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*THE IMPACT OF DEVELOPMENT ASSISTANCE
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Egypt and the Helping Hand

by Adel A. Reshai

I am writing this essay in 1983 when the developing world has had several decades of experience with foreign aid, economic aid, development aid, call it what you will. Surely, if this were written in the forties or early fifties, the thoughts would have been different.

My paper is not concerned with an ideological standpoint on aid. It tries to be pragmatic and discusses some broad issues, looking from Mount Olympus as it were.

We are all familiar with the "two-gap" approach¹ which separates the savings gap from the foreign exchange gap. Many models were built on this approach and much ink was spilt in criticising these models when used to derive conclusions about trade and aid policies.

There are other approaches which talk of the benefits and costs of aid in a rather mechanistic sense. Some of these approaches use an accounting rather than an economic framework. The literature also abounds with a stage approach: the growth - and - debt - stages. The weakness of such an approach lies in the fact that stages can be determined by hindsight.

It is my contention that whilst such approaches may provide some insight, it would be dangerous to stick to any one of them, given their partial aspects. Like many things on development which we are beginning to realize, we stand to learn better from individual country studies which seem to contain always warnings against generalizations. In doing so, we should be wary of just being fascinated by numbers or of sticking to any one aggregative approach. For example, any aggregative approach treats all units of investment as if each were adding to a volume of capital which is homogeneous. In practice, this is only true of the monetary units in which capital and investment are measured. It is convenient to measure investment and capital in monetary terms, but the money values often only hide the significance of the specific nature of the investment item. Whilst there is flexibility in the first instance in terms of using resources, there is some sort of inflexibility once the resource is used. Steel once built into a building must yield additional wealth in that form, otherwise the investment will have been wasted. Cement used in building an underground metro must likewise do so.

II.

Let me now turn to American aid to Egypt. This is a huge program. I am referring here to aid since 1975. Of the one billion dollars or so committed annually some 55% is in the nature of PL480 and the CIP (Commodity Import Program). The remaining 45% is in project assistance. Less than one-half the program is in loans. The remainder is in grants.

I propose to select a few issues and make my own comments. One argument against American aid is that it is essentially tied aid. In economic terms, aid tying is effectively a protectionist service, which reduces the real value. There are direct and indirect costs of tying aid. The direct costs can be

estimated as the difference between the cost of importing from the tied source and the cost of importing the same commodity from the cheapest source. The indirect costs for the recipient country can be represented in a distortion of development priorities, and in biasing investment towards projects with a high import content.

Although the Agency for International Development does not appear to reject its own projects as it were, it may still happen that the policy agenda of the Egyptian ministries may be influenced by AID decisions.

For another, surely if aid is tied by donor procurement this may represent a cost if that supplier's prices are higher than alternative sources. Of course, this is not unusual in bilateral aid. The receiving country, after all, is knowledgeable enough to realize that there is such a thing as bilateral aid and multilateral aid. The rules of the game of one differ from the other, and it is up to the recipient country to bargain for better terms and gain better knowledge of the markets. We do know that U.S. millers of wheat flour count Egypt as their largest foreign customer. It is estimated that 400 U.S. firms have indirectly benefited from the Commodity Import Program in the U.S. aid package to Egypt.² And as is well known in the history of food aid, concessional sales are supposed to stimulate commercial ones. This was not a distant hope in Egypt. In the early 1980s, roughly 40% of the agricultural sales to Egypt were already on strictly commercial terms. After all, aid legislation in the U.S.A. contains explicit provisions to avoid or lessen foreign competition for American industries. These requirements, regardless of their rationale in economic terms, are probably necessary in order to get Congressional backing for foreign assistance, and are perhaps critical to funding for the United States Agency for International Development.

Our realization of these characteristics of bilateral aid should not lead us to jump to conclusions that multilateral aid is necessarily superior. Despite the textbooks' list of arguments for multilateralism, it may be noted that, in practice, multilateralism is not a guarantee of freedom from political pressures. Depoliticization of aid through multilateralization has often been an illusion. We know of strenuous efforts that were made at coordinating and unifying the purposes and activities of the United Nations organs, but these were at best partially successful. Indeed, the very fact that these efforts have been repeated and undertaken by so many committees and special bodies, shows that while the need for reform is recognized, the obstacles to its achievement are difficult to overcome. For example, the Committee on the Reorganization of the Secretariat and the Review Team appointed to investigate the organization of the Food and Agriculture Organization of the United Nations (FAO) were both equally unsuccessful.³ They misunderstood the nature of the planning process, particularly in predominantly traditional agricultural areas, in which the fundamental prerequisite is for development planning to be organized as one coherent whole.

It seems to me that a developing economy should be cognizant of these issues. It also seems to me that Egypt in the mid-seventies should have examined her investment and development program as a whole and made a better use of her foreign exchange additions of some \$7 billion per year from tourism, Suez Canal, remittances, and oil exports - a figure which hitherto was virtually zero - before asking herself what aid, if any, is needed.

III.

Another point I would like to make about American aid to Egypt has to do with its timing. U.S. aid came at a time when the Egyptians had fast-rising expectations in the wake of the 'Infitah' and Sadat's visit to Jerusalem. Regrettably, the Egyptian masses had sanguine expectations as a result of what they read in the papers. These very same papers underplayed the serious structural problems of the economy. The United States role was seen by certain sections of the community as at least conducive to, if not responsible for widening the income gap. In this respect, it is worth recording that the growth rate of aid from the U.S.A. to Egypt in the seventies was sudden and very high. Given this, it appears safe to assume that the picture might have been different if the aid increased slowly to permit time to get some knowledge of Egypt's economic problems, and to operate within a comprehensive plan to guide those responsible. On their side, the Egyptians also needed time to assimilate the American approach that expects the receiving country to participate in contracting out and managing projects. The approach assumed coordination and sharing of data by government ministries. This haste has often resulted in new bureaucratic patterns on top of the Egyptian bureaucracy which is 7000 years old, and the American bureaucracy, though only 200 years old, has been perfected to the level of the Egyptian one.

This haste seems to have resulted in inefficiencies and in coloring the image of aid. After all, aid is also political, and there is such a thing as the political image. In 1976, aid-financed buses were imported from the U.S.A. for urban transport in Cairo and Alexandria. These buses were called 'Voice of America' (VOA) because of the exceptionally high noise they made. True, as Don Brown mentioned in his speech in Alexandria, these were based on Egyptian specifications, and the desire of Egypt to buy the least expensive buses. A mistake has been perpetrated, and it would be pointless to try to say that that was what the government wanted. As far as every Egyptian was concerned, these were the buses funded by AID, with a sign on each bus.

Now I come to an important point in my paper. You will recall that I had earlier made the point that AID does not seem to superimpose itself as the planner of Egypt's path to development. That very same attitude may have complex ramifications. In many instances, the government may be unduly preoccupied with urban peace. As a result, the flow of aid, in line with government policy, may move in that direction. For example, AID officials or other donors may be told that out of the projected 67 million inhabitants of Egypt in the year 2000, some 30% of those may be living in Greater Cairo. The result is a very heavy concentration in urban areas. The consequence is the illogicality and ineffectiveness of many aid programs. Paradoxically, such failures redound psychologically to the discredit of the Agency in the recipient country - even though its fault was one of complaisance rather than commission. The execution of any plan can be fully effective only with the participation, indeed enthusiasm, not merely of the policy makers in the governmental executive organs, but also of those broad masses which it affects personally.

Projections, in a sense, are deceptive. We need vision. In the early seventies in many international fora, projections were being made to 1985. Now they are made to the year 2000, as if the world will stop at this round figure. What if we say that the population of Egypt is expected to be 140 million by 2025? What will happen if this urban bias is continued? Who would want to be a

party to increasing the ruralization of Cairo and contribute to an already polluted environment?

It seems to me that a donor agency cannot just keep saying: This is what your government wants. If aid is really and truly developmental aid, the donor country must also have some notion of development, and it cannot escape the responsibility for its acts. I am of the conviction that massive improvements in the provincial towns and rural areas would act as a pull factor from the big cities.

IV.

It seems to me that the most important task of foreign aid is that with its help large sections of the people might be given benefit for the acceleration of economic progress. Let me substantiate my point with reference to foreign aid in Egypt itself. I recall here the Egyptian American Rural Improvement Services (EARIS) project, supported under the Point Four Foreign Assistance Program between 1952 and 1963. This program launched what remains one of Egypt's most successful land reclamation projects, where thirty seven thousand acres were reclaimed, thirteen complete villages and sixty four satellite villages were built. Each settler received a house, a water buffalo and three to five acres. EARIS put the necessary inputs: land, water, and credit in the hands of the Egyptian farmer. It demonstrated the viability of small scale agriculture on reclaimed lands. The model was not extended on a widespread basis as had been anticipated because of political shifts in the 1960s and the move to state farms on large tracts of reclaimed land.

However, from 1975 to December 1982 U.S. aid to the agricultural sector reached only \$343 million out of a total of \$8.2 billion covering various activities and studies. The emphasis has been on technical assistance and vertical expansion. It seems clear that horizontal expansion was discarded. Whilst one may contend that aid in vertical expansion is not useless, I do not subscribe to the view that one should help the agriculture of the Old Valley which is likely to yield some immediate gains and ignore reclamation efforts which are looked upon as costly and whose development takes time. It is precisely this business of short-term versus long-term that one needs to look into. The more we wait for expanding agriculture on an extensive frontier, the more costly it becomes in the future. A dynamic understanding of development calls for structural changes of a long-term nature.

It appears certain that AID policy is against land reclamation. I would strongly argue for a resumption of the EARIS type of project which has been successful, and which has already provided a backlog of experience. AID officials refer to the Pacific Consultants Report which portrays land reclamation in Egypt as an unprofitable activity. I would not give the final word to this report because, frankly, other reports portray totally different conclusions. We now live in a world where the topical issue is "Food". It is likely to remain so for generations to come. All the international fora are preoccupied with it. The U.S.A. is concerned about it, and in the wake of the U.N. Food Conference of 1974 has established the International Food Policy Research Institute (IFPRI) in Washington. Hundreds of writers are drawing attention to the alarming situation. Prior to World War II, the developing countries as a group were net exporters of five million tons of grain annually. Now they are net importers of over 80 million tons of grain annually. All have agreed that the core solution lies in increasing food production in

the developing countries themselves.

Given all this, it is alarming that agriculture, which has the biggest weight in Egyptian GNP and which accounts for the biggest share of the labor force, is still neglected. This is something I cannot understand. I should have thought that agriculture deserved more than what it now gets from the country's total investment funds, and that desert reclamation efforts should be supported fully. One has to look at the projections of food prices in the 1990s to realize that it is economical to do so. If in the context of aid, the interest is in high visibility projects, then there is a lot to be said for desert farming. Egyptians are now commenting on how a part of the desert road to Alexandria is not desert but effectively an agricultural road and what can be more visible than green replacing yellow sand, and treating bilharzia in rural Egypt rather than bringing a few heart monitors.

And when I keep emphasizing the agricultural sector, I envisage a situation where both donor and recipient would work towards a rationalization of this sector in terms of pricing policies and other packages of incentives in the rural sector. A system approach is what I have in mind where the rural people are involved and are put in a situation where they can advance themselves. All that would have avoided the concentration of benefits in certain classes in Egypt where income distribution in the Lorenz curve sense has shown a higher Gini coefficient in the latter part of the decade. Planners should work for a better balance between growth, productivity and equity goals.

I recall a decade ago reading the annual address of Robert McNamara where he emphasized rural development with attention to the poor. I recall my own work in the creation of the International Fund for Agricultural Development (IFAD) where it was explicitly agreed that emphasis was to be laid on helping the poorest of the rural poor. Yet now I find IFAD undertaking projects, one in Fayoum and the other near Alexandria, where Egyptian rural poverty is not exactly at its extreme. It seems that in the end there is a propensity to opt for the easier tasks. Before I conclude, I would like to stress a point that ran through the veins of my discussion. To determine the efficiency of aid, it is necessary to consider not only the initial increment of income resulting from aid, but also whether the increment of income is used to relax some of the constraints on development or instead is dissipated in higher consumption.

V.

In conclusion, I feel that in all fairness to donor and recipient, and since the common goal is the development of Egypt, some steps must be undertaken. a) Such big aid programs need periodic self analysis and reassessment. b) I am not calling here for more consultancy fees and feasibility studies, but the opposite. I am calling for a rather unusual type of gathering which includes the donors, representatives from the government, and people from various sections of the community to talk about aid, visit projects, see the good ones and the bad ones, etc. And I should hope that the results would be taken seriously. c) I like to stress the obstacles because through knowledge of them the solutions can be devised. In my view, in economics a theory of obstacles to growth a la Ricardo is more useful than a theory of growth a la Harrod and Domar. Along these lines, I would argue that we need more research in public administration and its role in making use of aid. Accordingly, I would hope that in future, we hear from public administration specialists. Their views are likely to be more useful than those of the economist.

End Notes

1. See Vijay Joshi, "Saving and Foreign Exchange Constraints", in Paul Streeten (ed.), Unfashionable Economics (London: 1970)
2. See Marvin G. Weinbaum, "Politics and Development in Foreign Aid: U.S. Economic Assistance to Egypt, 1975-82", The Middle East Journal, Autumn 1983, vol. 37, No. 4, p. 640.
3. See T. Balogh, The Economics of Poverty (London: Weidenfeld and Nicolson, 1974), p. 34.
4. Donald S. Brown, Economic Development in Egypt: An American Perspective, Office of Public Affairs, American Embassy, Cairo, March 1982, p. 22.

Egypt and the U.S.:
An Aid or Trade Relationship?

by Dennis D. Miller

"Do not attempt to do us any more good. Your good has done us too much harm already."---
Sheikh Muhammed Abdou, an Egyptian in London, 1884¹

"... (The) 'law of political irony' that a great deal of what we do to help people actually hurts them, and a great deal of what we do to hurt people actually helps them. There are many exceptions to this law, but its operation is frequent enough to be a cause for concern."-- Kenneth E. Roulding, 1978²

These quotes set the tone for what is to follow. But before starting, let me give you an indication of where I intend to go in this paper. First, I want to discuss why it is that U.S.A.I.D. may create too much ill-will in Egyptian-U.S. relations. Second, I will argue that Egypt could do considerably more itself in the absence of U.S.A.I.D. Third, I see that Egypt will necessarily have to become much more export-oriented than presently and that in this direction are many opportunities as well as uncertainties. Nevertheless, it appears that only by becoming export-oriented will Egypt be able to deal successfully with its immense economic problems and at the same time become independent of U.S.A.I.D.

Admittedly, I am skeptical of U.S.A.I.D. in Egypt. But conditions, I believe, warrant skepticism, especially since all of other Third World nations, Egypt receives more U.S. economic assistance per year than any other. Also, it is quite natural for an American to question what the U.S. is getting in return. By asking this question, I have revealed that perhaps some Americans think that the U.S. has considerable self-interest involved and that many of us do have certain expectations. And it is at this point that problems begin to arise. Our self-interests and expectations as the donor nation do not necessarily square with those of the recipient nation, Egypt.

I want to avoid entangling myself in trying to answer the question of what good is being done that would not have been done in the absence of U.S.A.I.D. This question suggests the conversation between Lewis Carroll's two logicians, Tweedledee and Tweedledum:

"I know what you're thinking about", said Tweedledum: "but it isn't so, nohow."

"Contrariwise," continued Tweedledee,

"if it was so it might be; and if it were so, it would be: but as it isn't, it ain't. That's logic."³

So, to attempt in any way to show what would have happened, I would be