a goal to avoid increases in already massive food imports. Knowledgeable agronomists and agricultural experts have thus far been very cautious about specifying a target growth rate of this sort. The consensus of opinion seems to be that a 4% annual growth rate would be an impressive achievement. At the just-concluded international

aid donors' meeting at Aswan, the Egyptian Deputy Prime Minister for the Economy stated that Egypt's target growth rate for food production in the 1981-85 Five-Year Plan is expected to remain at about 3.6%. This is an improvement over the rate of growth that Egypt was able to achieve prior to 1979.

The report correctly notes that the GOE will continue to attach high priority to the reclamation of new agricultural lands, but the target of reclaiming approximately 2.3 million feddans by the year 2000 (page 16) is overstated. From time to time, President Sadat has spoken of reclaiming up to one million acres in coming years, but Egyptian officials are fully aware of the high costs involved in such efforts.

We note that the draft report makes no mention of a second important study of new lands reclamation that was carried out by an experienced Israeli company, Tahal Engineering, in 1979 and early 1980. Using agricultural production targets achieved in Israel a decade ago, this report came up with somewhat more favorable conclusions on the viability of carefully selected projects than the AID-financed study by Pacific Consultants. The last word on the issue of new lands remains to be heard and another potentially major constraint--the availability of Nile River water for irrigation of large-scale projects--needs to be carefully evaluated. We are pleased to note that AID will continue to explore this important policy area.

We support the report's comments on the importance of developing effective means to extend new agricultural knowledge and technology to Egyptian farmers, who are already renowned for their high productivity. While extension ought not to be a goal in itself, it seems that more could be done. The draft report makes no reference to a rather extensive body of agricultural research information that has been generated in recent years by the use of Special Foreign Currency Program (SFCP) funds administered by the Agricultural Research Service of the Department of Agriculture. According to a report prepared by

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Embassy Cairo in June, 1979, nine million Egyptian pounds (one LE equals US $1.43) has been committed to 85 separate agricultural research studies since 1973. While not all of these have been completed, it is not clear what efforts have been made to disseminate this research to Egyptian end-users. Since the Egyptian Government has requested continuation of USG financial support for further scientific and technological studies in the fields of agriculture, health and population, it seems important to explore means to ensure the timely dissemination of the results of such studies.

Chapter 3: Progress Slow in Policy Reform.

This chapter correctly emphasizes the importance and political sensitivity of agricultural and food pricing policies in Egypt. The report, however, errs in stating that agricultural prices only began to increase in 1979 (p. 27). Wheat, rice and bean prices were raised in 1978, cotton and lentils prices in 1979, and sugar cane, sesame, bean and lentils prices were hiked again in 1980. The Government has announced its intention to authorize further increased in 1981. The problem has been that these price increases have not been sufficient to keep up with rapidly escalating prices of comparable commodities in world markets. While Egyptian policy-makers are fully aware that higher prices stimulate production, cropping area remains limited and the Government remains deeply concerned about protecting consumers unaccustomed to inflation from higher food prices. The Government is actively exploring alternate means to protect the poor and those on fixed incomes by a better directed system of subsidies while permitting further freeing up of the domestic price structure. A notable achievement in 1980 was the doubling of the price of the cheapest loaf of subsidized bread, a policy that was initiated by the previous Cabinet and completed by the new Government organized on May 14. This was not an easy step, and it required careful handling; but it was done slowly and successfully.

The report states that available mechanisms to facilitate policy dialogues with senior Egyptian officials are not fully utilized (pp. 29-30). This clearly is overstated. This conclusion seems to be based on the fact that a single meeting was held in the spring of 1980 between the then Prime Minister and other Egyptian officials and senior Embassy and AID Mission officials in Cairo. There is no mention, however, of the complete reorganization of the Cabinet and the structure of the economic ministries that took place shortly after that meeting. This reorganization did contribute to slowing some of the follow-on steps that had been suggested in the initial meeting; but it is misleading to imply that there is not an ongoing dialogue with top-level GOE officials on matters of economic policy. This dialogue is operative at many levels. Since the new Cabinet took office, there have been a number of meetings between senior Embassy and AID officials, the Deputy Prime Minister for the Economy and other key officials in the economic ministries. The Deputy Prime Minister for the Economy visited Washington in December, 1980, and met with top-level AID officials and officials of the Department of State. He also met with the Secretary of the Treasury and the Chairman of the Federal Reserve Bank. In mid-December, the Undersecretary of State for Economic Affairs went to Egypt and met with Preisdent Sadat and a number of other top-level officials specifically to discuss economic policy matters. We are fully confident that both our governments are committed to continuing this dialogue.

GAO expresses dissatisfaction with the pace of economic reform in Egypt and calls for conclusion of a formal understanding with the GOE to lay out plans to increase agricultural crop prices and address other economic policy concerns. In our view, the GOE is unlikely to agree to strict conditionality of this nature. Attempts to impose firm conditions for early implementation of politically sensitive economic reform measures risk unforeseen consequences and must be treated with utmost caution. Additionally, the complex linkages between the costs and prices of both agricultural inputs and outputs argue for

very careful analysis of the overall impact of major price changes in advance of implementation. It can be argued that the GOE has already been testing the water in this area by the price increases for wheat and cotton that were authorized in 1978 and 1979. In both cases, production increased although further analysis may be needed before it can be determined exactly how much of the increase is attributable to the price hike, per se. Nevertheless, the favorable outcome of these two "experiments" should provide further incentives for additional measured price increases in the future.

Chapter 4: Delays in Project Implementation.

The Department of State is keenly interested in and fully supportive of AID's continuing efforts to improve the pace of project implementation in Egypt. Since a number of issues raised by GAO in this chapter relate to AID internal operating procedures, we consider them more appropriate for comment by AID, as previously noted.

In conclusion, we deeply appreciate this opportunity to comment on this draft report. We stand ready to respond to additional questions that may arise in preparation of the final version.

APPENDIX VII

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January 14, 1981

Samuel W. Bowlin
Associate Director
United State General Accounting Office
Washington, D. C. 20548

Dear Mr. Bowlin,

Thank you very much for sending me copies of portions of the draft GAO report on Agricultural Assistance to Egypt (471880). In general, the observations about the ADS/Egypt Project, for which the University of California, Davis, is the contractor, are correct and germain. There are a few points of fact which are wrong, or inferences which are dubious, so that I call them to your attention.

1. On p. 15, re the Egyptian Extension service: The first UC-Davis reconnaissance team went to Egypt in October, 1976; the UC Extension (and Community Development) team went there in June of 1979. This delay was not attributable to dilatory behavior on the part of the University. During the 32-month hiatus, the Project leadership, Egyptian as well as Californian, agreed that priority attention be given to horticultural and economic studies. Extension was deliberately put on the back burner until after the final contract was signed in January, 1979.

The Extension team consisted of five UC faculty persons who, apart from travel time, were in Egypt from 2 - 5 1/2 weeks each. The average length of stay was 3.7 weeks, not 2 weeks as stated in the draft report.

The Extension team's draft report was recognized by the Project's administration as inadequate. The team enumerated the deficienies of the Extension Service in terms similar to those on p. 13 of the GAO's draft report, but the team simply could not reach a consensus on a proposal for reform or repair. The Egyptian membership of the Project's Policy-Planning Board has been asked (1) if they want another study by another UC team, (2) if they would like to appoint an Egyptian team to reply to the report or to prepare alternative proposals, or (3) if they want to drop the matter. Their actions to-date suggest that (3) is the preferred option.

In the meantime, the Project's administration has determined to include Egyptian Extension personnel in each of its reseach activities of which there are now more than two dozen. (Cf., p. 15.)

The Extension team's report, albeit a bad one, was only a draft and was never intended, in its present form, for persons outside the Project. The

Project's administrators are very curious to know how the AID mission in Cairo obtained a copy.

2. On p. 46: The ADS/Egypt Project was indeed very slow getting organized and implementing its activities. But it is misleading to use 1976 as the date of UC, Davis association with the Project. The first UC reconnaissance team visited Cairo in October, 1976. The interim, project development contract was signed in October, 1977. The final contract was signed in January, 1979. The period of negotiation was 15 months.

When accounting for this long period of negotiation and development, there is enough fault to go around, to AID Cairo, to MOA/GOE, and to the University of California.

3. It is correct to say, as on p. 46, that, "The project's broad objective was to create an institutional capability, within the Egyptian Ministry of Agriculture and related agencies, to plan and conduct a broad range of work in agricultural development." The succeeding sentence is not correct. There was no consensus that, "...Cal/Davis would generate ideas for new projects and would be the corner stone of AID's agricultural assistance program in Egypt." (Underlining added.)

The range of work, planned and undertaken, has been mostly collaborative research among UC and Egyptian scientists. "Collaborative research" is the project's vehicle for "learning by doing" in order to enhance individual and institutional capabilities. The Project has also generated new project papers. One on the Agricultural Statistics Reporting Service has been accepted by both MOA and AID and is now operational--but with a different contractor as was recommended. Other project papers have been written, sent to Egypt, and await Egyptian reaction. They include livestock health and nutrition, agricultural libraries, and more recently, integrated pest management. The Mission (apparently) perceived the project and the University as a surrogate agriculture section for the Mission. Such a role would be unpalatable to the faculty, was never accepted by the University, and was a wholly unrealistic expectation on the part of Mission personnel.

4. On p. 47, in re the duration of visits to Egypt by UC faculty, the planners/negotiators of the ADS Egypt project fully intended that most UC collaborators would visit Egypt briefly, but frequently. The reasons are several: (a) The very best scientists and scholars are committed to their on-going research programs. It is unrealistic to expect that the better people will abandon their laboratories, their experiments, their students, and other work in favor of unknown and unspecified alternatives in Egypt. (b) Conversely, persons who are readily available for long-term appointment in Egypt, on short notice, are likely to be retired, inactive, looking for a vacation or a sinecure, or all of those. Better to have good people for short periods than mediocre people for a long time. (c) The cost of supporting an American scientist with his family in Egypt for one year exceeds $100,000. The project can send a large number of able people as "commuters" for much less than that.

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In the event, it became clear that it was important to increase, as the GAO draft report states, the number of persons physically present in Egypt on long-term assignment. We now have a full-time, long-term staff of four plus supporting personnel. But events have also vindicated the planners judgment. For example, Dr. William Sims, a world-known expert on tomatoes and a former president of the U. S. Horticulture Society, is available to the project for short periods only. He has visited Egypt three times during the last year, never longer than 15 days. He has been remarkably effective as the leader of the tomato research activity. He is honored and respected; when he talks the Egyptians listen and go to work. The tomato research activity, with the continuous effort of Egyptian scientists seems destined to make a major contribution to agricultural development. Sims has learned to appreciate Egyptian problems and now has a professional commitment to Egypt. He will make a minimum of three additional visits a year to Cairo, which is quite enough to keep the research activity going.

This experience has been replicated in most of the Project's horticulture activities.

I should add that during November, December, and January, there were, or will be, 36 UC faculty physically present in Egypt under project auspices. There is a large and continuing UCD presence.

There is an old cliche in technical assistance circles that a two-to-four year appointment to an LDC is optimal and that anything less than six months is unproductive. ADS/Egypt has demonstrated that the cliche is only a cliche. The statements attributed to "several officials in Cairo," that a month is the minimum required time to make contribution, is not true.

5. On pp 47 and 49. The current Project Co-Director is a full-time, tenured member of the UC, Davis faculty with prior experience in Egypt. He is a former Dean of the Law School. He is not retired. His Associate Director for Agricultural Science is a tenured specialist in Vegetable Crops. The Associate Director for Economics and Social Science is a former non-tenured employee of the University. Only the "Academic program administrator" was recruited from outside the University; there were no people available who met the special requirements for his position.

I am forwarding copies of the GAO draft report to the Cairo office, and to the persons who were involved on the UC side in the early development of the ADS/Egypt Project. They may have additional insights or observations.

I appreciate the opportunity to comment, and if my comments have raised any questions there, I would be most pleased to respond.

Very truly yours,

Frank C. Child
Coordinator

APPENDIX VIII

CONSORTIUM FOR INTERNATIONAL DEVELOPMENT

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January 22, 1981

Mr. Samuel W. Bowlin
Associate Director
United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Bowlin:

Enclosed is the response from the Consortium for International Development to the proposed report to Congress titled "U.S. Agricultural Assistance to Egypt: Little Progress after Five Years". We hope you will find it helpful.

I sincerely wish we could have had more time to respond. Although your letter is dated December 23, 1980, it arrived in CID's mailbox the morning of January 9, 1981. We are at a loss to explain the delay.

We in CID are concerned about the many factual inaccuracies in the draft report. Many conclusions seem to be based on heresay or are preconceived notions not supported by data collection and analysis. I would welcome the opportunity to visit with you and share ideas on how studies and evaluations of this type could be improved. Wherever possible, we have attempted to provide factual data which will make it possible to improve the report.

If additional information is needed, we would be happy to cooperate and provide it.

Sincerely,

John L. Fischer
Executive Director

JLF/ect

Enclosure

RESPONSE FROM THE
CONSORTIUM FOR INTERNATIONAL DEVELOPMENT
TO DRAFT OF A PROPOSED REPORT ENTITLED
"U.S. AGRICULTURAL ASSISTANCE TO EGYPT -
LITTLE PROGRESS AFTER FIVE YEARS".
(471880)

The GAO Draft Report concentrates attention on two sets of problems. One set is concerned with the AID Mission to Egypt strategy for the development of the agricultural sector. Since this has been primarily AID's responsibility, CID elects to say little except that the two projects for which CID has contractual responsibility are well thought out, necessary parts of the development process. Major activities in both projects are necessary before an expanded extension effort can be expected to yield a satisfactory internal rate of return on the investment. There must be research results to disseminate before extension can succeed.

The second set of problems confronted in the Draft Report concerns specific projects. The balance of this report confronts specific statements and conclusions which refer to the two projects in which CID is involved.

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On page 14, the Draft Report states:

"Water Use & Management Project. This project, under implementation since May 1977, is entering its final--pilot/demonstration--phase. However, to date, at none of the project's three sites has contact been made with local extension agents and plans for disseminating the information have not yet been formulated. In fact, project staff responsible for developing these plans are uncertain as to how Egypt's extension system operates or even whether there are extension agents in the area of the project sites with whom they could work".

Reponse: Dr. Salaam from the Egyptian Agricultural Extension and Rural Development Research Institution is on the staff of the Egyptian Water Use & Management Project, and he has the responsibility to develop plans for dissemination of information to the farmers. He is thoroughly familiar with Egypt's extension system and how it operates, and plans have been developed. A Colorado State University faculty member, Dr. Layton, is the American counterpart working with Dr. Salaam. The enclosed position announcement describes in detail Dr. Layton's work. In addition, Dr. Lattimore is working specifically

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on methods for dissemination of information to the farmers. CID does not accept as factual the claim that staff responsible for extension activities in the project do not understand the system.

Water Use & Management project staff have worked very closely with extension in Kafr el Sheikh and currently have a former Egyptian extension person, Mr. Abel Fatlab el Masry, working on the project. The statements in the Draft Report that ". . .to date, at none of the project's three sites has contact been made with local extension agents and plans for disseminating the information have not been forumulated" are erroneous and CID rejects the implications. We feel that the extension effort has been adequate, and good progress has been made in getting information to the pilot groups of farmers. Additional details can be provided.

Page 16 of the Draft Report says:

"Major Cereals. . .The project is intended to help the GOE establish a research/extension capability in cereal grains and stimulate an increase in production of those grains. According to the project plans, a key element will be the establishment of a pilot extension program with special linkages to the research effort. Trained village extension agents are to be placed in each village in four selected districts to carry out the

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extension program. At the time of our review, 67 extension agents had been selected to work on this project".

Response: First, CID calls attention to the original contract which calls for the establishment of an integrated program of research and extension on a regional basis for four major cereals. The project emphasizes the regional approach and more than cereal grains are involved. Forages and grain legumes are currently being added in an amendment to the contract.

Second, consistent with project plans and contract stipulations, the 67 extension personnel are not village agents as the Draft Report says, but, rather, are district agronomists. The project plans call for a special extension linkage with research which will involve an extension team leader at each of the four regional extension research centers, 67 district agronomists (one for each of the districts in the governates covered by the four regional centers), and a national program leader in extension. What is called for in the contract and is, in fact, being done, is somewhat different from what the Draft Report implies is to be done.

Communication has been initiated with the University of California to integrate the extension activities of the rice project with those of the major cereals project. A working relationship has already been initiated and will continue to grow between the

Water Use & Management project and Major Cereals project.

Page 19 of the Draft Report say:

"Of the four projects with extension components, in September 1980 only the Major Cereals project had been under implementation for longer than 6 months. In this project, we identified a number of problems which could affect its ultimate success. --Egyptian scientists associated with the project feel that the staff fielded by U.S. contractor does not have the expertise required to adequately address the project's extension component, which they feel is critical to the project's success. The Egyptian project co-director explained that although he was dissatisfied with the contractor's extension staff, he felt compelled to accept it. AID's project officer also expressed similar reservations".

Response: The Egyptian Co-director was not positive towards the CID extension specialist when he was first assigned to Egypt; however, the Egyptian Co-director has recently expressed great satisfaction with the program which the CID extension specialist has developed. This expression of satisfaction was recently shared with the AID agricultural officer. If the GAO study were conducted today, CID believes the response would be different.

The Egyptian Co-director's background is entirely in research and many of his fellow Egyptian workers have charged he has an anti-extension bias. CID feels the entire spectrum of viewpoints should have been reported.

The Egyptian Co-director has had many problems with all extension personnel in the project, both American and Egyptian. He has at one time or another expressed open hostilities against all of the Egyptian extension staff.

The American staff members who are assigned extension responsibilities were instructed to take approximately two months to become adjusted to Egypt and learn about the extension system. This is apparently the period to which the Draft Report refers. We feel taking two months to get oriented was wise. There are many AID-funded projects in the world where moving too fast early in the project's life has led to erroneous decisions. We have now received excellent feedback regarding the CID extension adviser's performance from our Chief of Party and AID representatives, and the program he has initiated with the extension agents is moving forward.

The Egyptian Co-director has requested CID to provide an extension administrator who can evaluate the existing extension system and determine how the extension function should be related to the other parts of the Cereals project. CID has recognized the need for at least two extension specialists for the project and has included the

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extension administrator position in the staffing of the project addition.

With regard to the statement in the Draft Report that some Egyptian scientists feel the staff fielded by CID lack the expertise needed, CID's personnel with vast overseas experience have noted that there will always be some host country scientists who feel animosity toward expatriate scientists provided by aid donor agencies. The very presence of the expatriates is a threat to them. CID is ready to review the credentials of all Egypt staff on an individual-by-individual basis, and we are prepared to replace any found wanting in an evaluation by a committee of peers which shall include Egyptian scientists who have published extensively in internationally-recognized refereed journals.

Page 19 of the Draft Report says:

"--As of early October 1980, the 67 extension agents chosen to work on the project had not received their salary incentives. The Egyptian project co-director said the incentives had been withheld because he was dissatisfied with their performance. A number of the extension agents were stationed in Cairo and refused to work in the project areas away from Cairo. However, the co-director provided by the U.S. contractor

said that he felt the extension agents were an extremely bright and competent group, but that morale had become low and a number had threatened to quit. We were later told that the Egyptian co-director fired over one-third of the original 67 agents and replaced them with individuals recommended by local extension authorities. The agents dismissed had already received 2 months of training".

Response: Salary increases for the 67 district agronomists were approved by the proper Egyptian authorities effective (retroactive) April 1, 1980.

One-third of the group was not "fired" by the Egyptian Co-director as the Draft Report states. Less than fifteen resigned because they were asked to leave Cairo and go to their respective districts. Most of them refused to move because adequate housing was not available in their respective districts.

The Egyptian Co-director attempted to unilaterally dismiss two Egyptian district agronomists. When the CID American Co-director became aware of the situation, their cases were reviewed and the action was reversed. The initial action by the Egyptian Co-director was not in accordance with Egyptian procedures or those agreed upon in project documents.

One of the reasons for perceived poor performance of extension district agronomists by the Egyptian Co-director is the lack of guidance from the Egyptian Co-director himself and the national extension program leader. At the time of the GAO study, the Egyptian Co-director and the national extension program leader had provided no orientation or any training or guidance to the 67 district agronomists as to how they were to perform their functions and roles. The CID extension staff with help from Egyptian counterparts is now doing the job -- training the Egyptian extension staff so they will become effective.

Page 20 of the Draft Report states:

"Although AID has long recognized that a problem existed, it has not adequately attacked the underlying factors which have created the problem: (1) lack of linkages between research and extension, (2) low salaries, (3) inadequate transportation and training, (4) mistrust on the part of farmers because of the regulatory functions associated with extension, and (5) insufficient staff".

Response: The five points are well taken. All five are being addressed in the Major Cereals project and four of the five in the Egyptian Water Use & Management project. However, if item #5 is not a cliche', it borders on being one and, as such, is misleading. If the Ministry of Agriculture is to improve its effectiveness, perhaps it has too many rather than not enough extension staff.

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Many of the current personnel are not properly trained, are not properly supported, and have insufficient grasp of the technology which could increase productivity. Utilizing fewer but better qualified personnel may be a wiser strategy for improving the extension program of Egypt than adding personnel.

The Draft Report seems to assume that the only agency doing extension work in Egypt is the Ministry of Agriculture. There was no review or at least no reference in the Draft Report to the program of the Ministry of Irrigation. The Egypt Use & Management project is being conducted by the Water Resource Center, Ministry of Irrigation. The Ministry of Irrigation is establishing its own extension arm. Project cooperation with the Ministry of Agriculture extension program is but one part of the total program.

Page 45 of the Draft Report deals with Difficulties in Recruiting Project Staff. The Draft Report alludes to "all" universities' problems in recruiting competent staff for long-term assignments. The Report then says:

> "These problems have resulted in substantial delays in project implementation and allegations of low quality performance by some of the technicians provided by these contractors. A number of factors have contributed to the problems. Some, such as tax problems and the sometimes onerous living conditions in developing countries, are not unique to universities. However, the constraints posed

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by university tenure and promotion policies as well as their seemingly inadequate commitment to overseas development work have played major roles in limiting staff availability".

Response: CID admits that staffing has been difficult; however the conclusion in the report that delays in staffing by the CID universities has caused the projects to lag behind schedule is rejected. The GAO investigator was apparently misinformed. There have been no significant delays in staffing.

The contract for the Egypt Major Cereals project was signed January 2, 1980. Timing of staff arrival was specified in Appendix A to the contract. Specifically, the contract called for four personnel to arrive as soon as possible after the contract was signed. The four arrived on March 2, 1980. The contract further stipulated the remaining six were to "arrive and be in place over a one-year period". Of the six, three arrived in July 1980 and one in September 1980. Two were nominated in December, and were enroute to Egypt on or within a few days of the one-year deadline. An amendment to the contract calling for an additonal person (number eleven) was signed April 13, 1980. He arrived July 5, 1980. The statement in the Draft Report that "These problems have resulted in substantial delays" is not true for the Cereals project, and CID does not accept the criticism.

The AID contract officer's letter notifying CID the Water Use & Management contract was signed is dated May 20, 1977. The contract

does not specify deadlines for assignment of team members, therefore, "prudent action" should be the rule applied. The first team members arrived in Egypt in October and the full team was on-board in January 1978. Ordinarily, AID does not find contractors -- university or otherwise -- who can field large teams immediately after contracts are signed, nor should it be expected. CID contends that the team arrived in a timely manner -- well within normal expectations.

If the Water Use & Management team members had arrived much earlier, it would have been wasteful. Orders for the equipment vital to operations could be placed only after the contract was signed. As it was, many of the personnel arrived well ahead of the equipment needed to implement their programs.

On page 48 of the Draft Report, it is stated the Water Use & Management project was ". . .about one year behind the original completion date". CID calls attention to the fact that the Water Use & Management project was developed in early 1976, but the grant agreement with the Government of Egypt was not signed until September 1976, and the contract with CID was not signed until late May 1977. This delay of 16 months was beyond the control of CID. If the project was no more than a year behind schedule in October 1980, CID, the contractor, must be doing very well. CID does not agree that the project is behind schedule for any reason within its power.

With regard to tenure and promotion policies mentioned here and later as constraints for faculty involvement, CID and its member universities do not deny they are sometimes troublesome, but they have not had many of the impacts stated and implied in the Draft Report. New Mexico State University has recognized tenure and promotion policies needed improvement, and it has recently developed a policy which gives staff equal credit for participating in international and domestic activities. Several other CID members have similar policies.

Page 48 of the Draft Report say:

"--an AID audit report issued in June 1980[1/], on the Water Use and Management Project contains a conclusion that the project's contractor--Consortium for International Development (CID)[2/]--had not fulfilled contract terms which stipulated the types and levels of permanent field staff and short-term field staff required. Resulting from this, the report pointed out that the project was behind schedule in several areas and may be the reason for divergent areas of activities pursued by CID under this project. The

1/Audit report on "Water Use and Management Project," 6-263-80-7, June 10, 1980, Area Auditor General/Egypt, AID.

2/Colorado State is the lead university in this project.

report noted the project was about 1 year behind the original planned completion date. While CID and AID officials in Cairo disagree with the report's conclusion, the AID project officer did note that CID did have difficulty recruiting qualified staff for certain positions. He attributed the problem in large part to the tenure system which does not reward overseas experience".

Response: CID and AID have disagreed with the conclusions of the referenced audit report (6-263-80-7), and CID restates its disagreement again for the record. If the project is one year behind schedule, CID is not to blame.

The Draft Report fails to adequately confront the major cause for the difficulty universities are facing in recruiting and assigning personnel overseas, namely, the deterioration in financial rewards permitted under AID's policies. The tax situation, plus limitations on incentives, combine to make it far less rewarding for university personnel to serve overseas than was the case in the 1960's. (A report by Dr. Boyd Wennergren, Utah State University, provides factual data proving the point.)

Page 48 of the Draft Report says:

"--CID, with New Mexico University as the lead university, signed a contract with GOE in January 1980 to assist in

implementing the Major Cereals project. However, as of early October 1980, it had been unable to fill 3 of the project's 11 positions in Egypt. Furthermore, several Egyptians associated with the project commented that CID was not making available to the project its most competent technicians. The Egyptian project co-director expressed particular concern that the staff sent over by CID would not be able to adequately address Egypt's extension problems".

Response: As indicated above, the staffing plan in the appendix to the contract and amendment #1 for the Major Cereals Project did not call for filling all positions at the beginning of the project, but rather over a period of one year after the contract was signed. At the time the field work for the Draft Report was being done (October 1980), the fact that three positions were not filled did not reflect inability to staff, but, rather, was consistent with contract provisions and a well thought out plan. Eight staff members were in Egypt and two were pending approval by Egyptian authorities. It should also be recognized that CID provided 20 man-months of TDY staff support for the project during 1980.

The ten personnel who were either in Egypt or proposed in October 1980 were as follows:

A. Tenured Staff

Boyce Williams	- NMSU
Keith Austin	- NMSU
Eugene Forerster	- Texas Tech

B. Staff on Tenure Track

Everett Everson	- NMSU
Virgil Smail	- NMSU

C. Faculty who had Tenure, but were not concerned with Tenure for their Project

Clark Harvey	- NMSU
Richard Marek	- NMSU

D. Staff not on Tenure Track

Norman Illsley	- CSU
Richard Foote	- NMSU
Cory Wengreen	- Utah State

All are top quality, well-qualified persons for the positions they occupy. Note the number who are tenured or on a tenure track and, for the record, CID points out that all were nominated before contract target dates, and all were in Egypt on or within a few days of contract-stipulated dates. The Draft Report statement that CID had been unable to fill three positions is misleading. The contract did not call for the positions to be filled.

Universities do sometimes have difficulty filling positions within a semester. In a number of instances, faculty members have expressed an interest and commitment to work on a proposed project only to be lost because of numerous delays in CID receiving the contract from AID. Faculty members have obligations for teaching,

advising, research projects and public service. No properly managed university has a pool of highly qualified faculty sitting idle who can be diverted to an AID contract at mid-semester and on a moment's notice.

Pages 48 and 49 of the Draft Report contains a section entitled "University Personnel System - a Major Barrier to Recruiting Staff". The section stresses that the university personnel system is a problem and then concludes:

> "These factors seem to support why there are few young tenure track faculty working on projects in Egypt. Most of the university-associated project people are either recent hires, retired, or about to retire. For example, none of the Cal/Davis staff in Egypt is tenured, except for the project co-director who is a retired law school dean. In the Water Use and Management project, four of the eight staff members are tenured, with two of the four ready for retirement".

Response: The concern expressed in the Draft Report that Water Use & Management project people in Egypt are either recent hires, retired or about to retire is disconcerting to CID since Colorado State University does not discriminate on the basis of age, race, color, religion, national origin, sex, veteran's status or disability. Personnel have been selected on the basis of their capability and anticipated effectiveness in Egypt. The Draft Report seems to imply that there should be a quota for young or lower middle-aged people

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for each project. We find the implication that there should be some predetermined mix of ages and ranks most disturbing; possibly illegal. CID policies are to not respond to an AID Request for Expression of Interest unless qualified permanent faculty members have indicated interest, and the best available at the time are assigned. Qualifications rather than age is the critical factor.

CID takes exception to the statement that tenure policy has been a major impediment to the involvement of CSU staff overseas. The Water Use & Management project leaders have been effective in obtaining qualified staff in Egypt and support staff on campus. Both tenured and non-tenured staff have been or are currently on the project staff in Egypt. As indicated in the Draft Report, approximately one-half of the staff posted in Egypt are tenured. In many universities today, one-half or less of the faculty are tenured. The data presented in the Draft Report do not adequately support the conclusions. The ratio of tenured personnel on the Major Cereals project is even higher.

The Draft Report is critical of the lack of "young tenure track" personnel being provided in the university contracts; however, the Report fails to demonstrate that young tenure track personnel are what Egypt needs.

There is somewhat of a paradox concerning staffing criticisms for the Egypt Water Use & Management project and the Major Cereals project. The Egyptians expressed the concern on the Major Cereals project that CID was not making available its most competent and experienced technicians. On the Water Use & Management project, the Draft Report is critical of CID for not using enough young

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tenure track faculty. CID suggests that Egypt does not need many "young tenure track" personnel from the United States, and the U.S. Government would be derelict in its duties if they were provided through an AID program.

The Egyptian university system has been producing thousands of young agricultural graduates in recent years. Many hundreds are working in Saudi Arabia and in the Gulf States. Many young and middle level Egyptians are looking for jobs. If CID were to provide personnel at this level, we would be duplicating what Egypt can readily provide for herself. What is in short supply in Egypt is senior level, mature personnel who can conceptualize programs and guide their implementation. If AID projects are to meet the Egyptian national need, a large proportion of the personnel provided by CID to the two projects likely will be the older, more experienced faculty members.

As indicated above, the Draft Report contention that an excessively high percentage of non-tenure and non-tenure track personnel have been provided is not accepted by CID. The ratio of tenured and tenure track personnel to non-tenured personnel in Egypt on the two CID contracts is equal to or better than the ratio which exists in many of the better universities in the United States.

Page 52 of the Draft Report says:

"The universities participating in technical assistance projects in Egypt have difficulty assigning qualified

technicians to assist in these efforts. An apparent lack of commitment on the part of the universities as well as a tenure system which inhibits staff recruitment for overseas positions have led to this problem. A result has been considerable delays in project implementation and allegations of low quality performance by some of the university contractors".

Response: Data cited earlier indicate conclusively that the two CID projects are not behind schedule due to the failure of CID to provide personnel in accordance with contract provisions. CID recognizes that its member universities have had difficulty assigning qualified personnel to Egyptian projects, and that some university tenure and promotion policies are troublesome, but the problems have been overcome and qualified personnel have been assigned. The level of commitment by Colorado State University and New Mexico State University to the Egyptian projects, and international work in general, has been extremely high, and to charge there has been "an apparent lack of commitment" is, in CID's judgment, irresponsible. When errors in the Draft Report are corrected, there will remain insufficient evidence left to support the charge. CID respectfully requests appropriate revisions be made.

Concluding Response: CID does not wish to detract from the Draft Report's contention that major attention needs to be given

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to the improvement of the extension system in Egypt. The issues are how and when. CID does not accept the contention cited in the Draft Report that there was a shelf of proven technology readily available in Egypt, and all that was needed was an extension system to carry the word forward. Yields per hectare in Egypt were relatively high, and for many crops they seem to have reached a plateau. The whole system needed analysis and the development of strategies for increasing productivity prepared and tested. The CID and other projects are doing the necessary testing.

Egypt is now approaching the time when extension needs additional emphasis, and this is being done. In the case of the Major Cereals project an amendment is now being finalized to add grain legumes, forages and a farming system component to the scope. Included in the amendment will be a major effort in extension. An assistant to the American Chief of Party/Project Co-director is to be added, and he/she is to be an expert in agriculture extension administration.

CID agrees that some university tenure and promotion policies make it more difficult to staff AID contracts with top-notch people; however, evidence has been presented which proves that both CID contracts were staffed in accordance with contract terms, and if the projects are behind schedule, it is through no fault of CID's. CID rejects the implication that there must be a certain percentage of young tenure track personnel on each project. CID has presented

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evidence proving that the ratio of tenured and tenure track to non-tenured track personnel in Egypt is equal to or higher than the ratio in the typical university. All personnel in Egypt have been approved by AID and GOE. CID stands ready to review their credentials in terms of job description requirements. On the average, they are very well-qualified for the positions they hold.

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