

interested in the long term welfare of Egypt. As she puts it:

"If the United States has considered the substantial aid it delivers to Egypt as a means to feed the population and provide it with basic services and thus maintain domestic stability as an end in itself, then the basic issue of overcoming Egypt's poverty and backwardness will not be addressed and the recipient's economy will sink into the morass at a compounding rate of dependence."

One of the most sensitive issues in Egyptian-American relations is that posed by the role of the public sector in Egypt. Professor Handoussa states that: "...the existence of public enterprises to the Egyptian economy...is much a vital Egyptian interest as American multinationals are to the U.S.A.". This is, therefore, not an issue upon which Egypt is likely to compromise, yet the United States refuses to provide anything more than "trivial" aid to improve the productive capacity of the public sector in Egypt.

Professor Handoussa, unlike Mr. Miller, does not oppose aid in principle. Her objection is to the way the USAID program has been handled in Egypt, and she supports her case with numerous examples drawn from the actual experience of the Egyptian-American relationship. Hers, and the essays which preceded it in this volume, contain interesting and provocative ideas. Hopefully, readers will be both stimulated and informed by them.

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The Impact of Development Assistance on Egypt

ED., Earl L. Sullivan

American U. in Cairo

The Perspective of the Egyptian Ministry of Investment on Development Assistance Programs

SEP 84

by Wagih Shindy\*

The Ministry of Investment and International Cooperation was established on January the 3rd, 1982. It is a very recent Ministry, but as is clear from its name, it has important responsibilities. The raison d'être of establishing a specific Ministry was to give prominence to both factors: investment and international cooperation.

In international economic cooperation, we are dealing with forty-one different international regional, and bi-lateral sources. We are not dealing with all these sources to get the maximum amount of money, because we are very sensitive concerning our foreign debts. Our total economic debts are 14 billion Egyptian pounds. Therefore, there is no comparison whatsoever with the debts of other developing countries in the world: 95 billion U.S. dollars of debt for Brazil, 90 billion for Mexico, 50 billion for Venezuela, 40 billion for Argentina, and even for some of the East European countries, the figures range from 15 to 40 billion.

Our requirements are planned well ahead. The five year plan for 1982-1987 requires a total amount of investment of 34 billion Egyptian pounds, both in Egyptian pounds and foreign exchange. Out of the 34 billion, 8.3 billion is for the private sector, the largest amount given to the private sector since the beginning of the 1950s. In other words, it is about 24% of total investment, while it was only 6% in the 1960s, 10% in the 1970s and 17% in 1980, a few years back. We, the Ministry of Investment, are responsible for the 8.3 billion. If you take the 8.3 billion aside, then the rest is about 25 billion, about 35% or 40% of which must be in foreign exchange. Of the foreign exchange component, part will be financed out of the foreign exchange budget, but a substantial part will be financed through international economic cooperation. Therefore, we have the task of getting 6.3 billion Egyptian pounds in foreign exchange, which means almost 8 billion U.S. dollars, for five years, from the 41 sources. There is no doubt that the United States aid program to Egypt is the largest. It represents somewhere between 35% to 40% of the total aid received by Egypt.

Our policy is clear. Since the economic conference earlier this year, the President and the Prime Minister have spoken about the productive Open Door Policy. The Productive Open Door Policy means three important areas. First is infrastructure, because without infrastructure -- electricity, water and sewage, ports -- you cannot actually take any serious efforts to develop the commodity sectors of the economy: agriculture and industry. For agriculture, we are planning for a rate of growth of about 3.4% a year for the five years. In industry, we are planning for a rate of 9.5% a year for the five years. We wish to use the investment for both sectors in order to expand the existing productive facilities and establish new ones. So the areas are very clear, infrastructure, agriculture, and industry.

\* Selected from Minister Shindy's presentation at the Cairo Papers Symposium on the Impact of Development Assistance on Egypt, December 11, 1983.

We are, for the first time, planning our own development financing we ahead. In other words, there is a plan and we do not finance just any project but only those with certain characteristics. First, a project must be included in the plan. Second, the local component must be available on time. Bank formerly financed some projects and the foreign exchange was available while the local currency was not. Third, we look at the financial engineering of the project. For example, should an infrastructure project, e.g. water or sewage get loans or grants? What is the economic and social impact of this project? Definitely a sewage project should get grants, while industrial projects may get concessional financing. And concessional financing, in the right sense of the word, is financing available from different sources for a period of 30 to 50 years with a grace period of 10 years and three quarters of one per cent interest rate, or administrative changes. In our Ministry, when we evaluate a project, we look at the project to see if it is included in the plan or not because the plan has been approved by the cabinet and the People's Assembly. Second, we look at the local component. Third, we look at the financial engineering of the project to see exactly what kind of financing is required. Fourth, we look at the right source of financing, in other words, in a certain industry, what kind of technology is required for the future? We can then go to the country which has the best technology and ask for aid. Fifth, after we finish all of this, we look at the follow-up of different projects and the utilization of funds. Any amount of money which is not used, is not only an economic waste but represents a social and political waste for the whole country. Therefore, we have a special department within the Ministry to look at actual utilization of funds, and different ways and means to push it ahead. In the last year alone, the total amount of utilization of aid funds is more than 80%. In some cases, it is 98% because it differs from the loan part to the grant part of the funds. We have heard for a long period of time of the concept of the pipeline -- 2.7 billion U.S. dollars in the pipeline, or 2.6 billion U.S. dollars in the pipeline. As a matter of fact, we studied this carefully and we made certain calculations at the Ministry, and we informed Mr. Stone and his colleagues that, according to the concept of the money which is allocated for certain up to 1983, the total amount of the pipeline is less than 500 million U.S. dollars, far less than 500 million. With the World Bank for instance, utilization for the last year is double the international average for all countries in the world, which is a 47% increase in utilization in one single year. In the final analysis, we have the responsibility for planning international economic cooperation, negotiating the terms, concluding the agreements and the managing follow-up. This is why half of our work, or half of the name of the Ministry, is International Economic Cooperation.

If you look at the United States AID program by itself, it is different from looking at all the different aid programs of the 41 international, regional and bi-lateral sources. Thus, it should be fair to look at the macro level and not to the micro level of one specific aid program, because if you look only at one specific aid program, the picture may be misleading. You have to look at the impact of all aid programs. Let me speak about the record. Since 1975, out of all the aid that we got, what have been the main areas of utilization? First, agriculture. In agriculture we did have four programs for tile drainage, two in the Delta and two in Upper Egypt, and according to the report of the World Bank, agriculture productivity would increase by at least 32% once you have a tile drainage program, because the sub-soil water table has gone up so substantially. There were problems of salination, especially in Upper Egypt. That's why the government used funds for irrigation programs. In agriculture, we know that there is first class land, second class land, third

class land, and fourth class land. Our experts told us that a substantial part of the land did change on its own from first and second class to third and fourth. Therefore, there was a program especially to change the structure of the land, especially the third and fourth grade to second and first. This was done with the World Bank. Another question was: are we going to continue just cultivating traditional crops, e.g. cotton, rice, maize, barseem (clover)? Or, should we actually develop to the present pattern of production, which is agro-industrial production? We opted for the second choice and several agro-industrial projects were established in Egypt. Some were financed from international and regional sources, like the Nuhariya project, and others by joint ventures. The value added is substantially greater if you have an agro-industrial project. Finally, we considered the impact of labor costs on agriculture, and the need for agricultural mechanization. We are in the process of negotiation with different sources to finance increased agricultural mechanization. So rural areas were not neglected and urban areas were also not neglected. As a matter of fact, there have been more than 1000 million U.S. dollars spent on rural areas in Egypt.

The textile industry is one of the oldest in Egypt, started back in 1820-1850. A whole program of rehabilitation of the textile industry was established with both the World Bank and the USAID funding. Four factories, Mahala el-Kubra, Kafr el-Dawar, el-Beida and Helwan Spinning and Weaving have been rehabilitated and expanded. A second industry which is very important is cement, and four new cement factories were established in Egypt using foreign aid funds. Not all of the funds were from the United States, but also from the World Bank, from Japan and others. In a third industry, fertilizer, we gradually came to be great importers of fertilizers. With rehabilitation of the present fertilizer factories and the establishment of three new fertilizer factories in Egypt, we came to be self-sufficient in a new area and we are starting to export fertilizer outside Egypt. Rehabilitation was also undertaken in a number of public sector factories such as those which produce tires, food products and cement pipes.

I think we can speak about coordination now with great pride. To be approved, the project should be in the Five Year Plan and we must know exactly how much money is required from outside sources and what other kind of financing is required before hand. After that, there is only one responsible ministry, the Ministry of Investment and International Cooperation. In each donor country there is only one single authority dealing with foreign aid, and if this is the case on the supply side, then it should be the case on the demand side. If there is any difference in views, then we have the Higher Committee for Policy and Economic issues. We go to the Higher Policy Committee, which is the main sub-committee of the cabinet, to take the final decision. But when we speak, we speak at the Ministry: we represent the consensus of the Egyptian government as a whole. So it is not a matter of conflict between here and there.

I think much has been said in the past about bureaucracy in Egypt, and we always like to make fun of it. Let me be frank and candid with all of you. First, we have no monopoly for bureaucracy in the whole world. This is a fact that should be kept in the mind of everyone. Second, in each country, developed or developing, and in each organization, international, regional, or local, there is an amount of bureaucracy. Ask the businessmen in any country. Look at the decisions that one of the multi-nationals will try to reach in comparison with a decision of a medium size or small size company. Third, when you speak

about Egyptian bureaucracy. I think this is injustice. There is a great injustice here, because as much as there is bureaucracy here, there is always bureaucracy on the other side, but you wouldn't know it except if you are dealing with it. In some cases, like regional organizations, if the regional organization represents 40 countries, then you have the bureaucracy of 40 member countries, and not only one of them. Let us look at the record. The telephone project in Egypt is ahead of schedule by six months. The Shubra el-Kheima project, the biggest electricity project in the whole Middle East, is ahead of schedule by one year. A few minutes ago I was speaking about the record regarding the use of funds from different sources. With grants from the U.S., more than 90% is used; with loans from the U.S., 98% is used. This is the record as of the 30th of September 1983. And even when you are dealing with different departments, investment for instance, I just want to say what the international press spoke about: the revolution in investment planning in Egypt. As of now, efficiency is the name of the game. The unheard of happened in Egypt. These are some examples of what is taking place.

Perspectives of the Egyptian Ministry of the  
Economy on the Impact of American Aid on Egypt

by Mostafa El-Said\*

If I try to optimize American aid to Egypt, I have first, to look at Egyptian priorities. These I have to set first, and then examine whether American aid to Egypt is consistent with those priorities or not. Always we will find a gap. So, the next question is, how to close this gap. As Minister of Economy, I would say that there are three basic priorities of the Egyptian economy at this time. The first is to establish a structure of economic growth where agriculture and industry play a more important role than they were doing before. Second, I have to follow economic policies that will help me to decrease the existing deficit in the balance of payments. Third, I have to follow policies in order to decrease the existing deficit in the budget, and with it, all the inflationary pressure which is existing in the economy. Those are the three basic priorities adopted by the Egyptian government according to the existing five year plan.

Is American aid in all its totality and all its details consistent with those aims? I would say that it is partly consistent, partly inconsistent. At least, the priorities of American aid are not completely consistent with Egyptian priorities. If we examine the structure of the aid, we can see that it is divided into two basic parts. Part is used to import the agricultural commodities, and the other part is related to projects. Regarding the question of importing agricultural commodities, one could say that it is required by the Egyptian economy to import wheat and so on. But again, there is the question of the impact of this on the ability of Egypt to develop its agriculture and to increase productivity. Certainly all of us are aware of the economic literature regarding the impact of importing basic foods or basic agricultural commodities on productivity in the agricultural sector. All of us are aware of the negative aspects of this. Whether or not the American aid is aiming at decreasing the existing deficit in the balance of payments, one would like to see if the projects selected are export-oriented, for example, or helping largely in the nature of import substitution. Again, a detailed examination is required. One can see that there are chances to use projects in a way to select those which are more consistent with reducing the deficit in the balance of payments, by concentrating on projects which are export-oriented. But I don't think that the American aid in its allocation of resources is taking this point wholly into consideration. This is not in the mind of those who are allocating the aid. If one examines the projects, for example, one may question whether aid is taking into consideration the aim of decreasing the existing deficit in the balance of payments. One would even say that some of the projects put more pressure on the balance of payments, particularly those which create new needs in the villages, which may result in an increased propensity to import.

Regarding the deficit in the budget, one of the main reasons behind this deficit is that at a time when the government is investing in the public sector, the public sector is not responding by providing the budget with enough

\* Selected from Minister Said's presentation at the Cairo Papers Symposium on the impact of Development Assistance on Egypt, December 11, 1983.