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Loan Committee: Egypt - General Vol. 1

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Ms. ~~Pratt~~

December 22, 1981

Mr. Stern:

EGYPT - I am attaching, per your conversations with Messrs. Picciotto and Köpp, a proposed letter responding to the government's renewed query on the El Ahram follow-up article, attached. I have also attached a translation of the substance of the editor's introductory remarks to the publication of Mr. Chaufournier's cabled response. I still shy away from including examples because dealing with the press I believe is a no win situation and silence on other matters (i.e., substance of what is said) may always be exploited. But at this point we may not have any alternative but to be more specific.

Mr. Dervis, just back from an economic mission, spoke with Dr. Meguid last Saturday and Dr. Meguid did not further raise the question nor ask for additional clarification. However, Dr. Meguid's office officially asked the IMF on Thursday for a statement about the report, which continues to be labelled in the press as an "IMF" document.

T. Swayze

This looks OK but I share your concern about examples. I must leave judgement on that to our Egyptian experts. I would strengthen the sentence referring to the report - "Do not know" sounds too much like a Foreign Office fib. Aren't we safe in saying we have looked but cant find? If you do use the example lets be sure we refer to the Mission as a Government proposal. It wasn't our idea - it was their request (at least originally)

ES
12/2

December 22, 1981

Dear Mr. El-Menchawi:

On Friday, December 18, on behalf of your Government, you asked us again if we knew of any World Bank report that contained the information that was published in the Egyptian press as p.5 of a reportedly confidential document referring to World Bank views.

I would like to reiterate what Mr. Chaufournier said in response to Mr. Koraiem's earlier request about the same matter. [We ~~do not know of any~~ There is no official report of the sort referred to in the press. ~~We do not know where the alleged page of information came from.~~ Nor have we been able to locate any official or unofficial document with this information. As Mr. Chaufournier pointed out already, the information on Egypt contains misrepresentations and inaccuracies relating to the items discussed. For example, in the first paragraph about Egypt, the reference to Dr. Meguid's statement to Parliament indicates that this subject would have been discussed in mid-1981. However, in the following third paragraph, Mr. Stern is alleged at this same time to have made comments concerning the resident mission in Egypt, but Mr. Stern and other members of the Bank's staff had dropped the Egyptian government proposal~~s~~ for a resident mission six months earlier, in December 1980, and had officially advised the government that and the subject was no longer a matter of discussion. [~~Furthermore, even when proposals for a resident mission had been discussed, it was in the context of a project-oriented mission rather than an economic policy mission which is the type of mission implied by the remarks in the published text.~~]

Finally, I would like to reconfirm that our views and analysis of the Egyptian economy are described fully in our economic reports. These views have not changed. As Mr. Chaufournier has pointed out, the Bank's attitude as portrayed in the article is contrary to the spirit in which we have conducted our relations with Egypt.

Sincerely yours,

Townsend S. Swayze
Acting Division Chief
Country Programs 1A
Europe, Middle East and North Africa Region

Mr. Amr Osman El-Menchawi
First Secretary (Commercial Affairs)
Egypt Commercial Office
2232 Massachusetts Avenue, N.W.
Washington, D.C. 20008

cc: Messrs. Chaufournier o/r (EMNVP); Cosgrove (ADM); Karaosmanoglu o/r, Chopra, Dervis (EM1)

Cleared with & cc: Messrs. Stern, Köpp (SVPOP); Picciotto (EMNVP)

TSwayze:bn

Comments by editor printing alleged Bank page 5 and Mr. Chaufournier's response.

(1) Dr. Meguid should send text of telex to which Mr. Chaufournier responded.

(2) When Mr. Chaufournier says that what has been published contains inaccurate information and wrong interpretation, it is surprising since we did not publish excerpts, so there is no room to say there is misinterpretation, but we published all that was contained in the report (on Egypt).

(3) To say report is fabricated is dangerous even though political impact is obvious. To prove the report is not fabricated, we are publishing page 5 which also contains comments on India and Brazil.

صندوق النقد الدولى

يكذب والاقتصادى يؤكد

نشر الاقتصادى فى عدد ٦ نوفمبر مقالا بعنوان النمط المطلوب والنمط المرفوض فى مواجهة المشاكل وتضمن فيما تضمن نص ما جاء بالتقرير السرى لصندوق النقد الدولى عن الدكتور عبد الرزاق عبد المجيد .

وقد ارسل السيد مدير مكتب نائب رئيس الوزراء للشئون المالية والاقتصادية تعليقا على ذلك المقال ننشره فيما يلى باكمله وايضا صورة للتلكس الذى ارسله روجر شوفورنير الى السيد سمير كريم وكيل اول وزارة الاقتصاد والتعاون الاقتصادى .

ونود ان نتبع ذلك الرد بتعليق يقوم على نقطتين :
النقطة الاولى : كان من المفروض ان يرسل لنا السيد النائب نص البرقية او التلكس الذى ارسلته الوزارة الى روجر شوفورنير والذى بناء عليه ارسل الرد المذكور .
النقطة الثانية : عندما يقول روجر شوفورنير فى برقيته الى وزارة الاقتصاد ان ما جاء بالمجلة كمقتطفات من التقرير المزعوم يحتوى على بيانات غير دقيقة وتفسيرات خاطئة امر يدعو الى الدهشة فالمجلة لم تنشر مقتطفات بل نشرت كل ما جاء بالتقرير السرى عن مصر وبالتالى فلم يكن هناك مجال لعدم الدقة فى البيانات او الخطا فى التفسيرات علاوة على ان القول بكون التقرير مزعوما هو مغالطة خطرة وان كان واقعها السياسى واضحا .

ولاثبات ان التقرير ليس بالمزعوم ننشر صورة للصفحة الكاملة رقم ٥ من التقرير السرى والتى احتوت على الفقرة المنشورة عن مصر والتى سبقتها بقية متعلقة بالهند ثم جزء من الفقرة المتعلقة بالبرازيل ... واخيرا لقد كان فى امكان المجلة ان تنشر جزءا بسيطا من برقيات التاييد التى وصلتها من الدوائر الاقتصادية والمالية والعلمية والتى اجتمعت على تاكيد ما جاء بالمقال ولكننا لم نتعود على ذلك طوال تاريخنا الطويل .

دكتور لطفى عبدالعظيم

اولا : خطاب مكتب نائب رئيس الوزراء

السيد الدكتور لطفى عبد العظيم
رئيس تحرير مجلة الاهرام الاقتصادى الغراء
تحية طيبة وبعد ،

فبالاشارة الى المقال الذى نشر بمجلة الاهرام الاقتصادى بالعدد رقم ٦٧٠ بتاريخ ١٦ نوفمبر ١٩٨١ تحت عنوان « النمط المطلوب والنمط المرفوض فى مواجهة المشاكل » .

- ارجو التفضل بالاحاطة بانه قد وردت الينا المبرقة المرفق نصها باللغة الانجليزية من المستر روجر شوفورتير نائب رئيس البنك الدولى لشئون اوربا والشرق الاوسط واقليم شمال افريقيا .

ونورد فيما يلى ترجمة باللغة العربية لهذه المبرقة :

بالاشارة الى برقيتكم بتاريخ ١١/١٩ والخاصة بالمقال الصحفى « ليس لدينا واكرر ليس لدينا اى علم بهذا التقرير الوارد ذكره فى المقال الصحفى ان ما جاء بالجريدة كمقتطفات من التقرير المزعوم يحتوى على بيانات غير دقيقة وتفسيرات خاطئة بالنسبة لموقف البنك ـ وكما تعلم

فـان اراءنا وتحليلاتنا عن الاقتصـاد المصرى قـــد وردت تفصيلا وبمنتهى الصراحة فى تقاريرنا الاقتصادية وخاصة تقرير تعبـئة الموارد المحلية وكذلك فى كلمتـــى فى اجتمــاع اسوان .

هذه الاراء لم تتغير وقد اكدها ما تــوصلت اليه بعثـة السيد/درفيش الاخيرة .

واخيرا اود ان اضيف رأيا شخصيا وهو اننى اعبر عن اسفى لتصوير موقف البنك فى المقال بصورة تتناقض تماما مع الروح التى حــاولت انا وزمــلائى تنميتهــا بــالنسبة لعلاقاتنا مع مصر وهى روح الحــوار والامــانة فى التعبير والتى تعتبر الاساس الوحيد والفعال لكى يتمكن البنك من خدمة الدول الاعضاء تحياتى ».

وغنى عن البيان ان مبـرقة نائب رئيس البنك تشـير فى وضوح الى ما ينفى تماما ما نشر فى المقال سالف الذكر .

لذلك ارجو التفضل بالتنبيه بنشر نص المبرقة باللغتين العربية والانجليزية فى العدد القادم من الاهرام الاقتصادى اصحاحا للحق ووضعا للامور فى نصابها .

ومع تمنياتى لكم بالتوفيق .

ارجو قبول وافر تحياتى ...

تحريرا فى ١٩٨١/١١/٢٨

مدير مكتب
نائب رئيس مجلس الوزراء
للشئون الاقتصادية والمالية
« محمد سعيد لطفى ».

ثانيا : تلكس شوفورنيير الى وزارة الاقتصاد

348 GAFEC UN
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WASHINGTON D.C. NOVEMBER 23, 1981
MR. SAMIR KORAIEM, SENIOR UNDERSECRETARY,
MINISTRY OF ECONOMY, CAIRO, EGYPT
RE YOUR TELEX OF NOVEMBER 19 CONCERNING PRESS ARTICLE. WE DO NOT, REPEAT DO NOT KNOW OF ANY REPORT OF THE SORT REFERRED TO IN THE PRESS. TH EXCERPT OF THE ALLEGED WORLD BANK REPORT AS QUOTED IN THE ARTICLE CONTAINS INACCURACIES AND MISINTERPRETATIONS ON THE BAN'S POSITION. AS YOU KNOW, OUR V
EWS ON AND ANALYSIS OF THE EGYPTIAN ECONOMY ARE DESCRIBED FULLY AND OPENLY IN OUR ECONOMIC REPORTS, NOTABLY THE DOMESTIC RESOURCE MOBILIZATION REPORT, AS WELL AS IN MY STATEMENT TO THE ASWAN MEETING. THESE VIEWS HAVE NOT CHANGED AND HAVE BEEN RECONFIRMED BY THE FINDINGS OF MR. DERVIS ' LAST MISSION STOP.
I WOULD LIKE TO END ON A PERSONAL NOTE BY EXPRESSING REGRET THAT THE BANK'S ATTITUDE IS PORTRAYED IN THE ARTICLE IN A MANNER WHICH IS SO CONTRARY TO THE SPIRIT WHICH MY COLLEAGUES AND EYE TRIED TO DEVELOP IN OUR RELATIONS WITH EGYPT, A SPIRIT OF DIALOGUE AND CANDOR WHICH IS THE ONLY EFFECTIVE BASIS FOR OUR INSTITUTION TO SERVE OUR MEMBER COUNTRIES. REGARDS.
ROGER CHAUFOURNIER, VICE-PRESIDENT, EUROPE, MIDDLE EAST AND NORTH AFRICA REGION, WORLD BANK

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in this case also. The creditworthiness of the country was not the central issue. The main concern was the proportion of the World Bank's portfolio that India would account for, and how this would be viewed in the capital markets. Mr Stern said that the matter would be studied further, but that India would probably have to be kept below about 7 percent of the total portfolio (for IBRD).

EGYPT

Mr Chaufournier reported on the findings of the recent economic mission to Egypt. The mission leader, Mr Kemal Dervish, had been much more negative in his private briefing than in his public report. He did not think that Dr Meguid could undertake any serious policy movement, and hence would resort increasingly to rhetoric. An example was the so-called "balanced budget", which had been "balanced" only by borrowing $400-500 million from the banks. Despite this, Dr Meguid had stated in the Parliament that the budget had been balanced for the first time in the last several years of Egypt's history. The balance of payments prospects were also not as bright as once had been thought, both because of falling oil prices and because the recent "devaluation" of the exchange rate had not been realistic.

Mr Chaufournier said that he agreed with this assessment of the situation. The next opportunity to pressure the authorities would probably come at the Annual Meetings. He expected the Egyptian authorities to be more pliant than in the past, because they would need the Bank's support for holding the Consultative Group meeting.

Mr Stern also agreed that Egypt's economy was mismanaged and would need to be carefully monitored. He felt that this strengthened the case for a Resident Mission, even a small one, to "keep Egypt honest."

BRAZIL

Mr Barletta reported on the situation in Brazil. The authorities (in particular the Minister of Planning) had agreed to hold down the growth rate and to take measures to stimulate exports. Hence the borrowing requirements from the commercial banks had been substantially reduced. This had been combined with a willingness to pay higher spreads over the deposit rate and had enabled Brazil to meet its borrowing program. In the coming year, Brazil expected to use its higher standing in the capital markets to try to reduce, initially perhaps by a small amount, the

International Ba for Reconstruction and l velopment

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R81-257

file

FROM: The President

September 24, 1981

EGYPT: Loan 1849-EGT (Pulp and Paper Project)*
Proposed Change to Legal Documents

1. The purpose of this memorandum is to inform you of amendments which are being made in the legal documents for loan 1849-EGT (Pulp and Paper Project), which have been requested by the Government of the Arab Republic of Egypt and the General Company for Paper Industry (Rakta) and the National Paper Company (National), the two public sector companies which are the beneficiaries of the project.

2. At the time that the project was appraised, it was felt that Egyptian Law 43 of 1974 which was promulgated primarily to attract private investment to Egypt, offered an appropriate vehicle to give National and Rakta managerial authority similar to that enjoyed by private companies in order to overcome constraints which they faced as public sector companies; it was also felt that such an approach could serve as a useful precedent for modernizing and expanding other public sector enterprises. This would have required the two public sector companies to establish successor companies under Law 43 as joint ventures between the old companies and new investors (primarily Government insurance companies and banks) as shareholders. Since the project was approved by the Board of Executive Directors and signed, a new Government, which was formed in May 1980, announced its intention to reform and liberalize the public sector as a whole, rather than make improvements on a case by case basis through resorting to restructuring individual entities under the provisions of the aforementioned Law 43. As a consequence, the Government requested that the legal documents be amended to delete the requirement that the loan beneficiaries establish successor companies under Law 43 before the documents are submitted to the People's Assembly for ratification. Thus the

*Questions on this document may be referred to Mr. Zaborski (Extension 74787)

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President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

project would be carried out by the two public sector companies, and the Government would assume the obligation to provide funds to meet the full cost of the project not covered by the Bank loan. Since that time, a draft law has been submitted to the People's Assembly which would build upon recent Government actions to improve the working conditions of the public sector. These actions include abolishing hiring quotas, permitting public sector companies to freely deal in foreign exchange and to directly import capital goods, allowing unlimited participation by foreign contractors, and removing limitations on bonus and allowance systems. In the interim, the Bank has received assurances that National and Rakta would be allowed maximum freedom under current public sector law in such areas as remuneration, employment of new staff, distribution of profits, investment decisions and procurement in order to meet the objectives of efficient operation under the project. This was also the approach agreed with the Government for the Hadisolb Rehabilitation Project (Ln. 2002-EGT), approved by the Executive Directors on May 26, 1981, the beneficiary of which is a public sector steel company. These assurances combined with the technical assistance and training features already included under the project provide sufficient latitude for the management of National and Rakta to operate their companies efficiently and implement the project as originally envisaged.

3. In the meantime, the engineering consultants hired to undertake the detailed engineering for the project have almost completed their task. On the basis of their conclusions and in view of the increase in project costs because of the delay in the project as a result of discussions on the Government's new strategy, it is proposed that the off-machine coater included in the project for Rakta be deleted from the project description (Part II(C) of Schedule 2 to the Loan Agreement); the economic viability of the component would have been marginal due to significantly higher capital costs than originally anticipated. Despite this and other increases in project costs since the project was approved, the estimated financial and economic rates of return remain good: 19 percent and 18 percent for National and 20 percent and 28 percent for Rakta.

4. I consider that the requested changes are reasonable, and we are now in the process of making the necessary amendments to the loan documentation.

A. W. Clausen
President

International Bank for Reconstruction and Development

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R80-263

FROM: The President

August 29, 1980

EGYPT: Loan 1732-EGT (Gulf of Suez Gas Project)
Proposed change to Project Description,
Disbursement and Procurement Schedules

Proposal

1. The Government of the Arab Republic of Egypt and the Egyptian General Petroleum Corporation (EGPC) have requested the Bank's approval to reallocate $12.0 million of the loan proceeds which are now allocated for offshore investments (under category 1 (b) in Schedule 1 to the Loan Agreement) to be used for the following purposes:

		$ million
(i)	To procure and install facilities for collecting associated gas from a new oilfield in the Gulf of Suez	8.0
(ii)	to purchase a standby main compressor and its ancillaries; and	3.4
(iii)	to meet the additional cost of studies included in the project	0.6
		12.0

2. The $12.0 million offshore investment originally included in the loan comprised a submarine pipeline and related facilities to recover associated gas from an oilfield in the Gulf of Suez. However, because of

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declining production the operator of the field has decided to release a pipeline previously in crude oil service for the transport of the associated gas. As a result, no additional investment by EGPC is necessary for the recovery of gas from this field. The background and reasons for reallocating the offshore funds are discussed below.

3. $8 million for the New oilfield. A new offshore oilfield (Area 185/195), identified at the time of appraisal as a possible future source of associated gas, has turned out to be an important producer of oil and gas and by 1981 it is expected to be producing 30 million cubic feet per day (MMCFD) of gas.

Gas from this new oilfield will be essential for meeting the 80 MMCFD of gas required for the project since another oilfield (Area 382), which was expected to serve as a major supply source, has developed reservoir problems. At last report, this field was shut in and was to be produced only on a restricted basis to make up shortfalls in gas supply to the project. The estimated cost for collecting and using the Area 185/195 gas which is separated from the crude oil onshore, approximately 60 km north of the main compressor station already included in the project, is $12.0 million including $8.0 million in foreign exchange, the amount requested for reallocation.

4. The proposed reallocation would require amending the project procurement schedule. At present, there are only provisions for an onshore and an offshore single responsibility contract. Standard procurement provisions covering the purchase of equipment and materials would have to be added to the schedule.

5. Standby Compressor. The main compressor station, as presently defined in the loan documents, includes two parallel combustion gas driven units which supply the design flow rate when both are running. This arrangement gives a station capacity of about 70-75% of design rate when one unit is out of service. A third unit will normally supply 100% standby capacity since the probability of two units being out of service simultaneously is quite small.

6. Because of the high cost of these compressor units, EGPC, during the project preparation stage planned to defer installation of a third unit for a few years to be certain it was needed to supply the market. However, with the provisions included in the project for diverting excess gas not used in Suez to Cairo, prospects for using the full system capacity are now relatively firm. EGPC, therefore, plans to install the third unit during the project construction period and wishes to fund the foreign exchange cost of the unit from proceeds of the loan. The third unit would essentially ensure an uninterrupted supply of gas at design rate and correspondingly minimize the need for flaring associated gas from the Gulf of Suez oilfields.

7. The third compressor and its ancillaries would be procured from the same manufacturer as the two units already specified for the service. It will be supplied under the single responsibility contract for the existing onshore facilities which has already been awarded in accordance with Bank approved procurement procedures. It would be technically undesirable to match up a new unit having different operating characteristics and ancillaries. Moreover, the units already specified were selected on the basis of being best suited at least cost for the required operating conditions.

R80-263

FROM: The President

August 29, 1980

EGYPT: Loan 1732-EGT (Gulf of Suez Gas Project)
Proposed change to Project Description,
Disbursement and Procurement Schedules

Proposal

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2. The $12.0 million offshore investment originally included in the loan comprised a submarine pipeline and related facilities to recover associated gas from an oilfield in the Gulf of Suez. However, because of

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declining production the operator of the field has decided to release a pipeline previously in crude oil service for the transport of the associated gas. As a result, no additional investment by EGPC is necessary for the recovery of gas from this field. The background and reasons for reallocating the offshore funds are discussed below.

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6. Because of the high cost of these compressor units, EGPC, during the project preparation stage planned to defer installation of a third unit for a few years to be certain it was needed to supply the market. However, with the provisions included in the project for diverting excess gas not used in Suez to Cairo, prospects for using the full system capacity are now relatively firm. EGPC, therefore, plans to install the third unit during the project construction period and wishes to fund the foreign exchange cost of the unit from proceeds of the loan. The third unit would essentially ensure an uninterrupted supply of gas at design rate and correspondingly minimize the need for flaring associated gas from the Gulf of Suez oilfields.

7. The third compressor and its ancillaries would be procured from the same manufacturer as the two units already specified for the service. It will be supplied under the single responsibility contract for the existing onshore facilities which has already been awarded in accordance with Bank approved procurement procedures. It would be technically undesirable to match up a new unit having different operating characteristics and ancillaries. Moreover, the units already specified were selected on the basis of being best suited at least cost for the required operating conditions.

8. Additional Cost of Studies. Additional financing required for studies included under the project (under categories 7 (a) and (b), 7 (c) and 9 in schedule 1 to the Loan Agreement, respectively) on the basis of contracts already entered into is estimated to amount to about $0.6 million distributed as follows:

	Additional $ million
Pricing and gas utilization study	0.1
Petroleum exploration study	0.3
Financial management and accounting technical assistance	0.2
	0.6

9. The modifications proposed above will have no measurable effect on the economic rate of return on the project since they are designed to secure the city of Suez with the same quantity of gas as originally envisaged and would not substantially alter original project costs.

Recommendation

10. I therefore recommend that the Executive Directors approve the aforementioned amendments to the project financed under Loan 1732-EGT. In the absence of objection (which should be communicated to the Vice President and Secretary or the Deputy Secretary by the close of business on September 11, 1980). The recommendation will be deemed approved, to be so recorded in the minutes of a subsequent meeting of the Execution Directors. The necessary amendmends to the loan documentation will be made subsequently.

Robert S. McNamara
President

by Ernest Stern

WORLD BA INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Snr. Vice President, Operations (through Mr. Roger Chaufournier, Vice President, EMENA Region)

DATE: September 22, 1981

FROM: Attila Karaosmanoglu, Director, EM1

SUBJECT: EGYPT - Loan 1849-EGT (Pulp and Paper Project)

1. As you know, the Egyptian Government has requested a basic change in the legal documents for the above project to delete the requirement that the beneficiaries of the loan, two public sector companies, establish two successor companies as joint ventures under Law 43 of 1974 which would assume the rights and obligations of the beneficiaries under the Project Agreements and the Subsidiary Loan Agreements. A mission has ascertained that the project could be successfully implemented by the two beneficiary companies under public sector law, and we have received assurances from the Government, embodied in a new side letter agreed with it, that the companies would be allowed maximum freedom under public sector law to implement the project. Thus we have agreed to the proposed amendments. Given the increased costs because of the time which has elapsed in the meantime, the Bank and the Government have also agreed on a new project scope (the only major change of which is the deletion of an off-machine coater) and a new financing plan.

2. Upon the advice of the Legal Department, we intend to report on these developments to the Executive Directors under a memorandum for information, since there are no changes in the basic terms, conditions, amounts or project description or allocation of loan and since the new approach is the same as the one used for the Hadisolb Rehabilitation Project, which also concerned the same sort of Government assurances for a public sector company and has been approved by the Board. The Industrial Projects Department feels that, because the deletion of the requirement referred to above means a substantial change in the legal structure for the companies as originally envisaged, and because it also entails a greater financial commitment from the Government which will have to assume the obligation to provide funds which, under the original agreement, would have been provided by the shareholders of the joint ventures, we should seek the Board's approval on a non-objection basis.

3. We feel this is not necessary and in addition would like to be in a position to sign the amended documents during the time of the Annual Meeting. As you know, the Minister of Industry has orally indicated that he would link the parliamentary ratification of this project with that of the Textile II Project, the effectiveness of which has been delayed for the same reason. While we are willing to go ahead with this project, we are not willing to proceed with the Textile II as it is presently constituted because the already difficult management and financial situation prevailing when the loan was approved in early 1980, has further deteriorated. It is our understanding that the Government may now be willing to delink the two projects, and we would like to have the amendments ready for signature at the time of the Annual Meeting in order to put it to a final test.

Cleared with and cc: Messrs. Dewey (IPD); Abu-Akeel (LEG), Kôpp (EM1)

cc: Messrs. Carmignani (EMP); Iskander, Ichischima (IPD); S. Hassan (LEG)

RZaborski:hcj

OK - Attached Board paper can be issued. ES 9/23/81

file

FROM: The President

EGYPT: Loan 1849-EGT (Pulp and Paper Project)
Proposed Change to Legal Documents

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1. The purpose of this memorandum is to inform you of amendments which are being made in the legal documents for loan 1849-EGT (Pulp and Paper Project), which have been requested by the Government of the Arab Republic of Egypt and the General Company for Paper Industry (Rakta) and the National Paper Company (National), the two public sector companies which are the beneficiaries of the project.

2. At the time that the project was appraised, it was felt that Egyptian Law 43 of 1974 which was promulgated primarily to attract private investment to Egypt, offered an appropriate vehicle to give National and Rakta managerial authority similar to that enjoyed by private companies in order to overcome constraints which they faced as public sector companies; it was also felt that such an approach could serve as a useful precedent for modernizing and expanding other public sector enterprises. This would have required the two public sector companies to establish successor companies under Law 43 as joint ventures between the old companies and new investors (primarily Government insurance companies and banks) as shareholders. Since the project was approved by the Board of Executive Directors and signed, a new Government, which was formed in May 1980, announced its intention to reform and liberalize the public sector as a whole, rather than make improvements on a case by case basis through resorting to restructuring individual entities under the provisions of the aforementioned Law 43. As a consequence, the Government requested that the legal documents be amended to delete the requirement that the loan beneficiaries establish successor companies under Law 43 before the documents are submitted to the People's Assembly for ratification. Thus the

DISTRIBUTION:

project would be carried out by the two public sector companies, and the Government would assume the obligation to provide funds to meet the full cost of the project not covered by the Bank loan. Since that time, a draft law has been submitted to the People's Assembly which would build upon recent Government actions to improve the working conditions of the public sector. These actions include abolishing hiring quotas, permitting public sector companies to freely deal in foreign exchange and to directly import capital goods, allowing unlimited participation by foreign contractors, and removing limitations on bonus and allowance systems. In the interim, the Bank has received assurances that National and Rakta would be allowed maximum freedom under current public sector law in such areas as remuneration, employment of new staff, distribution of profits, investment decisions and procurement in order to meet the objectives of efficient operation under the project. This was also the approach agreed with the Government for the Hadisolb Rehabilitation Project (Ln. 2002-EGT), approved by the Executive Directors on May 26, 1981, the beneficiary of which is a public sector steel company. These assurances combined with the technical assistance and training features already included under the project provide sufficient latitude for the management of National and Rakta to operate their companies efficiently and implement the project as originally envisaged.

3. In the meantime, the engineering consultants hired to undertake the detailed engineering for the project have almost completed their task. On the basis of their conclusions and in view of the increase in project costs because of the delay in the project as a result of discussions on the Government's new strategy, it is proposed that the off-machine coater included in the project for Rakta be deleted from the project description (Part II(C) of Schedule 2 to the Loan Agreement); the economic viability of the component would have been marginal due to significantly higher capital costs than originally anticipated. Despite this and other increases in project costs since the project was approved, the estimated financial and economic rates of return remain good: 19 percent and 18 percent for National and 20 percent and 28 percent for Rakta.

4. I consider that the requested changes are reasonable, and we are now in the process of making the necessary amendments to the loan documentation.

A. W. Clausen
President

OFFICE MEMORANDUM

Proj File
6/22

TO: Mr. Roger Chaufournier, Regional Vice President, EMENA DATE: June 16, 1981

FROM: Attila Karaosmanoglu, Director, EM1 AK

SUBJECT: EGYPT: Alexandria Water Supply Project (Loan 1369-EGT)

1. The Alexandria Water General Authority (AWA) anticipates probable savings of around US$10.0 million on the above Loan of about US$53.2 million, and on March 30, 1981[a] submitted a request for utilizing the balance on works extending the existing project. We are seeking your guidance on using the savings in this case. The main reasons for the savings are lower than anticipated prices because of the high degree of competition for the supply of goods already procured.

2. The project currently includes *inter alia* the following items:

i) installing new treatment capacity of about 360,000 m^3/day;

ii) constructing about 73 km of trunk water mains for the distribution system;

iii) procuring four water barges;

iv) procuring about 35,000 water meters.

Based on AWA's request, we would propose to agree to increase the quantities of the above items as follows:

i) new treatment capacity to about 480,000 m^3/day;

ii) trunk water mains for the distribution system to about 100 km ;

iii) water barges to eight;

iv) water meters to about 59,000.

3. The above items will involve an extension of the existing project, i.e., a change in the quantity of work but not in the types of work. We feel this is justified because of the accelerating demand for potable water due to the rapid and considerable economic growth which is taking place in Alexandria and its vicinity, notably in the industrial

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a/ Formal Bank consideration was deferred for reasons given in paragraph 5 below.

Mr. Chaufournier

I concur in the proposed use of the savings, as an exceptional case and because 1) the works are identical to those in execution and 2) the SAR thought such extension would be justified and 3) it will require no extension of the schedule. However, in agreeing

to the Government request would you please note the exceptional nature of our agreement, and make this also clear to Koreans. This should be done in the context of a statement that it is our normal practice to cancel savings. [initials] 6/21/81 zones and in the port areas. Information provided by AWA shows that water demand is outstripping the estimates made in 1976, and sales being achieved have been consistently above what was forecast. There is no doubt that AWA must continue to implement phased extensions of its treatment capacity to keep up with increasing demands from its industrial, domestic as well as other non-domestic consumers. Actual demand has already exceeded estimates by some 15% and the trend is continuing. With the total capacity now being installed, maximum day demand can be met to about 1986. With an additional 120,000 m^3/day this could be extended by another two years.

4. Items (ii) to (iv) would all be procured through ICB within the period required to complete the ongoing works; the trunk mains would be laid by Egyptian contractors using local funds accessible to AWA, and would be scheduled for completion by mid-1983. Item (i) would be handled as an extension to a contract already financed by the Bank under ICB, since it allows for the necessary plus or minus quantity variation. AWA had originally requested 240,000 m^3/day of additional water treatment capacity in this item. After review, we felt that this large an extension would require separate contracting and would cause an extension of the implementation period beyond the current construction schedule. We have accordingly suggested to reduce this item to 120,000 m^3/day. The ongoing works are now expected to be completed by December 31, 1983, or just under seven years after loan signature. Thus, the items included above could all be executed within the schedule for the existing works.

5. As already mentioned, AWA submittted its formal request to the Bank for utilizing the anticipated savings in March 1981. Consideration of this request was deferred, however, until a necessary tariff action was taken in Alexandria to enable AWA to meet its financial obligations under the Loan. A satisfactory tariff increase was approved by Alexandria's Local Council on April 18, 1981. It raised the current average tariff from milliemes 32.8/m^3 to milliemes 51/m^3, an increase of about 58%. As you know, this increase can be considered an important step forward in the Egyptian context. The increased sales would increase the benefits of the project by about 12%.

6. In the circumstances we recommend utilizing savings for the proposed work described in paragraph 2. However, we would like to call to your attention a memorandum recently written by Mr. Stern[a/] in which he wrote in part: "If the accomplishment of the project can be achieved at a lower than estimated cost, such savings are not automatically available for additional project expenditures. Long standing Bank policy requires such savings to be cancelled." On the other hand, it should be noted that the Staff Appraisal Report (on which AWA relies for the full explanation of the

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a/ To Mr. van der Meer, dated June 3, 1981, concerning Loan No. 1067 BR (Second Education Project).

design of the project) recommended that any savings from the loan proceeds could be utilized to finance works similar to those in the project. A mission will be visiting Alexandria in the second half of June to discuss inter alia AWA's request; and if you agree, we would propose that they finalize the scope of the request at that time.

Cleared with and cc: Messrs. Pranich, Prenoveau (EMP), Köpp (EM1), Abu-Akeel (LEG)

cc: Messrs. Thys (o/r), MacWilliam, Huang, Shehadeh

RWZaborski:orp

6/18/81

Considering the merits of the case, the fact that the authorities have been responsive on tariff increase, and the general context of our relations with Egypt, I agree with the proposal. But this is a matter on which I have no discretion and I am referring it to Mr Stern with a positive recommendation.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: June 16, 1981

FROM: Hans-Eberhard Köpp, Division Chief, Country Programs Department 1, EMENA Region

SUBJECT: EGYPT: Summary Status of Current Operational Issues

In response to Mr. Chaufournier's memorandum of June 8, 1981, on the above subject, Mr. Stern informed Mr. Chaufournier on June 15, 1981 that he fully agreed with the approach proposed in the above memorandum. In particular, he felt that we did not have any choice but to stick to our assessment of the Textiles Project and to convey that position to the Minister of Industry even at the risk that he might withdraw also the Pulp and Paper Project. He also explicitly stated that he fully agreed with the recommendation as regards the Power Project, i.e. to make the Loan effective and to allow more time for the rate of return covenant to be met.

cc: Mr. Stern's office

Messrs. Chaufournier, Karaosmanoglu, Fuchs,
Picciotto (o/r), Pranich, Reekie,
McCarthy, Naylor
Division 1A

HEKöpp:orp

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Warren C. Baum, Vice President, CPS

DATE: March 5, 1981

FROM: Yves Rovani, Director, EGY

SUBJECT: Visit to Egypt Hydrocarbons Projects
Back-to-Office Memo

1. At the long standing invitation of EGPC, I visited between February 16th and 28 our four existing and proposed gas projects in Egypt. I met with Messrs. Hilal and Meguid, Deputy Prime Ministers of Energy and Finance respectively, as well as with the management and some of the staff of EGPC of the project entities including Petrogas, GUPCO, GPC and WEPCO. Mr. Vineet Nayyar, who has had prime responsibility for all our petroleum sector activities in Egypt since their inception assisted me throughout this visit. Mr. Franz Kaps of EMENA Programs participated in the meeting with Dr. Meguid on February 28. Both he and Vineet Nayyar were to accompany Mr. Chaufournier at a meeting on Monday, March 2, when Dr. Meguid was to unveil the major energy pricing policy statement which he was then finalizing. Following a summary of my general conclusions, I shall comment briefly on the status of our projects, our lending potential, the meetings with Messrs. Hilal and Meguid, and the status of the energy pricing issue. More complete reports should follow the visit of Mr. Chaufournier and the Abu Qir appraisal mission which is now in the field.

2. My visit coincided with what could be a medium size commercial discovery of gas in the Western Desert, the first discovery under a Bank project since preinvestment lending for hydrocarbons was approved two years ago; and with new developments on the pricing front. Generally, my main conclusions are as follows:

(a) Our program to date has been well conceived and designed indeed; implementation of the three existing projects and appraisal of the fourth are going well; the quality of the dialogue with Egyptian authorities and management on projects and sector development issues is exceptional;

(b) The sector knowledge and credibility which have been built up offer scope for a successful energy assessment in the near future which could help order priorities in the broader energy sector, address more vigorously conservation opportunities and help focus resources mobilization and external financing; I did not raise the matter, however, pending clarification of the current programming and resource review;

- next to energy pricing, co-financing from private sources should become one of the Bank's prime concerns in this sector; todate, co-financing has been negligible, involving only the participation of EIB in the proposed Abu Qir North project (though, independently, private oil

.../

companies are investing annually about $500 million in exploration); the public hydrocarbons sector, however, is now maturing to a point where co-financing could be attracted from private sources on a significant scale; and there is no alternative, if we are to continue supporting projects of essentially national interest to the increasing extent required; the same would apply to the rest of the energy public sector, as implied in connection with the reference above to an energy assessment; imagination and a systematic preparation effort are required now involving familiarization (a) of the banking community with EGPC's existing and proposed programs and (b) of EGPC with financing sources and techniques available; Mr. Meguid responded favorably and it was agreed that Franz Kaps, assisted by Vineet Nayyar, would follow up with suggestions in the course of their current missions;

(c) The energy pricing measures now contemplated, as outlined tentatively by Messrs. Hilal and Meguid to me and by Mr. Meguid to Mr. Chaufournier in somewhat more definite terms, could constitute the breakthrough which we have been expecting; there was, however, some vagueness left on practical aspects of some of the adjustments, on the position of the President and on the timing and modalities of implementation that warrant caution; Mr. Chaufournier will have shortly more recent and definite views on this.

3. The projects are proceeding well.

(a) I saw the first and very pleased customers supplied through the Cairo gas distribution project in a poor (primarily laborers) section of Helwan. LPG bottles were surrendered without difficulty as a contribution to projects costs and the ultimate test, collection of bills at higher prices, is working. Performance standards are satisfactory. Operating crews are trained and in place. Carcassing will be the principal constraint. Initial productivity of the work is very low, matter which is currently being addressed by the Petrogas management, assisted by the consultants, in their discussions with the contractor.

(b) In regard to the Gulf of Suez project for gathering, processing and piping associated gas to Suez, the principal issue at the time of project preparation was the doubts of GUPCO, the operator of the oil fields, that sufficient gas would be available for justifying the project. The shoe has changed foot: the question now is how soon will potentially available gas exceed the maximum capacity of the pipeline.

(c) At Abul Gharadig, in the Western Desert, the second well (GPT 1) financed under the project identified last May, approved last December and about to become effective, was successfully tested for gas at 2200m depth. It is definitely a commercial discovery, of medium size although quoting figures on the basis of one well alone would be premature now.

.../

The well will now be further tested for the presence of liquid hydrocarbons at two different lesser depths, before the rig is moved to GPT 2 to test three or four more prospects and begin delineating the gas field. The project involves drilling several more fields some of which appear even more promising than GPT (initially chosen for its proximity to existing servicing and pipeline facilities). This is the first successful exploration under Egyptian management. The prospects are reinforced that the project will be successful in its two objectives of (i) identifying additional gas reserves and (ii) bringing back private companies on a larger scale to the area.

(d) At Abu Qir, the main current issue with the Egyptians is the choice of the least cost rig. Preliminary market surveys indicate the potential for saving annually $80 million worth of fuel oil by substituting gas to existing industrial fuel consumption alone in the Alexandria area.

4. The potential pipeline of hydrocarbons projects identified for the near term is listed below in approximate chronological order:

1. Gas distribution systems in Alexandria and Cairo (Giza)
2. Enhanced oil recovery project (Ras Gharib)
3. National gas pipeline Grid
4. Development of Abu Gharadig gas field
5. Secondary processing and cracking of residual fuel oil
6. Development of Quantarra and Abu Madi gas field
7. Exploration project II.

5. The meeting with Minister Hilal, who was extremely well briefed, was particularly cordial. He stressed his appreciation for the Bank's contribution, the speed with which projects had been processed, and the quality of the advice and technical assistance associated with the lending which, he said, he valued as much as the money. He hoped that the energy affiliate would remove the financial constraints of the Bank in the sector and the issue of trade offs against other sectors. He listed a number of projects for which he wanted Bank financing, which are consistent with the list in 4) above, and added nuclear power. I said the latter was feasible in principle, but less desirable in the foreseable future given existing financial constraints, the large amounts required and the relatively larger sector specific technical assistance contribution per loan dollar involved in the other operations discussed. On pricing, he emphasized that a consensus for reform was building up not only amongst the cabinet but also the party and the parliament. He outlined his proposals but said we should get from Dr. Meguid the last word on the decisions and their implementation.

6. Dr. Meguid made generally the same points as Mr. Hilal, including the reference to nuclear power. He said he would welcome a larger Bank involvement in energy even at the expense of other sectors. He went over some of the pricing measures proposed, implying that most would be implemented soon (without waiting for the budget decisions next July, as Hilal had intimated). He was going to finalize over the week-end and give Mr. Chaufournier on Monday a complete statement.

.../

7. My tentative understanding of the pricing measures proposed includes:

- quadrupling of fuel (mazout) from LE 7.5 to 30 per ton;
- quadrupling of natural gas to the average cost of production plus depreciation premium, from LE 0.17 to LE 0.68 per Mcf to result from the average of a trebling of prices for power use and of increases exceeding 400% for other uses;
- quadrupling of diesel prices for power use
- increase of LPG prices to the cost of imports level for hotels and some industrial uses (domestic uses still unclear).

A Fund would be created to help subsidize temporarily some of the industries most seriously affected.

Timing is still vague and the proposals have still to be approved by the President.

8. I did confirm, in particular to Mr. Hilal that the appraisal of Abu Qir would proceed without any delay due to the pricing issue. It is well understood in Egypt that this rapid process will accelerate the advent of the "moment of truth" by which this issue must have been resolved to the Bank's (and its Board's) satisfaction.

cc: Messrs. Stern, Chaufournier, Rajagopalan (3), Finzi, Dubey, Picciotto, Carmignani, Reekie, Karaosmanoglu, Köpp. Kaps, Dervis, Abu-Akeel, Hakim;

Messrs. Sheehan, Bourcier, McCarthy, Nayyar, Ristorcelli, Sadove, Davis Fish, Fallen-Bailey
Mrs. Julius

EGYD1 Files
Regional Files - EMENA

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Mr. Howells —

the justification for IDA terms is in para 6.

Many thanks

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February 27, 1981

Mr. Ernest Stern, Senior Vice President, Operations

Roger Chaufournier, Regional Vice President, EMENA Region

EGYPT: Advance from the Project Preparation Facility for the Cairo Transport Project (FY82S)

1. In October 1980, I approved a request by the Government of Egypt for an advance of up to $298,000 from the Project Preparation Facility (PPF) to finance the costs of functional or detailed designs (as the case may be) for selected project items, and the initial costs of advisory services for key implementing agencies. Of this amount, about $220,000 has already been committed and the remainder is expected to be committed in the next few weeks. The Government has now requested an increase in the PPF advance by up to $702,000 (i.e. to a total of $1 million) to finance the designs of additional project items as detailed in para. 4 below.

2. The project was identified in July 1978 and appraised in May 1980. As a result of the Government's subsequent proposal to substitute some project items, follow-up discussions were held in September/October 1980, and the field work completed in January 1981. Negotiations are tentatively scheduled for April 1981, and Board consideration for June 1981. The project aims to initiate a revised approach to urban transport in Greater Cairo based on low cost improvements; to improve the efficiency of the public transport system, to alleviate the living conditions of some of the urban poor, and to strengthen institutional capabilities for urban planning, management and service delivery. It would consist of: traffic engineering and management measures (including road maintenance), traffic

enforcement, improvements in the operations and services of the Cairo Transport Authority, a pilot program of area upgrading in selected low income areas, requisite training and technical assistance, and feasibility studies.

3. Actual commitments against contracts under the initial advance differ somewhat from the original estimates; however, the work being done is very much in keeping with the broad objectives of the advance. For example, in the case of two items, the original intention was to finance the first of two phases of expected contracts but the actual contracts call for completion of the final design and tender documents; the costs are therefore substantially higher than originally estimated. In the case of another item the Government has succeeded in completing the designs using in-house capabilities, thus partially offsetting the larger than estimated commitments elsewhere. The net effect is a shortfall of about $59,000 for items included in the initial advance. The final result of these adjustments is beneficial for the project because with contract documents completed, implementation of these items could begin without delays.

4. The proceeds of the additional $702,000 would be used to complete the following additional work:

- preliminary designs for traffic engineering measures planned for two additional project areas (the El Corniche route and the Bab el Luk area) (estimated cost $52,000);
- final designs for a traffic police training school (to be refurbished) and the four areas to be upgraded (estimated cost $511,000);

- preparation of a work plan for the solid waste management component (estimated cost $80,000);
- shortfall on items included for financing under the initial advance (estimated at $59,000).

5. With the completion of the above activities, the Government would have detailed designs and contract documents for the first year's implementation program, and in addition for some of the works scheduled for the second year of implementation. The costs of the consulting engineers are estimated at an average of 6%-8% of estimated civil works costs and are considered reasonable. The design consultants are expected to be primarily local firms, while some of the advisory consultants are likely to be foreign. While we are expecting to finance the project's foreign costs (both direct and indirect), the disbursement percentages are being adjusted to permit 100% disbursement against both local and foreign consultant services. Total disbursements of the loan will, however, only equal the estimated foreign exchange cost of $49 million (out of a total cost of $93.4 million). Funds from alternative sources such as UNDP are not available; the Governorates' budgets do not contain the resources needed to finance these activities nor provisions for payments for the consultants' work; and seeking bilateral funds would result in delays and reduced Bank influence over activities which are an integral part of the project. The Government's request for an additional PPF advance is therefore justified. rubbish

6. At the time the initial advance was processed, we were proposing to make an IDA credit for the project; therefore, the advance ($298,000) was granted on IDA terms. As a result of the intended reductions in Egypt's IDA allocation, the project is now proposed to be financed with a

Bank loan. During recent discussions in the field, the Government has indicated that a Bank loan would be acceptable for the project (although prospective IDA financing for the project and the tentative allocation had been discussed with Government officials on several earlier occasions). However, they have requested that in the interim, the additional advance ? from the PPF be granted on the same terms as the initial advance, i.e. IDA terms. We support this request. Why Important momentum in the design work has already been gained and the implementing agencies, encouraged partly by the work already in hand, are keen to continue it. then do so Although the difference resulting from an advance on Bank terms instead of IDA terms would not be large for the expected duration of the advance, the Government attaches Why significance to the terms. A shift from IDA to Bank terms at this juncture might result in a hiatus while the necessary adjustments are made on the poppycock part of the Government before a formal request could be submitted. Valuable time, and probably some of the confidence of the implementing codswallop agencies that has been painstakingly built up over the last two years would be lost, resulting in a setback for the project, and to some extent for our credibility with project agencies. balderdash More generally, our agreeing to this small request from the Government would be perceived by officials as a very helpful step in the transition from IDA to Bank lending, and should help stuff and nonsense facilitate our continuing dialogue on the subject with them.

7. The official request by the Government would be signed by Mr. Samir Koraiem, Undersecretary, Ministry of Economy.

To be cleared with & cc: Messrs. Picciotto, Stewart (EMP), Aiyer,
Köpp (EM1), Brizzi (URB),
Lethem PAS),Abu-Akeel (LEG), Williams,
Wildeman (URB)

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OFFICE MEMORANDUM

file

TO: Mr. Ernest Stern, Senior Vice President Operations DATE February 18, 1981

FROM: Roger Chaufournier, Regional Vice President, EMENA Region

SUBJECT: EGYPT: Qattara Depression Project

With reference to your note of January 15 on the above project, please find attached excerpts from a presentation of the Minister of Electricity during the recent Aswan Aid Donors Meeting at which time he referred to the Qattara project. The appendix to the Minister's statement is largely a historic description of the various studies that have been carried out to date. Of special interest is only the time program referred to on pages 12 and 13 which clearly indicates that various topographical surveys and a feasibility study have to be carried out to determine the economics of the project. The time schedule for completion of these reports is 1982. In addition, the appendix points out, "in case of a positive decision, the next phase--to be completed in 1983/84--will comprise a complete survey of the soil conditions on each side of construction, preparation of tender documents and tendering". Thus, even in the minds of the Egyptians, some time will be required to prepare additional information to justify the huge investment (in excess of LE 2 billion) that is envisaged. It may be for that reason that no special request to the Aid Donors Meeting for funding of the project has been submitted. However, a project mission which is presently in the field has been asked by us to collect the feasibility studies prepared to date so as to enable us to form our own opinion of the present status of project preparation. We understand that the German Government which has provided most of the funding for the studies prepared to date (in excess of $10 million) has informed the Egyptian authorities that no funding for further studies is available.

Attachments

cc: Mr. Karaosmanoglu

FKaps:aw

10. All major rural areas shall be electrified by the end of 1983, which leads to radical improvement of the life style in those areas and promote local agroindustries.

11. Enhancing the projects of mechanization of agricultural and irrigation systems which also improves the load factor of the power system.

Brief Note on the Qattara Depression Project :

Since several years, a detailed feasibility study is being conducted to evaluate the feasibility of implementing the Qattara Depression Project.

In the frame of full utilization of hydro-electric resources in Egypt, and due to the special importance of the Qattara project, a brief note about this project is given below, while a more detailed report is attached hereinafter (App. I).

The Qattara Depression hydro electric project includes the channeling of the Mediterranean Sea water to the depression for hydro electric power generation. The sea water discharged to the depression during the first ten years will amount to 1200 m3/sec, thus producing about 640 MW until the level in the formed lake reaches 60 m below sea level.

Several alternatives had been studied to execute the Project.

The more feasible solution is the application of the traditional excavation methods with the following main features :

- Headrace works comprising a long canal and a rather shorter twin tunnels at sea level from coast to an intermediate reservoir.
- A hydro electric power plant and a dyke across the eastern tip of the depression, and
- A tailrace canal for conveyance of the water from the power plant to the deeper part of the depression at a level some 60 m below sea level.

The estimated cost of the project is expected to be US $ 2.0 billions.

CONCLUSIONS :

As stated above, the main points in this Report can be summarized as follows :

1. The strategic goals of Electricity Sector has been determined as :

a. the optimum utilization of the natural resources with

A R E

MINISTRY OF ELECTRICITY

APPENDIX No. 1

Report On

QATTARA DEPRESSION NATIONAL PROJECT

REPORT

ON

QATTARA DEPRESSION NATIONAL PROJECT

INTRODUCTION

- The attention of the whole world, nowadays, is diverted to the subject of Energy due to its great importance in the economical, political and social development of different Countries and to its direct effect on the life of people being the basic factor assisting the execution of the economical and social development plans and the vital issue for the progress, civilization and the achievement of welfare.
- The Ministry of Electricity exploits the different resources of power in Egypt for the generation of electricity and pays special attention to hydro power resources mainly from dams, reservoirs and barrages constructed along the Nile. Already substantial hydro power capacities in the High Dam and Aswan Dam plants have been installed, as well as an additional new hydro plant is under construction "Aswan II" down stream the Aswan Dam. Studies are at present also undertaken for the construction of a series of Hydro power plants down stream the existing irrigation barrages on the Nile.
- In view of the substantial growth in power demand expected in the future as a consequence of the large industrialization program planned for the country, extenscnve rehabilitation and improvement in the countries general economic structure, it was natural that the Ministry of Electricity estiblish definit planning for adding new generating units beside the existing ones to secure future reliable electric supplies.
- The main policy of the Ministry of Electricity is also to lessen the dependence upon conssuming oil in generating Electricity due to constant rise of its price and with the aim to spare same in a more benificial way for the national economy.

  It concentrate in developing the different other resources, than oil, for the generation of electricity, mainly water and nuclear power .

- After the utilization of the Nile potential, the only available natural hydro potential in Egypt is the Qattara Depression which according to the planned target will contribute in covering future Egypt's energy demands instead of oil firing thermal generation.

The Qattara Depression Hydro-Solar Electric Scheme

The depression is located in the western desert of Egypt. On its eastern edge is the Mogra Oasis which is about 205km from Cairo, and about 56 km from the Mediterranean Sea.

The lowest point of depression lies at 134 meters below sea level.

The surface area of the depression at zero level is about 19 500 km2 representing 1/15 of the surface of Egypt. It can be noted that the surface of the foreseen formed lake at level 60 below sea level will be 12100 km2 and the volume of water will amount to 209 cubic kilometers.

Development of the Project

- The basic concept of the project is to channel the Mediterranean Sea water, either through tunnels or open canal, to the depression, and to regulate this discharged water by water turbines, thus utilizing the difference of head between the sea level and the depression for power production. Since the depression is closed from each direction a vast lake will be formed until its level reaches 60meter below sea level. At this level the water flow diverted from the sea should be limited to the amount of water evaporated from the surface of the formed lake.

  Thus, it is clearly seen that the utilization of Qattara project depends on two basic natural phenomena, the first is the potential due to the difference of level between the sea and the depression and the second is the solar energy which is the dominating factor on which depends the quantity of evaporation from the surface of the formed lake. This is the first practical application, all over the world,for the exploitation of a combination of

It should be noted that the economic Feasibility of the project is determined by the cost of the water way linking the Mediterranean and Qattara which will be at least 76 km long.

- A number of different bodies, all over the world carried out studies concerning the utilization of the Qattara depression as a source of electric energy production, amongst them being research centres, universities, and consulting offices in Germany, England, Sweden and Switzerland, apart from the specialised Authorities in Egypt.
- The first fundamental studies were published in 1933 by the English surveyor Mr. Ball, an ex director of the Egyptian Survey department. Dr. Ball published in the Geographical Journal of October 1933 the possibility of forming a lake at -50 meters below sea level and to generate electric energy by means of hydraulic turbines in such a manner that a balance should be kept between the amount of water discharged and the water evaporated from the formed lake in the depression. He foresaw that the level of -50 m below sea leval will be reached after 200 years according to his calculations at that time.
- After the second World War the Swiss consultants Messrs. Gruner Brothers were asked to make a preliminary study of the scheme. Their report was submitted in March 1949.
- In 1958 Messrs V.B.B. The Swedish consultants presented two alternative proposals both based on a future lake level of -50 meters.
- Messrs. Siemens examined two possible solutions namely
  (a) A continuous service power station operating at 250MW output.
  (b) A peak load power station operating at 1000 MW output
- Upon request of the Egyptian Government, the Federal Republic of Germany expressed their readiness to offer technical assistance for the execution of the study. consequently, a group of German experts came to Egypt in 1960 and submitted a preliminary report showing the guide lines that have to be adopted for the study of the project.

- It was not until 1964 when another group of German experts in mines removal, geodesy and geology under the leadership of Professor Bassler from the Technical University of Darmstadt, F.R.G., came to Egypt to start their field work. Political events delayed the completion of their study,but, in 1971, the Egyptian Ministry of Electricity gave the Qattara Project a priority position in the 10 year plan for the period 1973-1983. Based on the field work carried out the Bassler Qattara Project Study was completed and submitted in March 1973.

The Bassler Qattara Project Study

The study submitted by Professor Bassler has been based on cartographical, geological, meteorological surveys as well as the necessary energy considerations. Various methods were studied for linking the Mediterranean and the depression by means of conventional construction techniques. It was found also neccessary to introduce the concept of a nuclear-blasted Canal for cost comparison with the conventional methods. The study for the following 3 routes were made namely:

(a) Route L2 starts at about 6 kilometers west of Alamein and ends at the red stone area of the depression with a length of 79 kilometers.
(b) Route H starts at about 8 Kilometers east of Alamein and ends at Moghra Oasis with a length of 54 kilometers besides another 32 kilometers as a tail race canal to reach a level of -60 meters.
(c) Route L1 which runs from El Sira, (20 kilometers west of Dabaa), to Salt springs at the edge of the depression. The length of this route is 76 kilometers.

The evaluation of long term climate data to determine the evaporation, limited flow rate to the turbines and the economic evaluation of comparative solutions has also been carried out.

- In the question of moving large masses of earch with nuclear energy Professor Bassler concluded that the local conditions were comparatively favourable for nuclear excavation.

This solution has been considered in the hope of drastically reducing the channeling costs. The area being arid, sparsely vegetated and thinly populated desert.

- Professor bassler proposed a canal, along route L1, with a flow cross section of 14000 m2 and a water surface width of 280 meters, to be excavated for 68 kilometers along the route by nuclear explosions. The effects of the radio activity released would be minimized by employing nuclear explosives with low fission yield, by exploding on days with favourable winds (prevailing winds are mostly towards the desert in the south) and by evacuating the local population, which is estimated to be less than 25000 people within 80 km from the route.
- Professor Bassler foresees as a first stage, a "hydro-solar" power station which would be constructed near the depression. The depression will be filled in about 10 years to the final level of 60 meters below sea level. The station will have an average generation of 670 MW during 8500 hrs per annum. Only after the filling period of about 10 years does the solar effect become completely effective. The second stage is forseen to work as a peak load station of 1200 MW for about 6 hours per day.

  The third stage forseen by Professor Bassler would be a completely independent pump storage plant 3x400 MW on the edge of the depression. A natural upper basin exists at 220 meters above sea level, consequently no special basin need to be constructed.

  The storage plant will utilize the surplus power in the Egyptian unified power network during the off peak loads to lift the water from the lower basin up to 220 meters and allow the water to drop through three units of 400MW capacity each. Thereby obtaining a peak of 1200 MW.
- Prof. Bassler reported the advantages which would accrue in activities such as agriculture, industry, tourism and the disposition of space for development schemes in the western desert, along the coast and in the New Valley. Agriculture will above all benefit from the evaporation

Process, which will cause an increase in the hümidity and precipitation in the vicinity of the depression. From this increases, a belt of vegetation could form along the 700 km strip as it exists, along the North African coast. Because of the lower requirement for electricity in summer, surplus electricity is available and can be used for pumping fossil groundwater and for the desalination of seawater to create new irrigated areas.

Industry will, besides using the electricity for conventional processes, be interested primarily in the processing and treatment of the salt and other mineral materials entering the depression in the seawater. These raw materials can serve as basic products for petrochemical and fertilizer factories. The creation of a man-made lake in the impassable depression makes it possible to tap the underlying formations of crude oil and natural gas from drilling platforms. After the filling, the 300 km-long lake which will be up to 100 km wide, can be used for raising fish and an associated fish industry. The canal, which stretches from the coast to the intake structure, will first srve as a construction harbour and then possibly as a port of transshipment for ocean-going ships.

The tourist industry will have access to new areas through the navigable opening of this unique natural phenomenon. In addition to the recreational facilities, an extensive water sport industry could develop. The concentration of all these possibilities in the vicinity of an energy centre should play an important role in the final decision on the Qattara-project.

This report consititutes the pre-feasibility study of the Qattara Depression Project and the Study showed that the

Project including both base and peakload hydro stations as well as nuclear excavated canal between the sea and the depression offers an ideal competitive solution for cheap electricity production.

The economic evaluation of comparative solution, namely conventional tunnelling and nuclear excavated canal, indicated that substantial saving, applying the latter solution, may reach at least 2/3 of the investments needed for channelling the sea water into the depression.

Steps taken by the Ministry of Electric Power

- The Bassler report was discussed during the month of May 1973 between Professor Bassler and Dipl. Eng. Meizner as well as representatives from the Ministry of Electric Power, Nuclear Energy Authority and Geological Survey. As a result of the discussion the Ministry of Electricity came to the conclusion that the Project is sound and that further investigations have to be completed. Accordingly, a letter was sent to the Embassy of the Federal Republic of Germany requesting a contribution for the completion of the study.
- In July 1974 a financial and technical agreement was signed between the Egyptian and the German Federal Republic governments Consequently, contract was signed on 30th Sept.1975 between Joint Venture Qattara which comprises (Lahmeyer, Salzgitter, Deutsche Project Union in cooperation with Arab Consulting Engineers, Bunderanstalt fuer Geowissenschaften and rohstoffe, Harza Engineering and C.E.R. Geonculear) and the Ministry of Electric Power for the feasibility study of the project.

  The following studies and field works were performed during the years 77 to 79 as included in the contract:

  a. Economic and social research

  b. Energy research and its economics

  c. Topographical survey

  d. Meteorology and climatology

e. Oceanography

f. Geology and Engineering Geology

- For the assessment of these studies the following field works have been executed by the consultant.

a- Boreholes:

Eleven boreholes, in addition to the eight executed during the preliminary studies of 1964/1965, was carried out as follows:

- 2 boreholes at the intake on the coast of the Mediterranean sea with total depth of approximately 160 meters.
- 4 boreholes along the proposed water canal alignment with total depth of approximately 2300 meters.
- 5 boreholes in the area of depression rim with a total depth of approximately 800 meters.

The analysis of the samples obtained from these borings are carried out in the laboratory in order to know the properties of the earth and nature of the rock in the district.

b- Groundwater Investigations:

- With a view of envisaging the influence of filling the depression with salt water on the underground sweet water, also the influence of the groundwater flowing in the direction of the depression on the filling rates.
- To know the present situation of the underground water and to register it as it may change its positions after completing the project.
- Finally to know the influence on the composition of the underground water in the case of carrying out nuclear explosions in the district.

c- Ecology Investigations:

- With a view of studying the influence on the environment after carrying out the project and its influence on the groundwater after the creation of a lake in the depression or by the influence of the new climate due to the presence of a lake.

This study comprised the oases surrounding the district of the project and the research of climate changes which might occur with respect to temperature, relative humidity and precipitation. This study also included the economic and social impacts on the district after completing the project.

d- <u>Nuclear Explosions Investigations:</u>

- This includes the study of the influence on the environment with respect to nuclear explosions and earth tremors as well as the calculation of the number of required nuclear explosions and their costs and their safety control programs. This also includes the studies of international treaties which hinder such work and finding means to comply with these treaties for the benefit of the project.

e- <u>The study of Agricutural and Industrial Evolution in the District</u>

In order to deduce the ways of evolution in these two fields by utilizing the facilities offered through the execution of the project.

The aim of the above-mentioned studies, as planned, was to reach the optimum technical and economical variant to execute the project and to obtain the correct data in order to make the necessary designs for the project.

f- <u>Research Program of the Remote Sensing Research Project</u>

The Ministry of Electricity and Energy having faith in the importance of research, and the sensitivity of the results with respect to such a big and vital project has entrusted both the Remote Sensing Research Project at the Egyptian Academy of Scientific Research and Techology.

This program aims at making use of the satellite images from Landsat-1 type satellites in surveying the Qattara Depression area and the surrounding zones, which can affect or be affected by the implementation of the project, and in order to construct lithological surface drainage and potential regional ground water maps.

Research Program of the Egyptian Authority for Geological Survey

This program included the constructing of geological formation and evaluation maps, evaluation of the underground water

Lahmeyer Feasibility Study

The draft feasibility study was subbmitted by Messrs Lahmeyer on November 1980 with the following conclusions in respect to three Main Alternatives namely an open Nuclear excavated canal, a tunnels scheme and a one way pumped storage scheme.

a- First Alternative: A nuclear excavated canal with a run of river hydro plant 600 MW for base load generation estimated at about Million U$ 1945.

b- Second Alternative: Two tunnels of conventional construction with a 330 MW base load power plant and a pumped storage plant 4800 MW estimated at about Million U$ 8430.

c- Third Alternative: A one way pumped storage plant for peack for peack load with an installed capacity of 4800 MW worth Million U$ 5700.

It is appearent that the only economical Alternative is the first one.

The New Qattara Project

As a matter of course, the main obstacle for the implementation of the Qattara Project has been the elevated cost for the waterway from the Mediterranean Sea into the Depression. In the recent study undertaken by the Qattara Authority with the sponsorship of the Federal Republic of Germany the technical and economic aspects of excavating a canal by nuclear blasting have been thorought investigated. It is apparent, however, that with due ragard taken to the present state-of-the-art this blasting technique is not sufficiently developed to allow an application for this project. Consequently, a new appreoch has now been adopted implying the use of conventional excavation methods. This approach is justified by the circumstance that the costs for conventional excavation have been successively reduced in recent years, as well as the fact that the benefit of the project has simultaneously increased.

Layout of the Project

A study of available information shows that the alignment H will be the most attractive one when conventional excavation methods are used. This alignment is to be found in the eastern part of the ridge separating the depression from the sea, where the ground is at its lowest level. Underneath a fairly thin caprock of limestone the ridge is built up of sand with occisional layers of clay. Evidently, this material will only require moderate use of explosives for loosening. On the other hand the banks of a canal will have to be cut with fairly flat slopes, particularly where clay will be intersected. The volume of excavation will therefore be substantial. Where the ridge is at its highest level it will even be necessary to construct tunnels in order to keep the excavation within reasonable limits. Such tunnels will require a continuous lining of concrete for support of the overlaying soil. Due to the fact that the existing ground water table is below the level of such tunnels, the construction conditions will however be reasonably favourable.

Tha main components of such a layout will be:

- Headrace works comprising a canal and a twin tunnels at sea level from the coast east of El Alamein to Moghra.
- A reservoir at Moghra to accommodate for daily and weekly variations in demand.
- A hydroelectric power plant and a dyke across the eastern tip of the depression.
- A tailrace canal for conveyance of the water from the power plant to the deeper part of the depression at a level some

60m below sea level.

According to a preliminary eatimate for a project comprising a 600 MW Plant to product 3, 300 GWH per annum in an initial filling stage and the project data will be as follows:

- Head race canal 45.5 km. Volume 470 Mm^3
- Tunnels 2 x 12 km. Diam, 12m
- Moghra dyke 5 km
- Power Plant 600 MW at 62.5 m gross head
- Tail race canal 48 km, Volume 135 Mm^3

Economy

Since the cost of the excavation of the headrace and tailrace are dominating (about 80 per cent of the cost of the project) these items have been analysed by Messrs Nitro Nobel of Sweden. Based on this study it is estimated that the cost of construction would be in the order of two billion USD in 1980 price level.

Compared to thermal energy produced at to-day's oil price of USD 200 per ton and assuming 7 per cent interest rate the profit to cost ratio would be about 1.5.

Hence, subject to many uncertainties as ragards the geological conditions, which can be as well positive as negative and which are decisive for the cost of the project, it can be stated that the project will be profitable.

Time programme

In order to assess more accurately the quantities of excavation involved it is, however, necessary to carry out topographical surveys of the sites for the various components of the project. For the headrace alignment this work has already been placed with the survey Department and will be started shortly after checking and necessary precautions with a view to possibly remaining mines. Furthermore, a preliminary soil survey will be undertaken. Subsequently, a feasibility study will be made in sufficient detail to allow a decision whether or not and when to implement the project. This phase is scheduled to be completed in 1982.

In case of a positive decision the next phase- to be completed in 1983 / 1984 - will comprise a complete survey of the soil conditions on each site of construction, preparation of tender documents and tendering. Simultaneously, negotiations regarding financing will be concluded. With regard to the very substantial amount of works to be performed it is to be anticipated that the task will be split on several contracts, and a total construction period of some eight to ten years be allocated.

FORM NO. 1599
(8-80)

THE WORLD BANK

ROUTING SLIP	DATE 3/23

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Eddie -	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

For Project File
please. Thanks.

FROM

Lynne

Mr. Roger Chaufournier, VP, EMENA | January 15, 1981

Ernest Stern, SVP, Operations

EGYPT: Qattara Depression Project
Mr. Kaps' Memo of 12/15/80

May we discuss this at your convenience? Since it is still at a very early stage, I would like to be sure that we have an agreed Bank view and that we will state any concern to donors when asked. Mr. Kaps' points would seem to provide a suitable starting point.

cc: Mr. Karaosmanoglu

EStern:dpw

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Hans-Eberhard Köpp, Division Chief, Country Programs Department 1, EMENA Region

DATE: December 15, 1980

FROM: Franz Kaps, Senior Loan Officer, CPD 1, EMENA

SUBJECT: EGYPT: Qattara Depression Project

During my recent mission to Egypt the subject of the Qattara Depression Project came up in meetings with the Minister of Electricity, and the Chairman of the Qattara Project Authority (QPA). As you know, this project which would utilize the drop of 60 meters between the Mediterranean and the Qattara Depression in the Western Desert could produce about 640 MW during the first 12 years, and about 340 MW thereafter, has been under discussion for many years. A German consulting firm, Lahmeyer International, has prepared a voluminous feasibility study with financing from the German Government (about $12 million equivalent have been spent thus far). According to the Chairman of QPA, a panel of international experts will meet in Frankfurt in mid-January to review the final feasibility report. Although the study's findings question the economic feasibility of carrying out the project before some time after the year 2000, President Sadat has recently announced that the Egyptian Government gave highest priority to this project and that it would have to be launched in the very near future. The Minister of Electricity told me that the Egyptian Government was likely to present the Qattara project as one of the high priority projects to the donors meeting in January.

In a separate meeting the Chairman of QPA, in turn, said that given the many uncertainties of the project that need to be studied, he felt that it had been premature for President Sadat to give the project that much publicity. I pointed out to both the Minister and the Chairman of QPA that the recent statements of President Sadat had prompted various inquiries to the Bank as to its assessment of the project. In responding to these inquiries I had made the following statements: (i) the Egyptian Government has never officially requested the Bank to consider financing of the project; (ii) in case such a request should be received, the Bank would of course need to review the voluminous reports prepared to date; (iii) given the likely cost of the project 1/ special attention would have to be given to its economic justification. In recent reports regarding energy projects, the Bank had taken the view that Egypt's energy needs in the medium future would best be met by coal fired and/or nuclear power plants; (iv) given the fact that the sweet water reservoir of the Nile Delta lies below the Qattara depression, special studies would have to be carried out to ensure that any possibility of leakage through the substantial excavation which will need to be carried out

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1/ Various numbers in the range between LE 1-2 billion have been cited which, however, will require substantial further investigation.

be avoided; and (v) the implications on the environment and metereology of the evaporation of the enormous amounts of water flooding the depression would need to be investigated.

cc: Messrs. Carmignani, Reekie, Roa (o/r)

FKaps:orp

WC BANK / INTERNATIONAL FINANCE CORPOR. N

Mr. Ballard

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 10, 1980

FROM: Hans-Eberhard Köpp, Division Chief, Country Programs Department 1, EMENA Region

SUBJECT: EGYPT: Meeting of His Excellency Deputy Prime Minister for Economic and Financial Affairs Dr. Meguid with Mr. McNamara

→ ES/ plf. d.g.

Fck / Ds

1. A meeting was held in Mr. McNamara's office on December 8 at 6 p.m. which was attended by His Excellency Dr. Meguid, Dr. El-Naggar (Egyptian Executive Director) and Messrs. Stern, Karaosmanoglu, Köpp and Lafourcade.

2. Mr. McNamara opened the meeting by expressing his strong concern about the completely inadequate pricing policies of the Egyptian Government as far as energy and also agriculture are concerned. He stated that while one could not expect any drastic changes, a gradual move towards closing the gap between domestic and international prices was urgently required. He also mentioned the extensive burden created by the heavy subsidies which the Government was providing and the present interest rate structure which was inadequate to help mobilize domestic resources. He felt that policy changes were urgently required in order to avoid a situation in which Egypt was "consuming its future."

3. Dr. Meguid, in an elaborate statement emphasized the fact that all the policy issues which Mr. McNamara had referred to were closely interlinked and could not be tackled in isolation. He stressed that it was an immense task to address all these issues specifically while not losing sight of the overall interdependence of these problems. He said he was happy to state that he had submitted to the Party 12 pieces of legislation just before he left for Washington. He was hopeful that this legislation would be submitted to the Parliament soon. It included laws on tax reform, public sector reform, etc. More specifically, Dr. Meguid explained that agreement had been reached within the Government that the energy prices would be increased very shortly by a "quantum jump" and then regularly by 25 percent each year in order to reach the level of international prices of today within 5 years. Masout would go up from about $10 to about $20 per ton shortly. Premium gasoline which was already at about 65 percent of international prices, would go up by 25 percent while regular gasoline would maintain its price but gradually decrease in availability.

4. Dr. Meguid also mentioned that Law 43 companies are paying international prices for energy already since January 1, 1980 with the exception of bakeries and brick factories in view of their social importance. The abovementioned pricing measures would become effective as of January 1, 1981.

5. As far as bread subsidies are concerned, Dr. Meguid mentioned the fact that the old 1/2-piastre bread had quietly almost disappeared in favor of 1-piastre bread and in certain areas even a 2-piastre bread. It was the policy to encourage such a move while leaving the initiative to the bakers in order to avoid any social disruption. At about 4 piastres the break-even point would be reached. Dr. Meguid then explained a plan to introduce a new coupon system which would not only indicate a money value but also the commodity (e.g. meat or sugar) to be bought with the coupon and the time period for that purpose (e.g. February 1981). The objective would be to limit the number of beneficiaries for the coupon, thereby saving on subsidy payments, and to unify the prices for basic commodities in order to inter alia remove possibilities for corruption. The coupons are expected to be limited to urban dwellers and certain commodities; farmers who should be producers of food, etc. would benefit from higher farm-gate prices. In response to a question, Dr. Meguid pointed out that if prices for certain commodities should move up, this would have to be absorbed by customers since the coupons already issued for a certain period would keep their value printed on them.

6. Dr. Meguid then commented on statements that Egypt had increased consumption in an irresponsible way. He said that this was not true as proven by the fact that the revenues from petroleum export had increased over the last year or so by about $500 million while the reserves had increased by more than $1 billion. He also felt that the current interest rate for savings in Egypt of 12 percent (plus an additional 3 percent from tax withholding) was sufficiently high to cause people to save and thus to mobilize resources.

7. Dr. Meguid stressed that the various policy proposals incorporated in the draft legislation mentioned above had the full support of President Sadat. Of course, it was possible that some changes at the margin would be made during the discussions in the Party and in the Parliament but the principle as such was accepted.

8. Mr. McNamara commented that he found the exposé of Dr. Meguid very interesting and that it would be extremely useful if a paper could be prepared by the Government for the January donors meeting which would add specific figures and a precise time schedule to the policy package which Dr. Meguid had described.

→ ES/ does he want more background on the portfolio for his discussions ??

9. Mr. McNamara then turned to the status of the Bank lending program to Egypt and stated that the pipeline of well prepared projects suitable for Bank financing was rather thin and that the performance under a number of projects under implementation was rather poor. He expressed the hope that the Government and the Bank would join together in addressing the serious problems in this respect. Mr. McNamara specifically mentioned the poor record on the Pulp and Paper and Textile projects which had been

approved by the Board in FY80 but had still not become effective and most likely required a re-appraisal. He stated that he would not want to have a preferred treatment for Bank projects but emphasized that it was important that the Board of the Bank could rely, when approving a project, on the agreed plan and approach for the implementation of Bank financed projects. Dr. Meguid commented that he was fully aware of the need for improvements in project preparation and mentioned that he was toying with the idea of attaching a project preparation agency to the newly established National Investment Bank. Also, he stressed that the provision of domestic funds for approved projects should not be a problem anymore now that the National Investment Bank would take care of this aspect.

10. The subject of establishing a resident mission was briefly raised. Dr. Meguid stressed that the Government would accept any candidate selected by the Bank for the mission and that the aspect of race, nationality, etc. would be completely irrelevant for the Government. He emphasized that he wanted a resident mission which would help "massage projects through the various stages of processing" and which would help to keep everybody concerned au courant on economic matters and act also as an additional channel of communication with the Bank. As far as he was concerned, the mission could be established overnight. He was hoping that Mr. McNamara would be able to accept an invitation to come to Egypt and that at that occasion Mr. McNamara would announce the names of the members of the mission. Mr. McNamara and Mr. Stern said they were glad to hear these statements in view of some confusing signals in the recent past and the fact that some candidates proposed by the Bank had been rejected by the Government.

11. In concluding, Mr. McNamara again expressed that he was delighted to have heard the exposé of Dr. Meguid on the various policy changes that were envisaged. He added that he was looking forward to a paper from the Government which would quantify these policy changes and put them into a specific time-frame. Dr. Meguid referred in this context to the fact that President Sadat was planning to address the donors meeting in January in Aswan and that the various parts of the policy package would be explained in detail at the meeting by the various high-level officials of the Government responsible for them, including Mrs. Sadat who would chair a session on population and education issues.

Cl. with and cc: Mr. Karaosmanoglu

cc: Messrs. McNamara, Stern, Chaufournier (o/r), Picciotto, Kavalsky, Division 1A

cc: Dr. El-Naggar (ED)

HEKöpp:orp

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

PB

TO: Mr. E. Stern, SVPO

DATE: November 10, 1980

FROM: Roger Chaufournier, Vice President, EMENA Region

SUBJECT: EGYPT: IDA Strategy - Creditworthiness and Performance

1. Mr. McNamara and yourself mentioned recently that IDA lending to Egypt should be discontinued or at least substantially reduced. Mr. McNamara had alluded to this possibility in his annual speech.

2. Taken in the context of the need to mobilize additional IDA resources to meet the growing requirements of the poorest nations, it may be necessary to review the criteria for IDA lending and make their application increasingly restrictive. As a consequence, IDA lending to Egypt may have to be reduced.

3. In order to help make such a decision, and in order for it to be equitably treated in relation to other recipients, I thought it would be useful to examine two key determinants of IDA allocation to Egypt, creditworthiness and performance. The prime purpose of the attached note "Egypt: Creditworthiness and Performance", is to prevent an excessively narrow or short-term evaluation of the Egyptian situation from penalizing the country unduly. In the context of evaluating performance, we have also taken this opportunity to review briefly the Bank's impact and role, both in the area of macroeconomic policy, and at the sectoral and project level.

4. I would appreciate very much an opportunity for discussing with you the conclusions of the paper.

Attachment

Cleared with and cc: Messrs. Karaosmanoglu, Dubey, Köpp
Cleared in substance with and cc: Mr. Picciotto

TSwayze/KDervis:cys

EGYPT: Creditworthiness and Performance

CREDITWORTHINESS

Some Key Features of Egypt's Balance of Payments

1. The most important feature of the Egyptian economy in the last half of the 1970s has been the surge in foreign exchange earnings as a consequence of four major factors (i) the emergence of a strong petroleum sector with a large exportable surplus; (ii) the large flow of workers' remittances; (iii) large amounts of net long-term foreign capital inflows and (iv) the successful reopening and enlargement of the Suez Canal. From a very small base the growth in the combined value of these four sources of foreign exchange has been spectacular over the past six years, averaging close to 40 percent in real terms per annum. The result has been a shift in the overall balance of payments from a deficit of $1,440 million in 1974 to a surplus of $697 million in 1979, and an estimated surplus of about $790 million in FY81. This turnaround has radically altered the environment in which economic policy operates. Egypt is no longer in need of the massive balance of payments support which characterized the mid-1970s. Inflation has replaced the foreign exchange constraint as the primary concern of policy makers. Indeed, sharp increases in imports of food and consumer goods are seen as one way to control inflationary pressures in the economy.

2. Table 1 below summarizes some of the key characteristics of Egypt's current balance of payments position:

Table 1: An Overview of Egypt's Balance of Payments Estimates for FY81

Gross Receipts	$ Million	Gross Expenditure	$ Million		$ Million
Agriculture Exports	730	Wheat and Flour	1,130		
Manufactured Exports	730	Other Food Imports	1,390		
Non-Factor Services	1,260				
		Consumer Manufactures	1,000		
Petroleum, Egypt's Share	2,930	Intermediate Goods	2,390		
Petroleum, FOC	1,440	Capital Goods	3,750		
Suez Canal	860				
		Service Imports	1,370		
Workers' Remittances	2,850	Interest Payments	650		
Other Factor Income	360	Profit Transfers	1,370		
Earnings on Current Account, Sub-Total	11,160	Expenditure on Current Account, Sub-Total	13,050	Current Account Balance	- 1,890
Direct Foreign Investment	920	Amortization, Official	460		
MLT Loans and Grants	3,060	Amortization, Private	840		
Receipts on Capital Account, Sub-Total	3,980	Expenditure on Capital Account, Sub-Total	1,300	Capital Account Balance	+ 2,680
Total Receipts	15,140	Total Expenditure	14,350	Overall Balance	+ 790
Receipts excluding For. Oil Companies	13,700			Short-Term Capital + Reserve Movements	- 790

Memo:

Current Account/GDP: - 7.1%
Debt-Service Ratio : 20.0%
Central Bank Reserves/Merchandise Imports : 17.0%

3. The following points are worth stressing:

(i) Egypt is currently accumulating foreign exchange reserves. The ratio of reserves to imports (about 2 months) is still very low, however, so that a degree of reserve accumulation should be welcomed.

(ii) Agricultural and manufactured exports constitute only a small fraction (about 10 percent) of Egypt's foreign exchange receipts. Petroleum, workers' remittances, the Suez Canal and foreign capital inflows dominate the accounts.

(iii) The level of petroleum exports (excluding the foreign oil companies receipts) amounts to about $2.9 billion in FY81. This constitutes about 21 percent of total foreign exchange receipts.

(iv) Egypt has become a very "open" economy: earnings and expenditures on current account (including the operations of the oil companies) equal 42 and 49 percent of GDP respectively.

(v) Food imports ($2.5 billion) are almost equal to Egypt's share of petroleum exports. Egypt's "luck" at being a petroleum exporter is thus to some extent offset by the severe land constraint Egypt has to live with and the consequent growing dependence on imported food.

(vi) The foreign oil companies play a very important role in the Egyptian economy and its balance of payments. They are entitled to a share (between 20 and 30 percent) in total production of crude. This share currently amounts to $1.4 billion, mostly transferred abroad. They are committed, however, to a large exploration and investment program, amounting to at least $500 million a year for the next 5 years.

The Medium-Term Outlook

4. Given the structural features outlined above, our recent, detailed analysis of economic trends and future prospects 1/ has led us to stress to Egyptian policy makers the vulnerable nature of the balance of payments, despite the current appearance of plenty.

5. The growth of petroleum output, averaging 34 percent per annum in the 1974-1978 period, declined to 8.2 percent in 1979 and is estimated to be 8 percent in 1980. Production from the existing fields is peaking and, unless major new fields are discovered, production will cease to grow after 1984 or 1985. While major new discoveries are, of course, a possibility and active exploration is continuing, Egypt should be advised not to incorporate into its planning assumptions undiscovered petroleum fields. With rapidly increasing domestic consumption (about 9 percent per annum), a constant level of production would lead to declining petroleum exports.

1/ Arab Republic of Egypt : Domestic Resource Mobilization and Growth Prospects for the 1980's, Report No. 3123-EGT.

There is hope that natural gas can be found in sufficient quantities and developed rapidly enough to compensate for the lack of growth in petroleum output. Recently discovered fields have yet to be delineated, however, and estimates of total recoverable reserves of gas are very speculative.

6. A similar slowing down is evident for workers' remittances. Their growth rate has declined significantly since 1978. Given the very high levels that the proportion of immigrant labor has reached in the host countries as well as the increasing competition from South and East Asian labor, it is unlikely that the number of Egyptian workers abroad can continue to increase rapidly. The most probable scenario is therefore for remittances to grow at a rate somewhat below the increase in the real wage of workers abroad, which would still allow some real growth but not at a pace comparable to the expansion experienced in the late 1970s.

7. Regarding foreign assistance, the existing pipeline and the commitments made by donor countries and international lending insitutions are sufficient to allow reasonably rapid growth of gross resource transfers over the next few years provided the speed of disbursement can be improved. But the level of commitments is showing only a slow increase so that eventually the growth in disbursements is likely to slow down. Debt service payments, on the other hand, are due to increase rapidly starting in 1982; and this could, therefore, lead to a situation in which the growth of net foreign resources declines considerably. There remains of course private lending and direct foreign investment, but profit transfers by foreign oil companies already far exceed their new investments and as production in Law 43 joint-venture projects increases, a new category of profit repatriations will emerge. Thus, Egypt cannot count on much real growth in net resources from abroad.

8. Turning to the Suez Canal, which is likely to generate almost $1 billion in foreign exchange earnings after its expansion is completed at the end of 1980, further rapid growth in the volume of traffic is very unlikely. Tariffs have already been raised and further increases would probably have a significant negative impact on the volume of traffic, diverting it to other routes. Some moderate growth is still possible, but the trend of spectacular expansion that characterized the 1970s is unlikely to be repeated.

9. On the other hand, the slowdown in out-migration implies a sharp acceleration in the already rapid growth of Egypt's domestic labor force, estimated to expand at an annual rate of 2.8 percent during the 1980s. Moreover, the economic dynamism of recent years and the advent of peace have raised expectations and created strong pressures for increased consumption and welfare that are currently leading to massive growth of imports.

10. The task ahead is, therefore, not a small one. It is likely that rapid economic growth will depend increasingly on the performance of the domestic commodity producing sectors, notably industry and agriculture. Such a change in the basic structure of Egypt's growth, from "natural resource" and "foreign resource" based growth, to growth based on domestic production of agricultural and industrial commodities, will require a

fundamental shift in economic strategy and in the structure of domestic prices and incentives. Furthermore, a substantial growth in national savings will be required to finance the kind of investment program that could renew and expand Egypt's capital stock and lay the foundation for self-sustaining growth in the domestic economy.

11. We have argued for a package of policies which would permit about 8 percent growth of real investment and 7 percent growth of GDP to be sustained with approximate equilibrium in the "overall" balance of payments, a 17 percent reserve to import ratio, and a debt service ratio below 25 percent. These include: (i) frequent small exchange rate adjustments to prevent a real appreciation and encourage competitive exports, tourism and efficient import substitution; (ii) a tax reform incorporating the kind of sales tax the IMF has been pressing for; (iii) higher domestic energy prices to encourage the conservation of energy and to create fiscal revenues; (iv) a major restructuring of relative prices in agriculture that would stimulate the production of crops with low domestic resource costs; (v) interest rate and capital market development policies that would encourage private savings and investment; (vi) more autonomy and decentralization in the public industrial sector; and (vii) appropriate phasing of petroleum production as a tool of macroeconomic management to help smooth resource growth and prevent temporary increases in consumption that could not be sustained in the longer run.

12. Table 2 below describes three alternative scenarios for overall economic growth, the balance of payments and Egypt's creditworthiness in the 1980's. 1/ Scenario A reflects moderately optimistic assumptions about petroleum and natural gas production and world prices combined with the policy package described above. It is an optimistic scenario that we believe could be achieved if Egypt was able to undertake gradually, but starting without delay, a major program of structural adjustments and policy reforms. Scenario B reflects the same moderately optimistic petroleum and gas assumptions, without the policy package and with a gradually declining growth rate for real investment. Finally, Scenario C is a downside risk scenario: it incorporates more pessimistic assumptions about production and world prices for petroleum and gas after 1984 and there is no policy package. Both Scenario B and C are based on the view that the emergence of a foreign resource gap would lead, on the one hand, to increased foreign borrowing, and, on the other hand, to a slowdown in investment. We also think that Egypt's geopolitical situation is such that large amounts of "extra" balance of payments financing may well become available in times of crisis, as has been the case on several occasions in the past.

1/ The projections are derived from a macroeconomic growth model developed by the Egypt Division.

Table 2: Creditworthiness, The Balance of Payments and Growth in the Medium-Term Three Alternative Scenarios

Scenarios		FY82	FY83	FY84	FY85	FY86	FY87
Moderate Petroleum & Gas Assumptions	GDP Growth (%)	6.5	6.5	6.4	6.9	7.2	7.5
	Investment Growth (%)	8.5	8.5	8.5	8.5	8.5	8.5
	Current Account Balance ($m)	-2669	-3339	-3935	-4532	-5085	-5748
	(Current Account/GDP) (%)	(8.9)	(-9.7)	(-10.1)	(-10.3)	(-10.3)	(-10.4)
A.	Overall Balance ($m)	345	37	- 171	- 273	- 309	- 460
and Policy Package	Debt Service Ratio 1/ (%)	21.9	23.0	22.7	21.7	20.8	20.7
	Petroleum Earnings/Food Imp.(%)	108.0	107.3	108.0	112.0	118.1	123.0
	Pet.+Suez+Remitt./Merch.Imp.(%)	65.1	63.2	62.1	61.4	61.2	61.0
Moderate Petroleum & Gas Assumptions	GDP Growth (%)	6.4	6.5	5.8	5.2	5.2	5.1
	Investment Growth (%)	9.0	7.0	5.0	6.0	5.0	5.0
	Current Account Balance ($m)	-2730	-3540	-4608	-5985	-7470	-9320
	(Current Account/GDP) (%)	(-8.5)	(-9.1)	(-9.9)	(-10.9)	(-11.6)	(-12.5)
B.	Overall Balance ($m)	283	- 163	- 864	-1767	-2747	-4098
but no Policy Package	Debt Service Ratio (%)	21.4	22.1	22.2	22.1	22.7	24.7
	Petroleum Earnings/Food Imp.(%)	113.0	112.8	110.3	102.1	97.2	92.0
	Pet.+Suez+Remitt./Merch.Imp.(%)	66.1	65.0	63.1	60.3	58.4	56.1
Downside Risk Scenario: Pessimistic Petroleum/Gas Assumption	GDP Growth (%)	5.5	5.6	4.9	4.8	4.0	4.0
	Investment Growth (%)	8.5	7.0	5.6	3.0	3.0	3.0
	Current Account Balance ($m)	-2955	-4098	-5597	-7250	-9276	-11611
	(Current Account/GDP) (%)	(-9.3)	(-10.8)	(-12.7)	(-13.9)	(15.3)	(16.6)
C.	Overall Balance ($m)	59	- 713	-1853	-3030	-4554	-6390
and no Policy Package	Debt Service Ratio (%)	21.9	23.4	24.6	25.6	28.5	33.3
	Petroleum Earnings/Food Imp.(%)	105.1	96.0	83.2	71.0	57.1	46.7
	Pet.+Suez+Remitt./Merch.Imp.(%)	64.3	60.0	56.0	53.2	49.3	45.8

1/ It is assumed that all payments of principal and interest due on Arab loans will be made on schedule. Regarding the Arab deposits with the Central Bank of Egypt, amounting to about $1.9 billion, we assume payment of interest but continuous rollover of these deposits for the foreseeable future.

13. The projections summarized in Table 2 show that the overall balance of payments will be in approximate equilibrium until the end of FY83. While the current account deficit remains large (9-10 percent of GDP), the medium and long-term capital inflows already in the aid pipeline are sufficient to close the gap. What will happen after FY83 depends crucially on Egypt's policies and the production and price prospects for petroleum. If major reforms are not undertaken in the areas discussed above (para.10) and/or if the petroleum sector fails to produce at the moderately optimistic level assumed in our base case scenario, a serious trend could develop in the overall balance, leading to large residual foreign financing needs. To what extent this would affect Egypt's, at present, very moderate debt-service ratio would depend on the terms of the

additional foreign financing. If it were to be extended at hard commercial terms, the debt-service ratio would climb up rapidly towards 35-40 percent, making further "commercial" financing very difficult. The debt-service projections in Table 2 assume that the overall balance is financed by loans with 3 years grace period and 8 percent interest.

14. We believe that strong policy action combined with moderately favourable developments in the petroleum sector could avoid the need for special balance of payments support actions in the 1980s and yet allow rapid growth in investment and GDP. The most likely scenario, however, is one in which some of the policy reforms we are pressing for are implemented while others are not. The balance of payments outcome then would be somewhere in between scenarios A and B, showing a worsening trend in both the overall balance and the debt service ratio, without leading to major financial difficulties before the latter half of the decade. These difficulties will eventually emerge unless there are comprehensive reforms and structural changes in the economy, or, major new discoveries of petroleum and gas.

15. In summary, while Egypt's debt service ratio will remain moderate in the next few years and there are no creditworthiness problems in the short-run, the longer-term outlook is filled with uncertainty. Much depends on the economic policies and management in the next five years. Egypt currently has the resources for a large investment effort. It has the people and the skill to carry out such an effort. If directed into the right sectors and projects and implemented without too much delay, such an effort could lay the foundations for self-sustaining growth in the domestic economy and protect Egypt from massive balance of payments difficulties in the latter half of the decade. We hope to be able to encourage and support such an effort and help steer it in the right direction.

PERFORMANCE

16. The other key feature in determining IDA allocations is the performance of the country, both at the macroeconomic and at the sector/subsector level. The following discussion reviews Egypt's performance and the Bank's impact and role on policy and institutional development.

Macroeconomic Issues

17. Egypt's overall macroeconomic performance since the change of strategy announced in 1974 has, in fact, been better than most observers had predicted. The ratio of fixed investment in GDP increased from about 15 percent in the early 1970s to about 27 percent by the end of the decade. Since 1974, GDP growth averaged about 8 percent per annum, with all sectors, including agriculture, growing more rapidly than in the preceding decade. Private domestic investment increased from LE34 million in 1974 to LE318 million in 1979 and private foreign investment (excluding the oil companies), non-existent before 1974, is estimated to have been LE126 million in 1979. The share of national savings in total investment increased from about 30 percent in 1974 to about 70 percent in 1979, the share of domestic savings doubled from 25 percent of total investment in 1974 to 50 percent in 1979.

18. These are impressive improvements. They could not have been achieved, however, without (i) the massive flow of workers' remittances, increasing from $189 million in 1974 to $2214 million in 1979; (ii) the emergence of the petroleum sector with a total fiscal contribution increasing from less than LE100 million in 1974 (8 percent of government revenue) to LE1138 million in 1979 (28 percent of government revenue and 166 percent of total consolidated public sector savings); and (iii) the contribution from the Suez Canal, reaching about LE300 million in 1979.

19. Moreover, inspite of these increases in domestic and national resources, there has been consistent inflationary pressure in the economy fueled by a large public sector resource gap threatening the performance of domestic savings and the overall macroeconomic stability of the economy.

20. The problem of domestic savings, and particularly of public savings, is intimately linked in Egypt to the operation of the price mechanism and the relationship between domestic and world prices. For years Egypt has been, essentially, a "fix-price" economy. Until the mid-1970 prices did not play an important allocative role. Resource allocation and investment decisions were centrally determined and the market mechanism had only a limited function. International and domestic inflation was low so that, while relative prices may have been out of line with world prices, the "fix-price" nature of the economy did not create serious inflationary pressure. The situation changed radically during the 1970s. World inflation increased; Egypt progressively devalued the pound; and the share of foreign trade in the economy increased dramatically. At the same time, the private sector was revitalized and the market mechanism is now expected to play a much more important allocative role. Each of these developments required major upward adjustments in domestic prices, although the degree of adjustment needed varied from commodity to commodity. In a country unaccustomed to inflation and flexible prices, and where, moreover, there are no easily functioning mechanisms for cost-of-living adjustments in wages and salaries, the required price adjustments appeared large and unjust. Some small adjustments were, of course, made and, in the "uncontrolled" parts of the economy, prices and wages did in fact surge upward. But in the controlled sector, major changes could not be achieved. When attempts were made in 1977, the social reaction was immediate and threatening. As a result the gap between world prices and domestic selling prices of key traded commodities continued to increase despite intermittent efforts of adjustment. It is this "price gap" that constitutes the basic constraint on domestic public savings. Table 3 describes the situation as it has evolved since 1974.

Table 3: Public Savings and the Public Resource Gap (LE million)

	1974	1975	1976	1977	1978	1979
Gross Government Revenues	749	1040	1341	1990	2176	2584
Government Consumption	899	1298	1670	1628	2012	2375
Gross Government Savings	-150	-258	-329	362	164	209
Consumer Subsidies	410	622	434	650	900	1370
Net Government Savings	-560	-880	-763	-208	-736	-1161
Public Econ. Sect. Savings	706	845	1007	1186	1404	1844
Total Public Savings	146	-35	244	898	668	683
Total Public Investment	791	1373	1607	1839	2463	2857
Public Sector Resource Gap	-645	-1408	-1363	-941	-1795	-2174
(as percent of GDP)	(14.8)	(27.0)	(20.2)	(11.4)	(18.6)	(17.6)

21. The large burden of consumer subsidies is the single most important reason for the negative savings performance of the government and the large public sector resource gap. The distorted structure of prices also leads to great difficulties for investment planning and project selection. Explicit consumer subsidies, requiring actual transfer payments from the budget, had again reached 11 percent of GDP in 1979 and will probably be even higher in FY81. Total subsidies, including the very large subsidy implicit in low energy prices, are twice as large as what appears explicitly in the budget. Egyptian policy-makers now face the familiar vicious circle. The reduction of subsidies requires price adjustments that have an inflationary impact on the cost of living in the short-run. Keeping basic consumer goods prices constant, on the other hand, leads to larger deficits and, therefore, to further inflationary pressure on the economy.

22. We agree with the Egyptian authorities that there is no easy, simple solution to the problem and appreciate the political and social constraints that cannot be ignored. On the other hand, we are trying to demonstrate, through our macroeconomic work and economic missions, that postponing adjustment will only make the task more difficult in the future. We are also working, as noted above, on designing a package of mutually reinforcing and complementary measures that would respond to some of the justified fears expressed by the Egyptian policy makers.

23. While no substantial steps towards reform have been taken in the recent past, with 1980 marking, if anything, a regression in the slow process of rationalization and liberalization that has been implemented since 1974, our macroeconomic discussions have gained in frequency and intensity. The report on Domestic Resource Mobilization and Growth Prospects for the 1980s has been discussed in great detail at the working level between our economists and the staff of the Ministries of Planning

and Economy. A 4-man delegation led by the First Undersecretary of the Ministry of Economy was sent to Washington by the government in August and spent 10 days working on the projections model and the underlying data with our economists. In September, the draft report was discussed at the highest level in Cairo, with the participation of Mr. Chenery. During the September mission the government asked repeatedly and explicitly for close collaboration and technical assistance in the field of macroeconomic policy and planning. We are consequently in the process of transferring the model, which underlies the analysis in our Report, to a Development Research Center at Cairo University where it will be available for use by the Ministry of Planning. This will be supported by a collaborative effort involving the World Bank's DRC, the Cairo University DRC, the EMENA Region and the Ministry of Planning. We also have begun discussions with AID to link this project to the USAID-financed research program. The Deputy Prime Minister for Economic and Financial Affairs, Dr. Meguid, has been, on the Egyptian side, the main force behind this drive to improve the techniques of planning and analysis which are at the government's disposal. While we propose to pursue our efforts and provide as much technical assistance as possible, we shall make it clear to the authorities that this is no substitute for implementing policy reforms and the need for a fuller understanding of the various economic mechanisms at work should not be used as an argument to delay steps in what we all know is the right direction.

24. A serious problem we are facing in our policy discussions is the impression that the real decision-making power on economic matters rests not with the economic Minister, or Ministries, but with the Presidency itself. For example, it is quite clear that the impetus for the May 1980 measures rolling back prices, increasing subsidies; and reducing taxes and tariffs and some interest rates came directly from the President. It is not that the need for reform and rationalization is not acutely felt by the staff of the Ministries of Planning, Economy and Finance; but the political power and will to take concrete and comprehensive action is lacking. It is against this background that we have agreed with Dr. Meguid that holding a high-level aid coordination meeting in Cairo, in lieu of the annual Consultative Group meeting in Paris, may be a good idea. It is possible that such a meeting could focus President Sadat's attention on longer-term structural economic problems and the pressing need for comprehensive reforms, even if they involve some short-term sacrifices. We have insisted that Egypt chair the meeting, but we have agreed to circulate in Cairo the two economic reports prepared for the regular Paris meeting and to be helpful in the preparations. There are indications that some significant reform measures, notably in the field of energy pricing, may be announced before or during the January meeting. Whether the January meeting will, in fact, mark substantial progress in the macroeconomic or sectoral policy field, or whether it will end up as a pure public relations effort, remains to be seen. In this context it must be stressed that the Bank's potential role and influence would be weakened if we had to announce at this time an abrupt end of our IDA lending, while AID, for example, has recently increased substantially the grant component of its large aid program.

Sector/Sub-Sector Performance

25. Good macroeconomic policy and resource mobilization are a necessary condition for continued rapid development; but the pace and quality of development will depend on the effectiveness with which resources are used at the subsector and project level.

26. Program Planning and Project Implementation: Unfortunately, Egypt has not yet come to grips with several major programming problems and sectoral development issues. The government's administrative and management structures continue to be weak and many departments are seriously taxed by the increasing level of project activities and donor assistance. The country has not yet developed a comprehensive project based planning system, and within ministries there is very little sectoral planning. These problems are exacerbated by the lack of coordination among the large number of ministries and agencies with overlapping responsibilities. In the agricultural sector, for example, there are three principal ministries (agriculture, irrigation, and land reclamation), all of which operate relatively independently. Within most ministries, there is very little semblance of organization and an insufficient sense of responsibility, and all government offices, as well as public authorities, are weighed down by excess staff, poorly paid employees with little incentive to perform and who are often untrained.

27. World Bank projects are delayed repeatedly because of the very limited capacity in most ministries to identify, prepare and implement projects. We continue to provide substantial support to help identify and prepare projects, and we increasingly find that we have to allocate considerable staff time to project supervision. (Currently, there are over 40 Bank financed projects under active supervision, which all have been approved since FY73.) The few effective government officers are spread very thin and project supervision in some development sectors is falling off, particularly where USAID is accelerating its lending activities. The Bank's Agriculture Development Project, for example, is being very poorly supervised because in the last two years the key "full-time" government officer has taken on enormous additional project responsibilities and there is no one available who is qualified to take his place. Despite all this, disbursements under Bank/IDA projects recently increased considerably from about $74 million in FY78 to $201 million in FY80. This disbursement level is very close to the commitment level per annum in FY75 to FY78. The monthly average of disbursements in the first quarter of FY81 was even higher than in FY80.

28. The Ministry of Economy has the main responsibility for the Bank's activities in Egypt, as well as all other multilateral and bilateral assistance, but our counterpart staff is very inadequate. Even with the substantial administrative problems cited above, the country's project preparation and implementation performance could be significantly improved by establishing a much more effective central group to monitor the Bank's lending program and follow-up on implementation. The recently established National Investment Bank is to play a key role in the coordination and supervision of foreign assistance, but it is still to start operations.

29. Public Sector Enterprise: The very low operating efficiency of the public sector particularly affects public sector enterprises. Public sector companies are overstaffed and cannot attract and retain qualified operational and managerial staff because compensation and incentive packages are constrained by civil service rules. People with critical professional and technical skills continue to be drawn to the private sector or neighboring countries. In order to free such companies from public sector restrictions, a law (Law 43 of 1974) designed to attract foreign investment to Egypt was broadened to allow public sector enterprises to become joint ventures with other Egyptian public or private sector participation. The government agreed to apply this formula under two FY80 Bank projects (Textiles II and Pulp and Paper). Subsequently, however, the government backed off from its agreements, because it wanted to deal with the problem of public sector regulations directly, to improve the performance of public enterprises in general by establishing procedures that will allow all these enterprises to operate on a sound commercial basis. The prospects for an acceptable and quick solution on this issue, which has plagued the public sector for so many years, are not good.

30. Pricing Policy: The government's pricing policies are one of the most pervasive and important sector issues. Egypt's economy is still generally subject to various price controls, which the government considers an important instrument to influence, inter alia, incomes. Distributive prices of many public entities are set below their economic and financial costs. A large number of consumer manufactures and production inputs (e.g. cement, steel products and fertilizers) are still substantially under-priced. A similar policy with respect to major consumer goods also accounts for the increasing budget burden of subsidies. In agriculture, the government has been fixing producer prices for major commodities well below the international level. These measures have placed a heavy burden on the farmer, and have led to distortions of cropping patterns and sub-optimal use of inputs, particularly fertilizer. The end result is lower productivity and growth in the agriculture sector.

31. The subsidy implicit in domestic energy pricing is comparable in magnitude to the sum of all direct consumer subsidies. It originates in the very low levels of domestic petroleum product prices, which average only 19 percent of world prices. Moreover, the relative scarcity of the various competing energy products is not reflected in the prevailing price system, and energy resources are not used efficiently.

32. We are aware that major changes in pricing cannot be made quickly. However, we have been discouraged by recent policy statements which fail to recognize that prices cannot be controlled in the long-run except by improving overall macroeconomic balance. We would like to see a gradual approach toward flexible prices and reduced subsidies, raising in particular energy prices and, in time, working out an agricultural package of higher output prices for the two main controlled crops (wheat and cotton) and reduced subsidies for key inputs (fertilizer and credit).

Impact of World Bank Program

33. The Bank's impact on Egypt is based on the mix of our economic and sector dialogue and the lending program. Our policy dialogue, in turn, draws from the Bank's economic and sectoral studies and our projects, to the extent possible, incorporate these policy objectives, introducing slices of operational, sectoral and institutional reform. The leverage of our involvement largely derives from both the substantial level of our lending program and the blend of the terms of our assistance. The government and, in particular, the individual ministries with which we do most of our work, have always been very sensitive to the availability of IDA assistance. We strongly believe that with the elimination or a sharp reduction of IDA funding, we would not be able to continue assistance (now provided by credits) to the soft sectors and the government would vigorously resist the institutional and policy development objectives that we now seek under our loans.

34. The primary criterion for project selection in Egypt is to identify areas where there is the greatest need for and possibility of policy reforms. These reforms often reach back into the major areas of weak performance cited above--to improve planning and management, to highlight the importance of appropriate pricing (e.g. by insisting on adequate economic rates of return and through cost recovery covenants), and to improve the efficiency of key public sector enterprises.

35. Agriculture. A central issue in the agriculture sector is the balance between investment in existing lands and the expansion of cultivable land areas. In the face of enormous political pressure to divert funds to a massive land reclamation program, the Bank is helping to assure that investment is adequate on the old agricultural lands, both to take advantage of the potential to increase yields, which we believe is significant, and, through a series of drainage projects, to protect crops from soil salinity and prevent a subsequent reduction of yields. At the same time we recognize the need to open new land areas, if justified on economic grounds. In a proposed New Land Development Project the Bank is setting standards for economic analysis of new land development. We are also introducing a smallholder settlement model and irrigation techniques that may be applied to other project areas.

36. In addition, we believe we have made some progress to improve cost recovery. The New Lands project, for example, is introducing a slightly expanded concept of operations and maintenance cost recovery, and under our drainage program, we are studying the capacity of farmers to pay user charges, with a view to improve on the present recovery mechanism. Under most of our agricultural projects, we are also helping to improve extension and credit institutions lending for agriculture and agroindustries, and in the case of a proposed fish farming project, to introduce new technologies. We are making a very important contribution to the country's planning and management of water use through the UNDP-financed/Bank executed Water Master Plan. With substantial technical assistance, the government has just completed a two year study. This work not only provides the basis for a ten year investment program in water resource development and an extensive pipeline of priority projects, but it defines national investment requirements in irrigation and investment priorities among the large number of proposed project areas.

37. Industry, Energy and Power. In addition to forcing the principal issue of improving the efficiency of public sector enterprises, the Bank will help an Egyptian interministerial task force to outline an industrial sector plan, policies and program. This work would be assisted by a series of Bank financed sub-sector studies. The Bank has also studied energy efficiency and is reassessing with the government the possibility of modifying or eliminating the more energy intensive projects, such as in the case of a fertilizer and an aluminum reduction plant.

38. Egypt is currently benefitting from the oil discoveries of the early 1970s; in the longrun, however, as these reserves are depleted, it is very unclear whether additional oil will be found to allow the country to maintain current production levels. Most of the country's hydropower potential has been developed, and other sources of fuel are modest. We are assisting in gas exploration and development, in the absence of alternative funding, and for the first time in Egypt, we are making it possible to recover flared gas, thus releasing fuel oil for export. We are also helping to study how to optimize the use of natural gas. More generally, we are working with the government to develop a national energy policy. In this context, we are recommending that the government take measures to phase petroleum production to achieve the greatest possible cumulative output from the existing fields, and to coordinate more effectively the work of the Ministries of Irrigation, Industry, Petroleum and Electricity.

39. We can attribute past increases in electricity tariffs, although modest, and restructuring to Bank project recommendations. The Bank has also helped to restructure, strengthen and increase the efficiency of the various power authorities. The Bank is now financing a pricing study for petroleum products and another study to recommend an improved structure of electricity tariffs. While these studies are being carried out, we are urging the government to take interim measures.

40. Social Infrastructure. By emphasizing vocational training, our assistance in education has provided a vital link between Egypt's formal education program and the demands of the job market. We have also helped initiate special industrial skilled and semi-skilled training in selected areas, such as construction. The Bank's recent study on Human Resources in Egypt suggests the importance of more lower level education for women, and through our projects we have introduced for women literacy training in conjunction with vocational training.

41. Our assistance in the field of family planning has introduced and established a substantial software program, and with it an acceptance of its importance by senior government officials. The government is now proposing to use the Bank's information, education, and communications program as a model for other parts of the country. Although gradual, the Bank has also been able to increase the government's general awareness of the importance and support for family planning.

42. Recently, the government has sought Bank assistance to help draw up a national food and nutrition policy framework. This work should lead to a project that might include assistance in nutritional research and education, storage and delivery systems, and processing.

43. Other Infrastructure. We have provided substantial assistance to build up financial institutions and through them to provide technical assistance to the private sector. Significant components of our infrastructure assistance have benefitted low income groups, which in the case of power and telecommunications is extending government programs into the rural areas. In our urban development project we have insisted on targetting our help to the lowest income groups, highlighting the need for the government to concentrate its limited resources on these groups. Bank projects include housing affordable by the poorest families, minimal sites and services where they are needed the most, and basic skill training programs for these areas. Under our urban projects we have also been partially successful in shifting government resources away from capital intensive less cost effective investments in transport to better planning and management of existing facilities and services. In particular, we are proposing to upgrade maintenance of public transportation vehicles and of highway systems outside as well as inside the cities.

44. In summary, we believe the Bank has been able to make a growing contribution in Egypt to develop sector plans, to strengthen institutional staff and organization, to direct investment towards more productive areas and where the need is greatest, to change attitudes, and to bring about some degree of policy change in critical areas such as pricing. Although our achievements, individually, sometime appear modest in the face of the task, they invariably result in some progress towards dealing with the larger problem. Collectively this progress appears significant and is having a substantial, albeit gradual, impact on Egyptian performance.

CONCLUSION

45. As we approach a January aid group meeting to be held in Cairo, an abrupt discontinuation of IDA lending to Egypt, or even a sharp or substantial reduction, could be damaging to Egypt's relations with other donors. The Egyptians have also indicated they propose to present at the January meeting a package of reforms and policy measures to improve and strengthen the country's development performance. A sudden toughening of the terms of the Bank's lending program would be an inappropriate signal to any significant Egyptian effort towards improving performance.

46. More fundamentally, we do not believe the elimination or a substantial and sudden reduction in IDA fundings to Egypt is justified. Egypt is still a poor country. The most important point that we would like to make is that, even though Egypt's current economic situation appears relatively comfortable--certainly vastly improved in the last year or two over the early 1970s--the medium- and long-term outlook is very uncertain, and the outcome will depend crucially on policy changes in the next few years.

47. Egypt's recent performance has been better than most observers had predicted, largely because of the boost given by petroleum prices and the massive flow of workers' remittances. We are urging the government to use the exceptionally favourable present situation to introduce comprehensive reform measures. Although comprehensive solutions will be very difficult to achieve, we believe we have made substantial progress in helping improve performance in selected areas. We are working closely with the government

in developing a more coherent economic policy, and through our lending program we believe we have significantly strengthened selective institutions and supported improvements in sectoral policies. We recognize that in some areas our assistance has stretched very thin the government's current operational capacity, but at the same time we are providing bridging technical assistance and training of local personnel for the longer term, which will fill in behind and should provide greater strength and depth and increased capacity in the future. We do not believe there is time to consolidate and move forward at a more gradual pace. Too much needs to be done.

48. We strongly believe that without IDA funds, the government would not accept most of our assistance to the critical traditional soft sectors. For the next two fiscal years, this would affect the following projects: population (FY82: $45 million), rural development (FY83S: $47 million), nutrition (FY83S: $30 million), urban development (FY83S: $75 million), education (FY84S: $50 million), and rural water supply (FY82: $60 million; FY84S: $60 million). In addition, in other sectors we had allocated IDA funds to projects for road maintenance (FY82S: $30 million), ports (FY82: $57 million), and irrigation/power (FY83S: $60 million). We also believe we would not continue to be effective in influencing changes in selective economic and sectoral policies, and to be able to maintain a high level of institution building in the other sectors. Furthermore, there is a danger we would lose a degree of influence on macroeconomic issues, where we have been able to build up an important and close working relationship.

49. The following table, breaking down our currently programmed lending program, shows that, on the advice of DPS and based on a judgement of Egypt's creditworthiness, we have built up the IDA contribution to 45 percent. In the next two years, we had forecast a small increase; and then we had planned on a reduction to 33 percent by the mid-1980s. A gradual reduction in the share of IDA in total lending to Egypt may be feasible and desirable from the point of view of optimal allocation of IDA funds world-wide, which would mean we would work toward the mid-1980s target a little earlier.

EGYPT: Past and Currently Programmed Lending

	FY75-77 (IDA IV)		FY78-80 (IDA V)		FY81-83 (IDA VI)		FY84-85	
	$m..	%	$m	%	$m	%	$m	%
IDA	182.0	25	450.5	45	600.0	47	350.0	33
IBRD	534.5	75	534.0	55	676.0	53	689.0	67
Total	716.5	100	984.5	100	1276.0	100	1039.0	100

50. While considering a slightly earlier reduction in IDA, we would like to reiterate that it is important not to overreact to what may turn out to be a transitory strengthening of Egypt's balance of payments. While in the present political situation the government does not seem to be able

to take the far-reaching economic decisions that we are pressing for, it is, we believe, working on solutions in such fields as energy pricing, public sector reform and improved investment planning, which it has said it wants to implement quietly and gradually. Our leverage and influence in this process would, in our view, depend to a considerable extent on our ability to continue to provide a satisfactory blend of Bank and IDA lending.

EMENA Region
Division 1A
November 4, 1980

OFFICE MEMORANDUM

DATE: October 24, 1980

TO: Mr. Ernest Stern, Senior Vice President, Operations
(through Mr. Maurice P. Bart, Acting Vice President, EMENA Region)

FROM: Attila Karaosmanoglu, Director, EM1 AK.

SUBJECT: EGYPT - Mr. Golsong's Loan Committee Comments on the Fish Farming Development Project

1. In his memorandum of October 21, 1980, Mr. Golsong suggests the possibility of postponing negotiations until after the Loan Committee has been given an opportunity to review the definitive arrangements for the establishment of the Maryut Fish Farming Company (MFFC) and that the establishment of the company be made a condition of Board presentation.

2. In order to achieve a substantial increase in fish yields, in the project we have proposed the establishment of the Maryut Fish Farming Company to provide new and improved operating technology, insure adequate inputs are available and used, and provide marketing services. The operation of over 200 fish ponds in the Maryut project area will also require central water control, which will be managed by the company. In particular, because of the importance of attracting and retaining staff capable of using appropriate and relatively sophisticated technologies, we have specified that these operations be the responsibility of a company free from restrictive government regulations; we believe the risks would be too high if these functions were left to an existing institution, such as the aquaculture department in the Ministry of Agriculture. The proposed company should be able to pay the salaries necessary to employ qualified technical staff and experienced managers; and be free to make whatever arrangements are necessary to provide adequate inputs, to market its output without restrictions, and in general, to operate on a sound commercial basis.

3. The SAR and PR originally assumed that the MFFC would be established under Egyptian Law No. 43, promulgated in 1974 mainly to attract private foreign investment; it allows government participation in companies operating along commercial lines. Law 43 has also been used to convert existing public sector companies to joint ventures, thereby freeing them of government controls. Recently, however, there has been strong public criticism of such conversions; the government has been accused of selling out to the private sector, and, in particular, to foreign groups. This criticism has delayed two other Bank projects, referred to in Mr. Golsong's memorandum. The government has repeatedly assured us that this problem does not apply to the use of Law No. 43 to establish the proposed fish farming company, because it would be a newly created company and not an existing public sector company being converted. Nevertheless, the Bank's legal department has explored whether equally satisfactory arrangements could be made without the use of Law No. 43, and the project's

legal officer has advised us that all of our objectives can just as effectively be achieved under other existing Egyptian commercial law.

4. The Legal Department also advised us that the credit agreement provides adequate assurances that our central objective will be met, i.e. a company would be set up that was free from public sector regulations to take over assets created by the government. The government has already indicated on several occasions, during and subsequent to project appraisal, its willingness to make such a commitment, and over time to pass on majority ownership to the fish pond operators. We also plan at negotiations to reach agreement on the proposed company's organization, management, operations, staffing, financing and ownership arrangements. The Bank's proposal is described in some detail in Annex 1 of the SAR, which is attached. Agreement on these matters would be included in a side letter. Mr. Abu-Akeel, the project's legal officer, is now in Cairo further discussing these details and legal alternatives with the government.

5. Construction of fish farm facilities is the responsibility of the Undersecretariat for Aquatic Resources (Ministry of Agriculture), while the company would be responsible for operating and maintaining them. The services of the company, therefore, are not required until April 1983 at the earliest, when the first stage of construction is completed and operations can be started on about a third of the total fish pond area at Maryut. Because of the importance of providing sufficient lead time to establish the company, we have specified in the credit document that the company's charter be submitted to the Bank by June 30, 1981, so that it may review and approve the detailed proposals for the establishment of the company. We have also specified that such a company, under arrangements satisfactory to the Association, would be established by December 31, 1981 (i.e., some 16 months before start of operations). In these circumstances, we believe it would be very difficult and, indeed, wasteful to seek the establishment of the company, as proposed in Mr. Golsong's memorandum, nearly 30 months before the services of the company are required.

5. In view of the above, the proposals and details of which have been extensively discussed with the Bank's legal department, we recommend proceeding with the project as proposed in my covering memorandum to Mr. Bart of October 10, 1980.

Cleared with & cc: Messrs. Picciotto, Haynes, Naylor, Zulfiqar (EMP);
Köpp (EM1)

Cleared in substance & cc: Mr. Abu-Akeel (LEG)

TSwayze:bp

ANNEX 1

ARAB REPUBLIC OF EGYPT

FISH FARMING DEVELOPMENT PROJECT

Maryut Fish Farming Company

A. Introduction

1. Upon completion of construction (partly in 1983 and fully in 1984), the Maryut fish farm would be one of the larger aquaculture schemes of its kind in the world. The successful operation of such a scheme would hinge heavily upon its ability to attract the most qualified and experienced technical staff, provide adequate incentives to pond operators for individual effort, maintain all facilities in satisfactory working condition, and enjoy complete autonomy in input purchase, output marketing and other operational decisions. While individual pond operators should be allowed the maximum possible operating freedom to encourage initiative and enterprise, some functions (such as provision of technical advice, and operation/maintenance of hydraulic structures and common facilities) would still need to be performed by a central coordinating entity. Several alternative structures for such a central organization (ranging from a cooperative of pond operators to a wholly government-owned or private company) were explored during project preparation and appraisal. Cooperatives in Egypt, particularly those set up to manage land reclamation projects, have had a checkered experience to date, generally being burdened by an excess of inexperienced and poorly motivated staff, and ending up with all the inefficiencies and bureaucracy associated with government companies. Under the project, it is proposed to establish the Maryut Fish Farming Company (MFFC) as a joint venture company under Law No. 43/1974 to manage the Maryut fish farm. Egyptian Law 43, promulgated in 1974 to attract private investment (mainly from Arab and other foreign funds), allows company management the authority to operate along private enterprise lines, irrespective of the actual stock ownership. As a result, the company is freed from restrictive regulations of the public sector, with freedom to set product prices and to establish compensation packages which will attract and retain qualified personnel, and fewer constraints on investment and profit distribution policies. Law 43/1974 companies are licensed by the General Authority for Investment and Free Trade Zones, under the Ministry of Economy.

B. Company Establishment

2. MFFC would be formally established no later than December 31, 1981, with PBDAC taking the lead role as the public sector partner and at least 10

potential pond operators as the private shareholders. The company's initial authorized capital would be LE 5 million, of which LE 50,000 would be paid up initially (LE 45,000 by PBDAC and LE 5,000 by the private shareholders, each of whom would purchase shares worth LE 500). Additional pond operators who have received training at El Zaweya (up to 62 in number) would also be allowed to buy shares in the company, with a minimum of LE 500 per person, before start of operations. The company's initial working capital needs would be met by a line of credit from PBDAC. Two months before completion of the first stage of construction and start of operations on about a third of the pond area (expected around April 1983), the Government would vest the assets (including land, capital investments and housing) of the Maryut fish farm in MFFC. In return, Government would get shares in the company worth LE 4.8 million, or whatever other amount is determined from audited accounts to have been spent so far (excluding expenditures for consultant services, which would be considered a grant from Government). Construction of the remaining facilities, and procurement of additional equipment as previously agreed, would continue under the direct supervision of MFFC but with expenditures being made by the Government. All such expenditures (again excluding consultant services) would be considered a loan from the Government to the company (expected to be approximately LE 4.5 million), repayable within twenty years from the date of completion of all construction at the Maryut fish farm, with an initial grace period of two years and an interest rate of 11% per annum. (The foreign exchange risk would be borne by the Government due to the likely lack of sophistication of most pond operators at Maryut).

3. Additional pond operators, up to a grand total of 216, would also be allowed to buy shares in the company. (Technical and administrative staff working on the Maryut fish farm would also be allowed, in aggregate, to hold up to 20% of MFFC's total equity). Normally one pond would be assigned to each operator, but, in case of an insufficient number of operators in the beginning, a maximum of two ponds may be allowed per operator, with the company running any remaining ponds through hired workers. Government and PBDAC would gradually (over a period of ten years) divest their equity interest in the company to individual pond operators, who would constitute the private shareholders and essentially be free to run their own affairs. Pond operators' income would be tied to production from their particular ponds, as in a sharecropping arrangement, with the company levying enough charges to cover operating and maintenance costs, debt service payments and equity-buyback from the Government and PBDAC. Four manmonths of consultant services of a financial management specialist would be financed under the project to work out the details of these arrangements and design appropriate cost recovery mechanisms, incentive schemes (including incentives for management and technical staff), and financial control and reporting systems.

C. Company Organization and Operation

4. Effective management and training are the two most critical elements for successful adoption of technology and coordination of various farm activities at the Maryut fish farm. The measures proposed under the project for this include: (a) continuous on-the-job training of pond operators by technical supervisors and an experienced expatriate adviser (for the first three years), and (b) building up the company's own staff of some 63 professionals and technicians (in addition to support personnel) by establishing a salary and wage structure above public sector levels, which will attract and retain high caliber people. MFFC's policies and operations would be guided by a Board of Directors of at least four and upto 10 members, with the Chairman being appointed by the largest shareholder or group of shareholders. The only restriction would be that after completion of all project works at Maryut, the Chairman would have to be one of the private shareholders and not a Government representative (to prevent continuing domination by government bureaucrats). Executive authority for actual day-to-day operations (production, procurement, marketing, training, etc.) would be vested in a General Manager, who would have training in business administration and wide experience in production and operations management of agroindustries projects. Under him would be various technical and administrative staff in three departments (Engineering, Production and Administration) each headed by a Director, who will together be responsible for day-to-day farm operations, including construction/maintenance of ponds and other infrastructure, fish production and marketing, on-the-job training, planning and financial control, etc.

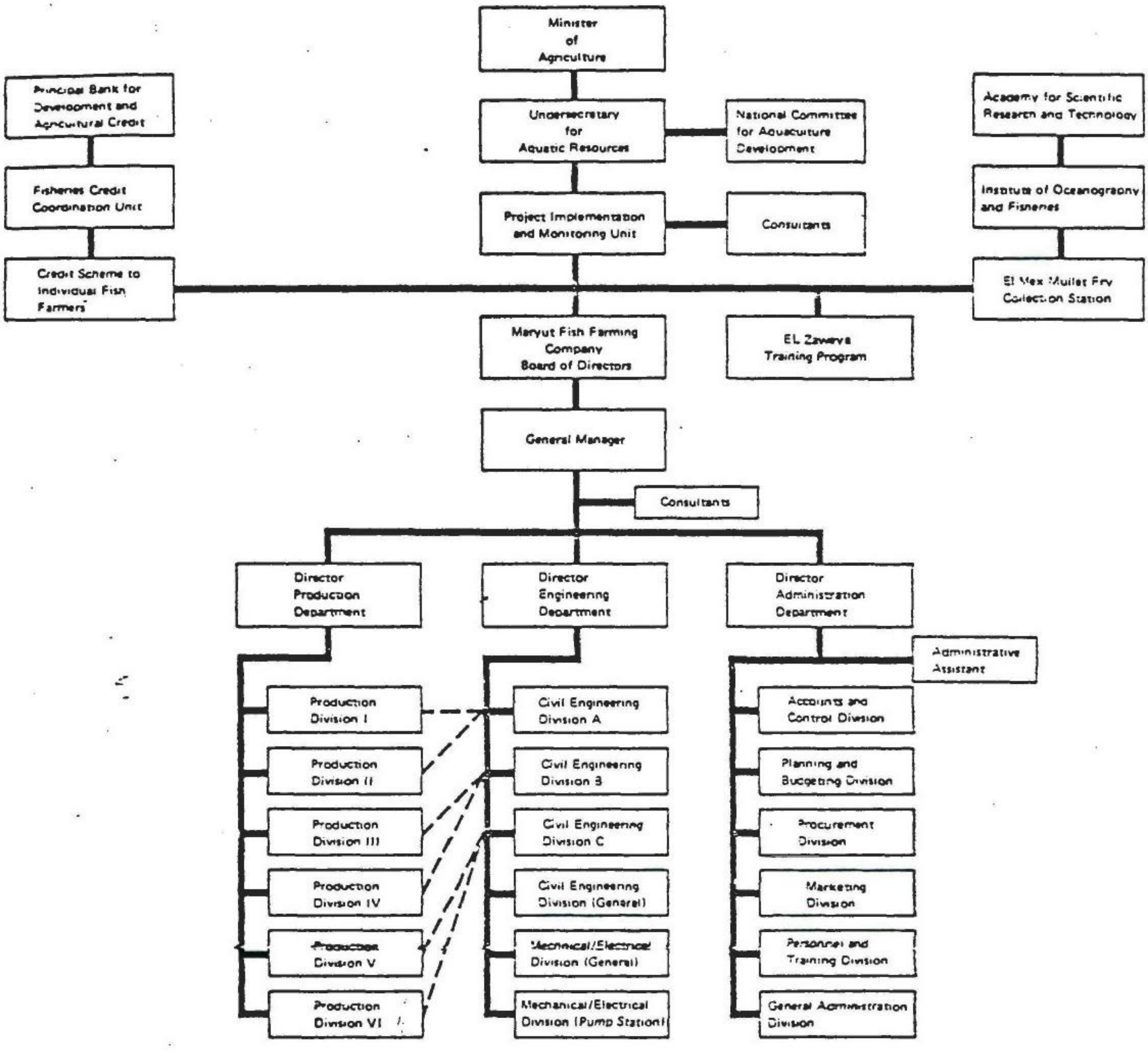
5. Decentralization of operations would be promoted by forming six operating divisions under the Production Department, each with a supervisor and two deputy supervisors responsible for one block of 36 production ponds and two wintering ponds, with their own farm center and equipment. Each supervisor would plan his division's overall production program and have authority to buy inputs and supplies as needed. Each of his deputies would advise a team of 18 fish farmers (one on each side of the feeder supply/drain channel in the block) in day-to-day fish production work, including pond preparation, sluice manipulation, fertilization, stocking, harvesting, etc. The Engineering Department would also constitute six divisions, four headed by civil engineers (one of whom would be responsible for buildings, roads and other general infrastructure, and each of the other three for two blocks of 76 ponds) and two headed by electrical/mechanical engineers (one for the pumping station and the other for general infrastructure). The project manager/senior engineer and two other engineers in the Project Implementation and Monitoring Unit (PIMU) in USAR would form the nucleus of MFFC's engineering department. Four other engineers, each with at least three years' experience, would be assisted by supervisors (diploma holders in civil/mechanical trades) and other support staff, and provided adequate transport and other equipment for their working needs. The Administration

Department, also with six divisions, would be responsible for overall financial, marketing, procurement, personnel and administrative functions. Among the responsibilities of this department would be the establishment of cost control and farm monitoring and evaluation systems, and development of an incentive scheme that would place each pond block on a profit center basis and adequately reward individual effort and initiative. The department would be headed by a suitably qualified and experienced financial controller to ensure that company operations are carried out on a sound financial basis. Appointment of the General Manager and three Department Directors would take place no later than December 31, 1982.

D. Selection of Pond Operators

6. Careful selection of pond operators/shareholders for the Maryut fish farm would be extremely important for successful achievement of the project objectives. Modern fish farming requires constant vigilance and control over such factors as water level and quality, fish population densities, proportion of various species, level of fertilization and nutrients in pond, etc. While some basic technical education and entrepreneurial sense is helpful, the occupation also calls for hard manual labor under wet conditions, for example, in maintaining embankments, handling fish and distributing fertilizer. Substantial investment and working capital is needed, since cash income is only produced in a lump sum at the end of the year. For purposes of choosing the best candidates for training and eventual share-ownership at Maryut, an ad hoc Selection Committee of three would be formed, headed by the project manager in PIMU, with MFFC's director of production and the Training Supervisor at El Zaweya (or appropriate alternates) as members. Preference in selection would be given to persons meeting the following criteria: (i) age: 23-45 years, (ii) married, (iii) secondary school education (especially in agriculture, veterinary science or fisheries), (iv) military service completed, (v)practical fishing experience (or belonging to a fisherman's family) and (vi) resident of surrounding areas. The ideal candidates would combine managerial and technical abilities with a capacity for sheer hard physical work under fairly regimented conditions. Operators would initially be largely unskilled and inexperienced, with a broad spectrum of educational backgrounds (from illiterate to university graduate) and socio-economic circumstances. The project would train them and give them incentives (through stock ownership) to remain and develop their skills. In order to be able to weed out poor pond operators, the company would have the legal right (on the advice of the general manager/production director and relevant supervisor) to buy back shares from any individual (with appropriate compensation for any investment he has made) at the end of an initial two-year probationary period. Voluntary sale of shares to the company at any time would also be allowed, but there would be no unauthorized dealing in shares between individual shareholders or with outside entities.

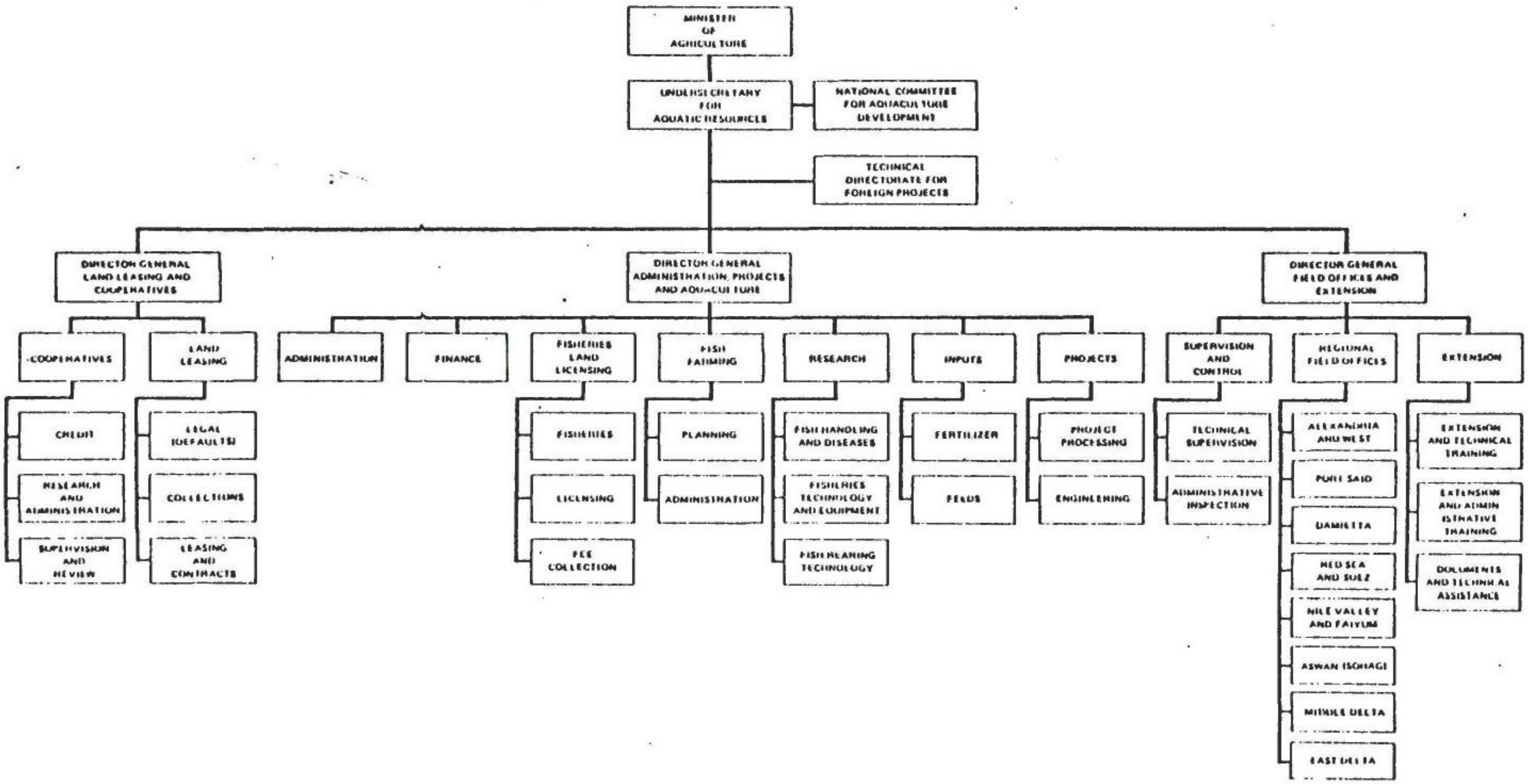
ARAB REPUBLIC OF EGYPT
FISH FARMING DEVELOPMENT PROJECT
PROJECT ORGANIZATION CHART



Note
Each production division in Maryut Fish Farming Co. has 1 supervisor and 2 deputy supervisors; each civil engineering division has 1 engineer and 2 supervisors, and civil engineering division (general) also has 1 research officer and 1 laboratory assistant; mechanical/electrical division (general) has 1 engineer, 2 supervisors and 2 mechnics; mechanical/electrical division (pump station) has 1 engineer, 3 technicians and 3 operators; each of the administrative divisions has 1 professional and 2 technical staff. Support staff are additional to these.

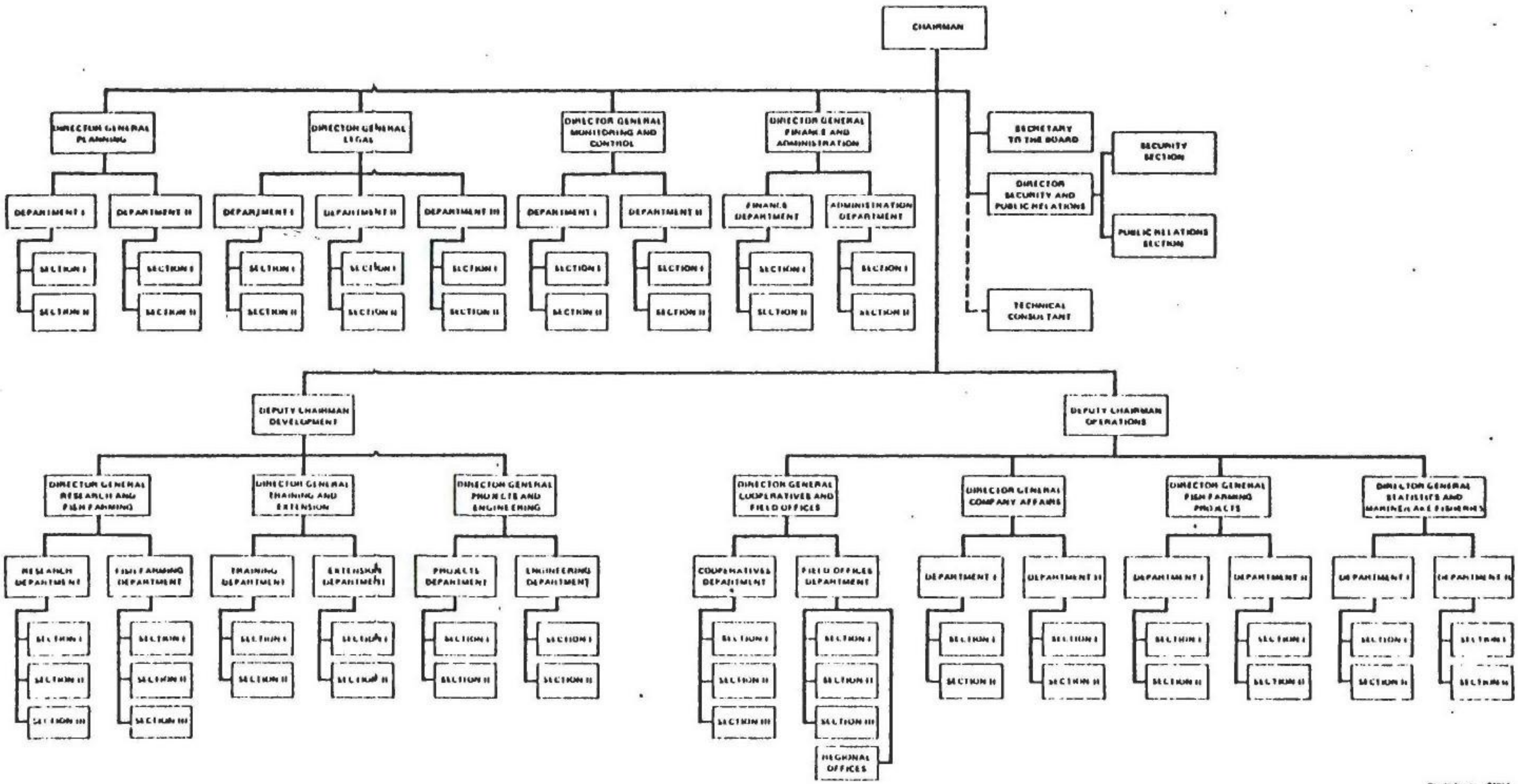
World Bank—21922

ARAB REPUBLIC OF EGYPT
FISH FARMING DEVELOPMENT PROJECT
UNDERSECRETARIAT FOR AQUATIC RESOURCES
ORGANIZATION CHART



World Bank 21864

ARAB REPUBLIC OF EGYPT
FISH FARMING DEVELOPMENT PROJECT
PROPOSED PUBLIC AUTHORITY FOR FISHERIES PROJECTS AND DEVELOPMENT
ORGANIZATION CHART



World Bank 21164

Mr. Munir Benjenk, VP, EMENA

March 11, 1980

Ernest Stern, VP, Operations

UAR Projects

Would you let me know the current status of the following four credits:

UAR 181 31 Dec 80
UAR 284 30 June 80
UAR 393 31 July 81
UAR 412

The first of these is now 10 years old and still shows an undisbursed balance of about US$2 million. I assume that no further extension of current closing dates is contemplated but should there be any change in that I would appreciate being consulted before such a decision is taken.

The Railway project is eight years old and shows a remaining balance of US$1 million. I assume that this one too will be closed out on the present closing date.

EStern:dpw

file

April 1, 1980

Dear Mr. Koraiem:

Re: EGYPT -- Alexandria Water Supply Project
(Loan 1369-EGT)

I hereby confirm receipt of your letter of April 1, 1980 in which you request that $2.850 million be cancelled from Loan 1369-EGT (Alexandria Water Supply Project). The Bank has no objection to your request and the cancellation becomes effective value April 1, 1980, on which date the commitment charge on the above amount will cease to be payable.

Sincerely yours,

Hans-Eberhard Köpp
Division Chief
Country Programs Department 1
Europe, Middle East and North Africa Region

Mr. Samir Koraiem
Undersecretary for International Finance
Ministry of Economy, Foreign
Trade and Economic Cooperation
8 Adly Street, Cairo
ARAB REPUBLIC OF EGYPT

Cl. in substance and cc: Mr. Duval (Legal)

Cl. with and cc: Mr. Hakim (Controller's)

cc (with copy of incoming): Messrs. Horsley and Thys

HEKöpp:orp

MINISTRY OF ECONOMY, FOREIGN TRADE AND ECONOMIC COOPERATION

CAIRO, EGYPT

April 1, 1980

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Sirs:

RE: EGYPT -- Alexandria Water Supply Project
Loan 1369-EGT)

Pursuant to Section 6.01 of the General Conditions Applicable to Loan and Guarantee Agreements, and at the request of the Borrower of the above Loan, the Alexandria Water Authority, I hereby request that $2.850 million be cancelled from Loan 1369-EGT (Alexandria Water Supply Project). This amount is in respect of the civil works for the pipelines included under the Project, which will now be financed from other sources. We understand that you have not entered into a special commitment pursuant to Section 5.02 of the General Conditions with respect to this amount of the Loan. By this notice we understand that the commitment charges on the above-mentioned amount shall cease to be charged starting from April 1, 1980.

Sincerely yours,

ARAB REPUBLIC OF EGYPT

By: M. Samir Koraiem
Samir Koraiem
Undersecretary
Ministry of Economy, Foreign Trade
and Economic Cooperation

International E k for Reconstruction anc)evelopment

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R80-13

FROM: The President

January 21, 1980

EGYPT: Loan 1276-EGT (Fruit and Vegetables Development Project) -- Proposed Change to Project Description *

Proposal

1. Because of changes in sector demand the Government of the Arab Republic of Egypt has propósed that the agro-industries credit component in the Fruit and Vegetables Development Project be widened to include the financing of new and expanded facilities for processing and marketing of basic agricultural products and associated services, particularly for small subborrowers. They have also requested that some of the terms and conditions of the Loan be revised because of the new emphasis on lending to smaller subborrowers.

Background

2. The purpose of the Fruit and Vegetables Development Project (Ln. 1276-EGT) is to increase horticultural production and encourage vegetable exports. The major project components include the development of vegetable seed, credit for onlending to horticultural industries and technical assistance for Bank Misr. The Project was approved by the Executive Directors in May 1976. It was a Third Window Loan of $50 million. As of December 31, 1979, approvals were approximately $27 million, commitments $14.6 million, and disbursements $6.6 million. This compares with appraisal estimates of $32.6 million to be disbursed by the second quarter of FY80.

Distribution:

Executive Directors and Alternates
President
Senior Vice President
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

*Questions on this document should be referred to Mr. T. Swayze (ext. 74788).

3. Bank Misr was the selected financial intermediary for the credit component of the project. About $11 million of the Loan is allocated for horticultural development through four identified public sector subborrowers: the Potato Growers Cooperative (PGC), the El Wadi Export Co., the Nile Company and the Union of Producers and Exporters of Horticultural Crops (UPEHC). In addition, the Loan includes credit for horticultural activities in general, the Bank's share of which totals a little over $ 9 million.

4. To implement the project, Bank Misr set up an Agricultural Development Lending Department (ADLD) in its Investment Center. A consultant to assist in building up ADLD's appraisal capacity and in preparing procedures was retained, initially for 12 months but whose term has now been extended for 6 months. Although ADLD got off to a slow start, it has become increasingly efficient with an improved business orientation. Bank Misr onlending to subborrowers of project funds has been lower than estimated, in part, because of inefficiencies of the four public companies identified in the project as subborrowers and weaknesses in Bank Misr's agro-industrial lending operations. In addition, changes in sector demand for horticultural products has substantially reduced the need for credit.

5. Only a little over $6 million (one-half of the Bank Loan allocation for this purpose) has been disbursed and committed to the identified public sector borrowers. Two of the four companies (El Wadi Co. and the Nile Co.) have withdrawn from the project. El Wadi Co. withdrew because it no longer needed additional packinghouse capacity for citrus exports because of the rising domestic demand for the local consumption of citrus. The Nile Co. withdrew primarily because its market was being cut into by an increasingly active private sector.

6. Bank Misr has also taken considerable time to identify new subborrowers to utilize credit for other horticultural activities. To date a little under $3 million has been committed. The Bank has approved a total of eight applications that should lead to disbursements of almost $5 million (i.e. about 50 percent of the credit allocated for horticultural industries in general). The principal reason for the low level of activity has been that:

a) domestic demand for horticultural products in Egypt has risen at the expense of exports, and the domestic trade does not require to the same extent the supporting infrastructure in packing houses, cold stores, transports, etc; and

b) entrepreneurs in this field are often reluctant to change their banking arrangements, thus hampering the efforts of a single bank to serve the subsector.

7. Consequently, Bank Misr has requested that the activities qualifying for credit under the Fruit and Vegetables Development Project be broadened to include other agro-industries, in addition to horticultural enterprises. While the need for processing facilities in the horticultural subsector is not as large as expected at appraisal, our recent appraisal for an agro-industries project found a large credit demand for small-scale food processing such as macaroni plants, flour mills, bakeries, dairy and meat processing, date and sesame processing; food distribution facilities such as cold stores, ice-making, and poultry slaughterhouses; and miscellaneous service and export activities such as poultry feed, container manufacturing, and the preparation of essential oils and condimental spices. In view of the shift in sector demand and the large potential for general agro-industrial development, we recommend broadening the project's eligible subborrowers group.

8. It is proposed that the approximate $11.2 million of the Loan proceeds still uncommitted and allocated for Part D of the Project would be made available to finance investments throughout Egypt for new small-scale and expanded facilities for the processing and marketing of basic agricultural products and associated services and input activities.

9. Present terms for the credit component under Loan 1276 are an interest rate of 8.5 percent to Bank Misr, which are onlent to subborrowers at an interest rate of 10 percent per annum, with repayment periods of 15 years including five years grace. Contracts for goods and services estimated to cost more than $250,000 are awarded after International Competitive Bidding. These terms were designed with large subborrowers in mind. Because of the proposed change in the size of the agro-industries subborrowers to be served, it is proposed that the following terms of such lending under Part D of the Project be amended: onlending interest rates shall be at least 11 percent; Bank Misr's "spread" shall be 4 percent for small borrowers 1/ and 3 percent for others; procurement would be effected by a prudent shopping procedure acceptable to the Bank except for small contracts of $150,000 or less where procurement would be through normal commercial channels.

1/ A subborrower whose fixed assets at the time of loan application are valued at no more than LE200,000 and applying for a subloan not exceeding US$250,000 equivalent.

10. Bank Misr has agreed to retain additional technical assistance to strengthen its agro-industrial lending activities; this additional cost would be absorbed by the increased interest spread. With this assistance, and with the change in description and terms noted above, it is estimated that the approximate $11.2 million of uncommitted funds under this component would be disbursed by mid-1981.

11. The economic rate of return of the original agro-industries component was estimated at 35 percent at the time of appraisal in 1975. The revised estimate for the amended project is now estimated, on the basis of indicative models, to be in the order of 50 percent.

Recommendation

12. I therefore recommend that the Executive Directors approve the aforementioned amendments to the Project financed under Loan 1276-EGT. In the absence of objection (to be communicated to the Vice President and Secretary or the Deputy Secretary by the close of business on January 31, 1980), I propose to inform the Government of the Arab Republic of Egypt of the Bank's agreement to the request and to make appropriate amendments to the legal documents.

Robert S. McNamara
President

by Ernest Stern

Washington, D.C.
January 14, 1980

International Bank for Reconstruction and Development

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SecM80-20

FROM: Vice President and Secretary

January 8, 1980

RESIDENT MISSION IN EGYPT

I would like to inform you that it has been decided to open a new field office in Egypt in order to facilitate the dialogue between the Government of the Arab Republic of Egypt and the World Bank and support lending activities in Egypt which have steadily increased over the last few years. The new resident mission would have basically three functions: (i) it would help the Egyptian agencies as well as Bank staff in the identification and preparation of future Bank lending and in the supervision of ongoing projects, (ii) it would seek to intensify our ongoing dialogue on macroeconomic and sector issues, and (iii) consistent with the Bank's chairmanship in the Consultative Group for Egypt, it would try to strengthen the aid coordination efforts. It is envisaged that three professional staff would be assigned to the office in Cairo.

Distribution:

Executive Directors and Alternates
President
Senior Vice President
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC