

JPRS - NEA - 85 - 051
PREV 7. NO: 25/051
4/5/85

JPRS-NEA-85-051
5 April 1985

EGYPT

PROBLEMS OF MISUSE, DISAPPEARANCE OF AMERICAN AID REVIEWED

Cairo AL-AHRAM AL-IQTISADI in Arabic 11 Feb 85 pp 26-29

[Article by Rida Hilal: "The Sword and Gold in American Aid!"]

[Text] It is true that Egypt has presented a written request that American aid is increased from \$2.2 billion this year to \$3.15 billion next year. It appears that this is the first time; in the past, requests for the amendment of aid conditions and equality with Israel were made orally.

As the prime minister told the newspaper WASHINGTON POST, the request for the 1986 increase in aid is to cope with the anticipated deficit in oil revenues and remittances of Egyptians working abroad, but the written request, as the newspaper NEW YORK TIMES said, concentrated on agreement over mutual interests and confidence between Egypt and the United States of America.

In reality, we cannot ignore the political aspect of American aid, that is, what are America's interests and do they agree with ours? However, the most important aspect is the economic one, that is, what are we doing with the aid? To what degree has the Egyptian economy come to rely on American aid?

In brief, we will try to answer an important question, which is:

How is aid a sword over our necks or gold in our pockets?

American Aid Began

The resumption of diplomatic relations between Egypt and the United States of America occurred the following year, 1974, after the artillery on the battlefield fell silent in 1973. That year President Nixon asked for the sum of \$250 million to be allocated as economic aid to Egypt, to be broken down into 20 million to clean out the canal, 150 million to rebuild the cities of the canal and 80 million for purchases of food processing products.

In 1975, the year which witnessed the second separation of Egyptian and Israeli forces as a result of the shuttle Henry Kissinger made, Egypt entered into the American aid program and there was much talk about a new Marshall Plan to rebuild Egypt and support the Egyptian economy. Egypt started to proceed along the road of American aid.

Actual circumstances proved clearly that Egypt was in urgent need of American aid for a number of reasons, among them:

The balance of payments deficit caused by the burdens of the 1967-1973 war; the deficit in the balance of payments came to 1 billion Egyptian pounds.

The development of tension in relations with the Soviet Union and the slackening of relations with Arab countries which had been offering financial aid to Egypt.

The severe shortage of foreign cash revenues and the drop in the rate of development, after it had reached the level of 7.6 (percent) in 1965.

The need to change the public utility systems and rebuild the canal cities after the war.

In 1979, the year which witnessed the signing of the peace agreement between Egypt and Israel, the American Congress gave agreement to allocate \$4.8 billion to Israel and Egypt in aid over 3 years. Egypt's share was \$1.8 billion broken down between \$1.3 billion in military loans and \$590 million as economic aid. Israel's share was \$3 billion, broken down between \$2.2 billion for the purchase of military equipment and \$800 million to move two airbases to the Negev.

Before Congress approved the budget, Frank Church, chairman of the Foreign Relations Committee in the Senate, demanded that a plan of aid be set out for countries working to establish peace in the Middle East (Egypt and Israel) and that aid be withheld from countries which did not participate in the peace process in the Middle East.

Where Does the Aid Go?

The Agency for International Development, an agency belonging to the American Department of State, supervises the American aid programs, and it presents a report to Congress each year stating the allocations desired for the coming year.

American aid consists of two parts. The first part is in the form of grants, which are offered free of charge, that is, are not paid off.

The second part is in the form of loans repaid on easy conditions, since there is a grace period of 10 years at 2 percent interest, after which the loans are paid off over a period of 30 years at interest ranging from 2 to 3 percent.

Beginning in October 1980, the Egyptian and American parties agreed that interest would not be received on loans from the American Agency for International Development.

American aid to Egypt includes six main programs--support for the economy, public utilities, transportation, industry activities, food and social services.

Each of these programs consists of subsidiary activities, that is, subsidiary programs (more than 70 in number). These are arrived at by agreement between the two parties, and an agreement is signed along with that by the Egyptian government, now represented by the Ministry of Planning and International Cooperation, and the American government, represented by the American Agency for International Development office in Cairo.

As far as the loans are concerned, these are managed and disbursed without interference by the American authorities. The American authorities, with their various agencies, manage and disburse the grant funds, something we have witnessed in the case of the peace grants and the social services program in general, as well as the development planning studies, the drainage agency in Cairo and the waste drainage agency in Alexandria.

About \$9 billion were disbursed to Egypt in loans and grants up to 1984, as Ahmad 'Abd-al-Salam, first deputy minister of planning for American aid, says. Where did this money go?

What is certain is that so far, although there have been 72 American aid activities, there have been no conspicuous, tangible results.

Can that be ascribed to the aid system or to the disbursement of the aid? In other words, can that be ascribed to shortcomings on the American side or to shortcomings on the Egyptian side?

The answer is that both sides have caused shortcomings, deliberately or unintentionally.

As far as the American side goes, the Egyptian American aid official in the Planning Ministry asserted that there is no doubt that there is bureaucracy in the management of the aid. The aid office in Cairo has to refer to Washington for approval. This American bureaucracy is matched, conversely, by an Egyptian bureaucracy which needs no description.

He also asserted that the aid system, according to American law, is that American companies alone have the right to present bids; in addition, the feasibility studies for all aid projects must be made by a foreign consulting firm.

By the Ministry of Planning official's assertions, it appears (to me) that the aid system was designed so that American money would revert to America, for a number of considerations, among them:

According to the aid system, money paid out which is not disbursed during the fiscal year in which it is paid out reverts to the American treasury, and bureaucracy can delay the disbursement.

It is possible to pay out large sums to American consulting firms to prepare feasibility studies for projects which might or might not be carried out, and, if they are carried out, the execution will be with American equipment and expertise.

The restriction of the right to present bids to American companies means execution at a high cost--indeed, the bids are carried out by others through subcontracts for big profits.

These considerations concern the aid after it is paid out. As to the management of the aid up to the disbursement of the money for the projects allocated, the management cost comes to 12.5 percent of the value of the money, according to a study carried out on Dr Mahmud Wahbah, director of the Institute of Applied Research at New York University. These considerations are not relevant, as far as grants which are not repaid are concerned. According to Egyptian Planning Ministry data, American economic aid in 1983 and 1984 was \$750 million in grants which were not repaid, \$300 million of which were for commodity imports and \$450 million for projects, including private sector projects.

Out of fairness to the other side (the American side), we share in the failure to disburse American aid in the optimum manner, owing to a lack of economic priorities and the absence of studies of selected projects for which the American side might offer financing. The basic goal of the aid is that there be assistance in the optimum use of the country's resources, basically, even if it consists of loans, instead of a hectic search for gifts which neither fatten nor make one rich against hard times, and there is no doubt that the absence of such a goal and planning shortcomings weaken the Egyptian negotiators' ability to obtain better conditions.

An Aid Economy, or Aid to the Economy?

So far there is nothing which we might call an "aid economy," that is, an economy based on aid and aid alone.

However, there are economies which rely on foreign aid in one form or another and to one degree or another, in other words, where the degree of economic growth depends on aid, whether in the form of loans or gifts.

We might wonder to what extent the Egyptian economy now depends on aid. We must take it for granted, from the start, that there is no independent economy in the general sense, that is, one which relies on itself only, especially in countries of the third world where the economies to some degree are subordinate and rely on foreign revenues to realize growth.

Dr Raja' 'Abd-al-Rasul, director of the National Planning Institute, was assigned to prepare a study on this subject for the Egyptian Planning Ministry (the Egyptian side responsible for development) before the minister of planning traveled to the United States.

He considered that the Egyptian economy, in the period before the seventies, was distinguished by a shortage of foreign currency, but the situation reversed itself in the decade of the seventies, and, beginning in the mid-seventies, foreign currency revenues flowed in from oil exports, Suez Canal transit tolls, remittances of Egyptians working abroad and tourist activity,

that is, revenues from the "big four," the Egyptian economy came to rely on revenues from the big four in addition to foreign grants and loans and foreign investments, and a revival process occurred which the Egyptian economy had not witnessed before.

When the 5-year plan was propounded in 1982, the plan investments relied on two components, the first local and the second foreign. With respect to the foreign component, that is, foreign currency revenues, reliance was placed on two basic sections, a free section of big four revenues and another section of foreign loans and facilities.

At the present time, foreign currency revenues from the big four are declining as a result of the drop in world oil prices, a matter which entails a decline in Egyptian oil export revenues and remittances of Egyptians working abroad as a result of the retrenchment in development plans in Arab oil countries as well as a decline in Suez Canal transit revenues, in addition to a downward trend in export receipts.

In the face of the decline in big four foreign currency revenues, it is necessary to increase foreign currency revenues from foreign facilities and loans at identical rates, so that the growth rate realized through the development plan will not be affected, especially if we realize that 80 percent of the plan projects are replacement and substitution projects.

Proceeding from this view, the philosophy arose of merging international cooperation into the Planning Ministry in the latest cabinet change. Proceeding from that premise, also, American aid has become necessary so that the plan will continue to realize the rate of annual growth it is realizing now. Put more clearly, without American aid, growth rates will be lower.

On the other hand, we must say that the Egyptian economy, especially in the years 1978, 1979 and 1980, had intrinsic foreign currency revenues which enabled it to rely on itself--that is, if these revenues had been guided and used in the optimum manner, a self-reliant economy would have been created.

The Sword of Aid

The first sum Egypt obtained from the American aid program was \$250 million, most of which was allocated to clearing out the canal and rebuilding the canal cities. I might mention that before the American Congress gave agreement, there was a tendency in the Senate to link this aid to prohibition of the passage of Soviet ships through the Suez Canal, which of course did not happen.

We might also mention that Dr Isma'il Sabri 'Abdallah, the former minister of planning, was the negotiator for the Egyptian side. What does the first Egyptian to negotiate with the American Agency of International Development (which is responsible for the aid program) have to say?

He says, "We must not attack American loans and aid just because they are American. However, the important thing is that we should realize the greatest benefit from that for ourselves. Therefore, a discussion of the issue of American loans and grants must include shortcomings in the American program and slackness and indifference on the Egyptian side."

In his opinion, the word "aid" is deceptive. Aid, in all cases, is loans on easy terms; the factor of grants, in economic terms, is limited and is generally embodied in the difference between the market interest rate and the repayment period, and the lender's interest rate, that is, relinquishment of a sum which the lender was supposed to receive. That is, the facility in itself is a grant. The element of grants is greater in regard to military aid.

This may be ascribed to the reason that the arms the major countries, especially the Soviet Union and the United States, offer, are to be considered comparatively old, and their value on the market has declined. In addition, the failure to sell arms entails economic losses for the American government, because arms production is private. The procurement of weapons and the training which results from that constitute links with the army receiving these weapons, a point which has its political and ideological aspects.

As regards the negative aspects of American economic aid to Egypt, it is divorced from investment in industry and agriculture. For example, the United States refuses to finance land reclamation activities on the argument that the anticipated return is extremely minor. The American side brought in a consulting firm, Pacific Consulting, to study the issue of land reclamation in Egypt and the firm produced a study the gist of which was that land reclamation in Egypt was not economic; not only that, it distributed the study among the international financial authorities which cooperate with Egypt. The issue of land reclamation might be uneconomic on the basis of ordinary calculations for evaluating projects, but it is a national necessity in light of the population increase and food gap, and becomes a purely economic necessity if we look at the losses incurred by stripping away a feddan along the Nile without establishing an alternative to that in the reclamation of a feddan and the deployment around it. This reflects the difficulty of getting a foreign view to correspond with a domestic one in the interests of the country which is receiving the foreign economic aid.

In addition, American economic aid does not result in the establishment of a national industry, because it imposes the condition that what is bought with the aid must be American and that the consulting firms be American, which leads to the result that the design and construction management are American.

Why doesn't American aid finance Egyptian industry?

The American aid program has financed many industrial activities in Egypt. As examples, but not exclusively, we might mention the Suez cement plant, the al-Outamiyah cement plant and the renovations on the al-Mahallah textile mill, in addition to loans to some private projects through the Industrial Bank. Nonetheless, Americans in general abstain from financing Egyptian

industry. Does the reason for this abstention lie with the Egyptian or the American side? Dr Fawzi Riyadh (professor at the National Planning Institute) considers that the shortcoming in the American aid program in the area of industry may be ascribed to a number of reasons:

The American side considers that pricing policy is the backbone of reform in the Egyptian economic system, since they consider that the restrictions imposed on the movements in the prices of some materials necessary for industrial production, such as oil fuel for electricity, and the concomitant freeze on the prices of industrial products using these materials, inhibit industrial installations from developing and keeping abreast of real market trends. Therefore the American party has refused to authorize the provision of technical and financial aid to some installations where the financial rate is below the rate of economic return.

The public sector represents the foundation of Egyptian industrial production and, as a result of the complexity, inconsistency and administrative chaos within it, its productive levels have deteriorated. The American side gives special weight to stimulation of the private sector in Egypt, and there have been different aspects in the programs for industry, from the financing of such industrial projects as cement to the performance of economic feasibility studies and the provision of loans to the Industrial Bank. In addition, the laxity of planning agencies throughout all government departments in Egypt has led to the failure to specify priorities in the area of industrialization and reliance on the American side to study the fitness of projects. In some cases study has taken 2 years, and this has led to a failure to benefit from the facilities approved.

As a result of the laxity in planning agencies in Egypt and the American side's position, American aid has been spread about among various activities and has come to seem like "assistance programs."

The Gold of the Aid

With the start of the eighties, Egypt started to demand an amendment in the conditions of American aid. A former minister of economy who belonged to a delegation at the highest level in the past few years asserted to me that the Egyptian side asked the American side to make the aid a "portfolio" which Egypt would take charge of administering and disbursing.

To keep the aid programs from being private assistance programs, if we accept that for the most part they are loans which coming generations will pay off, we are asking for a national view of the stipulations for benefitting from American aid.

Dr Fawzi Riyad presents a serious conception whose elements include the establishment of a joint fund in which contributions from the American Agency for International Development (AID) and the Egyptian government will be deposited, and a joint council will be in charge of administering the fund. The fund will offer the credit facilities in its possession to Egyptian banks.

The credit facilities stipulated by American aid to public projects are provided to the National Investment Bank, which arranges part of the credit facilities bearing on the private sector to the Industrial Bank.

This conception is founded on a basic assumption, which is that aid, whether it is in the form of grants which are not paid back or in the form of loans on easy terms, must be provided in the context of the national plan. This is accompanied by a translation of plan goals into projects which have been authorized to be carried out, that is, have gone beyond the feasibility study and financial and economic evaluation stages and thus have actually been set out.

Dr Isma'il Sabri considers "The government must have an upright borrowing policy; that is realized, when the loan is in addition to financing from local resources and not an alternative to them and when the loan is directed to production. The fate of anyone who borrows to consume is bankruptcy. In addition, the loan must be accompanied by plans in terms of payment periods, interest, the termination of the project and the revenue to be realized from it. In addition, the revenue must be higher than the cost of repaying the debt.

"In reality, we cannot take these bases for granted and cannot change the conditions of the American aid program, but there is a narrow area where interests correspond which Egyptian negotiators can use to obtain better conditions."

Dr Sabri continued, "In any event, it is not possible to ignore the indifference and fumbling on the Egyptian side, in terms of the failure to plan and reliance on the American side to the extent where when I asked Michael Stone (director of the aid agency in Cairo) about the number of American experts in Cairo, he replied that Egypt was the one that had requested all that number. On top of that, each minister, each governor and each authority chairman, no matter who he may be, is running after a loan or a grant. That of course has been the result of the lack of planning."

What Do We Want and What Does America Want?

American aid can be a sword over our necks, and it can be gold in our pockets.

In the past, we did not know what we wanted from American aid, and our image resembled that of a drowning man clutching a straw to save himself from drowning. We lost the opportunity given by the flow of foreign currency revenues at the end of the seventies and did not exploit that to rely on ourselves; the result was that we squandered our resources and squandered American aid. In spite of that, the aid has not yet become a sword over our necks, now that we have started to reflect over what happened, take a long-term view and demand aid to retain the rate of development and realize the goals of the plan, although the fear still exists that increased aid will mean increased reliance on the United States for food and for weapons in particular.

What about the American side?

The American side requests that the course of the economy be reformed so that "pricing" will be economic and not social, that the exchange rate of the pound be realistic, and that the private sector be uplifted.

In addition, the American side lays emphasis on a linkage between the strategic interests of Egypt and the United States of America. That side's demands can be discussed without our being against America or on its side. Regarding the reform of the course of the economy, that is a demand which all political forces in Egypt are making, but the rise in prices (of fuel and products) must be connected to a rise in wages, and the uplifting of the private sector must be in the development and improvement of the performance of the public sector.

Regarding the interconnection of strategic interests, the existence of that connection must not be at the expense of the options of a "nonaligned" Egypt and an "Arab" Egypt, or at the expense of Egyptian decisionmaking.

These matters are in our hands.

11887

CSO: 4504/240