AFRICAN DEVELOPMENT BANK GROUP

EGYPT

ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME

Project Performance Evaluation Report (PPER)

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

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ABBREVIATIONS AND ACRONYMS

ADB	:	African Development Bank
AC	:	Affiliated Company
AR	:	Appraisal Report
BOP	:	Balance of Payments
CBE	:	Central Bank of Egypt
CDP	:	Community Development Programmes
CMA	:	Capital Markets Authority
CSP	:	Country Strategy Paper
ECG	:	Evaluation Cooperation Group
EDP	:	Enterprise Development Programme
EEC	:	European Economic Commission
ENR	:	Egyptian National Railway
EPCP	:	Economic Prospects and Country Programming
ERSAP	:	Economic Reforms and Structural Adjustment Programme
ESA	:	Employees Shareholding Associations
EU	:	European Union
GATT	:	General Agreement on Trade and Tariffs
GDP	:	Gross Domestic Product
GOE	:	Government of Egypt
HCs	:	Holding Company
HOC	:	High Official Committee
HMERC	:	High Ministerial Economic Reform Committee
HRDP	:	Human Resource Development Programme
IBRD	:	International Bank for Reconstruction and Development
IDA	:	International Development Association
IDP	:	Institutional Development Programme
IFC	:	International Finance Corporation
IMF	:	International Monetary Fund
LRMC	:	Long-Run Marginal Cost
MDB	:	Multilateral Development Bank
MPDE	:	Method of Project Design and Evaluation
NTBs	:	Non-Tariff Barriers
PCR	:	Project Completion Report
PE	:	Public Enterprise
PEO	:	Public Enterprise Office
PIL	:	Public Investment Law
PIP	:	Public Investment Programme
PSC	:	Public Sector Companies
PSD	:	Private Sector Companies
PWP	:	Public Works Programme
SAL	:	Structural Adjustment Loan
SAMP	:	Structural Adjustment Monitoring Programme
SFD	:	Social Fund for Development
TBs	:	Treasury Bills
UNDP	:	United Nations Development Programme
USAID	:	United States Agency
WB	:	World Bank

PREFACE

1. This Programme Performance Evaluation Report (PPER) reviews the Egypt's Economic Reform and Structural Adjustment Programme (ERSAP), which covered the period 1991/92 – 1993/94. An ADB loan (Loan No.: B/EGY/SAP/92/19) was approved in September 24, 1991. The Borrower was the Government of Egypt (GOE) and the Executing Agency was the High Ministerial Reform Committee. The Programme was a multi-donor supported under the leadership of the World Bank.

2. A total loan amount of UA 100 million was approved by the Board for the programme. Although the first tranche was disbursed as envisaged at appraisal, the second tranche was cancelled at the request of GOE. The cancellation was motivated by the improvement in Egypt's external account position. The cancellation of half of the loan also applied to the second tranche of the World Bank for the same reason. Some implementation delays were experienced in the programme, partly as a result of the slow processing of the loan by GOE and partly because of GOE's willingness to deal with the World Bank rather than the ADB.

3. The overall goals of the ERSAP were: stabilisation of the economy in order to restore macroeconomic balance and reduce inflation; structural adjustment to stimulate medium and long term growth; and modification of social policies to minimise transitory effects of economic reform on the poor and vulnerable groups. Basically, the Government policies were geared towards stabilising the economy and implementing structural reforms. Policies were aimed at reforming public enterprises and liberalising all prices, including interest rates. The introduction of market prices as basis for resource allocation would gradually pave the way for the emergence of a virile private sector.

4. The relevant Operations Department prepared a Programme Completion Report (PCR) in March 1999. The PCR concluded that the programme was largely successful as it more than achieved most of its objectives. The present report examines in greater detail the response of the economy to the programme reform measures, including issues not addressed in the PCR.

BASIC PROGRAMME DATA

A. The Borrower

Country	:	Arab Republic of Egypt
Programme	:	Economic Reform and Structural Adjustment Programme
Loan Number	:	B/EGY/SAP/92/19
Beneficiary	:	Government of Egypt
Executing Agency	:	High Ministerial Reform Committee

B. The Loans

	Planned	Actual
Amount (UA millions)	100 million	50 million
Amount Cancelled	---	50 million
Date Approved	24/09/91	21/09/91
Date Signed	September 1991	21/4/92
Effective Date	September 1991	30/11/92
Date of First Disbursement	September 1991	February 1993
Date of Final Disbursement	June 1993	30/06/94
Completion Date	30/06/93	30/06/94

C. Bank Missions to Egypt

Mission Type	Persons	Staff/days
Appraisal	2	90
Monitoring	1	60
PCR	2	90

D. Sources of Funding

	Planned	Actual
World Bank (US$)	300 million	150 million
ADB (UA)	100 million	50 million
EU (US$)	132 million	100 million

E. Performance Indicators

Implementation Performance	:	Satisfactory
Project Outcome	:	Satisfactory
Bank Performance	:	Unsatisfactory

1. EVALUATION SUMMARY

1.1 Objectives and Scope

1.1.1 In response to the decline in the Egyptian economy during 1986-90 period, coupled with massive fiscal and current account deficits, high inflation rates, negative interest rates, accumulated external debt and high open unemployment, the Government of Egypt (GOE) initiated the Economic Reform and Structural Adjustment Programme (ERSAP) for the period 1991/92 – 1992/93 with support of World Bank, IMF, ADB and other donors. The goals of ERSAP were: stabilisation of the economy in order to restore macroeconomic balance and reduce inflation; structural adjustment to stimulate medium and long term growth; and modification of social policies to minimise the adverse effects of economic reform on the poor and vulnerable groups. The structural adjustment policies were aimed at reforming public enterprises and liberalising all prices, including interest rates. The underlying assumption was that the introduction of market prices as a basis of resource allocation would gradually pave the way for the emergence of a virile private sector.

1.1.2 This report evaluates the response of the Egyptian economy to the reforms carried out under ERSAP. The methodology adopted in this PPER is to compare the outcome of the programme with the objectives and targets (projections) set at the appraisal. The report also assesses the developments in the economy and compares them with what was obtained prior to the programme. The source of information and data were GOE published data, particularly from the Ministry of Planning, Central Bank of Egypt (CBE), discussions with Government officials and representatives of the donor community in Egypt, and the Bank Group's documents relating to the ERSAP.

1.2 Implementation Performance

The approved loan of UA 100 million under ERSAP was to be disbursed in two equal tranches of UA 50 million each. At the request of GOE, and following a favourable change of fortune for the economy, the release of the second tranche of UA 50 million agreed upon during appraisal was cancelled. Egypt also cancelled the second tranche of the World Bank loan for the same reason. Some implementation delays were experienced in the programme partly due to the slow processing of the loan by GOE, and partly because the GOE seemed to be more willing to deal with the World Bank and less with the ADB components of the ERSAP. This notwithstanding, the programme remained on course as most of the quantitative and qualitative benchmarks and time schedules agreed upon at the appraisal were achieved.

1.3 Institutional Aspects

1.3.1 The Borrower was the GOE and the Executing Agency was the High Ministerial Reform Committee (HMRC). Government compliance with reporting requirements was notably unsatisfactory. In spite of the failure to submit the required reports, the GOE was committed, at the highest level, to the implementation of the programme.

1.3.2 Although the Bank did not participate in the identification and design of the ERSAP, it found it to be adequate basis for extending the loan to GOE and it collaborated satisfactorily with the World Bank in undertaking the appraisal mission. However, the Bank did not supervise the implementation of the programme and therefore did not monitor its implementation. The Bank did not also carry out an audit of the ERSAP, and from all these, it was not difficult to reach the conclusion that the performance of the Bank was unsatisfactory.

1.4 Programme Impact

1.4.1 **Aggregate Impact**: Most of the programme goals and targets were largely achieved and socio-economic conditions improved considerably during and after the implementation of the programme. The GDP annual growth rates were 2.8% and 5.3% during 1991/92 – 1993/94 and 1994/95 – 1998/99 periods respectively, as against the programme targets of negative 2% and 4% for the respective periods. Similarly, real per capita GDP improved from nearly zero growth in 1990/91 to 3.5% in 1997/98. The inflation rate declined from 22% in 1990/91 to 9% during 1993/94 and 3.8% in 1997/98, an annual average rate of 13.7% for 1991/92 – 1993/94 period and 6% for 1994/95 – 1998/99 periods, well below projected rates of 21% p.a. for the programme period. Both budget deficits and current account deficits have been reduced below level set at appraisal.

1.4.2 Major distortions in the economy such as negative interest rates have been removed as interest rates are now positive and there is significant built up foreign reserves. The restructuring of the public enterprises and privatisation has been largely successful and is on course after an initial slow start. The introduction of the Social Fund for Development programme and GOEs decision to retain targeted subsidies as well as a cautious and selected implementation of public sector reforms minimised the potential adverse effects of the programme and thereby resulted in the social acceptance of the programme.

1.4.3 **Sectoral Impact**: The domestic price regime has been deregulated and is driven by market forces. Domestic price liberalisation focused on the agricultural, industrial, energy and transport sectors. These reform measures stimulated economic activity and enhanced improved production growth in the sectors.

1.4.4 **Other Impacts**: The programme resulted in increased participation of the private sector in the economy under a simplified regulatory framework for investment, and new economic ministries and agencies as well as private institutions were created and or strengthened. There has been increased capacity building in both the public and private sectors in Egypt. Although gender and environmental issues were not explicitly raised in the programme, nevertheless policy measures in the programme were targeted at goals that would indirectly benefit women as much as other members of society as safety measures and poverty reduction programmes have been developed.

1.5 Sustainability

The sustainability of the achievements is guaranteed by GOE's commitment to the reform programme. But beyond this current phase, sustainability would require that attention be paid to the structural challenges still facing the economy such as the need to reduce the heavy reliance on external resources through domestic resource mobilisation; the need to promote non-traditional exports; the need to address poverty and social sector issues, and the increased investment for expanding land water resources.

1.6 Conclusion

The programme goals were largely achieved and socio-economic conditions improved considerably during and after the implementation. The successful implementation of policy measures envisaged under the programme has laid a sound foundation for effective implementation of subsequent structural policy changes to sustain economic development that are contained in the current 1997-2017 Plan. However, to sustain the achievements made under the programme, the Government needs to address the structural challenges that still face the economy. Among these are the challenge to: increase domestic resource mobilisation in order to reduce reliances on external

resources; promote non-traditional exports; and the challenge to address poverty and social sector issues and the increased investment for expanding land and water resources.

1.7 **Feedback**

The main lesson learnt from the programme is the important relationship between adjustment and financing. The availability of huge resource flow emanating from debt cancellations and rescheduling, and from Gulf war windfalls encouraged the Government to pursue programme implementation with vigour. Secondly, continued Government commitment and social and political acceptance of the reform process led to successful implementation of the programme. The other lesson is that the efforts of the major co-financier, the World Bank, which supervised and monitored the programme contributed to the success of the programme.

2. BACKGROUND

2.1 Country Economic Context

2.1.1 Between 1950 and 1990, the Arab Republic of Egypt had pursued, a public sector-led and inward-looking development strategy, which featured import substitution policies and state ownership of key sectors of the economy. The consequence of this situation was a strong and dominant role of public enterprises in the economy. Indeed the share of the public sector in the GDP was one of the highest among developing countries. During this period, the economy performed relatively well, thanks to successive increases in the price of oil. Although the open Door Policy which was introduced in 1974 did pave the way for some liberalisation of the economy, the development strategy continued to be based upon import substitution, with manufactured exports, other than textiles and clothing, remaining virtually stagnant.

2.1.2 The decade of the 1980s was one of external shocks (in the form of declines in oil prices, high interest rates and general economic decline), in the world economy. For example, in 1981, Egypt's weighted average export price for crude petroleum collapsed from $34 a barrel to $12 in May 1986. The Egyptian economy did not respond adequately to these shocks. The consequence was massive fiscal and current account deficits, which also paved the way for the accumulation of external debt. Between 1980/81 and 1990/91, the country's external debt increased from $22.1 billion to $31.1 billion. At the same time, budget deficit averaged 18% of GDP annually. The rate of inflation had risen to more than 20% and open unemployment had risen to about 10% by 1990.

2.1.3 In response to this crisis, the Government of Egypt decided to act decisively. A standby agreement was concluded with the International Monetary Fund (IMF) in May 1991 and an economic reform and structural adjustment programme (ERSAP) with the World Bank for the period 1991/92 to 1992/93. The goals of ERSAP were: (a) stabilisation of the economy in order to restore macroeconomic balance and reduce inflation; (b) structural adjustment to stimulate medium and long term growth; and (c) modification of social policies to minimise transitory effects of economic reform on the poor.

2.2 Programme Formulation, Content and Relevance

2.2.1 The Economic Reform and Structural Adjustment Programme was designed between Egypt, the IMF and the World Bank. The African Development Bank (ADB) was not involved at the design stage but it was later to play a prominent role. The programme was aimed at both the external accounts and government budget, focusing especially on the interlinkages between the two. The external accounts were to be stabilised through the unification and correction of the exchange rate. In turn, this would help the budget by valuing imports at higher prices (in local currency) and consequently increasing revenues from import duties. By cutting down on government expenditures, the programme would reduce budget deficit and reduce the demand for imports and move the external position closer into balance. The programme also recognised the need for the introduction of market forces in the functioning of the economy. Thus, it sought to put the economy on a competitive footing as a clear signal that the private sector would be the leading sector. A Social Fund for Development (SFD) was to be put together separately by donors to ameliorate the adverse effects of adjustment on the poor.

2.2.2 In terms of relevance, the programme had merits. The stabilisation component sought to stabilise the internal and external accounts, and to unify the exchange rate. The reform component on the other hand, sought to introduce market reforms, and give prime of place to prices in the allocation of resources. Public enterprises were to be reformed and prices liberalised. The combination of all these was to pave the way for the emergence of a virile private sector.

2.3 Objectives and Scope at Appraisal

2.3.1 At appraisal, the objective of ERSAP were basically that of stabilising the economy and implementing structural reforms. Prior to the programme, the external account was in disequilibrium as oil prices collapsed and interest rates escalated. Thus, policies were to be geared towards bringing the external account into balance through the correction and unification of the exchange rate. This in turn would help the budget by valuing imports at higher prices (in local currency terms) and consequently increasing revenue from import duties. As for the government budget, a reduction in government expenditures would reduce the budget deficit and also reduce the demand for imports. The envisaged debt relief package would also improve the external and internal balances by reducing the foreign exchange requirements as well as the budgetary appropriations for debt service.

2.3.2 The structural adjustment component of the programme was aimed at restructuring the economy, without which the stabilisation measures would only provide temporary relief. Policies were aimed at reforming public enterprises and liberalising all prices, including interest rates. The introduction of market prices as basis for resource allocation would gradually pave the way for the emergence of a virile private sector.

2.4 Financing Arrangements

2.4.1 The ADB got involved with the programme well after its formulation. The Bank adopted the programme and decided to provide a loan of UA100 million. The loan, which was to be used to finance eligible imports during programme implementation, represents about 24% of the identified direct external financing of the programme.

2.4.2 The total cost of the programme was US$567 million. The ADB contributed UA100 million ($135 million), the World Bank contributed $300 million, while the EU provided $132 million. Midway in the implementation of the programme, Egypt started experiencing improvements in her balance of payments. This encouraged the country to request the World Bank and the ADB to cancel half of their respective loans. The two organisations thus scaled down their disbursement to $150 million and UA50 million respectively.

2.5 Evaluation Methodology

2.5.1 The framework for evaluation is the set of criteria developed by the Evaluation Cooperation Group (ECG) of Multilateral Development Banks (MDBs). The criteria include the relevance of a programme, its efficacy, efficiency, sustainability, its institutional development impact, borrower performance, lender's performance and aggregate project performance indicator. Although the development of this framework predated the appraisal report for the current programme, certain aspects of the framework (particularly those relating to efficacy) are well documented in the appraisal report. These are described in terms of expected outcomes of key economic variables.

2.5.2 The approach of this report is to evaluate the programme from the standpoint of the evaluation criteria mentioned above. In the case of efficacy (i.e. the achievement of objectives), the programme would compare the outcome of the programme with the projections (expected outcome) specified in appendix II of the appraisal report. As for other criteria, the report would assess developments in the economy and compare them with what obtained prior to the programme.

2.5.3 This programme also predated Bank's use of the Method of Project Design and Evaluation (MPDE). Hence, there was no MPDE matrix developed for the programme. Nonetheless, an attempt will be made to develop a retrospective MPDE matrix for the programme.

3. PROGRAMMES IMPLEMENTATION AND ACHIEVEMENTS

3.1 Loan Conditions, Effectiveness, and Implementation Schedule

Loan Conditions

3.1.1 The (seven) conditions which are to be satisfied prior to the release of the first of ERSAP are detailed in the Appraisal Report (AR) para. 6.1.3. The Borrower was required to: open a foreign exchange account into which ERSAP proceeds were to be deposited; give an undertaking to pursue diligently the implementation of all policy measures envisaged in ERSAP; give an undertaking to share with the Bank the monthly information prepared for the IMF on macroeconomic developments; give evidence of the establishment of programme implementation and monitoring units/organisations; and give to the Bank data and related information of the 1991/92 budget levels and the Public Investment Programme (PIP) for 1991/92 – 1993/94 period. The Borrower was to give evidence of the enactment of the new Public Investment Law (PIL), adopt executive regulations for the PIL and standard bye-laws for Holding Companies (HCs) and Affiliated Companies (AC), and the establishment of the Public Investment Office; and provide evidence of the Government approval of the 1990/91 – 1991/92 privatisation programme and an undertaking to implement the approved programme on a timely basis. These conditions were clear and relevant and compliance with them could be expected save for the last two which required adequate time for consensus building within the political and the general public in order to gain social acceptance of the reform programme.

3.1.2 The conditions precedent to the release of the second tranche were nine and more demanding on the part of the Government as they required the satisfactory implementation of the conditions under the first tranche. The Borrower was required to: submit evidence of utilisation of the first tranche; and show evidence of progress made in implementing 1991/92 privatisation programme and adopt a 1992/93 privatisation programme; show evidence of progress made in re-organising the existing affiliated companies into Holding Companies (HCs). The borrower was to have completely freed the prices of industrial products (Group IV); increased petroleum product prices to 56% of international prices by December 1991 and at least 67% by the time of second tranche release if such release was to take place after June 1992; increased electricity prices to at least 69% of LRMC; raised cotton procurement prices to at least 66% of international prices for the 1992 crop year; issued a Decree allowing the public fertiliser and cement companies to sell up to 40% of their production to private distributors/companies by July 1st, 1992; and reduced subsidy for fertiliser and pesticides by one half. These conditions were specific and monitorable, and could have had no serious problems with compliance save for those related to sensitive areas of privatisation and subsidy removal.

3.1.3 However, the conditions for the release of the second tranche became irrelevant when the GOE requested both the Bank and World Bank to cancel their respective second half of the loans. GOE's request for the cancellation of the second tranche was as a result of a favourable change of fortunes of the economy which included exceptional circumstances and positive response of the Egyptian economy to reform measures. Other factors were huge inflow of concessional resources and grants including Gulf windfalls, and the generous debt reduction measures by bilateral donors.

Loan Effectiveness

3.1.4 Partly as a result of the slow processing of the loan by GOE, the effectiveness of the loan was delayed by 14 months. The situation was further compounded by the fact that the GOE seemed to be more willing to deal with the World Bank and less with the ADB components of the ERSAP (PCR, para. 3.2.7).

Implementation Schedule

3.1.5 The ERSAP was approved on September 24, 1991, as against the scheduled August 1991, at appraisal. The loan signature, which had been planned for September 1991, was effected on April 21, 1992, and the programme effectiveness slipped by fourteen months to November 30, 1992. These led to delays in programme implementation. The ERSAP was to be disbursed in two equal tranches of UA 50 million each. However, the release of the second tranche of UA 50 million was cancelled as explained above. The programme remained on course as most of the quantitative and qualitative benchmarks and time schedules agreed upon at the appraisal were achieved. The implementation of ERSAP was originally scheduled to end in June 1993, but instead the ERSAP ended a year later in July 1994, due to reasons discussed above (paras. 3.1.4). As would be demonstrated below, the slippage experienced under the ERSAP seem to have had no significant adverse effects on the outcome of the programme.

3.2 Performance of the Borrower

3.2.1 The Borrower's performance in processing ERSAP and in meeting conditions precedent to the release of the first tranche was unsatisfactory for reasons discussed above (para. 3.1.3). The initial delays notwithstanding, ERSAP implementation by the Borrower and by all institutions set up to monitor the programme was satisfactory. The Bank Group's procurement rules and procedures were adhered to by the Borrower.

3.2.2 The compliance with reporting requirements is considered less satisfactory. Although quarterly progress reports were sent to the Bank, the Borrower did not provide ERSAP audit statements to the Bank at the end of the programme. The Borrower also failed to prepare and submit its PCR that should have formed the basis of the Bank's own PCR. This led to delay for four years after the completion of the programme for the Bank to prepare its PCR.

3.3 Performance of the Bank

3.3.1 The performance of the Bank was not satisfactory. The Bank did not field missions to supervise the implementation of the programme and therefore did monitor the implementation of the programme, although it continued to receive progress reports submitted by GOE. The Bank did not carry out an audit on the ERSAP (PCR, para. 9.1 (b).

3.3.2 The collaboration of the Bank with other donors, particularly the World Bank was satisfactory. Although the Bank did not participate in preparation and identification stage of the programme, it joined the World Bank in a joint Appraisal Mission during February/March 1991.

4. PROGRAMME EVALUATION AND IMPACT

4.1 Proposed Policies and Measures

4.1.1 The GOE responded to the problems discussed in chapter 2 by undertaking appropriate policy measures aimed at eliminating economic disequilibria and giving prime place to market forces in resource allocation. The main policy measures for achieving the country's development objectives were macroeconomic reforms, public enterprise reforms, domestic price liberalisation, foreign trade liberalisation, private sector reform, and social development programme.

4.1.2 Macroeconomic policies were aimed at bringing about high and sustainable long-term economic growth by curtailing inflation; reducing current account and budget deficits and restoring creditworthiness. The growth of broad money supply was to be reduced, while interest rates were to be liberalised. The policy measures also aimed at creating a stable banking and financial sector; and the restoring balance of payments and improved international reserves situation.

4.1.3 The foreign trade liberation measures were to be achieved through the removal of restrictions on imports and exports as well as reforming the exchange rate regime in order to realise increased economic efficiency. The liberalisation of domestic price entailed removal of distortions in the price system. The reforms in the public enterprise and the privatisation of public enterprises were directed at increasing economic efficiency through competition by restructuring public enterprises as well as reforming relations between public enterprises and the Government. The development of the private sector was aimed at reducing Government intervention in the economy through encouraging greater participation by the private sector. The social fund programme was put in place to mitigate the transient effects of the reforms especially on the vulnerable groups. The Government policy measures were articulated to the Bank at appraisal in its Letter of Development Policy dated May 31, 1991 (SAR, Annex II).

4.2 Relevance of the Programme

4.2.1 The ERSAP was approved in line with the Bank Group's medium-term programme as contained in the Economic Prospects and Country Programming (EPCP), covering the period 1989-91 (ADB/BD/WP/89/74). The content and thrust of the EPCP was to support policy reforms in order to achieve socio-economic development in Egypt on a sustainable basis. The programme therefore, conforms with the EPCP in that it involves the policy implementation which affects the overall environment for development projects in Egypt. The programme was to support GOE's on-going efforts to achieve its development objectives. These objectives were spelt out in the Letter of Development Policy of May 31, 1991 (ERSAP-AR, Annex II), which articulated a far reaching economic and social reform aimed at eliminating economic disequilibria and restructuring economic activities along the lines of a freely competitive market system. Evidently, ERSAP was thus fully relevant to Egypt's stated economic development goals and strategy at the time. The programme was also fully relevant to the Bank's assistance strategy for Egypt

4.2.2 The ERSAP was a balance of payment support programme designed to support GOE reform and structural adjustment policies which are aimed at eliminating economic disequilibria and enhancing the role of market forces in the resource allocation; assisting GOE in financing import requirements for growth-oriented activities, and promoting dialogue between the Bank and GOE. The loan which financed the programme, was used to finance the necessary imports within the overall framework of improving Egypt's balance of payments situation.

4.2.3 The GOE's current medium and long-term development policies enunciated in the 1997-2017 Plan are a continuation of those envisaged at the appraisal of the loan. This signifies that ERSAP continues to be relevant, even after its completion. The 1997-2017 Plan focuses largely on structural changes that would deepen gains made under ERSAP and accelerate the growth of incomes and improve the social sector conditions. Accordingly, the Bank's structural adjustment loan to Egypt was relevant in the short-run as well as in the long-run.

4.3 **Achievements of Objectives**

4.3.1 The overall goal of the programme was to stabilise the economy and to embark on economy-wide structural reforms. The Government pursued this goal in order to achieve rapidly a sustainable macroeconomic equilibrium through a number of stabilisation measures, and lay a foundation for renewed economic growth in the medium and long-term. The GOE also aimed at minimising the negative effects of economic reforms on the poor and the vulnerable groups through improvement in social policy. These objectives were to remove distortions, rigidities and inefficiencies in the allocation and the use of economic resources; and to lay the foundation of a sound and sustained growth. To achieve these objectives, GOE pursued the stipulated policy measures detailed in paragraph 3.3 of AR and in section 2 of the PCR. The key issues of the policy measures are organised under six broad areas: macroeconomic reforms; foreign trade liberalisation; domestic price liberalisation; public enterprise reforms and privatisation; private sector development; and socio-economic impact.

Macroeconomic Performance

4.3.2 The Egyptian economy which had slowed down to an annual average growth rate of 3.7% during 1987/88 – 1991/92 period was expected to resume a sustained growth in the medium and long-term period. As a result of the implementation of the programme, the economy recorded an average growth rate of 2.8% per annum and 5.3% per annum during the programme period of 1991/92 – 1993/94 and 1994/95 – 1998/99 period respectively as against the programme target of an average rate of negative 2.0% per annum during the programme period and 4% during 1994-97 period. The stabilisation effect of the programme does not seem to have adverse effects on the growth of real output as it was anticipated at appraisal. The economy was projected to grow at an average rate of 6.9% per annum during 1999 –2002 and thereafter accelerate to an average rate of 7.6% per annum until 2017. Similarly, real per capita GDP improved from nearly zero growth in 1990/91 to 3.5% in 1997/98. Table I shows that the targets set at appraisal for the GDP growth rate were over achieved as private sector investment picked up in the mid 1990s. The evidence in Table I show that Egypt has embarked on a sustainable growth path after successfully managing to stabilise the key economic aggregates.

4.3.3 In its attempt to stabilise the economy, GOE focused on fiscal reduction, the deregulation of interest rates, the unification of the exchange rate, and the control of the growth of liquidity in the economy. Thus the inflation rate was reduced from 22% in 1990/91 to 9% during 1993/94 and 3.8% in 1997/98, an average of 13.7% per annum for 1991/92 – 1993/94 period, well below projected average rate of 21% per annum for the programme period. The rate of inflation for the 1994/95 – 1998/99 period has been contained to an average of 6% per annum. The economy experienced spectacular reduction of the budget deficit, from 20% of GDP in 1990/91 to an average of 4% of GDP per annum during 1991/92 - 1993/94 and 1.2% in 1994/95 - 1998/99 period (Table I) as against the projected average of 12.6% of GDP per annum during the programme period and 3.4% per annum for 1994-97 period. The reduction of the budget deficit is largely attributed to fiscal discipline exercised by GOE through both an increase in revenues and a decrease in expenditures (Table IV). The budget deficit had remained at no more than 1.3% of GDP since 1994/95.

4.3.4 Much of the reduction in expenditures was realised through reduction in government investments while expenditures on social sectors were protected. For instance, public investment as share of GDP declined from 9.2% in 1991 to 6.1% in 1994 and 5.5% in 1996 (Table VI), as against the programme targets of 12.4% (1991/92), 9.5% (1993/94), 8.5% (1995/96). Similarly, the share of public investment in gross domestic fixed investment declined from 41.2% in 1991 to 36.8% in 1994 and 31.6% in 1997 (Table VII). This was in line with the Government strategy of encouraging the private sector participation in investing in the economy. The share of private sector investment in gross domestic fixed investment increased from 58.8% in 1991 to 63.2% in 1994 and 68.4% in 1997 (Table VII). Expenditure reductions were also realised through reduction and targeting of subsidies. For instance subsidies as a percentage of GDP declined from 3.8% in 1991/92 to 2.0% in 1993/94 and 1.6% in 1997/98 (Table IV), well below the targets of 5.1%, 4.2% and 2.2% respectively. Subsidies are now limited to four items – wheat flour, bread, sugar and cooking oil – as compared to 18 items in 1980. The retained subsidies are "self-targeted" to the poor.

4.3.5 The exchange rate was used as one of the major tools to stabilise the economy. The primary and secondary foreign exchange rates were unified by March 1992 as agreed with the IMF. The Egyptian pound was effectively pegged to the US dollar in 1991. Since then the nominal exchange rate has remained unchanged. Prudent fiscal policy measures which controlled fiscal deficits, enabled the Government to contain the potential for over-evaluation of the pound that would have resulted from the pegged exchange rate. These policy measures attracted increased capital flows which helped to build up Egypt's international reserves. For instance, the reserves increased from US$3856 million in 1991 to US$13,381 million in 1994 and US$19,657 million in 1997 (Table III). This translated into reserve import cover of 4.6, 12.5 and 14 months respectively. To contain the adverse impact of these capital inflows on money supply and liquidity policy, GOE introduced sterilisation measures like the sale of TBs in 1991 whose proceeds were deposited at the Central Bank of Egypt.

4.3.6 In the financial sector, the goal was the liberalisation of the interest rates and credit. Regulations governing banks were liberalised such that banks were free to set their own deposit and loan rates. Interest rates on 3-month deposits declined from 16.1% in 1991 to 10.7% in 1994 and 9.0% in 1998. Similarly, interest rates on 91-day Treasury Bills (TBs) declined from 19.2% in 1991 to 12.5% in 1994 and 8.8% in 1998 (Table V), reflecting GOE reduced borrowing from the domestic market. In the banking and insurance sectors, laws were amended and ratified by Parliament in June 1998 to allow full private sector ownership in the sector and permitted foreign ownership. The regulatory framework and the surveillance capabilities of the relevant supervisory authorities of the financial sector including the Central Bank of Egypt (CBE) were strengthened in order to ensure the markets function properly and the reforms sustained.

4.3.7 Monetary and credit policy measures focused on maintaining prudent monetary growth and financial resource mobilisation as a means of reducing inflation, external deficits, and generating domestic savings. Prudent fiscal measures enabled the Government to pursue tight monetary policy resulting in reduction in liquidity growth from 27.5% in 1991 to 12.3% in 1994 and 10.4% in 1998 (Table V). Although targets for inflation rates and external deficits were met, domestic savings as percentage of GDP did not increase as anticipated. For instance, the ratio declined from 16.1% in 1991 to 15.1% in 1994 and 14.6% in 1997 (Table VI).

4.3.8 GOE policies in the external sector were aimed at improving the balance of payments (BOP) situation and restoring the country's creditworthiness. In this regard, the measures taken had a positive effect on BOP position as current account balance as a percentage of GDP including official grants improved from negative 10.4% in 1991 to 5.5% in 1992 and 0.7% in 1994. Thereafter, it remained positive except in 1998 when it turned negative 3.4%, as against the targets of 4.4% - 6.6% of GDP at the appraisal time. Overall BOP was US$5.1 billion in 1992 and US$2.1

billion in 1994 and thereafter remaining positive save in 1998 when it became negative US$135 million. The improvements in the BOP situation allowed the country to dramatically improve her international reserve position as discussed in 4.3.7. This improvement was mainly due to fiscal discipline, generous and timely rescheduling of external debt by the Paris Club and debt cancellations by bilateral creditors, strong foreign exchange earnings from tourism, workers' remittances and Suez Canal Revenues as well as the Gulf war windfalls.

4.3.9 In an effort to reduce its external debt burden that stood at US$50 billion, representing 132% of GDP at the end of 1990, Egypt concluded an agreement to reschedule and reduce its debt to the members of the Paris Club. The scope of the debt relief was wide with the debt eligible for rescheduling covering: all concessional public and public guaranteed debt owed to the participating Paris Club creditors contracted prior to October 1986 and having an original maturity of more than one year; medium and long-term commercial credit insured by the participating creditor countries contracted prior to October 1986; non-concessional medium and long-term bilateral debt owed to participating countries; and repayments due under the previously rescheduled debt dated May 22, 1987. The full implementation of debt-restructuring/rescheduling had to achieve the equivalent of 50% reduction (net present value –NPV) of the entire schedule of debt service payment on eligible debts. Overall, the 1991 Paris Club agreement involved a total of US$19.6 billion (excluding debt owed to United States). Accordingly, the external debt to GDP ratio declined to 77.3% in 1992 and 59.8% in 1994. This ratio further declined to 34 % in 1998, as against the target of 63.4% - 104.3% at the appraisal. Debt service ratio declined considerably as BOP situation improved. This ratio declined from 71.7% in 1991 to 21% in 1994 and 13.6% in 1998, as against the targets of 12.4% - 22.6% at the appraisal (Table III). This made Egypt to be one of the moderately indebted countries. This has considerably reduced the country's indebtedness and enhanced its creditworthiness.

Foreign Trade Liberalisation

4.3.10 The reforms in the area of foreign trade were aimed at liberalising foreign exchange and removing quantitative and qualitative trade restrictions. GOE took measures to remove non-tariff barriers, dismantling restrictions on exports in order to promote export earnings, and import competition. GOE streamlined the tariff structure and by 1994, all non-tariff barriers were eliminated. In order to promote import competition, GOE streamlined duty drawback and temporary admission procedures.

4.3.11 The coverage of import bans which stood at 37.2% of tradable output in 1990 was reduced to 22.7% in 1990/91 and 10.1% by February 1993. This remained far below the set target of 10.6%. The tariff range was narrowed from 5-100% in 1991 to 5-70% in 1993, below the target of 10-80%. The maximum tariff for imports was reduced to 40% in 1997/98. The number of tariff preferences and the number of items subject to prior approval were reduced beyond programme targets.

4.3.12 Regarding export policy measures, GOE lifted export bans and quotas and eliminated foreign exchange quota system. The rate of growth of exports during and after the programme period, was higher than GDP growth rate as envisaged at appraisal, with export earnings increasing from US$3.1 billion in 1991 to US$3.3 billion in 1994, an average growth of 6% per annum. Export earnings increased further to US$5.1 billion in 1998, an average growth of 9.0% per annum during 1994-98 period. This gives an average growth rate of 6.3% per annum for the period 1991-98, (Table III). The share of non-oil exports declined from 49.3% in 1991 to 46.9% in 1994. However, this increased to 63.3% in 1998 (Table VIII). As observed in Table VIII, the country remains heavily dependent on exports of primary products, particularly cotton and petroleum, the prices of which are vulnerable to external market conditions. The implication of this is the observed fluctuations in export earnings (Table III) and in real growth of merchandise exports.

Domestic Price Liberalisation

4.3.13 Prior to the ERSAP, heavy Government intervention in the goods and services sectors through systematic price control and monopolies led to economic inefficiency. In order to arrest this trend, GOE aimed to remove these distortions in order to achieve full price liberalisation by the end of June 1995. The programme focused on price liberalisation in energy, industry, agriculture, and transport sectors as detailed in AR paras. 3.3.2 – 3.3.25.

4.3.14 GOE has made considerable progress in liberalisation of the agricultural, industrial and energy prices since 1990. Prices for agricultural products have been liberalised and subsidies removed except for bread, wheat flour, sugar and cooking oil. All prices for industrial products were liberalised except for pharmaceuticals. The Government introduced sales tax and removed subsidies on all the products except for the four in the agricultural sector.

4.3.15 In the energy sector, GOE raised the petroleum prices to 100% of the international prices, well above 89% programme target. Similarly, GOE raised electricity prices to 74% of long-run marginal costs (LRMC) by 1994 in line with the programme targets. As for the transportation sector, GOE raised the tariff for the Egyptian National Railways (ENR) by 5% annually beginning from 1991 reaching 100% by 1998 as per the programme targets.

Sectoral Performance

4.3.16 The domestic price liberalisation discussed above focused on agricultural, industrial, energy and transport sectors. These reform measures stimulated economic activity and enhanced improved production and growth in the sectors (Table II). The agricultural sector recorded a growth rate of 2% in 1991/92, 3.8% in 1993/94 and 3.7% in 1997/98, an average growth rate of 3% per annum for the period 1991/92 – 1997/98. The industrial and mining sector recorded higher growth rates from 1.5% in 1991/92, 4.2% in 1993/94 and 7.8% in 1997/98, an average growth rate of 5.7% annually for the 1991/92 – 1997/98 period.

4.3.17 In the energy sector, electricity sub-sector recorded relatively higher growth rates than the petroleum sub-sector. The electricity sub-sector recorded a growth rates of 4.6% in 1991/92, 3.7% in 1993/94 and 5.9% in 1997/98, an average annual growth rate of 5.1% for 1999/92 – 1997/98 period. The respective rates for the petroleum sub-sector were 1.8%, 8.6% and 6.9%, an average growth rate of 2.0% p.a. for the same period. The transportation sector also recorded higher growth rates of 2.0% in 1991/92, 4.0% in 1993/94 and 6.8% in 1997/98, an average growth rate of 5.2% annually during the 1991/92 – 1997/98 period.

Public Enterprise Reform and Privatisation

4.3.18 The reform of the public sector was at the core of the programme, hence the aim was one of reducing the scope and the role of the public sector which historically had been high, while making efforts to improve the efficiency of the viable Public Sector Companies (PSCs) in order to achieve a more market oriented economy and create a conducive environment for private investment. The programme focused on two major sub-components: restructuring and/or privatisation of PSCs except for the strategic ones; and legal and institutional framework including streamlining financial institutional setting.

4.3.19 The reform process in the public sector started with the promulgation of Law 203 in 1991 governing privatisation and public investment (Public Investment Law – (PIL) and Law 95 that created institutions for privatisation. Under Law 203, 314 non-financial PSCs were grouped under

27 new Holding Companies (HCs) which later reorganised into 17 HCs in 1993 and at the same time widened the sectoral coverage. Guidelines for the performance of PSCs managers and for restructuring and liquidation of PSCs were issued. In November 1991, GOE established an independent body, Public Enterprise Office (PEO) under the Ministry of Public Enterprise Sector. PEO was to advise on privatisation of PSCs issues.

4.3.20 The GOE was assisted by UNDP and USAID which funded the Public Enterprise Reform and Privatisation Programme. GOE used five approaches to privatisation – sales to anchor investors, sales through the stock market, sales to Employee Shareholders Associations (ESAs), sales of companies assets, and liquidation. This was undertaken in three phases, Phase I: 1991 – January 1996, Phase II: Early 1996 – late 1997 and Phase III: 1998 – present. At the end of of 1997, the GOE with support of UNDP and USAID funds, extended the programme by two years. This was further extended for another two years and is targeted to end by the year 2001 when privatisation of all PSCs will be completed and HCs dissolved. During Phase I, privatisation programme experienced delays and difficulties associated with the identifying candidate companies and documentation preparation. Three (3) companies were sold to anchor investors, minority share (5 to 20%) in 16 companies were sold through stock market, 10 companies were sold to the ESAs, and 1 company was liquidated.

4.3.21 The pace of privatisation was accelerated during Phase II with 65 companies partially sold through public offerings of stocks and the remainder to anchor investors. Phase III relied mainly on the sale to strategic investors as most of the remaining PSCs were less profitable and therefore less attractive if placed on the stock market. Twenty-one (21) companies were sold during 1998. The privatisation programme continued in 1999 with 65 companies privatised while 131 companies were retained under Law 203. It is expected that 50 companies will be privatised by the year 2000 and 81 by December 2001 thereby completing the privatisation of 131 companies that are being retained under Law 203 (Table 10). GOE is extending the privatisation programme to include banks, insurance companies, electricity, communications, roads and airports.

4.3.22 The IMF and World Bank both rate the overall performance of the privatisation programme in Egypt to be the fourth most successfully programme in the world. The proceeds of this programme amounted to LE 7.8 billion as of June 1998, out of which 55% was used to settle debts, 35% for early retirement schemes and 10% for labour restructuring. GOE expects the proceeds of the programme for 1998/99 to amount to LE 2.5 billion and for LE 5 billion in 1991/2000. An evaluation carried out on privatised companies shows general improvement in most of these companies in terms of company revenues, average salary per worker and profits.

Private Sector Development

4.3.23 The reforms to be carried out in the private sector were aimed at simplifying the regulatory framework for granting investment and operation permits. Other policy measures included increasing the share of commercialisation of cement and fertiliser by the private sector companies. GOE, in pursuance of promoting private sector development, abolished regulations governing investment control by removing investment and production licensing for most of the goods. Restrictions on quantities produced, types of customers and their geographic area were lifted. Cement and fertiliser prices were liberalised and quantity restrictions on the distribution and sales of these two products to traders were lifted. Furthermore, Parliament amended Labour Laws to provide free environment for the recruitment of labour without prior approval of the Government. This allowed private firms to advertise their employment needs, seek special recruitment services, examine job application, and assist in the selection of qualified prospective employees. Also the share of private sector in gross fixed investment increased from 58.8% in 1991 to 63.2% in 1994 and 68.4% in 1997 as against the targets of 40% in 1990 and 50% in 1993 and thereafter it was

expected to continue increasing. This is now projected to increase to 80% by 2001/02 as envisaged in the 1997-2017 Plan.

Socio-economic Impact

4.3.24 The Social Fund for Development (SFD) was established by the GOE with the support of World Bank/IDA, the European Union, the Arab Fund, and other donors in 1991 in order to minimise the adverse effects of reforms on the vulnerable groups and later expanded to reintegrate over 400,000 workers returning from the Gulf States. The programme is also directed at strengthening the country's institutional capacity, of both the Government and NGOs, develop new social programmes and upgrade existing ones. The SFD began its activities in 1993 as a semi-autonomous governmental agency under the direct supervision of the Prime Minister. The activities of SFD were implemented in two phases. Although the Bank did not participate in Phase I, it co-financed the Phase II programme with other donors.

4.3.25 The SFD components included employment generation, small enterprise development, direct employment generation and socio-economic development. The SFD objectives were achieved through the promotion of income and employment generation activities; provision of basic social services; and local participation and awareness enhancement. Five core programmes were identified for implementation – Public Works Programme (PWP); Community Development Programme (CDP); Enterprise Development Programme (EDP); Human Resources Development Programme (HRDP); and Institutional Development Programme (IDP).

4.3.26 According to the World Bank, the SFD realised considerable success during Phase I as it equipped 63 health clinics, trained 820 health personnel and implemented 580 awareness campaign. The SFD established 34,960 illiteracy classes with an enrolment of 699,200 pupils and created 34,960 temporary jobs for youth teaching in these classes. Regarding EDP, an average micro-credit/loan of LE 1,230 was extended to 37,000 borrowers and additional 10,600 persons received vocational training and 33 training workshops were equipped.

4.3.27 The programme resulted in the establishment of about 53,250 small enterprises and the extension of credit to 59,150 entrepreneurs, out of which 25% were female. Infrastructure and public works were developed with installation of 2,770 km of potable water networks; 1,000 kilometres of rural roads construction; and maintenance of 3,400 kilometres of canals. Regarding human resource development, 4,775 unemployed graduates were trained to meet the market demand.

4.3.28 During Phase II, SFD also achieved significant results. As at the end of June 1998, 1,790 health workers have been trained and 119 health clinics equipped. Micro-credits of an average loan of LE 1,620 have been extended to 3,350 borrowers. Vocational training was conducted for 6,100 entrepreneurs and 4 workshops were equipped. About 10,284 entrepreneurs received credit out which 30% were female and about 9,500 small enterprises were established. Further, 260 kilometres of potable water networks were installed and 170 kilometres of rural roads constructed.

4.3.29 In its budgetary allocation, the GOE removed subsidies on most products except for the self-targeted ones on bread, wheat flour, sugar and cooking oil as the removal of subsidies on these four products would have had adverse effects on the vulnerable groups. Although budget allocations to the social sector has improved, poverty level is estimated to have declined from 25% in 1990/91 to only 22.8% in 1997/98. Current expenditures on education as a share of the budget declined from 11.6% in 1990/91 to 9.4% in 1993/94 but increased to 17.2% in 1997/98 while the respective share for health were 3%, 2.3%, and 3%. However, capital expenditures on education as a share of the

budget improved from 4.3% in 1990/91 to 10.8% in 1993/94 and 12.8% in 1997/98. The respective shares for health were 1.2%, 0.8% and 4.9%.

Gender and Environment

4.3.30 The programme did not explicitly address the gender and environmental issues at appraisal. However, Egypt's development policy recognises environmental concerns in ensuring long-term sustainable development as contained in the Government's Letter of Development Policy (SAL, Annex II, Section F). Nevertheless, the policy measures in the programme were targeted at goals that would indirectly benefit women as much as other members of society.

4.4 Institutional Development

4.4.1 The programme resulted in the creation of new agencies and strengthening and/or expanding existing agencies through which the programme was successfully implemented. Agencies created include the new Ministry of Public Enterprise and the Public Enterprise Office (PEO) which coordinated the restructuring of the Public Enterprises and the privatisation programme. The overall coordination of the programme was carried out by the Higher Ministerial Economic Reform Committee (HMERC) headed by the Prime Minister and assisted by a High Official Committee (HOC) composed of under-secretaries from ministries and departments related to the economy. A Technical Secretariat, reporting to HOC and headed by an experienced high level official, and staffed by trained economists and administrators, was created. The Technical Secretariat collected and analysed data and information related to the programme and the economy in general, and prepared position papers for submission to the Chairman of HOC. The creation of these agencies also involved capacity building within the Government which would further ensure the continuity of reform measures.

4.4.2 Reform measures in the public sector and parallel reforms in the financial sector led to the creation and/or strengthening and expansion of institutions during and after the programme. The Egyptian capital market was revitalised and a Capital Market Authority (CMA), a regulatory agency was established. The role of CBE as a supervising and regulatory agency was strengthened. About 26 Mutual Funds were established and/or strengthened. Other agencies created and/or strengthened as a result of promulgation of Law 95 of 1991 include 24 portfolio investment management companies, 20 Under-writers, 9 venture capital firms, 140 brokerage firms, and one clearing, settlement and central depository. The following markets were established or strengthened: bond markets, Treasury bill market, housing bond market, and development bond market. In addition, a new Rating Company was established with the participation of IFC and Fitch-IBCA. The Insurance sub-sector was also revitalised and expanded. By 1998, there were 11 insurance companies, one specialised Re-insurance Company, and 544 private insurance funds.

4.4.3 The restructuring of the public sector and the privatisation programme also resulted in the creation of new Holding Companies (HCs), the Central Audit Agency, and Employees Shareholders Association (ESAs). All of these combined to improve Egypt's institutional capacity in managing the economy in general and in managing the budget, internal and external debt in particular. These reforms, including private sector development reforms improved the private sector's performance and its share in the economy.

4.5 Sustainability of the Achievements

4.5.1 The programme corrected most, if not all, the major macroeconomic disequilibria and brought down inflation rate to less than 4% in 1998/99. A number of significant distortions in the economy such as negative real interest rates were corrected and there has been a significant built up

of foreign reserves. The public sector restructuring and privatisation was largely successful and is on course after an initial slow start. The Government commitment to the reform programme has been consistent and there is full political commitment as well as social acceptance of the reform process. These developments tend to ensure sustainability of the programme achievements in the medium and long-term period. The Government's continued commitment to the reform process is demonstrated in the current 20-year development strategy (the 1997 – 2017 Plan), which in thrust and objective, is a reaffirmation of the present development strategy. The main goal of this strategy is to attain broad-based and sustainable development. The strategy reaffirms the role of the private sector as the leading sector in the economy. The sustainability of the achievements of the programme is further enhanced by the recent inclusion of reform-minded individuals in the cabinet and in key economic offices.

4.5.2 The Social Fund for Development Programme together with the Government's decision to retain subsidies on the basic products – bread, wheat flour, sugar and cooking oil as well as a cautions and selective implementation of the public sector reforms and privatisation resulted in the social acceptance of the programme. This is an added advantage that would favour the sustainability of the achievements. In addition, the current 1997-2017 Plan also emphasises increased resource allocation to the social sectors and infrastructure development in private-sector-led-economy. The Bank Group's involvement in this effort is evidenced by its proposed Group Indicative Lending Scenarios 1996-98 (EGYPT: CSP 1996-98, Tables 5.1 and 5.2).

4.5.3 The successful implementation of the programme was largely attributed to the country's fiscal discipline; the generous and timely rescheduling as well as relief of the country's external debt; huge foreign exchange earnings from tourism and workers' remittances, and the Suez Canal revenues. The sustainability of the achievements of this programme would require, in addition to the points made in paragraphs 4.5.1 and 4.5.2 above, the continuation of these critical developments. It is reassuring that the development plan for 1997-2017 focuses on these and other issues in sustaining current achievements.

5. PERFORMANCE RATINGS

The performance ratings are based on the analysis of the information contained in Chapter 3 and 4. The outcome of the ratings in contained in Annexes I and II.

5.1 Implementation Performance

Implementation performance of the programme was rated satisfactory, notwithstanding the initial delays in effecting the programme and compliance with reporting requirements.

5.2 Bank Group Performance

The Bank did not participate in initial design of the programme and its performance is rated unsatisfactory. This is in conformity with the findings of the PCR para. 9.1.

5.3 Project Outcome

The outcome of the programme was satisfactory. However, there remains areas of concern that include reliance on exogenous resources to finance domestic expenditures which is vulnerable to external shocks, low levels of domestic savings and investment, poverty levels are still relatively high, and limited land and water resources.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Overall Assessment

6.1.1 The ERSAP was a multi-donor financed programme. It is therefore difficult to isolate the impact of ADB intervention on the economy. External developments (for example, the Gulf war) also made it difficult to isolate precisely the impact of ERSAP on the economy. Nonetheless, ERSAP was largely successful when viewed against its major objectives of stabilising and reforming the policy stance of the Government.

6.1.2 The programme goals were largely achieved and socio-economic conditions improved considerably during and after the implementation. Major macroeconomic disequilibria were corrected and the inflation rate brought down to less than 4% (1998/99). GDP growth rate has averaged 5.1% per annum since 1992/93 and it is projected to achieve an annual rate of 6.9% for the 1999-2002 period. Major distortions in the economy such as negative interest rates have been removed as interest rates are now positive and there is significant built up foreign reserves. The restructuring of the public enterprises and privatisation has been largely successful and is on course after an initial slow start. The SFD programme together with GOE's decision to retain targeted subsidies as well as a cautious and selected implementation of public sector reforms resulted in the social acceptance of the programme. The successful implementation of policy measures envisaged under this programme has laid a sound foundation for effective implementation of subsequent structural policy changes to sustain economic development that are contained in the current 1997-2017 Plan.

6.2 Feedback

Lessons Learned – Government

6.2.1 The ERSAP underscores the very important relationship (i.e. the complementarity) between adjustment and financing. The huge resource flow emanating from debt cancellations and

rescheduling, and Gulf War Windfalls encouraged the government to pursue the implementation of the programme with vigour. It also encouraged the Government to cancel half of the loan. The resource flow also cushioned the social impact of the programme and timely facilitated its acceptance.

6.2.2 Another lesson to be learned from this programme is the need to seek social acceptance of a programme. In the case of Egypt, this was made possible by measures designed to protect the vulnerable groups through the Social Fund for Development, selective retention of subsidies on key food products, and cautions and selective implementation of public sector reforms and privatisation programme. These measures were essential in sustaining the reform programme.

Lessons Learned – Bank

6.2.3 The programme was largely successful because of the efforts of the major co-financier – the World Bank – which supervised and monitored the progress of the programme, perhaps its outcome would have been otherwise. The lesson here is that the Bank should endeavour to monitor its programmes /projects.

6.3 Recommendations

Government

6.3.1 GOE should remain committed to reforms and ensure sustained implementation of structural changes envisaged in the current long-term development strategy – the 1997-2017 Plan. In particular, the Government should undertake measures that would increase the levels of domestic savings and investments; accelerate and diversify export earnings; allocate more resources in the social sector including gender issues as a means of alleviating poverty and improving income distribution.

Bank

6.3.2 The Bank should ensure that it is involved in all the stages of the project cycle, from identification to the completion stage of any project it co-finances. This will assist in avoiding similar experiences in processing and monitoring of the ERSAP programme in Egypt.

6.3.3 The Bank's role in the funding of economic reform programmes should go beyond the current supportive role to other co-financiers. The Bank should also ensure that the Borrower submit its PCR and audit reports are made on time as required by Bank rules and procedures. The Bank's lending for reform programmes should include, the assessment of the programmes impacts on environment, poverty and gender.

6.3.4 Future Bank lending activities should be in the areas identified in the country's long-term development strategy – the 1997-2017 Plan and specifically in social sectors and poverty alleviation projects. The identified areas include: export diversification; new investments and employment generation outside the Nile Valley; social sector investment; environmental protection; infrastructure development; and small and micro enterprise development.

PERFORMANCE RATINGS -- ERSAP
FORM IP 1
IMPLEMENTATION PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	1	Implementation schedule was exceeded by more than 1 year
2	Adherence to Cost Schedule	N/A	
3	Compliance with Covenants	4	There was full compliance with the covenants
4	Adequacy of Supervision and Reporting	1	Reporting was inadequate and there was no supervision mission
5	Satisfactory Operations (if applicable)	3	The entire operation was satisfactory
	TOTAL	9	
	Overall Assessment of Implementation Performance	2.25	Satisfactory

Key:

1: Highly Unsatisfactory

2: Unsatisfactory

3: Satisfactory

4: Highly satisfactory

FORM BP 1
BANK PERFORMANCE -- ERSAP

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	N/A	Bank did not participate in identification
2	At Preparation of Project	N/A	Bank did not participate in preparation
3	At Appraisal	3	The appraisal report was well formulated as it contained specific indicators of performance
4	At Supervision	1	There was no supervision mission and no reason was provided for this by the PCR.
	TOTAL	4	
	Overall Assessment of Bank Performance	2	Unsatisfactory

FORM PO 1
PROJECT OUTCOME -- ERSAP

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	**Relevance and Achievement of Objectives (*)**	**3.25**	The programme was relevant and it achieved most of its goals
i)	Macro-economic Policy	4	The policies pursued were relevant and adequate
ii)	Sector Policy	3	The adjustment policies particularly domestic price liberalisation, were well formulated. They were relevant to problems at hand and addressed key sectoral areas
iii)	Physical (incl. Production)	N/A	
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	3	While Social Fund for Development addressed poverty and social issues, gender issues were not addressed
vi)	Environmental	N/A	
vii)	Private sector development	3	The progress made in this area is satisfactory
viii)	Other (Specify)		
2	**Institutional Development (**)**	**3**	The programme made significant contribution to institutional development
i)	Institutional Framework including Restructuring	3	The programme made contribution to put in place effective institutional framework through extensive restructuring of the public sector
ii)	Financial and MIS including Audit Systems	N/A	
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. turnover) Training & Counterpart staff	3	There are no serious human capacity constraints
3	**Sustainability @**	**3**	Government is highly committed to reform as evidenced by the recent inclusion of reform minded individuals in the cabinet and in key economic offices and the current 1997-2017 Plan.
i)	Continued Borrower Commitment	3	Borrower commitment is very strong
ii)	Policy Environment	3	The policy environment is favourable to policy reforms
iii)	Institutional Environment	3	The institutional environment is now strong
iv)	Technical Viability and Staffing	3	There were no significant human capacity constraints.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	N/A	
vii)	Environmental Viability	N/A	
viii)	O & M facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities)	N/A	
4	**Economic Internal Rate of Return @**	**N/A**	
	TOTAL	9.25	
	Overall Assessment of Outcome	3.1	Satisfactory

RETROSPECTIVE LOGICAL FRAMEWORK MATRIX: ERSAP

NARRATIVE SUMMARY	VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS
	AT APPRAISAL	AT POST-EVALUATION		
GOALS:				
1. To achieve sound and sustainable long term economic growth	1.1 GDP to grow at negative 2 % p.a. 1991/92 – 1993/94 and at 4% p.a. 1994-97 period. 1.2 GDP per capita growth to improve from nearly zero percent growth in 1990/91	1.1 GDP grew at 2.8% p.a. 1991/92 – 1993/94 and at 5.3% 1994/95 – 1998/99. 1.2 GDP per capita grew by 3.5% in 1997/98	1. National Income Accounts 2. Ministry of Planning 3. BOE Annual Reports 4. World Bank Reports	1. Government Commitment to policy Reforms 2. No serious exogenous shocks 3. Adequate external financing
OBJECTIVES:				
1. Achieve a sustainable macroeconomic equilibria through a number of stabilisation measures	1.1 Reduce inflation to 21% p.a. in 1991/92 – 1993/94 and 6.3% p.a. in 1994-97 period 1.2 Reduce budget deficit to 12.6% of GDP p.a. in 1991/92 – 1993/94 and 3.4% p.a. in 1994-97 period 1.3 Reduce subsidies from 5.1% of GDP in 1991/92 to 4.2% in 1993/94 and 3.1% in 1995/96 1.4 Maintain prudent monetary growth 1.5 Unify the primary and secondary rate of foreign exchange rates by March 1992	1.1 Inflation rate at average of 13.7% p.a. in 1991/92 – 1993/94 and at 6% p.a. in 1994/95 – 1998/99 period. 1.2 Budgetary deficit averaged 4% of GDP p.a. in 1991/92 – 1993/94 and 1.2% p.a. in 1994/95 – 1998/99. 1.3 Subsidies reduced from 3.8% of GDP in 1991/92 to 2% in 1993/94 and 1.6% in 1995/96 1.4 Liquidity growth declined from 27.5% in 1991 to 12.3% in 1994 and 10.4% in 1998. 1.5 Exchange rates unified by March 1992. The Egyptian pound effectively pegged to US dollar in 1991.	1. National Income Accounts 2. Ministry of Planning 3. BOE Annual Reports 4. World Bank Reports 5. Ministry of Public Enterprise 6. Public Enterprise Office	1. Government Commitment to policy Reforms 2. No serious exogenous shocks 3. Adequate external financing 4. Donor Financial support for SFD available

	1.6 Adopt market-determined interest rates	1.6 Three months deposit interest rates declined from 16.1% in 1991 to 10.7% in 1994 and 9% in 1998 while those for 91 days TBs declined from 19.2% in 1991 to 12.5% in 1994 and 8.8% in 1998.		
	1.7 Restructure the banking and financial sector	1.7 i) Interest rates deregulated and prudential regulations improved and TBs markets established in 1991. ii) Banking and Insurance Laws amended to allow full private sector ownership in the sector in June 1998. The sectors are now open to foreign investment.		
	1.8 Restore BOP stability. i) Current account balance average negative US$2.7 billion in 1991-93 and negative US$ 2.6 billion in 1994-97	1.8 i) Current account balance excluding transfers averaged negative US$ 2.5 billion p.a. in 1991-93 and negative US$ 3.8 billion p.a. in 1994-97. ii) Current account balance as % of GDP (including official grants improved from negative 10.4% in 1991 to 5.5% in 1992 and 0.7% in 1994 and average of 0.8% of GDP p.a. in 1995-98 period. iii) Overall BOP was US$5.1 billion in 1992, US$2.1 billion in 1994 and an average of US$ 0.8 billion p.a. in 1995-98 period.		
	1.9 Increase national reserves	1.9 i) National reserves increased from US$ 3.8 billion in 1991 to US$ 13.4 billion in 1994 and US$ 19.6 billion in 1997.		

		ii) Imports months cover of reserves increased from 4.6 in 1991 to 12.5 in 1994 and 14 in 1997.		
	1.10 Restore creditworthiness. i) External debt to GDP ratio of 63.5% to 104.3% to be achieved by 1999/2000. ii) Debt service ratio of 12.4% to 22.6% by 1999/2000.	1.10 i) Debt/GDP ratio declined from 77.3% in 1992 to 59.8% in 1994 and to 34% in 1998. i) Debt service ratio declined from 71.7% in 1991 to 21% in 1994 and 13.6% in 1998.		
2. Undertake fundamental restructuring of the economy in order to lay a foundation for renewed economic growth in the medium and long-term.	2.1 Liberalise foreign trade by freeing foreign exchange.	2.1 Foreign exchange rates liberalised by 1991 and unified by March 1992. Foreign exchange quota system eliminated.		
	2.2 Phase out quantitative restrictions on exports.	2.2 Export bans and quotas lifted.		
	2.3 Remove tariff and non-tariff barriers on import; narrow the import tariff range from 0 – 720% to 5-100%.	2.3 Tariff and non-tariff barriers removed; the tariff range narrowed from 5-100% in 1991 to 5-70% in 1993 and the maximum tariff reduced to 40% in 1997/98.		
	2.4 Decontrol all domestic prices by June 1995.	2.4 Agricultural and Industrial products price and control subsidies removed except for bread, wheat flour, sugar and cooking oil, and pharmaceuticals.		
	2.5 Raise petroleum prices to 89% of international prices.	2.5 Petroleum prices raised to 100% of international prices		
	2.6 Raise electricity prices to 74% of LRMC.	2.6 Electricity prices raised to 74% by 1994.		

	2.7 Raise the tariffs of ENR by 5% annually (1991) until 100% by 1998.	2.7 ENR tariffs raised by 5% annually until 100% in 1998.		
	2.8 Restructure and/or privatise public enterprises.	2.8 i) Law 203 and Law 95 promulgated in 1991. ii) 314 PSC grouped into 27HCs and further reorganised into 17HCs in 1993. iii) PEO established in November 1991. iv) Between 1991-96, 3 companies sold to anchor investors, 16 sold through stock market, 10 sold to ESAs, and one liquidated. Between February 1996-1997, 65 companies sold through public offerings of stock and anchor investors. Between 1998-99, 21 companies sold to strategic investors in 1998, 65 companies privatised in 1999 and 131 retained for next phase of privatisation.		
	2.9 Reform Legal and Institutional framework including streamlining financial institutional setting	2.9 New economic ministries and agencies created and or strengthened in both public and private sectors such as MDPE, PEO, HMER, HOC, ESA, HCs, SFD, CMA, 21 Mutual Funds, 20 Underwriters, 9 Venture Capital firms, 140 Brokerage firms, clearing settlement and central Depository. Bond Markets, New Rating Co. etc.		

	2.10 Abolish investment and production controls, and remove Government monopolies and private sector discrimination.	2.10 i) Investment and production licensing abolished for most goods; restrictions on quantities produced and their geographic area were lifted and prices for cement and fertilisers liberalised. ii) Labour Laws amended to allow for free environment for labour recruitment.		
	2.11 Increase the share of private sector investment in gross fixed investment from 40% in 1990 to 50% in 1993 and thereafter continue increasing.	2.11 Share of private sector investment in gross domestic fixed investment increased from 58.8% in 1991 to 63.2% in 1994 and 68.4% in 1997 and is targeted to reach 80% by 2001/02.		
3. Mitigate the adverse effects of reforms on the poor and vulnerable groups and reintegrate returning workers from the Gulf States	3.1 SFD of about US$ 400 million to be set up.	3.1 SFD of US$ 400 million set up in 1991 and operationlised by 1993.		
	3.2 SFD to finance employment and income generation activities, small enterprise development and socio-economic development	3.2 Identified and implemented five core programmes i.e. PWD, CDP, EDP, HRDP and IDP.		
	3.3 Protect the poor and vulnerable groups from adverse effects of ERSAP	3.3 Subsidies on self-targeted products retained – i.e. bread, wheat flour, sugar, cooking oil and pharmaceuticals. Budgetary allocations to health and education sectors increased.		
OUTPUT:				
1. Sustained economic growth and macroeconomic stability.	1. Set of stabilisation and structural adjustment programme to be put in place.	1. Stabilisation and structural adjustment programme implemented by GOE	- do – AR and PCR	- do -

2. Deregulated foreign trade and exchange regime 3. Deregulated domestic price regime that is driven by market forces 4. Restructured and/or privatised public enterprise 5. Increased participation of the private sector in the economy under a simplified regulatory framework for investment 6. Safety nets and poverty reduction programmes developed	2. As given under objective 2 above. 3. As given under objective 2 above. 4. As given under objective 2 above 5. As given under objective 2 Above. 6. As given under objective 3 above.	2. As given under objective 2 above. 3. As given under objective 2 above. 4. As given under objective 2 above. 5. As given under objective 2 above. 6. As given under objective 3 Above.		
INPUT/ACTIVITIES: Quick Disbursing Loan	ADB loan of UA 100 Million	ADB loan of UA 50 million	ADB Reports and Records, Records of the GOE and CBE	Compliance with ADB loan conditions.

RECOMMENDATION AND FOLLOW-UP ACTION MATRIX : ITPAP and ECMAP

MAIN FINDINGS & CONCLUSIONS	RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
Formulation and Project Rationale			
1. The programme was well formulated with goals and objectives defined in measurable terms and targets set for most of the performance indicators.	• Similar programmes should set targets for performance indicators in measurable terms	• Continue to define goals, objectives and targets in measurable terms	Operations Departments and Borrower
2. Bank did not participate in the design of ESRAP	• The Bank should ensure that it puts in place mechanisms for participating in the design of the programme based on prior economic and sector work.	• The Bank should consider joint PFP mission for the design of the programme with IMF, WB and other donors.	Operations Departments
3. Regional dimensions of the programme were ignored.	• Design of adjustment programmes should consider fostering regional economic integration objectives.	• The Bank, IMF, WB and other donors consider this approach to adjustment.	Operations Departments, OCOD and other donors
Project Implementation			
The original life of the project was exceeded by more than one (1) years	There is need to adhere closely to the implementation schedule specified at appraisal	Keep to timetable set in the appraisal report	Operations Department and Borrower.
Compliance with Loan Conditions and Covenants			
GOE fully complied with the covenants, but the area of reporting was poor/ inadequate - no PCR and audit report were made.	Bank should ensure that all reports and the PCR are submitted regularly and on timely basis.	Supervision and audit missions should be mounted and ensure that all required reports are submitted on a timely basis.	Operations Departments and Borrower.

Performance Evaluation and Outcome			
1. The programme was largely successful as most of the objectives were achieved and most targets exceeded.	Government should remain committed to reforms and implement the structural changes envisaged in the 1997-2017 Plan.	Implement the reforms envisaged in the 1997-2017 Plan.	Borrower.
2. The Government is still dependent on external resources to finance domestic expenditure.	There is need to accelerate and diversify export earnings.	The Government could provide more incentives to diversify exports.	Borrower
3. Domestic savings and investment levels are still relatively low	There is need to increase the levels of domestic savings and investments	The Government could enhance savings and investment levels by further reforming the financial sector.	Borrower, Operations Department, WB, IMF and other donors.
4. Poverty levels are still relatively high	There is need to allocate more resources to social sectors.	Intensify poverty alleviation and social sector investment programmes.	Borrower, Operations Department, WB, IMF and other donors.
5. The programme made significant contribution to institutional development.	There is need to carry out further institutional reforms.	Deepen institutional reforms.	Borrower, Operations Department, WB, IMF and other donors.
Sustainability			
The sustainability of the achievements is assured as the Government is highly committed to reforms as evidenced by the current long-term development strategy – The 1997-2017 Plan, and by the recent inclusion of reform minded individuals in the cabinet and key economic offices.	The Government should continue with policies to achieve structural changes as envisaged in the 1997-2017 Plan : exports diversification ; social sector investment; infrastructure development; small and micro enterprise development; environmental protection; investment outside the Nile Valley; financial sector and institutional reforms.	The Bank and other donors to address specific areas in the 1997-2017 Plan with emphasis in social sector, agriculture, infrastructure and environment.	Borrower, Operations Department, WB, IMF and other donors.

Table I

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

KEY MACROECONOMIC INDICATORS

ITEM	1990/91	1991//92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
GDP at Current Market Prices (LE billion)	109	131	146	163	191	215	239	253	---
Real GDP Growth Rate (%) at Factor Cost	3.5	1.9	2.5	3.9	4.7	4.9	5.3	5.7	6.0
GDP Per Capita (Current US$)	600	704	778	841	955	1060	1180	1830	---
Inflation Rate %	22.0	21.1	11.1	9.0	9.3	7.0	6.2	3.8	3.7
Unemployment Rate %	9.3	9.2	10.1	9.8	9.6	9.4	8.8		---
Budget Deficit/GDP (%)	20.0	6.4	3.5	2.1	1.3	1.3	0.9	1.0	1.3
Exchange Rate (Piasters/US$)	160	310	332	335	338.9	339.5	339.3	338.9	338.8
Oil Prices (US$/Barrel)	16.95	16.54	13.93	14.1	15.1	15.72	18.78	16.98	10.0
Current Account Balance including official grants as % GDP	-7.9	-10.4	5.5	3.2	0.7	2.0	1.6	3.0	-3.4
Debt Service Ratio (% Forex Earnings	19.2	71.7	22.6	20.7	21.0	18.9	15.7	12.0	13.6

Source: Central Bank of Egypt
World Bank

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

STRUCTURE OF GDP AND SECTORAL GROWTH RATES (CONSTANT PRICES) - %

SECTORS	1990/91	1991//92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
GDP Structure (%)	100	100	100	100	100	100	100	100	100
Commodity	---	49.9	49.8	50.3	50.1	49.8	49.3	49.9	---
Agriculture	---	16.6	16.5	16.5	16.2	16.0	17.7	17.3	---
Industry & Mining	---	16.6	16.6	16.7	17.2	17.6	18.1	18.5	---
Petroleum & Products	---	9.9	9.8	10.3	9.8	9.4	6.6	6.7	---
Electricity	---	1.7	1.7	1.7	1.7	1.7	1.8	1.8	---
Construction & Building	---	5.1	5.1	5.1	5.1	5.1	5.3	5.6	---
Productive Services	---	33.3	33.1	32.7	32.8	33.0	32.4	32.1	---
Transport & Communication	---	6.6	6.7	6.7	6.8	6.8	6.8	6.8	---
Suez Canal	---	4.7	4.3	4.1	3.8	3.7	2.7	2.6	---
Trade	---	16.6	16.6	16.7	16.9	16.9	17.3	17.4	---
Finance	---	3.5	3.5	3.6	3.7	3.9	3.9	4.1	---
Insurance	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	---
Restaurants, Tourism & Hotels	---	1.8	1.9	1.5	1.6	1.7	1.6	1.1	---

SECTORS	**1990/91**	**1991//92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998/99**
Social Services	---	16.8	17.1	17.1	17.2	17.2	18.1	18.0	---
Real Estate Ownership	---	1.8	1.8	1.8	1.9	1.8	1.8	1.8	---
Public Utilities	---	0.3	0.3	0.3	0.3	0.3	0.4	0.4	---
Social Insurance	---	0.1	0.1	0.1	0.1	0.1	0.1	0.1	---
Government Services	---	7.1	7.3	7.2	7.2	7.2	7.9	7.8	---
Personal Services	---	7.5	7.6	7.6	7.7	7.7	7.9	7.9	---
Sectoral Growth Rates (%)									
GDP at Factor Cost	3.5	1.9	2.5	3.9	4.7	4.9	5.3	5.7	6.0
Commodity	3.7	1.7	2.3	4.9	4.3	4.3	4.2	4.6	---
Agriculture	2.8	2.0	2.5	3.8	2.9	3.1	3.4	3.7	---
Industry of Mining	4.9	1.5	2.9	4.2	7.7	7.5	8.4	7.8	---
Petroleum of Products	0.4	1.8	1.6	8.6	0.1	0.0	-5.0	6.9	---
Electricity	6.0	4.6	3.4	3.7	6.0	5.3	6.5	5.9	---
Construction of Building	5.0	0.7	1.0	4.1	5.7	5.5	8.5	10.6	---

SECTORS	1990/91	1991//92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Production Services	4.0	1.9	2.0	2.5	5.8	5.9	6.4	4.8	---
Transport & Communication	3.8	2.0	4.0	3.0	5.8	6.2	8.4	6.8	---
Suez Canal	1.9	---	-5.3	-0.4	-4.5	1.9	-4.2	0.1	---
Trade	3.4	1.8	2.9	4.1	5.9	5.3	6.5	6.2	---
Finance	3.9	1.7	3.0	8.5	7.0	8.7	9.2	10.0	---
Insurance	2.6	5.3	3.9	7.6	8.2	13.0	9.6	11.0	---
Restaurants, Tourism and Hotels	17.3	5.3	4.3	-18.6	12.4	12.9	13.3	-24.7	---
Social Services	4.4	2.4	4.0	3.9	5.1	5.1	6.2	5.1	---
Real Estate Ownership	10.7	1.1	4.3	4.7	5.6	3.9	6.7	6.2	---
Public Utilities	7.8	1.0	6.2	7.7	7.8	7.5	8.1	8.2	---
Social Insurance		2.1	5.7	5.4	5.2	8.8	6.3	9.1	---
Government Services	5.0	4.2	4.2	3.9	4.4	4.5	5.6	5.0	---
Personal Services	2.3	1.2	3.5	3.6	5.5	5.7	6.7	4.8	---

Source: Central Bank of Egypt
World Bank
ADB

Table III

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

EXTERNAL ACCOUNTS (US$ Million and Percent)

ITEM	1990	1991	1992	1993	1994	1995	1996	1997	1998
Exports	2137	3137	3477	3724	3337	4957	4609	4930	5128
Imports	9795	10433	9953	10728	10647	12810	14107	14718	16899
Current Account Balance including official grants (% GDP)	-7.9	-10.4	5.5	3.2	0.7	2.0	1.6	3.0	-3.4
Current Account Balance excluding official grants (% GDP)	-10.5	-14.1	2.8	-0.8	-0.8	0.5	0.5	1.8	-4.5
Foreign Exchange Reserves	1625	3856	8108	11670	13381	16015	17868	19657	19522
Reserves (Months of Imports)	1.9	4.6	9.1	13.2	12.5	13.6	14.6	14.0	11.0
Current Account Balance (Excluding Transfers)	-5470.3	-3870.9	-1008.3	-2743.6	-3854.6	-3811.7	-3706.6	-4026.6	-7176
Current Account Balance (Including Transfers)	-634.0	1391.3	3752-6	4547.9	191.4	385.9	-185.4	118.6	-2772.3
Transfers	4836.3	5262.2	4760.9	7291.5	4046.0	4197.6	3521.2	4145.2	4403.8
Overall Balance	---	6417	5070.0	4021.7	2106.2	754.2	570.6	1912.3	-135.0
External Debt	24869	31098	30373	31468	34214	31613	30319	30313	29881
Debt Service Ratio (% Foreign Earnings)	19.2	71.7	22.6	20.7	21.0	18.9	15.7	12.0	13.6
External Debt/GDP (%)	106.9	93.7	74.3	64.5	59.8	54.6	46.8	38.1	34.0
Exchange Rate (Piasters/US$)	155		332	335	338.9	339.5	339.5	338.9	338.8

Source: World Bank
Central Bank of Egypt

Table IV

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

SUMMARY OF FISCAL OPERATIONS
(in Millions of Egyptian Pounds)

ITEM	ACTUAL 1990/91	ACTUAL 1991//92	ACTUAL 1992/93	ACTUAL 1993/94	ACTUAL 1994/95	ACTUAL 1995/96	ACTUAL 1996/97	ACTUAL 1997/98	PROJECTED 1998/99
TOTAL REVENUE	30710	43385	46703	52567	55719	60893	64498	67963	71295
Central Government Revenue	23876	35676	41020	46384	49889	54486	57179	60035	62449
Tax Revenue	15504	24285	27334	31373	34279	38249	40518	43962	47149
Transferred Profits	6979	8863	9364	9070	10542	11133	11423	10780	9802
Other Non-tax Revenue	1393	2528	4322	5941	5068	5104	5238	5293	5498
Local Government Revenue	1092	1408	1782	1984	1951	2125	2354	2426	2601
Public Services Authorities	641	749	881	1050	1085	1097	1220	1428	1576
Investment Self-Financing	5101	5386	2338	2471	2138	2574	3116	3439	3923
Sales of Assets	0	166	682	678	656	611	629	635	746
TOTAL EXPENDITURE	50398	50963	52223	56264	58256	63889	66826	70783	75285
Current Expenditures	26963	32450	40788	45420	46258	50537	52356	54747	58621
Central & Local Government & Service Authority	23479	28581	36755	42494	43294	47121	48651	50879	54372
Public Authority Deficits	634	380	340	0	0	0	0	0	0
Subsides	3287	4470	3859	3418	3639	4075	4379	4410	4564
Capital Expenditure Net	-437	-981	-166	-492	-675	-659	-674	-542	-315
Transfer for Restructuring & Social Fund	6090	0	150	338	520	515	645	650	700
Investment Expenditure	15067	15746	11097	10659	11299	12581	14070	15635	16030
Payment of Arrears Banking Bond	0	0	0	0	0	0	0	0	0
GASC Bank Borrowing	2278	2767	188	-153	179	256	-245	-249	-66
Overall Deficit	19688	7578	5520	3697	2537	2996	2328	2820	3990
Additional Budget for Investment	0	0	0	0	0	0	0	0	0
OVERALL DEFICIT INCLUDES RECAPITAL. CE	19688	7578	5520	3697	2537	2996	2328	2820	3990
GDP	98664	118288	157083	173117	200408	224917	253458	278189	305242
Overall Deficit (%)	20.0%	6.4%	3.5%	2.1%	1.3%	1.3%	0.9%	1.0%	1.3%

Source: Ministry of Finance

Table V

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

SELECTED MONETARY AND FINANCIAL INDICATORS

INDICATORS	End of June									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Money Supply (LE million)										
Money Supply (M1)	17777	18795	21058	24488	28264	31634	35056	39052	43590	48844
Quasi-Money	54036	72736	83530	97263	109181	120943	133476	154850	166897	185725
Domestic Liquidity (M2)	71813	91531	104588	121751	137445	152577	168532	193902	210487	234569
* Liquidity Growth (%)	19.7	27.5	14.3	17.0	12.3	11.0	10.5	15.1	10.4	11.5
Interest Rates (% Annually)										
3-months deposit	---	16.1	16.5	13.5	10.7	10.2	10.2	9.9	9.0	9.1
Loans of 1 year or less	---	20.3	20.3	18.3	14.9	13.8	13.8	13.2	13.2	12.8
91 days TBs	---	19.2	17.6	14.8	12.5	10.9	10.2	8.9	8.8	8.8
Inflation Rate (%)	21.2	14.7	21.1	11.1	9.0	9.3	7.3	6.2	3.8	2.9

Source: Central Bank of Egypt
World Bank

Notes:
Domestic Liquidity (M2) includes Money Supply (M1) and Quasi Money.
Money Supply includes currency in circulation outside the banking system and demand deposits in local currency.
Quasi Money includes time and saving deposits in local currency and demand, time and savings deposits in foreign currencies.

Table VI

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

GROSS DOMESTIC SAVINGS AND INVESTMENT (1990 – 1997)
(LE Million and Percent)

FISCAL YEAR	1990	1991	1992	1993	1994	1995	1996	1997
GDP at Market Prices, of which	96137.7	111244.4	139102.0	157260.0	175000.0	204000.0	229473.0	256300.0
Public Consumption	10850.0	12450.0	14500.0	16000.0	18000.0	21500.0	23800.0	26100.0
Private Consumption	68950.0	80900.0	101000.0	115000.0	130500.0	151900.0	176540.0	192700.0
Gross Domestic Savings	16337.7	17894.4	23602.0	26260.0	26500.0	30600.0	29133.0	37500.0
Gross National Product	89760.5	97178.5	133321.9	151148.6	172033.9	202457.7	228997.1	257158.5
Net Factor Income from Abroad	-6377.2	-14065.9	-5780.1	-6111.4	-2966.1	-1542.3	-475.9	858.5
Gross National Savings	9960.5	3828.5	17821.9	20148.6	23533.9	29057.7	28657.1	38358.5
Gross Domestic Savings/GDP	17.0	16.1	17.0	16.7	15.1	15.0	12.7	14.6
Gross National Savings/GDP	10.4	3.4	12.8	12.8	13.4	14.2	12.5	15.0
Gross Domestic Investment	27700.0	23550.0	25300.0	25500.0	29000.0	35100.0	38100.0	45400.0
Public Investment	9800.0	10200.0	11848.0	11097.0	10659.0	11300.0	12581.0	14283.0
Gross Domestic Investment/GDP	28.8	21.2	18.2	16.2	16.6	17.2	16.6	17.7
Public Investment/GDP	10.2	9.2	8.5	7.1	6.1	5.5	5.5	5.6

Source: Ministry of Planning
World Bank

Table VII

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

GROSS DOMESTIC FIXED INVESTMENT (1990 – 1997)
(LE Million and Percentage Shares of Public and Private Investment)

FISCAL YEAR	1990	1991	1992	1993	1994	1995	1996	1997
Public Investment (LE Million)	9800.0	10200.0	11848.0	11097.0	10659.0	11300.0	12581.0	14283.0
Private Investment (LE Million)	16100.0	14550.0	14652.0	14403.0	18341.0	21800.0	24179.0	30917.0
Gross Domestic Fixed Investment (LE Million)	25900.0	24750.0	26500.0	25500.0	29000.0	33100.0	36760.0	45200.0
Gross Domestic Fixed Investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public Investment	37.8	41.2	44.7	43.5	36.8	34.1	34.2	31.6
Private Investment	62.2	58.8	55.3	56.5	63.2	65.9	65.8	68.4

Source: Ministry of Planning
World Bank

Table VIII

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

COMPOSITION OF MERCHANDISE EXPORTS (1990 – 1998)
(LE Million and Percent)

FISCAL YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998
Merchandise Exports, of which	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cotton and Textiles	27.8	15.7	16.1	14.3	16.2	31.1	14.8	14.5	13.0
Cotton	7.0	2.1	0.3	1.1	1.3	6.9	2.4	2.2	2.0
Textiles	20.8	13.6	15.8	13.2	14.8	24.2	12.5	12.3	11.0
Oil and Products	39.1	50.7	45.4	52.8	53.1	36.6	48.3	52.3	33.7
Oil	---	37.6	32.3	37.4	27.9	18.8	25.8	26.2	13.2
Oil Products	---	13.1	13.2	15.3	25.2	17.8	22.4	26.1	20.5
Non-Oil Exports	60.9	49.3	54.6	47.2	46.9	63.4	51.7	47.7	66.3

Source: Ministry of Planning and Central Bank of Egypt
World Bank

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

EGYPT: DEMOGRAPHIC AND SOCIO-ECONOMIC INDICATORS

INDICATORS	YEAR	EGYPT	COMPARATIVE INDICATORS		
			Africa	Developing Countries	Developed Countries
A. General					
Area (million km^2)	1990	1.0	30.3	--	--
Population Size (million)	1996	64.2	661	4487	1214
Sex Ratio (/100 Female)	1995	103	99	104	94
Population under 15 years (%)	1996	38	46	35	19
Population 65 years and over (%)	1996	4	3	4.5	12.1
Dependency Ratio	1996	72.4	92.3	67	50.4
Urban Population (%)	1995	44	34	37	74
Rural Population (%)	1994	56	66	63	26
Population Density (per km^2)	1996	63	21	51	21
Population per km^2 of arable land	1995	820	363	--	--
Adult Literacy Rate: - Total	1995	52	51	70	99
- Male	1995	64	63	75	99
- Female	1995	39	42	62	99
Labour Force Participation Rate (%): - Male	1995	50	--	50	--
- Female	1995	7	--	35	--
GNP per Capita (USD)	1995	970	600	987	23195
Annual Growth Rate of GNP	1993	1.9	-0.3	-2.9	2.2
B. Demographic Indicators					
Natural Rate of Increase (%)	1996	2.0	2.9	2.1	0.6
Urban Population Growth Rate (%)	1995	2.6	5	3.8	0.8
Crude death rate (per 1000 population)	1995	8	15	9.0	9.0
Infant mortality rate (per 1000 live birth)	1995	67	107	68	11
Child mortality rate (per 1000 children age 1-4)	1995	80	167	91	16
Maternal mortality rate (per 100,000 live births)	1995	170	630	479	27
Life expectancy at birth (years): - Total	1995	63	52	64	74
- Male	1994	62	--	--	--
- Female	1994	65	--	--	--
Crude birth rate (per 1000 population)	1996	29	44	27	12
Total fertility rate (No. of children/woman)	1995	3.4	6.2	3.3	1.7
Median age	1995	22	17.3	22.2	33.6
Population doubling time (years)	1995	35	24	34	148
Women of child bearing age (%)	1995	48	45	--	--
Proportion of women using contraceptive (%)	1995	47	18	53	72

INDICATORS	YEAR	EGYPT	COMPARATIVE INDICATORS		
			Africa	Developing Countries	Developed Countries
C. Health and Nutrition					
Population per physician	1993	476	18000	7000	390
Population per nursing staff	1990	490	--	1700	180
Access to safe water	1995	79	60	70	--
Percentage of fully immunised children	1995	83	--	85	87
Average per capita calorie intake	1995	3336	2328	2546	3412
Babies born with birth weight < 2500 grams	1990	10	--	19	7
Percentage of GNP spent on health	1990	1.0	4	4	14
Average per capita spending on health (USD)	1990	18	14	41	1958
D. Demographic Indicators					
Gross Enrolment Ratio	1994	88	79	93	--
Primary School: - Total	1994	82	63	92	102
- Female	1994	75	58	47	91
Secondary School: - Total	1994	69	21	40	96
- Female	1992	5.0	12	10	4
Percentage of GNP spent on Education	1986	3.0	--	--	--
Average per capita spending on Education					

Source: - PCR
- The State of World Population 1991, UNFPA
- Africa Recovery No. 3, 1991, UN
- The World Health Report, 1996
- World Bank Development Report, 1993
- La situation des enfants dans le monde, UNICEF, 1996
- Human Development Report, UNDP, 1995.

Table X

EGYPT : ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAMME
PROGRAMME PERFORMANCE EVALUATION REPORT (ERSAP – PPER)

STATEMENT OF PRIVATISATION STATUS TO–DATE (JULY 1999)

SALES TECHNIQUE	**NO. OF COMPANIES**	**SALE VALUE** (LE Million)
Majority in Stock Market	37	5338
Majority to Anchor Investors	17	2484
Majority to Employee Associations	29	760
Sale as Assets/Liquidations	28	2366
Minority/Tranches Sold	18	1959
Total	**129**	**12907**

Source: Public Enterprise Office; Ministry of Public Enterprise.