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Dates: 11/13/1970 - 11/13/1970

Fonds: Records of the (Staff) Economic Committee

ISAD Reference Code: WB IBRD/IDA WB_IBRD/IDA_118-02

Digitized: 06/11/2025

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ECONOMIC COMMITTEE

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EC/O/70 - 142

November 13, 1970

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United Arab Republic: Country Program Paper

Attached is the draft Country Program Paper on the United Arab Republic (EC/O/70-142/1, dated November 12, 1970) which has been prepared by the Europe, Middle East and North Africa Department.

2. The Paper will be discussed at a Special Meeting of the Economic Committee scheduled for Wednesday, November 18, 1970 at 3:00 p.m. in Conference Room "B", 12th floor, B building.

J. Chaffey
Secretary
Economic Committee

Attachment

Secretary's Department

Distribution:

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COUNTRY PROGRAM PAPER

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UNITED ARAB REPUBLIC

1969 Population	:	33.4 million				<u>Net Bank/IDA Lending</u>			
1969 per capita GNP at factor cost (current prices)	:	\$173				<u>US \$ million</u>			
Current population growth rate	:	2.5 percent p.a.	Bank/	-	-	<u>1964-68</u>	<u>1969-73^{/1}</u>	<u>1972-76</u>	
Current exchange rate	:	LE 1 = \$2.3	IDA	-	120				220
	:	LE 0.435 = \$1	Total	-	120				220
		Annual average IDA credits per capita		-	\$0.7				\$1.3

A. Country Objectives

1. The pace of Egypt's economic development has slowed down substantially during the second half of the 1960's, reflecting major changes in the Government's political priorities. Overall growth which had averaged 6.5 percent a year in 1961-65 /2 declined to about 3.3 percent in 1966-70 /3, while domestic saving and investment rates dropped sharply in the latter period (see Attachment 2). This deterioration in economic performance is largely the result of a severe balance of payments crisis in 1966 and the Middle East war in June 1967, which necessitated stabilization measures and led to a reallocation of available resources.

2. Since the 1967 war, military objectives resulting from the confrontation with Israel and the desire to regain control over the lost territories have been given first priority by the UAR Government and are claiming a large and rising share of the country's resources. In 1970, defense appropriations reached \$1,160 million or the equivalent of 18 percent of GDP compared with \$480 million (8 percent of GDP) in 1967. For 1971, the draft budget appropriations are \$1,265 million (19 percent of GDP).

3. Other objectives, especially economic ones, have diminished in importance in the process and have generally been obscured as the Government has become pre-occupied with military problems. Considerable efforts

/1 Gross lending program agreed upon at 1969 review was \$126 million.

72 Unless otherwise specified, years are fiscal years ending June 30.

73 Not considering the loss of income from the Suez Canal and the Sinai.

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have been made to mobilize additional resources, both within the country and abroad. However, since internal resource mobilization had already reached a high level before the war -- the ratio between government revenue and GDP was 24 percent in 1967 -- and since economic growth has been only moderate in recent years, the margin which could be added to the budgetary income was relatively small.

4. The Government succeeded, however, in obtaining substantial aid from the oil-rich Arab states given as compensation for war losses and general support for the country's heavy defense burden. Under the Khartoum Agreement some \$250 million is being made available to the UAR each year from Kuwait, Libya and Saudi Arabia. In addition, there have been non-recurrent grants principally from Kuwait, and in 1969 total Arab assistance amounted to about \$290 million. The Government has also tried to reestablish its credit with Western industrialized countries. Debt rescheduling agreements, which opened the way to new credit facilities, were reached with all Western creditors except the United States with whom negotiations are continuing.

5. Since most of the additional resources were used to finance defense appropriations, there was little scope left for increasing non-defense expenditures. Public investment, which accounts for the bulk of the country's capital formation, was especially affected by the budgetary squeeze with the result that the overall investment rate dropped from 16 percent of GDP in 1967 to 12 percent in 1970, even though fixed capital formation recovered somewhat after 1968. The difficulties in mobilizing resources for investment together with general political uncertainty have led to the shelving of successive development plans and the adoption of a year-by-year approach to development problems. This is exemplified by the recent setting aside of the substantially completed 1970-75 Plan and the adoption of an unrelated one-year plan with significantly lower growth targets.

6. Excessive population growth continues to be a source of concern. Over the last five years the population has increased by an average of 750,000 a year (2.5 percent) reaching a total of more than 33 million in 1970. A continuation of this trend would result in a population of 43 million by 1980. Since only about 4 percent of the country is suitable for habitation, the average population density in the habitable areas is very high, approaching 1,000 persons per square kilometer. Population pressure combined with a relatively low rate of economic growth has led to considerable unemployment (about 7 percent of the labor force in 1969) and increasingly pressing urban problems. The latter have been accentuated by a high rate of internal migration from rural to urban areas. Official awareness of the situation has, however, not been matched by implementation of an effective policy. The establishment of a "Supreme Council" for family planning in 1965 has yet to be followed up by a long-term program of population control. Identification and formulation of projects in this field are therefore difficult. Although some grants from UN agencies and bilateral sources have been received in the last few years, further aid is being held up due to the absence of long-term plans and specific projects.

7. While the Government appears to have given relatively low priority to the country's long-term development problems, it nevertheless succeeded in maintaining a fair balance of the economy in the short run. After the stabilization measures in 1968, which slowed down economic growth and led to a reduction in the trade deficit, the emphasis of policy in 1969 and 1970 was rather more expansionary. Continued increases in public spending together with a moderate credit expansion and selective price changes stimulated economic activity, with real GDP rising by about 4.4 percent in both years. The broadly based expansion was accompanied by a substantial reduction of excess capacity and a decline of stocks to more normal levels.

8. On the external side a substantial rise in commodity exports and a larger inflow of transfers brought about a further improvement in the balance of payments. The main contributors to the growth of export earnings were an expansion of oil production, favorable cotton prices, increases in non-traditional exports such as fruits and vegetables and some revival of tourism. Improved foreign exchange budgeting made possible further reduction of imports without much affecting the availability of spare parts and raw materials. In 1970, however, there were signs of a worsening in the external position. Imports increased rather more than exports in the first nine months of the year, and utilization of short-term external bank credits increased sharply.

Development Prospects

9. Continued growth will be adversely affected by the reduced availability of funds for investment. Curbing capital formation to maintain overall economic balance may be acceptable for a relatively short period, but it clearly limits the scope for future expansion. Under present conditions the maintenance of even a moderate increase in per capita output during the early 1970's poses serious problems. If public consumption continues to receive priority over investment as it has in the last few years, and if foreign aid cannot be significantly increased, the per capita GDP growth rate might decline to zero by 1973 and become negative thereafter. On the other hand, if regional political tensions are relaxed and a reallocation of public expenditure takes place, the prospects are likely to be rather more optimistic.

10. But even a modest rise in the overall growth rate to, say, 5 percent in the mid-1970's, would require a major reallocation of resources. The projections given below illustrate the orders of magnitude involved:

Macro-economic Objectives (1976)

<u>Indicator</u>	<u>Unit</u>	<u>Current Level (1970)</u>	<u>Bank Projection</u>	
			<u>Absolute</u>	<u>Growth Rate</u>
GNP ^{/1}	\$ bill.	6.5	8.2	4 ^{/2}
Population	Mill.	33.4	38.7	2.5
GNP per capita ^{/1}	\$	195	212	1.4
Private consumption	\$ bill.	4.4	5.1	2.5
Public consumption	\$ bill.	1.8	2.2	4
Investment	% of GNP	12	16	11
Savings	% of GNP	6	12	16.5
Exports	\$ mill.	930	1,270	5.5
Imports	\$ mill.	1,330	1,605	3.2
Resource gap	\$ mill.	400	335	
Arab assistance	\$ mill.	380	250	
Net borrowing	\$ mill.	20	85	
Gross borrowing	\$ mill.	215	325	
Repayments	\$ mill.	195	240	
Debt service ratio	%	25	22	

^{/1} Constant market prices (as against factor cost on page 1).

^{/2} Reaching 5 percent by 1976.

11. The projections are based on the assumption that Arab assistance will continue at a level of about \$250 million a year (the original amount of the Khartoum Agreement) in lieu of Suez Canal earnings, while foreign loans will average \$325 million a year (approximately 50 percent more than in the last few years). They show that even with the increased volume of foreign borrowing the country would have to make a very strong savings effort (marginal savings rates of 35 percent) in order to reach the investment target that would make the above stated growth rate feasible. Larger borrowings which for the time being appear unattainable, would affect the result only to a minor extent; every additional \$100 million would raise the overall growth rate by less than one-half of one percent. On the other hand, continuation of the present low savings rate would almost certainly lead to economic stagnation and declining per capita incomes.

12. These illustrations highlight the nature of the policy decisions which the Government will have to make in order to swing the economy back into a more dynamic path of development. In general terms there is a clear need to limit the growth of public and private consumption. The scope for reducing current expenditure in the government budget has received much attention although little has been done in this direction. In the absence of a fully guaranteed political settlement there is little

likelihood of a substantial reduction of current expenditures on defense. There is little point in further increases in direct taxation. Personal income tax is already quite high given the small base, and increased taxation of business profits amounts to little more than an internal budgetary transfer from business surpluses to current revenue. Attention must be concentrated upon indirect taxation aimed at consumption.

13. Larger surpluses generated in public sector enterprises should be recognized as an important potential source of savings, given the extent of direct control over this sector. This is especially so if the growth rate is to be accelerated since most of the increase in income will be generated within the nationalized sector. The wages and price policies to be followed in the public sector should be geared to the objective of achieving a rate of growth of public sector surpluses that is substantially faster than the growth of output within the sector. This may involve some conflict with the Government's employment policy which has permitted some featherbedding in the public sector. Reducing the employed labor force to correct this may prove impossible and may, in any case, not be necessary providing every effort is made to limit the growth of employment so that the labor force, and therefore the wage bill, grows at a lower rate than output. This will clearly be more difficult the lower the growth rate achieved.

14. The record of personal savings mobilized through contractual savings organizations appears to be quite good. The various social insurance and pension funds are being extended to cover almost the entire non-agricultural labor force. They can be extended into the agricultural sector to tap private agricultural savings but this is not an immediate prospect. Several incentive schemes for prize bonds and interest free savings certificates have been introduced in recent years, but their contribution to the aggregate situation is necessarily limited.

15. Whether the Government will be able to enforce drastic changes in the political and economic priorities is an open question. Two major events, the cease-fire in the Suez Canal Zone and the death of President Nasser, have recently altered the political scene and made predictions of future government actions more difficult. So far, the cease-fire has not yet had any discernible impact on defense spending. On the contrary, the present lull in fighting is being used to mobilize all available forces for a possible new confrontation with Israel. If, however, the political tension in the area eases there would, of course, be less need for such a high level of military preparedness. But even with a permanent political solution in sight the actual impact on defense spending might not be felt soon.

16. The death of President Nasser in September 1970, was of major political significance. The new leadership composed of President Anwar Sadat, Prime Minister Mahmoud Fawzi and Secretary General Mohsen Nour of the Arab Socialist Union are all reputed to be non-aligned. Their announced intention has been to follow the former president's policies, although it is not at all certain whether they will be successful in this. External political developments as well as internal economic and social pressures are likely to create dissent which may not be controlled as effectively as under President Nasser. This could create a climate of political instability which might lead to further changes in government.

17. The major policy pronouncements issued so far by the new government have related to a limited extension of the cease-fire, negotiations toward a federal union with Libya and Sudan and a number of economic measures which indicate an intention to give more attention to urgent domestic development problems, including improvement of municipal water supplies, rehabilitation of the railways and urban transport and a further reduction in prices of local industrial products to encourage wider distribution and utilize existing capacity.

18. In view of past experience, Egypt appears to be approaching union with Libya and Sudan cautiously. Nevertheless, it would stand to gain considerably from political and economic integration. Capital from Libya's prodigious annual oil income of about \$1 billion, combined with Egypt's highly trained technical and managerial manpower could be used together to develop Egypt's already fairly advanced industrial sector. Sudan could offer additional Nile waters from the great Sudd swamp in the South and also, possibly, areas for the settlement of surplus population over time. The possibilities for increased food production, particularly livestock, in the Sudan are substantial and complement the crops, e.g. wheat and rice, which can be grown more economically in Egypt. Libya and Sudan could benefit from the in-migration of skilled workers and managers from Egypt.

B. Economic Sectors

Agriculture

19. Recent developments in agriculture, the economy's major sector (accounting for about 30 percent of GDP, over 60 percent of exports and employing more than half the labor force), have been generally satisfactory. Favorable weather conditions and more effective pest control has contributed to increased output of the principal field crops, particularly cotton. On the other hand, adverse developments such as a disappointing performance in livestock, a sharp fall in rice prices, and slow progress in land reclamation and in bringing newly reclaimed areas under cultivation point to a need for action based on a resource allocation policy with longer term objectives and more closely oriented towards international market conditions than at present.

20. Agricultural price policy needs some reexamination. The Government controls the production and distribution of seeds, fertilizers and pesticides. Prices of these inputs are fixed and normally adjusted from year to year. Water is provided to the farmer at no charge. The marketing of output is controlled at multiple levels through direct price fixing, rationing, preemptive government purchase, and centralization of exports. The inadequate administration of pricing and marketing controls has led to some difficulties. Since the mid-1960's there has been a steep downward trend in international fertilizer prices, and the UAR prices have become out of line with world prices. Excessive use of free water has caused low yields and inferior quality in some crops, especially in onions which is an important export commodity. Hence there may be a case for reducing fertilizer prices and controlling water utilization. On the output side, the system of partial rationing leads to discrepancies between domestic and world prices. At the volume of Bank Group lending presently contemplated for the agricultural sector, it is unlikely that lending operations will provide sufficient leverage to bring about a full-scale review of pricing policy apart, perhaps, from prices directly related to individual projects. For example the policies for recovering the costs of tile drainage to be installed under the Nile Delta Tile Drainage Project were agreed upon during negotiations.

21. Agricultural credit operations have progressed gradually and steadily. Administration of the credit program through the Agricultural Cooperatives and Credit Organization has improved significantly in the past two or three years after the introduction of interest rates. Farmer confidence in the system is reported to be higher. The volume of credit issued by the Organization reached \$166 million in 1969.

Industry

22. Industrialization has played a leading role in development strategy and has absorbed a significant portion of the resources allotted to investment. Nationalization in the early 1960's brought most major industries into public ownership, with the result that private industry now accounts for not more than about a fifth of total production. The share of industrial production in GDP has risen from less than 10 percent in 1952 to about 20 percent in 1970. The focus of policy was initially on import substitution. A wide range of industries has been established, particularly during the 1961/66 Plan period, with special emphasis being given to the chemical, metallurgical and engineering industries and to oil production. Since the mid-1960's the sector's export potential has been underlined, particularly in relation to Arab, African and Eastern European markets. Emphasis on the public sector has recently been modified and a role provided for the private sector as subcontractors to the larger public enterprises, especially in the engineering industries and as manufacturers of clothing, leather and wood products for export.

23. The petroleum industry has assumed an increasing significance in the UAR economy during the past decade. From an annual output of 3.5 million tons in 1960, production of crude oil has expanded to an estimated 25 million tons in 1970 despite the loss of the Sinai oil fields which before the 1967 war had an output of close to 5 million tons. On the basis of proven reserves, output is expected to reach about 34 million tons by 1975. Sinai would add another 6 million tons. Egypt expects to become a net exporter of oil and petroleum products in 1970. By 1975 export receipts -- excluding Sinai production which would provide an additional \$14 million -- are expected to amount to \$136 million. Correspondingly a decline in imports from \$53 million in 1969 to about \$15.4 million is expected, with no imports of crude oil after 1971.

24. The Government's approach to developing the oil industry has been pragmatic and has placed primary emphasis on commercial considerations. Exploration for oil and gas has been undertaken mainly in cooperation with foreign enterprises, usually through partnership agreements with the Egyptian General Petroleum Company. The company has at present five foreign operating partners, of which three are American based, one Italian and one Japanese. In addition to the operations which it undertakes in partnership, the EGPC is prospecting on its own account in the Siwa Oasis -- with Soviet technical assistance -- as well as in certain other areas of the Western Desert and in the Nile Delta.

Transport

25. The UAR has a good network of railways, roads and waterways connecting most of the country's important economic areas which are concentrated in the Nile Delta and along the Nile Valley. However, maintenance has been neglected due to lack of funds, and large renewal and maintenance backlogs exist in almost all subsectors. This has accentuated the inefficiency of the sector as a whole and of certain modes in particular. The railways, which are still the main mode of transportation, face a critical situation from lack of track renewal and rolling stock, as well as other equipment. Serious accidents have begun to occur and speed restrictions have been imposed on several lines, further reducing capacity. Similarly the road network has not been adequately maintained due largely to a shortage of spare parts.

26. Recently, the railway's share of total ton-km hauled has declined primarily due to the war (closure of several lines), completion of the construction of the High Dam, and the fact that several railway links are operating near capacity. By contrast road traffic has increased by 78 percent during the past five years and highway freight traffic has grown at an annual average of 15.6 percent in ton-km during the 1965-69 period. There are also nearly 2,000 km of major inland waterways in Egypt, consisting primarily of the Nile River and canals extending from it in the Delta. About 5.4 million tons of freight were carried in 1969 by the inland waterways fleet, an increase of about 80 percent from 1965.

27. The Cairo urban transport system suffers from the familiar problems of urban transportation elsewhere: overcrowding, insufficient and overage equipment, poor service, inadequate maintenance. Load factors on the suburban rail lines reaches 300 percent. The Cairo Transport Authority runs public bus, trolley, rapid tram and boat services, carrying over 1 billion passengers annually. The Government has recently taken measures to improve the public transport system with the purchase of new double-decked buses, and beginning the preparation of a master plan and initial engineering designs for a subway system.

28. Little attention has so far been given to transportation policy and investment planning; long-term studies of transport strategy and investment priorities in this sector are required. Transport coordination is particularly essential, since the major economic and population centers are served by all major modes of transport. Pricing policy also requires reexamination. Apart from surcharges in 1957 and a passenger fare increase in 1967, railway tariffs are unchanged since 1930. Railways net earnings have declined in the past few years and the financial viability of the railways has been maintained at the price of inadequate maintenance and overloading.

29. The reopening of the Suez Canal depends upon a general political settlement. The Bank may at some stage be asked to participate in its subsequent expansion. It is estimated that after the arrival of the necessary salvage equipment, the Canal could be opened to shipping in 3-4 months at an estimated cost of \$25 million. Expansion plans will have to be reconsidered later. The rapid increase since 1967 in the number of large tankers, the completion of the pipeline through Israel and the plan for construction of a Suez-Mediterranean (Sumed) pipeline have drastically affected the prospects for Canal traffic at present capacity. After clearance the Canal would accommodate fully loaded tankers of only up to 60,000 dwt. The Suez Canal authority has been publicly advocating a deepening to accommodate vessels up to 63 foot draught (225,000 dwt) to be completed within 5-6 years of reopening. Rough cost estimates are in the order of \$250 million.

30. According to press reports, financing for the Sumed pipeline (estimated at \$175 million) has been arranged through a European consortium consisting of firms from France, Spain, West Germany and Britain. Construction of the first stage of the 240 km pipeline is expected to begin shortly and to be completed in 19 months. Initial capacity is expected to be 40 million tons annually.

Tourism

31. The remarkable combination of tourist attractions in the UAR -- antiquities, favorable winter climate and good beaches -- offer a good potential for tourism. Tourism was adversely affected by the war but has shown signs of limited revival. In 1969, nevertheless, tourist nights amounted to only about 40 percent of the pre-war level. Before 1967, tourism and other travel receipts provided almost \$140 million in foreign exchange, or more than 13 percent of total receipts on current account. To make a greater impact on European and North American markets, more diversification in types of tourist trade with perhaps greater emphasis on group tourism would be desirable. Apart from increasing major hotel capacity in Cairo, little has been done to develop tourism since 1967.

C. External Aid

32. The UAR obtained substantial amounts of external aid from both the West and the East until the mid-1960's. Net loans received by the central government during the period 1961-65 amounted to US\$826 million. Thereafter, Western assistance practically ceased because of debt arrears and for political reasons. Apart from Arab assistance which started after the 1967 war (see paragraph 4), recent capital inflows to the UAR, including assistance from Eastern Europe, have been limited. As a result the capital account in the balance of payments (excluding Arab assistance) has changed from a net inflow of over \$150 million in 1967 to a net outflow of some \$30 million in 1969. Gross disbursements of foreign loans have decreased from some \$300 million in 1967 to about \$200 million in 1969, while amortization payments have risen from about \$150 million in 1967 to about \$230 million in 1969. The aggregate net inflow of foreign resources (including grants from the Arab countries) increased slightly over the period, from approximately \$230 million in 1967 to some \$250 million in 1969; but this was more than offset by the decline in foreign exchange earnings of almost \$150 million resulting essentially from the closure of the Suez Canal.

Balance of Payments Estimates

(US \$ million)

	<u>1967</u>	<u>1968</u>	<u>1969</u>
Exports <u>/1</u>	1,009	717	861
Imports <u>/1</u>	1,192	1,074	1,097
Current deficit	- 183	- 357	- 236
Foreign aid, net	227	241	254
Transfers	69	192	288
Loans, net	158	49	- 34
Outflow	149	158	233
Inflow	307	207	199
Other positions <u>/2</u>	- 45	116	- 19

/1 Goods and services.

/2 Mainly changes in reserves.

33. In 1967, the UAR defaulted on its debt obligations to Western countries and the IMF, but continued payments to the Bank. Meanwhile, rescheduling agreements have been concluded with all but one of the UAR's Western creditors, the exception being the United States with whom negotiations are continuing. With the exception of those to the Federal Republic of Germany (for which a second rescheduling was made in 1970), payments under the new agreements have been generally satisfactory. Although these arrangements have made limited medium-term borrowing possible, there are some disadvantages. First, most new credit facilities are suppliers' credits which will result in a quick accumulation of medium-term debt. Secondly, the extension of new credit facilities has been approximately equal to the repayments of principal, and hence no additional credit facilities became available. Since the flow of capital from Eastern countries has also declined the UAR has increased its reliance on short-term credits from commercial banks.

34. On December 31, 1969, the UAR had \$1,671 million of external public debt outstanding, of which \$1,387 million was disbursed (military debt not included). New commitments between July 1968 and June 1969 were \$47 million and from July 1969 to December 1969 they amounted to only \$11 million. Total disbursements were probably higher during this period because some previously contracted loans have been drawn down.

The debt structure is rather unfavorable and most of the presently outstanding debt will have to be paid in the near future. Three-fourths of the existing debt (95 percent of the debt to the West and 55 percent of the debt to Eastern Europe and China) falls due before the end of June 1975. As a result, the debt service ratio is quite high -- an estimated 23 percent in 1969 -- and is unlikely to decline significantly in the foreseeable future. This, together with the serious uncertainties about the Government's ability or willingness to service its debt to the United States makes the UAR presently ineligible for Bank lending.

35. With its low per capita income (\$173), the UAR would qualify for IDA assistance. However, its economic performance is difficult to judge in the present circumstances. The short term management of the economy after the 1967 war has been satisfactory. Economic activity recovered after an initial decline, the balance of payments position improved, price rises were moderate, and supply shortages have been avoided. However, the medium term prospects are not so encouraging. Due to large allocations for defense, the resources available for development have been seriously reduced and maintaining a moderate rate of growth is becoming increasingly difficult. Moreover, the negotiations with US creditors have still not yet come to a satisfactory solution. Until such a solution is reached, it does not seem possible to present further IDA credits to the UAR to the Executive Directors.

D. Bank/IDA Plan

36. When the Five-Year Lending Program for the UAR was prepared in late 1969, its objectives were described as (a) reestablishing a useful dialogue between the Bank Group and the UAR, (b) creating an environment in which Bank lending would be possible, and (c) assisting the UAR to improve its standing among Western creditors and investors. Although the Bank Group made its first credit to the UAR during the past year, progress in realizing these objectives has been slow. While there has been some improvement since 1969 in achieving the first objective, namely closer communication and cooperation with the Bank, progress with the other two has been disappointing. Egypt's standing with Western creditors has not been enhanced by the failure to conclude a debt rescheduling agreement with the United States. Although the US accepted the terms proposed by the UAR in December 1969, Egypt declined to sign the agreement, citing severe balance of payments difficulties as the reason. Despite the continuing impasse with the US, however, and the absence of new credits from official Western sources, inflows of private capital, particularly from American oil companies and European banks have increased considerably during the past year.

37. The debt rescheduling issue conditions future IDA lending operations in the UAR. Unless some progress is recorded in resolving this question, the proposed composition and timing of the lending program must be regarded as tentative. The death of President Nasser introduces other uncertainties in the preparation of a lending program. The potential for Bank Group activity will be materially affected by the new government's attitude toward development, propagation of the war, reestablishing a balance in external economic relations, as well as by progress in the first Bank Group operation in the UAR in 11 years -- the Nile Delta Drainage Project.

38. The composition of the lending program for the UAR is virtually the same as that prepared in FY 1969. The program outlined below is not large enough to make a decisive contribution to the investment requirements of the UAR. It is limited by the lack of available IDA funds more than by the absence of worthwhile projects or sufficient absorptive capacity of the economy. Under these circumstances the Bank Group can only play a relatively modest role in the development of the UAR economy. Should the debt rescheduling issue be resolved and the new government demonstrate its desire for improved cooperation, we should be prepared to consider an expanded program, including, perhaps, additional assistance to the railways and some local currency financing of agricultural projects and initial operations in the field of education. Emphasis in the present program is again on the priority sectors of agriculture, transportation and population control.

39. The only significant change from FY 1969 is the inclusion of a project for industry in FY 1973 (\$20 million). The industrial sector has played a leading role in development strategy and has absorbed a significant portion of resources allocated to investment during the past decade. Industrial production in 1970 accounts for 23 percent of GDP and a somewhat larger role for the private sector is being encouraged. The Government has recently asked the Bank for assistance to the Industrial Bank in providing credit facilities to small and medium scale enterprises. In 1969, 75 percent of the Industrial Bank's total credits of \$13.5 million were made to the private sector. Alternatively, an as yet unidentified industrial project might be considered.

40. In transportation, a credit to Egyptian Railways of \$24 million is in an advanced stage of preparation. The project would provide funds for track renewal and signalling equipment for several major lines. The existing track and traffic control system are so obsolete that serious accidents have begun to occur and speed restrictions have been imposed on the main Aswan-Cairo line. A second railway project in the amount of up to \$25 million, primarily for rolling stock, could be ready for consideration at any time. The urgent need of the railways for rehabilitation would suggest consideration of this second project at the earliest possible date and its combination with the first project if IDA funds could be made available.

41. Inland Waterways FY 1972 -- \$7 million. The Noubariya Canal is being expanded to provide uninterrupted passage between Cairo and Alexandria for 900 ton barge units. The new canal is expected to cut barge transit time between the two cities from 12 to three days and is designed to carry up to 10 million tons of cargo per annum, including 2 million tons of coal for the Helwan steel complex and 3 million tons of cement and fertilizers. A project preparation mission scheduled for May 1970 was delayed at Government request and our future participation is somewhat uncertain due to location of the project in a sensitive area. Its successful implementation also depends upon the construction of bulk cargo handling facilities at the Port of Alexandria.

42. Population Control FY 1972 -- \$3 million. President Nasser described population control as the second most important priority of his government after defense. Only about 4 percent of the land area of the UAR is inhabited. The population was about 33 million in 1970. Population density has increased by 55 percent in the past 20 years, and at 907 persons per square kilometer of populated area in 1969, Egypt is one of the most densely populated areas in the world. With a high dependency burden calling for increased expenditure for social services, growing unemployment and limitation on the amount of additional land which can be brought under cultivation, measures to control the population expansion must have an overriding importance.

43. Reclamation FY 1972 -- \$20 million. Agriculture in the UAR is already relatively efficient. Drainage programs, conversion to perennial irrigation and better control of agricultural inputs in certain areas will improve the productivity of existing lands, but major increases in production to feed the rapidly growing population will have to come from other sources as well. "Horizontal" expansion of agriculture through the reclamation of unused lands is generally more costly and less immediately productive than "vertical" expansion through increased productivity on existing acreage, but with the scarcity of arable land and the rapid population growth in Egypt, however, it is necessary to consider other alternatives. An agricultural project identification mission is scheduled for late 1970 and will review reclamation possibilities in several areas.

44. Other Sectors. A tourism project has been included in the program but would, of course, depend on the revival of tourist traffic. A project for urban transport is tentatively scheduled for FY 1974 but may be moved forward if planning for the Cairo subway reaches an advanced stage and if Bank Group assistance is requested. In addition to project financing, the Bank should also continue to encourage the more systematic planning of resource allocation in the transportation and agricultural sectors and preparation of a Nile waters study. This study would evaluate the optimum use of Aswan High Dam waters and draft an indicative basin development plan.

Attachments: 1. Actual and Proposed Lending Through FY 1976
2. Indicators of Development

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Population: 33.4 m.
Per Cap. Inc.: \$173

UNITED ARAB REPUBLIC - ACTUAL AND PROPOSED LENDING THROUGH FY 1976

Attachment 1

(\$ millions)

		Through 1963	1964	1965	1966	1967	Fiscal Years		1970	1971	1972	1973	1974	1975	1976	Total 1964-68	Total 1969-73	Total 1972-76
Agricultural Credit	IDA														20.0			
Drainage I	IDA								26.0									
Drainage II	IDA												25.0					
Drainage III	IDA														25.0			
Reclamation I	IDA										20.0							
Reclamation II	IDA													30.0				
Industry I	IDA											20.0						
Industry II	IDA														25.0			
Population	IDA										3.0							
Tourism	IDA													10.0				
Railways I	IDA									24.0								
Railways II	IDA											25.0						
Inland Waterways	IDA										7.0							
Urban Transport	IDA												30.0					
Suez Canal Authority	IBRD	56.5																
Gross Program	IBRD	56.5																
	IDA	-							26.0	24.0	30.0	45.0	55.0	60.0	50.0	-	125.0	240.0
Total		<u>56.5</u>							<u>26.0</u>	<u>24.0</u>	<u>30.0</u>	<u>45.0</u>	<u>55.0</u>	<u>60.0</u>	<u>50.0</u>	<u>-</u>	<u>125.0</u>	<u>240.0</u>
No.		1							1	1	3	2	2	3	2	-	7	12
Net Program	IBRD																	
	IDA									24.0	30.0	40.0	40.0	55.0	55.0			
Total										<u>24.0</u>	<u>30.0</u>	<u>40.0</u>	<u>40.0</u>	<u>55.0</u>	<u>55.0</u>			
No.										1	3	2	2	3	2			
IBRD Loans Outstanding																		
- including undisbursed		51.0	49.2	45.2	41.2	37.5	33.5	29.5	25.0	19.0	14.0	8.0	3.0	-	-			
- excluding undisbursed		51.0	49.2	45.2	41.2	37.5	33.5	29.5	25.0	19.0	14.0	8.0	3.0	-	-			
IDA Credits Outstanding																		
- including undisbursed									26.0	50.0	80.0	120.0	160.0	220.0	270.0			
- excluding undisbursed									-	0.3	6.9	30.7	68.1	117.1	166.1			

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UNITED ARAB REPUBLIC

Attachment 2

INDICATORS OF DEVELOPMENT

		Annual Average *			
		Unit	1951-60	1961-65	1966-70
<u>I. ECONOMIC & STRUCTURAL INDICATORS</u>					
1. Gross Domestic Product (in constant prices)	% Change		3.8	6.5	2.1
2. Manufacturing Output	% Change		14.6	18.9	3.1 /a
3. Agricultural Output	% Change		3.7	2.5	1.9 /a
4. Imports of Goods and NFS	% Change		4.7	3.9	4.7
5. Exports of Goods and NFS	% Change		2.4	1.2	1.6
6. Domestic Price Level	% Change		2.0/b	2.3	2.4
			1950**	1960	1965
7. Gross National Savings	% GDP		9.6	12.9	13.2
8. Resource Gap	% GDP		2.3	- 0.2	2.5
9. Net Factor Payments Abroad	% GDP		1.1	0.2	1.0
10. Gross Domestic Investment	% GDP		13.0	12.1	17.0
11. Debt Service	% exports				23.0 /c
12. Central Govt. Current Revenue	% GDP			18.4	19.4
13. Central Govt. Curr. Surplus (Deficit)	% GDP			0.0	- 6.6
14. Public Exp. on Social Services	% GDP			5.8	6.3
15. Military Expenditure	% GDP		3.9/d	5.5	9.6
16. Manufacturing Output /e	% GDP		15.8	19.9	21.6
17. Energy Consumption	million tons			7.5	9.0
18. Fertilizer Consumption (nitrogenous) /g	' 000 tons		520/h	1,100	1,631
<u>II. SOCIAL INDICATORS</u>					
19. Population Growth Rate	%		2.4	2.5	2.5
20. Urban Population Growth Rate	%			3.7	
21. Birth Rate	per 1,000 popln.		42.6	43.1	41.4
22. Family Planning	Acceptors '000s.				39.2/i
23. Income of: Highest quintile	% of total income				
24. Income of: Lowest quintile	% of total income				
25. School enrollment: Primary & Secondary	% school-age popln.		25.0	43.0	53.0
26. Literacy rate	% adult population			20.0	
27. Unemployment rate	% labor force			4.8	1.9
28. Population per hospital bed	Number			459	467

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Most of the data relate to FY ending June 30.

Unless otherwise indicated, data relate to FY 1953

/a Value added at constant prices; /b 1954-60; /c 1969. Debt service in 1968 was 19.5%;

/d FY 1954; /e Data relate to value added as % of GDP at factor cost; /f 1968; /g roughly 15% N;

/h average 1949-53; /i 1969; /j 1967.