

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Contacts with member countries: Egypt - Correspondence 02

Folder ID: 1771021

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

The World Bank Group
Archives



1771021

A1993-012 Other #: 5

209341B

Contacts with member countries: Egypt - Correspondence 02

Folder 23

DECLASSIFIED

WBG Archives

11

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 11, 1969

FROM: Michael L. Lejeune

CONFIDENTIALSUBJECT: Visit by Mr. Mahmoud Fawzi

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

Attached is a brief biographical note on Mr. Fawzi.

In case Mr. Fawzi asks about our proposed lending to the UAR, I should like to confirm for you that we will be ready to negotiate the IDA credit for the Nile Delta Drainage Project in May. As you know, we have earmarked \$26 million for this project but the Egyptians have been told so far only of \$20 million. I should like to reserve telling them about the increase for negotiations since this would make it easier to get their acceptance of some of the conditions on which we will have to insist.

Michael L. Lejeune

Attachment

cc: Mr. Knapp

President has seen

Attachment

FAWZY, Mahmoud

Born, 1900

Universities of Cairo, Rome, Liverpool and Columbia

Several diplomatic posts 1926-1946

Permanent Representative of Egypt to U.N. 1946

Ambassador to Great Britain 1952

Minister of Foreign Affairs 1958-1964

Member Presidency Council 1962-1964

Deputy Prime Minister for Foreign Affairs, 1964-1967

President's Assistant for Foreign Affairs, 1967-

12

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

FROM: M. P. Benjenk *MB*

SUBJECT: Visit of Dr. El-Sayeh

DATE: June 27, 1969

DECLASSIFIED

MAR 20 2013

WBG ARCHIVES

Mr. El-Sayeh had meetings in the Bank on Thursday and Friday, as arranged. We discussed the draft economic report which we had given to him for comments and which he is taking back with him to Cairo. His own general impression was that the report was a workmanlike document and was fair in its assessment of the U.A.R. We also had discussions on technical matters relating to the drainage project, particularly on the organization of the Ministry of Irrigation; these discussions were attended by members of the Agriculture Project Department. It appears that the organizational changes required by the Bank in order to make possible efficient management of the drainage project will be the most difficult subject when the negotiations for a credit begin. Dr. El-Sayeh understands our point of view but feels he will have difficulty in convincing his colleague, the Minister of Irrigation.

I had a private conversation with Dr. El-Sayeh in which I informed him that our technical work on the drainage project was now completed, but added that we wished to postpone negotiations for a little while yet and explained the reasons to him. I told him of the delicate nature of the legislative process leading to IDA replenishment and the link between the appropriation bill and the depositing of the instruments of ratification by the United States. Mr. El-Sayeh said that he understood readily why an invitation to negotiate to the U.A.R. might be an upsetting factor at this point and the concern of the Bank on this matter, since the whole future of IDA was at stake. He added that he appreciated very much the frankness with which the situation had been explained to him and undertook to treat it as a highly confidential matter to be discussed only with Mr. Zaki. He was sure, however, that the matter would cause some difficulty in Cairo but he would do his best to keep everyone patient, as long as the delay was not too long.

Dr. El-Sayeh then turned to the discussions on debt between the United States and the U.A.R. and said that he hoped that the United States was not going to use its influence in the World Bank to prevent the U.A.R. from getting a loan. This would be a narrow-minded approach since the United States would be risking its own \$200 million of debt in order to deprive Egypt of \$20 million from IDA.

President has seen

I replied to Dr. Sayeh that while we would continue to urge both sides to settle this matter as quickly as possible, we would make up our minds about it and not be subject to outside influences when the time came to determine whether, taken as a whole, the U.A.R. had exercised sufficient efforts to settle its debt. Mr. El-Sayeh commented that the U.A.R. had every intention to negotiate a reasonable settlement with the United States but that it had just received a proposal from the U.S. on this matter after a long delay and that he would be seeking some clarification this week in Washington on this proposal. He hoped the Bank would not tell the U.A.R. to accept the U.S. proposal on a "take it or leave it" basis. I told Dr. Sayeh that this was not at all the Bank's position, but that all concerned had an interest in as speedy a settlement as possible.

cc: Messrs. Knapp
Lejeune (o/r)

MPB:ab

Mr. McNamara ✓ to see please
la 7/2/69

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the record

FROM: M. P. Benjenk *MB*

SUBJECT: U.A.R. - Meeting with
Dr. El-Sayeh

DATE: July 1, 1969

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

Dr. Hamid El-Sayeh, Egyptian Under-Secretary for Economy and Foreign Trade called on Mr. McNamara on June 30. He was accompanied by Dr. Ghorbal and Mr. Hammoud of the U.A.R. Interests Section in Washington. Mr. Benjenk was also present.

Dr. El-Sayeh gave Mr. McNamara some up-to-date information on the progress of the Egyptian economy. He said that the forthcoming harvest would be quite satisfactory and comparable to last year's results. He also said that oil production and prospects were rising continuously, with an output for the current year expected to reach 20 million tons. With regard to investment, Dr. El-Sayeh said that the slowdown of the preceding two years had now been overcome and that investment was proceeding at a pace fast enough to allow for a 6% growth rate in the years immediately ahead.

Dr. El-Sayeh also told Mr. McNamara of the progress being made in securing finance for the Suez oil pipeline. Negotiations had progressed to a point where Italy, France and Germany would through a variety of financial devices be participating in the financing of this pipeline and it was hoped that construction could begin within a month or two. More important still, he had ascertained, during his contacts in New York, that some of the oil companies which would use the pipeline were interested in participating in its financing and he was particularly pleased with this recent development. Mr. El-Sayeh thought that the pipeline, once completed, would bring an income of some \$80 million a year against a cost which could now be estimated at \$170 million. This would be a supplement to revenue to be received from the Suez canal (or, pending its re-opening, to the subsidies received from Arab countries).

Mr. McNamara told Mr. El-Sayeh that he was very happy to hear this quite optimistic report on Egypt's economic prospects and said that he was very anxious that the Bank participate fully in the economic development of the U.A.R. He hoped that this involvement could become active before too long and that the recent difficulties brought about by the delay in replenishing IDA could be overcome soon. He could not be specific on when this would happen, in view of the fact that the first IDA appropriation was attached to an omnibus appropriation bill now before the U.S. Congress, which included some other items which were very controversial.

President has seen

In a final remark Mr. El-Sayeh informed Mr. McNamara that discussions were proceeding between the U.S. authorities and the U.A.R. on settlement of the debt issue and he had been having discussions in Washington concerning a recent U.S. reply to the U.A.R.'s proposal made ten months ago. Mr. McNamara said he was very pleased to hear this.

cc: Mr. McNamara
Mr. Knapp
Mr. Lejeune (o/r)

MPB:ab

*to see please
see 7/7/69*

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the record

FROM: M. P. Benjenk *my*

SUBJECT: U.A.R. - Visit of Dr. El-Sayeh

DATE: July 7, 1969

DECLASSIFIED**NOV 30 2012****WBG ARCHIVES**

Further to my memorandum of July 1, 1969, Dr. El-Sayeh came to see me on Tuesday, July 1 to say goodbye after his visit to Washington. He informed me that he had had very constructive talks with U.S. officials during his visit to Washington and that he had submitted to them what he called "a counter-proposal" to the U.S. proposal on debt settlement sent to the U.A.R. six weeks ago. He did not volunteer any details on this counter-proposal. Dr. El-Sayeh said that he had found the U.S. attitude on these matters "encouraging".

cc: Mr. McNamara
Mr. Knapp
Mr. Lejeune (o/r)

MPB:ab

President has seen

14

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 15, 1969

FROM: Michael L. Lejeune

SUBJECT: UAR - Interview with Dr. Abdel Aziz HEGAZI, Minister of the Treasury

Dr. Hegazi, the Minister of the Treasury of the UAR, is visiting the U.S. at the invitation of the Ford Foundation and under the auspices of the Governmental Affairs Institute here in Washington. They have asked whether it would be possible for you to give Dr. Hegazi a brief courtesy interview.

While Dr. Hegazi's Ministry is not greatly concerned with relations with the Bank nor with economic policy, he is highly regarded in the UAR and personally carries weight in the Cabinet. I would recommend that you see him briefly. I am told that he is available at any time on Friday, the nineteenth.

I attach some biographic information.

Attachment

Michael L. Lejeune

9/16
OK
Lew

5:00 Fri. 9/19
Drew Lejeune off 9/17
will let us know who
will attend and if a
paper will be sent.

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

FROM: Michael L. Lejeune

SUBJECT: Dr. Abdel Aziz HEGAZI, Minister of the Treasury of the U.A.R.

DATE: September 19, 1969

DECLASSIFIED

MAR 20 2013

WBG ARCHIVES

As already arranged, Dr. Hegazi is coming to see you at 5:00 p.m. this afternoon. I shall accompany him. Possibly another Egyptian will be with him - Mr. Hammoud or Dr. Ghorbal from the "embassy" or Dr. El-Sayeh, the head of the team negotiating with us - but I doubt it.

Hegazi is Minister of the Treasury. As holder of the purse, this is an important cabinet post. However, it is the Minister of Economy and Foreign Trade - Zaki - who is principally concerned with economic policy and, assisted by the Governor of the Central Bank, entirely responsible for international financial relations. I am told that there is rivalry between Hegazi and Zaki.

Hegazi is not part of the team negotiating the Drainage Project credit and his ministry is not concerned. I doubt that he is privy to most of the issues. He does know about the issue of employing outside consultants since El-Sayeh has used him to try to influence El Kholy (an undersecretary of the Ministry of Irrigation who is representing that ministry in the negotiations and will be the person most affected) who is reluctant. Hegazi may refer to this question. It is still being negotiated and our negotiators believe satisfactory agreement can be reached.

El-Sayeh says he has not made Hegazi privy to the other issue - consultation on the appointment of the Director of the office responsible for carrying out the project. He thinks that Hegazi would be opposed to consultation. It seems doubtful, therefore, that Hegazi will raise this issue.

It is quite probable that Hegazi will use his interview to get comment or advice from you on the management problems he faces in his ministry.

Attached is information provided by the Governmental Affairs Institute, a U.S. governmental agency which with the Ford Foundation is sponsoring Hegazi's visit.



Attachment

c.c. Mr. Knapp

President has seen

10



GOVERNMENTAL AFFAIRS INSTITUTE

1619 Massachusetts Avenue, N.W., Washington, D. C. 20036 • Telephone (202) 265-8300

Biographic information on Dr. Abdel Aziz HEGAZI of the United Arab Republic, who, along with his wife, Mme. Essmat HEGAZI, is visiting the United States at the invitation of the Ford Foundation. Program arranged by Mr. Richard T. Hamilton; Mrs. Edith Newton, assistant. Dr. and Mme. Hegazi are being escorted by Mr. Souheil Tawil.

NAME: Abdel Aziz HEGAZI

PRESENT POSITION: Minister of the Treasury, United Arab Republic.

PAST POSITIONS: Dean, Faculty of Commerce, Ain Shams University (one of the four state universities in the U.A.R.); Minister Hegazi has also headed up his own private firm of chartered accountants.

PUBLICATIONS: Minister Hegazi has published articles on cost accounting, costing techniques for managerial control, agricultural accounting, financial analysis, and miscellaneous research papers on other budgetary and fiscal matters.

KNOWLEDGE OF ENGLISH: Excellent.

Personal Data:

Born: 1923.

Address: 6 Mohamed Saleh, Dokki, Cairo.

Family: Dr. and Mme. Hegazi have three children.

Academic Background: Graduate, Faculty of Commerce, Cairo University; Ph.D. (British) in Commerce.

OBJECTIVES OF THE UNITED STATES VISIT:

Minister Hegazi is a budget and fiscal technician of first rank, both by training and experience.

The Ford Foundation has specified the purpose of his study tour: "to observe national budgeting and accounting systems, the use of computers

OVER

in this process, business and management schools, and training and research in fiscal and administrative fields."

In somewhat more detail, the Minister will wish to observe budget activities in the Department of the Treasury, the Bureau of the Budget, the Internal Revenue Service, and other Federal agencies. He wishes to observe the design and application of computer and other ADP systems in the budgeting process, national and state accounting systems, and, in general, in processing fiscal data. He is interested in contemporary budget, fiscal, and administrative theory, along with research and training programs for technicians in these fields. He is specifically interested in program planning budgeting systems, cost accounting, cost analysis, and performance budgeting.

The Minister is also responsible for the administration of Customs in the U.A.R., and will wish to observe the organization and administration of customs activities in the U.S.

In sum, the Minister wishes to become acquainted with the most modern ideas, approaches, and techniques used in this country in the budget and fiscal area.

OBJECTIVES OF THE VISIT

Minister Hegazi is a budget and fiscal technician of first rank, both by training and experience. The Ford Foundation has specified the purpose of his study tour to observe national budgeting and accounting systems, the use of computers

Mr McNamara

to see
please
lee
10/13"CONFIDENTIAL" OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 20, 1969

FROM: Dieter Hartwich DH

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

SUBJECT: UAR - Annual Meeting 1969

1. A meeting with the delegation from the United Arab Republic took place on October 2 at which were present:

For the Bank

Mr. McNamara
Mr. Knapp
Mr. Lejeune
Mr. Benjenk
Mr. Hartwich

For UAR

H.E. Hassan Abbas Zaki, Minister
of Economy and Foreign Trade
Dr. El Sayeh, Undersecretary of State
of the Ministry of Economy and
Foreign Trade
Dr. Hammoud, Commercial Counsellor,
UAR Interests Section in Washington.

2. Minister Zaki expressed satisfaction at the fact that the proposed IDA credit for the Nile Delta Drainage Project had advanced close to the stage at which it could be presented to the Executive Directors for consideration. Mr. McNamara replied that he shared this view. He hoped that this credit would mark the beginning of a period in which the Bank Group could contribute usefully to economic development in the UAR.

3. Minister Zaki went on to say that he had listened with great interest to Mr. McNamara's address at the opening session of the Annual Meeting. He had been particularly impressed by the emphasis which Mr. McNamara had given to the need for progress in agriculture and for making serious efforts to deal with the population problem. He wanted to point out however that in Egypt, as in many other developing countries, industry was important for providing employment opportunities. Mr. McNamara replied that he had not intended to minimize the importance of building up an industry in a rational manner. What he was concerned about were uneconomic investments which resulted often from the fact that industry was regarded as a symbol of economic and even political progress. He also was aware that industry in the developing countries required in the initial stages some protection; but this protection should not be a permanent feature and should be reviewed periodically with the aim of gradually abolishing it.

4. The next points raised by Mr. Zaki related to several current matters concerning Bank Group activities in the UAR. He said he hoped that the rail-way improvement project would follow the drainage credit without much delay. He had also been glad to learn in a previous meeting with Mr. Lejeune that the Bank was prepared to assist his country in carrying out a study on the utilization of Nile waters. He himself appreciated the need for the study but thought that it might be useful if the Bank could help to convince other U.A.R. officials of this. The Minister then informed Mr. McNamara about the present status of the debt settlement discussions with the United States. He explained that a proposal for debt re-scheduling had been jointly worked out in recent weeks and that he was now evaluating the impact of this proposal on the UAR foreign exchange budget. He felt confident that the United States and the UAR were close to reaching final agreement.

President has seen

"CONFIDENTIAL"

Memorandum for the Record

- 2 -

October 20, 1969

5. Minister Zaki said that there had been a slight decrease recently in the hostilities in the Suez Canal Zone and that in his view these tensions did not effect the UAR economy. Following a question by Mr. McNamara, the Minister said that there had been no change with regard to the grants-in-aid from other Arab countries to the UAR. These payments had always been made on time and in the agreed amounts. He was aware of certain rumors which doubted that this would continue to be so. However, the contrary would be the fact and it might well be that the payments would be increased. An encouraging factor for the UAR economy were the prospects in the oil sector. Production would reach 25 million tons in 1969 and an annual output of 50 million tons was expected for 1973. Following a further question by Mr. McNamara, Minister Zaki commented briefly on the situation in Libya after the recent coup d'état. He thought that a few months were needed until the internal situation would fully adjust itself. An important question was how the political regionalism, which was a crucial factor in Libya, would react to the new situation.

6. Dr. El Sayeh, after referring to the emphasis given to population control in Mr. McNamara's address to the Governors, asked how the Bank could help in this field. Mr. McNamara mentioned briefly the new Population Projects Department and that we would now work out a policy in this field. It was already clear that it would not be possible to apply the same model to all countries. It was also clear that tangible results in reducing the birth rate could not be achieved within a few years but that one had to think in terms of very long periods. The essential starting point for effective population control was that a government took the firm decision to devote its attention and resources to this problem. The next most important step was probably to devise the appropriate form of organization since in order to achieve success in population control, birth control measures had to reach millions of people. Minister Zaki said that public and private birth control programs had been tried in the UAR for some time with varying success. His Government was now determined to take effective action but the resources and experience were limited. Mr. McNamara concluded by saying that we would be glad to consider helping the UAR in their program if they would request our assistance.

cc to Mr. McNamara
Mr. Knapp
Mr. Chadenet
Mr. Lejeune
Mr. Benjenk
Mr. Kanagaratnam

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: M. P. Benjenk *MB*

SUBJECT: U.A.R. - Visit of Dr. Ghorbal

DATE: August 28, 1970

STRICTLY CONFIDENTIAL**DECLASSIFIED****MAR 20 2013****WBG ARCHIVES**

Dr. Ghorbal, Head of the U.A.R. Interests Section in Washington, has asked to see you and a tentative appointment has been set up for him on Wednesday. He told me yesterday that he had a number of "messages" for you from Egypt, but that the main purpose of his visit would be to assure you that the U.A.R. Government had acted in complete good faith last March, when Mr. Zaki stated that the U.A.R. was ready to settle its debt to the U.S. on the basis of its own proposals of December 1969, subsequently agreed to by the U.S. He would seek to convince you that the "force majeure" reasons invoked by Mr. Zaki, U.A.R. Minister of Economy, in his letter to you of July 28 (attached), for not signing the agreement with the U.S. were genuine reasons, not foreseen earlier in the year. He did not elaborate on the nature of these reasons. He also said that he was working very hard on the State Department to have them accept the latest U.A.R. proposal which, as you know, would provide for a re-scheduling agreement not involving any U.A.R. repayments before July 1, 1971. If the U.S. accepted, an Egyptian delegate would immediately come to Washington to sign such an agreement.

We have been trying to conjecture, from the facts available to us, as to whether there is any quantifiable justification for the "force majeure" argument put forward by the U.A.R. In view of the scarcity of the data made available to our economic mission last May and the deliberately secretive attitude of the U.A.R. authorities on that occasion, the information available to us on the Egyptian foreign exchange budget, including their foreign debt, is meager and unreliable. Furthermore, it differs considerably from the information gathered by a subsequent IMF mission, although it, too, came back with much less detailed information than was made available to our preceding economic missions in 1968 and 1969. On the basis of what it calls "unofficial" information obtained by its mission, the Fund assumes debt service in 1970/1971 to be \$380 million, if suppliers' credits are excluded, compared to \$225 million on the basis of the information made available to us. The bulk of the difference in these assumptions concerns debts to the East which the IMF estimates at \$264 million while our own external debt tables, which we had always assumed to be complete, only amount to \$120 million.

Mr. Robert S. McNamara

August 28, 1970

In connection with this Eastern debt, it may be interesting to note that President Nasser in a recent speech in Tripoli, Libya, referred to the fact that payments on military debt to the USSR would commence in 1971. It was also reported by the New York Times that Mr. Ali Sabry, Secretary of the Executive Committee of the Arab Socialist Union, made a similar statement in a speech to Egyptian students in Moscow. In contrast, you may remember that Mr. Zaki, when I questioned him on the military debt to the East in May 1969, told me that an agreement between the highest levels of governments of the USSR and the U.A.R. provided for the gradual writing off of the great part of Egypt's military debt and for only such transfers as the U.A.R.'s balance of payments made possible, and when trade between the two countries showed an unfavourable balance for the Soviet Union.

The IMF position with regard to the U.A.R. is as follows. In July of this year, the U.A.R. was permitted a drawing of \$17.5 million. Since this drawing was within the first credit tranche, the minimum of conditions were attached to it and there was therefore no thorough examination of the U.A.R. position, such as takes place for a standby request. However, the information available to the IMF indicates a foreign exchange financing gap this year of more than \$200 million, which would be very difficult indeed to cover if Fund figures were correct. The Director of the Middle Eastern Department, Mr. Gunter gave as his personal opinion that the U.A.R. was in a very difficult balance of payments position and that he had always wondered how the U.A.R. could possibly pay the amounts involved in the rescheduling negotiations with the U.S. He added, however, that he believed Mr. Zaki to be sincere in his attempts to conclude an agreement with the U.S., and that he ^{had} assumed from his conversations with Mr. Zaki in June, that the \$17.5 million would be used for the first yearly repayments of the U.A.R. debts to the U.S. His understanding on this point, however, was implicit and not explicit.

As far as the U.S. attitude is concerned, I will have lunch on Monday with the Director of the U.A.R. desk at the State Department and will find out the latest U.S. position on this matter. As you may recall, their first reaction to the U.A.R. offer, as communicated to me by Mr. Weintraub, Deputy Assistant Secretary of State, was quite cool. I will inform you of any later developments by Monday evening.

/..3

Mr. Robert S. McNamara

August 28, 1970

Under the circumstances, I think we have only two possible lines of immediate action with regard to the U.A.R., neither of which includes going ahead with any lending in the immediate future. The first line is to insist purely and simply that the U.A.R. must conclude an agreement with the U.S. before we make any further loans, particularly in view of their promise to us that this would be done last spring, which was the basic condition for our first loan. The second alternative is the same as the first, with the addition of a possible suggestion on our part that we might help the two sides reach a reasonable settlement, meeting both the constraints of the U.A.R. balance of payments situation and the need for the U.S. to get its money back within a reasonable limit of time. For this to be possible, however, the U.S. would have to agree, which is not at all certain, and the U.A.R. would have to be more frank with us as to the real state of its balance of payments, which is a rather questionable proposition. However, we might nevertheless try such an approach if there is a complete logjam between the parties. In the meantime, our railway loan of \$24 million, which can be processed for Board approval by December, is in the "freezer" pending further developments.

Attachment

cc: Mr. Knapp

MPB:ab

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: M. P. Benjenk *my*

SUBJECT: U.A.R.-U.S. Debt Issue

DATE: August 31, 1970

~~STRICTLY CONFIDENTIAL~~
DECLASSIFIED**MAR 20 2013****WBG ARCHIVES**

This is a post-script to my memorandum of August 28, in the light of my conversation today with Mr. Sterner, Director of the U.A.R. desk at the State Department.

As I expected, the U.S. position with regard to the latest U.A.R. proposal is quite negative. The U.S. is not prepared to consider any proposal such as the one before them, which provides for no U.A.R. payments whatsoever during the current fiscal year. It has not yet responded to the U.A.R., but when it does, the reply is likely to be that the U.S. is still prepared to stand by its earlier acceptance of the previous U.A.R. offer, which was not honored. I sensed that there may be some "give" in the U.S. position and the possibility that they may accept a somewhat reduced amount during this first year, but they will not accept the Egyptian position that they cannot afford any payments this year. I also felt that, in due course, but not immediately, the U.S. might welcome assistance from the Bank to bring the U.A.R. round to what they consider a more reasonable point of view.

Recommendation:

I think that the time has come for us to be somewhat more severe with the U.A.R. Their offer to the U.S. is ingenuous, since they know full well that its acceptance would release another IDA credit of some \$25 million, without any outlay on their part until next July, by which time anything may happen. I think we should let Dr. Ghorbal know our view that such an offer is a "non-starter" and that we cannot, in good faith, try to urge the U.S. to accept it, as he has hinted that we should. Some payment to the U.S. during the current fiscal year, even if not on the scale contemplated earlier, is the minimum we should urge, particularly after the non-fulfillment of Dr. Zaki's promise to us. There may be a chance that some friendly, but stern talk on your part, dutifully reported to Cairo, might cause Dr. Zaki to come to Copenhagen with some more acceptable basis for an agreement. If this happens, I am sure we could help both sides to reach a reasonable arrangement.

cc: Mr. Knapp

MPB:ab

President has seen

OFFICE MEMORANDUM

TO:

Memorandum for the Record

DATE: September 8, 1970

FROM:

M. P. Benjenk (signed) M. P. Benjenk

STRICTLY CONFIDENTIAL
DECLASSIFIED

SUBJECT:

U.A.R - Visit of Dr. Ghorbal to Mr. McNamara

MAR 20 2013

WBG ARCHIVES

Dr. Ashraf Ghorbal, Head of the U.A.R. Interests Section in Washington, called upon Mr. McNamara on September 2. The purpose of his visit was to convey verbally to Mr. McNamara the regret of the leaders of the U.A.R. government that they had not been able, because of reasons of "force majeure", to adhere to their previous undertaking to the Bank to agree to a settlement of their outstanding debt towards the United States.

Dr. Ghorbal told Mr. McNamara that his visit was intended to convey the disappointment of both President Nasser, with whom Dr. Ghorbal had discussed the matter, and of Dr. Hassan Abbas Zaki, Minister of Economy, that it had proved impossible to find the funds with which to implement the proposed U.S.-U.A.R. agreement, and that therefore the U.A.R. government had preferred not to sign such an agreement, rather than subsequently default or ask for a rescheduling. Dr. Ghorbal stressed that the reason for the Egyptian failure to act was purely financial and not political. The proof of this, he said, was that the U.A.R. had promptly proposed an alternative rescheduling agreement, which was practically identical with the previous draft, except for the fact that it provided for additional year's grace so that no U.A.R. payments were due before July 1, 1971. He was trying hard to convince the State Department to accept this proposal, which Dr. El Sayeh or he himself were empowered to sign at short notice. He hoped that Mr. McNamara would help in convincing those concerned in the U.S. administration that this matter should be settled promptly.

Mr. McNamara replied that, much to his regret, he did not see how he could help any further on this matter, since his credibility with regard to the U.S. administration had been seriously affected by what had happened since the approval of the IDA credit in March. Mr. McNamara recalled how much effort he and many others had devoted to rebuild a relationship between the Bank and the U.A.R. He believed more than ever that the Bank could be useful to Egypt, not only financially, but with the expertise it could bring to Egyptian projects. The IDA project for drainage had been the culmination of these efforts, but the debt issue concerning the U.S.A. had almost prevented it from being approved by the Board. Mr. McNamara said that he had used all his credit with the Board to get this credit passed and the U.S. had acquiesced - unwillingly - only because Mr. McNamara had been given Dr. Zaki's credit with

President has seen

September 8, 1970

undertaking that the matter would be settled on the basis of the U.A.R.'s own proposals, which the U.S. had subsequently accepted. Whether there had been a misunderstanding or whatever the reason, the issue had not been settled, and his position vis-a-vis the U.S. administration was that he could not realistically be expected to wield any influence on this particular matter.

Mr. McNamara went on to say that he did not have sufficient information on the U.A.R.'s financial position to appreciate what had led to the "force majeure" situation which Dr. Ghorbal had reported, but that his own view was that the U.S. would find it difficult to accept a proposal which involved no payments to them during this fiscal year. He wondered whether some of the funds recently drawn in the IMF could have been used for this purpose, since he believed that the IMF itself had assumed this to be the case. This was, however, a matter for the U.A.R. to decide.

Mr. McNamara concluded by saying that what concerned him most about this situation was that, as long as the issue was unsettled, it was quite impossible for him to present additional credit proposals - such as the proposed railway credit - to the Executive Directors. Approval of credits was not within his competence, and the Board would simply not pass any further proposals until a solution was found. Furthermore, the substantial replenishment of IDA would come into effect next July and he was anxious that the U.A.R. should benefit from this, and not be prevented from doing so because of the outstanding debt issue. For all these reasons, he strongly urged Dr. Ghorbal to ask his authorities to make further efforts to get this matter out of the way.

Dr. Ghorbal thanked Mr. McNamara for his past and present efforts on behalf of the U.A.R. and he said that he would convey what he had heard to his authorities.

cc: Mr. McNamara ✓
Mr. Knapp

18

UNITED ARAB REPUBLIC
MINISTRY OF ECONOMY AND FOREIGN TRADE

THE MINISTER

10769

Cairo, July 28, 1970

17c
8-7
AUG 6 REC'D

Dear Mr. McNamara:

Mr. El Emery conveyed to me a few weeks ago your verbal message regarding the settlement of the one outstanding debt so far unsettled. I fully understand your concern. But at the same time I would like to assure you that the U.A.R. Government is trying its best to reach an equitable agreement with the U.S.A. authorities.

When I sent you my message last March the Government of the U.A.R. had every intention to conclude the agreement as negotiated with the U.S.A. authorities. However developments in general and in more than one field made it necessary for us to face expenditures in foreign exchange which were not envisaged or planned for.

Under the new circumstances I have discussed the matter fully with the President of the Republic and with my colleagues and we reached the decision that it would be extremely difficult, if not impossible, for us to meet the obligations created under the draft agreement with the U.S.A. in its present form. We do not feel justified to conclude an agreement today which we will not be able to respect.

But this does not mean that we do not intend to settle our debts. In fact we are contacting the U.S.A. authorities with a view to renegotiate a new agreement that can be implemented within the present possibilities of our foreign exchange situation.

Under the circumstances, you might agree with me that this is a case of "force majeure" which made it impossible for us to conclude the draft agreement aforementioned.

Before concluding I would like to take this opportunity to express to you on behalf of President Gamal Abdel Nasser his thanks for the spirit of cooperation and the sincere interest you have shown, and still are showing, in the welfare of the U.A.R.

I am looking forward to seeing you next September.

With kindest regards.

Sincerely,

Hassan Zaki

(Hassan Abbas Zaki)
Minister of Economy and
Foreign Trade

H.E.
Mr. Robert S. McNamara
President,
International Bank for Reconstruction
and Development
Washington, D.C.
U.S.A.

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: Copenhagen
September 25, 1970

FROM: M. P. Benjenk

DECLASSIFIEDSUBJECT: *D4 for*
UNITED ARAB REPUBLIC**MAR 20 2013****WBG ARCHIVES**

The Minister of Economy of the United Arab Republic, Mr. Hasan Abbas Zaki, called on Mr. McNamara on Wednesday, September 23. Mr. Zaki began by expressing his regret that he had not been able to fulfill the promise he had made to Mr. McNamara earlier in the year to the effect that the UAR would reach a quick settlement with the U.S. on the outstanding debt issue. Mr. Zaki said that when he promised Mr. McNamara to settle this matter within a very short time, he had fully intended to do so. However, a number of very unexpected developments in the general situation had occurred which had made foreign exchange demands upon the economy, making it impossible to provide any additional funds for the settlement of the U.S. debt. He was distressed that this had happened, but he had preferred not to sign an agreement with the U.S. to signing one on which Egypt might subsequently default. The Government of the UAR fully intended to settle its debts to the U.S. and had made a new offer to the American authorities to that effect, providing for easier terms of payment. If this offer was not acceptable to the U.S., he would make an alternative offer to them.

Mr. McNamara replied that he realized that these were difficult days in the UAR and regretted that the unforeseen developments mentioned by Mr. Zaki had made it impossible to settle the U.S. debt question. This created a difficult position for the Bank, since even the last credit to the UAR had been approved by the Board on the basis that the settlement of the debt question was imminent, which Mr. McNamara had led the Board to expect. Since no settlement had occurred, he felt that he had lost his credibility on this matter with the U.S. administration, and he could not be of much help in the settlement of this question as far as the U.S. was concerned. Turning to the subject of further credits to the UAR, Mr. McNamara said that it was quite clear to him that the Executive Directors of the Bank would not approve any further credits to the UAR until the matter was out of the way. This did not mean that the UAR had to settle the question on whatever terms the U.S. requested, but it did mean that they would have to reach a settlement. In the meantime, the Bank would continue to process future projects in the UAR in the hope that this remaining issue could be disposed of soon.

Mr. Zaki said he understood the position and thanked Mr. McNamara for all that he had done in the past two years to bring about a closer relationship between the UAR and the Bank.

cc to Mr. McNamara (2)
Mr. J. Burke Knapp
Mr. D. Hartwich

MPBenjenk:rpo

President has seen

October 6, 1970

MEMORANDUM FOR THE RECORD

Today I discussed with Joe Sisco our relations with the UAR and told him of my conversation with Zaki in Copenhagen. I told him that I thought that he, Sisco was the only man who could now act in a way that would permit resumption of Bank operations in the UAR and hoped that he would do so. He replied that he would make every effort to do so.

RMcN

DECLASSIFIED

MAR 20 2013

WBG ARCHIVES

CONFIDENTIAL

MEMORANDUM FOR THE RECORD

EGYPT : Visit of Dr. Ashraf Ghorbal

September 15 1971

Dr. Ghorbal, head of the Egyptian Interests Section in the United States, who had returned from Egypt to Washington the previous day, called on Mr. McNamara on June 7. He told Mr. McNamara that he was carrying a verbal message from the Egyptian Prime Minister, Mr. Fawzi, to the effect that the UAR was quite determined to settle its debt to the U.S. and that new steps would be forthcoming on this matter. He therefore urged that the \$30 million of IDA funds allocated for the UAR Railway project should not be reallocated to other countries, as had been intimated in a recent cable from Mr. McNamara to the Prime Minister.

Dr. Ghorbal said that this cable, for an unexplained reason, had not reached the Prime Minister until a week after it had been sent. Dr. Ghorbal also urged that Mr. McNamara, who had so often shown his friendship for the UAR, should urge upon the U.S. Administration the need to accept the minimum amounts which Egypt could afford to pay.

Mr. McNamara said that, on this matter of the Egyptian debt, he had very little influence left with the U.S. authorities. A year ago he had relied on the promise of the UAR Government that the debt issue would be settled and had gone forward with the drainage credit in spite of some U.S. misgivings. The Bank's Executive Directors would be most unlikely to approve another credit, even if he were to recommend it, before a solution is reached. At this moment, therefore, it would be difficult for him to intervene and what was needed was a rapid settlement of the matter before IDA could go forward with additional lending. In the meantime, a number of other projects to be financed by IDA had been kept waiting so that this UAR project could go forward. It would now be unfair to the other countries if these funds were not reallocated since they had to be committed before the end of the fiscal year. If the debt issue were settled, the Egyptian Railway credit would get a high priority for the IDA funds which would become available out of the replenished funds of IDA, even though it might take some time for replenishment to be fully in effect. This had been the intent of his cable to the Prime Minister a week earlier, and the \$30 million had now been reallocated to other projects.

Dr. Ghorbal said that he was sorry to hear that the reallocation had already taken place but said he understood Mr. McNamara's position. He expressed the hope that the outstanding matter would be settled before too long.


M.P. Benjenk

19

OFFICE MEMORANDUM

TO: Files

DATE: October 7, 1971

FROM: Adi J. Davar

SUBJECT: EGYPT: Meeting With Mr. McNamara During the Annual Meeting

On September 30, Mr. McNamara met with the Egyptian delegation headed by the Minister of Economy, Mr. Mohammed Merzban. Messrs. Knapp, Shoaib, Benjenk and I also attended.

Mr. McNamara welcomed the delegation and stated that he was very pleased to hear that the on-going negotiations between Egypt and the U.S. on the debt rescheduling matter were very promising. Minister Merzban stated that he and his Government were most appreciative of the efforts that Mr. McNamara personally, and the Bank staff, had so far given to have this matter satisfactorily resolved. He added that, in fact, both Egypt and the U.S. were now very close in their figures and he was anxious indeed to sign a debt rescheduling agreement with the U.S. before leaving Washington. Mr. McNamara urged the Minister to make maximum efforts to do so. He stated that with this problem out of the way, the Bank Group could be particularly helpful to such an important country like Egypt, not only with IDA financing, but also with technical help and advice, and later when Egypt became Bank-worthy, possibly with some Bank financing also. He stated that in fact he was most disappointed when he found in June, that he could not put up the Railway project to the Board because the debt matter was unresolved at the time. As the Minister would however appreciate, if he had put the project forward, it just would not have gotten through. Minister Merzban replied that his Government had already agreed to the Railway project and program as negotiated and he therefore hoped that with the anticipated finalization of the debt issue before he left Washington, the Railway credit could be signed soon. He further hoped that IDA would proceed with an early appraisal of the Upper Egypt Drainage project whose preparation was complete, as also with the population project to which Government accorded great priority.

Mr. McNamara stated that internal documents for the Railway project might merely need to be "dusted off" a little, and if the drainage project was ripe for appraisal, which he had not realized, he would see how matters could be moved forward. In reply to his query, Mr. Benjenk indicated that the latter project was likely to involve financing in the region of \$20-25 million. He was pleased that Egypt had such a strong interest in population planning and IDA would try to be as helpful as possible.

Minister Merzban indicated that he was now anticipating IDA's assistance in expeditiously progressing the pipeline of projects which was under discussion, including the Industrial Bank of Egypt, the Soil Improvement, Cairo Rapid Transit and the Cotton Ginning Rehabilitation projects. Mr. McNamara stated that with the debt problem out of the way, the Bank Group would try to be as helpful to Egypt as possible for future projects.

ADavar/llj

cc: Messrs. Benjenk (o/r), Hartwich, Christoffersen, DaCosta
Copies for info: Messrs. Kanagaratnam/Baldwin, Haynes, Oursin, El-Darwish

President has seen

20

OFFICE MEMORANDUM

TO: Files

DATE: October 13, 1972

FROM: Adi Davar

SUBJECT: EGYPT: Meeting between the Egyptian Delegation and Mr. McNamara during the Annual Meeting

1. Mr. McNamara met with Deputy Prime Minister, Mr. Merzeban and the Governor of the Central Bank of Egypt, Mr. Zandou, on September 29. Messrs. Knapp, Benjenk, Votaw, Ljungh and I were also present.
2. Mr. Merzeban expressed Egypt's satisfaction with the help which the Bank Group has been providing and extended an invitation on behalf of his government for Mr. and Mrs. McNamara to visit Egypt in the near future. Mr. McNamara conveyed his appreciation of the invitation; he hoped to visit Egypt for the second time after he was able to visit many Bank countries which he had not visited at all so far.
3. Mr. McNamara then expressed his disappointment that a project as important as the Nile Delta drainage scheme, which was so crucial to Egypt's development and was one of the biggest irrigation projects with which the Bank/IDA is associated, had not made much progress since it was approved nearly two years ago. He urged Mr. Merzeban to take steps quickly to rectify the critical management situation which was responsible for the present state of affairs. Mr. Merzeban stated that he was very much aware of the need to rectify the situation and had already discussed with Mr. Benjenk the necessary actions toward that objective, which he hoped to complete within two months. Mr. McNamara said that if the matter had been discussed with Mr. Benjenk, he would not wish to go into it again except to express the hope that the agreed actions would be taken swiftly to get the project moving.
4. Mr. Merzeban requested Mr. McNamara to consider providing Bank assistance for important projects in the industrial sector, to which Egypt accorded highest priority. He stated that Prime Minister Sidky was particularly keen to have the Bank involved in the industrial field. One of the first projects Sidky would like to see explored was a urea project, in view of the country's critical shortage of fertilizers and the resulting drain on Egypt's scarce foreign exchange resources. He hoped that the industrial sub-sector mission in early 1973, to which Egypt had agreed, would lead to the identification of priority industrial projects which could be considered for inclusion in the IDA program. Mr. McNamara stated he had established an Industrial Projects Department within the Bank, so that close attention could be given to industrial development in all developing countries. He recognized the importance of industry to Egypt's economic development, and assured Mr. Merzeban that the Bank Group would be most sympathetic to his request for projects in this sector.
5. Mr. McNamara, while emphasizing the delicacy of raising the subject, expressed his feeling that the continuing high level of military expenditures was diverting valuable resources from Egypt's development, and thereby constricting the country's growth. The Government obviously appreciated this situation itself, and

President has seen

was possibly endeavouring to reduce military expenditure comensurate with the need to defend the country against external aggression. Mr. Merzeban said that the Government was very much aware of the problem and was making every effort to resolve the middle-eastern conflict. However, as Mr. McNamara could well appreciate, it was never easy to persuade generals to spend less than what they said they needed in order to protect the country from outside attacks.

The meeting ended with mutual assurances of working closely together in the task of Egypt's economic development.

cleared with and cc: Mr. Votaw

cc: Messrs. Knapp, Benjenk, Wapenhans, Fuchs, Ljungh

ADavar/js

21

OFFICE MEMORANDUM

TO: Files

DATE: April 10, 1974

FROM: Adi J. Davar, Division Chief, EM1 DA

SUBJECT: EGYPT - Mr. McNamara's Meeting with Some Cabinet Ministers

1. During his visit to Egypt between February 27 and March 2, 1974, a one-half day working session was arranged in which Deputy Prime Minister Hegazy and some key ministers could discuss economic and development matters with Mr. McNamara. This session took place on the morning of February 28 in Dr. Hegazy's office. The ministers each made separate presentations and thereafter discussed the sectors under their charge; included were Reconstruction Minister Osman, Industries Minister Mohamadein, Agriculture Minister Zaki, Oil Minister Helal, Power Minister Sultan and the Suez Canal Authority Chairman Mashour. On the Egyptian side, Dr. Sherif Lotfy, Chairman of the newly-established Egyptian Agency for Arab and International Economic Cooperation, and Mr. Gamal El-Nazer of the Finance Ministry also attended. Messrs. Benjenk, Votaw, Karaosmanoglu, Armstrong (part-time) and I were present. This memorandum records the highlight of this session.

Dr. Hegazy's Presentation

2. After welcoming Mr. McNamara and appreciating his continuing interest in assisting with Egypt's development, Dr. Hegazy briefly sketched his country's economic development problems and aspirations. He recognized that because of the Middle-Eastern conflict, Egypt had paid a heavy economic price. War expenditures in the last six years amounted to over £E 5000 million, with a loss of a similar magnitude due to the destruction of infrastructure in the Suez Canal Region and a further loss of income because agriculture and industrial production had to be diverted towards war rather than towards commerce and trade. In this period, Egypt could only make development investments amounting to about £E 2250 million. Foreign exchange earnings from tourism declined, with an average of 40 percent occupancy rate in hotels, during the six-year period. Severe foreign exchange shortages did not permit available industrial and agricultural capacity to be fully utilized. Infrastructure in almost all sectors was allowed to run down. The situation was aggravated by the continuing need to import 2-2.5 million tons of wheat a year; 1973 was a particularly difficult year, with wheat prices jumping to nearly \$250 per ton from their previous level of around \$80 per ton. The Government's policy of subsidizing the Egyptian consumer by keeping the prices of basic foodstuffs and textiles low, as well as providing subsidized housing for the low income earners, put a heavy burden on the budget. The Government, recognizing that this burden needed to be reduced in the future, attempted last year to reduce it by increasing prices of sugar and some non-basic foodstuffs. However, even this trial step met with considerable resistance.

3. Dr. Hegazy was hopeful that, in view of the burden which Egypt had carried, by taking the lead in the Middle-Eastern conflict on behalf of its Arab brethren, Arab countries would continue to provide financial help for Egypt in the future. Specifically, he foresaw that Arab aid, which annually averaged about LE 100 million under the Khartoum Agreement, would continue for at least another 3 to 4 years even after reopening the Suez Canal. This, together with additional Arab, bilateral and international aid, would help the Egyptian economy to turn the corner, now that prospects of real peace in the Middle East existed. He also anticipated that because of peace, a large portion of expenditures hitherto made on defence could gradually be channelled towards development.

4. He then catalogued future investment and development programs which his Government had in mind: LE 75 million for the reopening of the Suez Canal; LE 500 million for the Canal's expansion to accommodate 270,000 ton tankers; reconstruction of Suez City (85 percent of which was destroyed), as well as of Port Said and Ismailia (25 percent of each destroyed); establishment of industrial free zones at Port Said and later at Suez, and reconstruction of industries (including oil refineries, chemical and fertilizer plants) in the Canal Zone Region (all these investments estimated to cost about LE 3.5 billion); oil exploration and mineral development (particularly for rock phosphate, whose deposits were estimated to be about 1,000 million tons); rehabilitation and development projects all over Egypt; projects for land reclamation; production of high cost agricultural produce and agro-industries (largely for export); fishing in the Red Sea and Lake Nasser; revamping of the textiles industry (also largely to increase exports); increased food and livestock production through joint projects with Arab financing in the Sudan; and most urgently, full utilization of existing industrial and agricultural capacity.

5. Dr. Hegazy said that in the short-run, Egypt would hope to make a start toward the above objectives by (a) using available commodity credits (such as those from Germany and Japan); (b) making maximum use of existing capacity in the economy; (c) encouraging tourism and industries capable of earning foreign exchange; (d) encouraging public and private Arab, as well as other foreign, capital to invest in industry and tourism in Egypt; (e) fostering further efficiency in public sector industrial enterprises, so that they contribute more to the budget than before and (f) gradually changing the direction of Egypt's exports from East European to Arab, African and West European markets. However, to undertake even these preliminary steps toward revitalizing Egypt's development effort, substantial financial help would be necessary from the Bank Group as well as bilateral sources.

6. Mr. McNamara responded that he was convinced that Egypt had tremendous potential for economic development; the question was how to tap it successfully. The program outlined by Dr. Hegazy would require tremendous resources; even if monies could be found to put it through, there would be a question of how such new borrowings could be serviced in addition to Egypt's existing heavy debt burden. It was agreed that he and Dr. Hegazy should meet later to discuss this aspect privately (which they did).

Minister Osman's Presentation

7. Minister Osman indicated that his responsibility was not merely the rehabilitation of the Canal Region, but also the gradual development of Sinai and other undeveloped regions, besides urban development investments in Cairo and other cities. He was putting together a group of foreign consultants, experts and professors who would work with Egyptian counterparts to formulate regional development plans, establish investment priorities and develop specific program/projects. He estimated that such studies, including feasibility and engineering studies, would cost Egypt around LE 50 million. He indicated that the Bank's help on such studies would be most welcome.

8. Minister Osman stated that his Ministry's first priority was to rehabilitate the three major Canal cities by providing housing, roads, public utilities, etc., so that populations which had fled from these cities could return and industrial (chemical, oil refining, etc.) activities would be resumed. He visualized that these cities would eventually be linked to the Sinai peninsula by four tunnels under the Suez Canal. His intention was to persuade people to emigrate from the Canal Zone into settlements (probably villages each with a population of 10,000) on the Sinai side. Besides eventually developing Sinai for mineral exploitation, tourism, etc., the initial thrust would be the resumption of agricultural activities in N.W. Sinai. He elaborated that prior to 1967, about 50,000 feddans was being cultivated in N.W. Sinai through a canal drawing water from the Nile; the Government's target was to extend this area to 300,000 feddans and also another 100,000 in the area opposite to Quantara. To husband water resources, in that Region as well as in other new regions, he visualized the growing use of sprinkler irrigation. Apparently, studies done in Egypt indicated that sprinkler irrigation could be successfully used in these areas, reducing the cost of providing irrigation.

9. Minister Osman estimated the total investment for rehabilitating the Canal Region and Sinai, in the first five-year period, to be about LE 3 to 3.5 billion. In response to a query, he explained that this was a global, rough and ready estimate; about half of it would probably involve investments in infrastructure, etc. by the Government, and the other half represented likely investments in housing, industry, etc., by the private (local and foreign) investors.

10. Mr. McNamara commented that these plans were quite ambitious. Assuming that they made sense in the macro-economic context and sufficient financial resources were available, he inquired whether sufficient management and other facilities existed in Egypt to undertake such immense activities. Minister Osman's response was that labor was available but that Egypt would have to use both foreign contractors and equipment. Because of the pressure of time, discussions on this subject had to give way to discussions with the Industry Minister.

Industry Minister Mohamadain's Presentation

11. Minister Mohamadain indicated that in 1973 production from the industrial sector amounted to about LE 1.4 billion, of which the private sector contributed about LE 430 million. He felt that substantial scope existed for further industrial development, which his Government now hoped to exploit by encouraging investments from private Egyptian and foreign sources, either by themselves, or in partnership with each other, or in association with public sector enterprises.

12. However, according to him, the immediate problem of the sector was Egypt's inability to utilize existing capacity fully. In 1973, because the Government could not earmark sufficient foreign exchange for the import of raw materials, intermediates, spares and balancing equipment, 14 percent of the utilisable industrial capacity had to remain idle. This implied a loss of production valued at about LE 235 million. The loss was the highest in the food processing sub-sector at LE 80 million, followed by chemical and engineering at LE 35 million, textiles at LE 14 million, with the balance in building materials, cement, electronics and miscellaneous industries. In response to a query he stated that production was lost in the food processing sub-sector not merely because of the non-availability of some materials to be processed, e.g., tobacco, but by shortage of items like tin plate, etc.

13. The Government has apparently allotted the same amount of foreign exchange for the industrial sector's recurrent imports in 1974. According to Minister Mohamadain, since some new industrial capacity had come into operation during 1973 and also because of much higher international prices for most of the recurrent imports, the 1974 foreign exchange allocation would enable only 65 percent of industrial capacity to be used. In other words, 35 percent of utilizable capacity would be idle. Thus, about LE 600 million of potential production (partly for export) would be "lost". In response to queries he clarified that undoubtedly some of the existing enterprises had constraints such as lack of sufficient financing, trained labor, or management. However, the study done by the Government suggested that the principal constraint was lack of adequate foreign exchange. He also explained that sufficient domestic market existed to absorb most of the additional production, although about LE 100 million of such additional production would be for export sales.

14. The Government estimated that to achieve full capacity utilization in this sector in 1974, LE 170 million in foreign exchange was needed, in addition to the amount allocated in that year for recurrent imports (an amount which was not clearly identified in this or other discussions). LE 120 million was required for the import of raw materials and intermediates and about LE 50 million for import of spares and balancing equipment, all from convertible currency countries. The Minister then gave the example of the fertilizer industry, where only 60 percent of existing capacity (360,000 tons) was used because of the non-availability of LE 15 million for importing spares and balancing equipment needed to operate existing manufacturing facilities efficiently. If this capacity were used, Egypt could significantly

reduce its fertilizer import bill (LE 33 million in 1973 and projected to be LE 38 million in 1974). Similarly, cement production capacity was utilized to the extent of only 80 percent in 1973; because Egypt did not have sufficient foreign exchange to import kraft paper (for bagging). As a result, Egypt had to rescind some of its cement export contracts for 1974 and faced the prospect of spending scarce foreign exchange on cement imports in the immediate years ahead.

15. The Minister then quickly mentioned that foreign capital seemed to be interested in coming into Egypt. As an instance, a Japanese firm (C. Itoh) had proposed a joint Egyptian-Japanese investment of about LE 150 million for the strip mining of rock phosphate (including railway and port facilities necessary to facilitate phosphate exports). The extent of the Japanese investment and export arrangements, were still at a preliminary stage of discussion.

Agriculture Minister Zaki

16. Minister Zaki indicated that the Government wished to develop the agriculture sector not merely through land reclamation projects and provision of drainage, but also on projects to produce high value or export-earning agricultural products such as fruits and vegetables, poultry, etc. He indicated that in 1973, 1 million feddans cultivated with wheat, produced about 2 million tons. Of this, 60,000 feddans had been planted with mexipak wheat, which seemed to do well in Egypt although there was still some danger of rust and other diseases developing. Experiments were being conducted to see if other hybrid wheat varieties, with potentially higher yields, would also do well in Egypt. This problem was of great concern to Egypt in view of its heavy reliance on wheat imports and the prevailing high international prices of wheat.

17. According to the Minister, about 1/3 of the fertilizer produced or imported into Egypt in 1973, was applied towards wheat production. He felt that besides the more productive mexipak variety, yields of other varieties now cultivated in Egypt could also be increased significantly with additional fertilizer applications. However, foreign exchange shortages had forced the Government to cut fertilizer imports to a level of about LE 38 million in 1974. He also felt that increased fertilizer availability, as well as that of insecticides, pesticides, and spares for agricultural equipment, could also help in increasing the productivity of foodgrains such as rice and maize. He referred to the staggering wheat import bill in 1973 (about 2.3 million tons costing over \$500 million), and to the prospect of alleviating this a few years hence through a joint project, recently agreed, which would grow wheat on a million newly developed feddans in Sudan.

Suez Canal Authority Chairman Mashour's Presentation

18. Mr. Mashour indicated that his Authority's immediate objective was to reopen the Canal by early 1975 and to restore efficient navigation up to the pre-June 1967 level. The project for opening the Canal was estimated to cost about LE 70 million, with an estimated foreign exchange component of

LE 40 million. Of that LE 70 million, LE 20 million would be needed for the removal of mines and explosives (which could take three months from the commencement of the removal operation) and of the wrecks (another 6 months). In other words, he anticipated that from the time the demining operations began, it would be about 9 months before ships could go through the Canal.

19. Even then, ship passage would need to be handled initially though makeshift arrangements until adequate telecommunication, navigation and other equipment could be provided. So far, the only external financing made available for the reopening project was a Kuwaiti loan of about \$33 million. He estimated that the reopened Canal would earn LE 130 million a year, based on the 1967 tariffs. In response to a question as to whether tariffs should not be raised, at least to reflect the world-wide inflation since 1967, he responded that the matter was being studied. He agreed that since the Canal was a potential foreign exchange earner for Egypt, the tariffs should be raised as much as the traffic would bear.

20. After the Canal is reopened, the Authority planned to enlarge it through a two-phased project, which it hoped to complete in six years. The cost of the enlargement is currently estimated to be about LE 500 million, with a foreign exchange component of around LE 300 million. Mr. Mashour explained that so far the only financing pledged was \$140 million for the first phase from Japan, which would have to be used for Japanese procurement (dredging). At the June 1967 tariffs, the Canal would earn LE 170 million annually after the first phase was completed, and LE 250 million after the second phase. According to Mr. Mashour, this estimate of earnings took into account the oil traffic lost because of the Sumed pipeline, and would be much higher if his Authority were to charge higher tariffs. Mr. McNamara stated that he saw no reason why higher tariffs should not be charged.

Oil Minister Helal's Presentation

21. The Minister was quite optimistic about oil prospects in Egypt and emphasized that many of his figures were on the conservative side, since he did not at this stage wish to paint too rosy a picture. He believed that Egypt would achieve its target of producing 50 million tons of oil and 5 billion cu. mts of natural gas by 1980. By that time, he would expect Egypt to have a total income of about LE 385 million from the petroleum sector.

22. To achieve this target, Egypt would need to invest LE 1160 million in the next four to five years on petroleum exploration and processing. He expected about LE 800 million of this to come from Egypt, with the balance from foreign oil companies with whom Egypt was entering into partnership arrangements based on a share of any oil production which resulted.

23. Minister Helal indicated that in 1971/72, Egypt produced 19 million tons (about 340,000 barrels a day). However in 1972/73, production was reduced to 100,000 barrels a day because of the drop in pressure in the Morgan oilfields -- which currently account for much of Egypt's production. However, the technical problems at Morgan had now been resolved, and he anticipated production in 1974 to be at the 1971/72 level. If and when the Sinai oilfields are returned to Egypt, their production would add over 100,000 barrels a day to the above figures.

24. Egypt was currently a net exporter of oil. Its present needs amounted to about 200,000 barrels a day, which by 1980 were expected to reach about 350,000 barrels. With the level of production anticipated by 1980, Egypt would have a significant surplus for export. The Minister confided that certain new discoveries had been established in the western desert and other areas, which had not yet been made public. His optimism was based on these very recently confirmed discoveries. Besides earnings from petroleum exploitation, the Minister expected that the Sumed pipeline would also be a significant earner of foreign exchange for Egypt. Transit agreements, on a take or pay basis, had been signed with the oil companies concerned; with completion of the pipeline by 1977, 80 million tons of oil a year could be transported; provision had also been made to increase its capacity in future to 120 million tons a year "with very little additional investment". Time did not permit further clarifications or discussions relating to this sector.

Power Minister Sultan's Presentation

25. Minister Sultan made a very brief presentation. He began by expressing considerable surprise that the Bank had hitherto made no approach to him or shown any interest in investing in the power sector. He stated that in case the Bank considered that because of other bilateral interest in this field, there was no scope for Bank assistance, he would like to change this impression. Apart from a large program of rural electrification which the Government had initiated with USSR assistance, he had two large power projects (on which substantial technical work had been done) which might interest the Bank. One was to establish a large nuclear generating facility (complete with additional transmission and distribution set-up) which would feed power to the Canal Zone and meet the need for industrial power in cities in the Delta. Westinghouse had estimated the facilities to cost some LE 285 million, of which about 60 percent would be the foreign exchange requirements. This study had been "blessed" by experts from the International Atomic Energy Agency. The Minister promised to send relevant materials to the Bank (which he subsequently has). Besides this project, he wanted the Bank to get interested in the Quantara Depression proposal, which was expected to cost between LE 1 to 2 billion.

26. The Bank delegation inquired whether the power currently generated in Egypt, including from Aswan, was not more than enough to cover Egypt's needs up to 1980; besides this, our impression was that an additional 600 to 700 MW of cheaper hydro power was planned to be generated through the Cascades Project -- which was tied to the Aswan project. The Minister was somewhat vague in his response and felt that Egypt would need so much power in the next four to five years that the projects that he had talked about would have to be implemented.

27. The meeting then ended. It was followed by a private meeting between Dr. Hegazy and Mr. McNamara.

Cleared with and cc: Mr. G. Votaw

cc: Mr. McNamara's Office (2)

cc: Messrs. Benjenk (o/r), Wapenhans, Karaosmanoglu, Wyatt, Fuchs, Armstrong, Aiyer

ADavar/mj

22

MEMORANDUM FOR THE RECORD

DECLASSIFIED

NOV 30 2012

WBG ARCHIVES

EGYPT: Conversation with Dr. Hegazy

On Friday, March 1, 1974, Mr. McNamara visited Dr. Hegazy, Deputy Prime Minister in charge of Financial and Economic Affairs at his Cairo residence. Messrs. Benjenk and Sherif Lotfy, Undersecretary for Economy and Foreign Trade were present. The conversation dealt with Egypt's economic situation as seen by the Bank and the ways in which the Bank Group could help Egypt in its present attempts to start a new phase in its economic policy.

Mr. McNamara began by saying that his visit to Cairo had confirmed his view that Egypt had a tremendous potential for development. Its resources in terms of human leadership at all levels were far superior to those of most developing countries. This would make it possible for Egypt, on the assumption of peace, to absorb much greater quantities of investment capital than were presently available. On the other hand, Egypt's immediate situation was beset by three major problems which needed to be tackled immediately if Egypt's potential was to be fulfilled.

The first of these problems was the presence of too many competing claims on Egypt's limited economic resources, without any clearly established priorities. What was clearly essential at this time was the drawing up of a short-term development program for 1974 and 1975, which would set the country's priorities and match requirements with resources, particularly with foreign exchange resources. This was particularly urgent in view of the politically very pressing claims of reconstruction in the war areas which needed to be balanced against the needs of the rest of the economy. Some difficult decisions would have to be made.

The second of Egypt's pressing needs was to find ways to use to the full Egypt's productive capacity in industry and agriculture. He had heard estimates that unused capacity, due to the shortage of imported spare parts or the lack of minor additional investment, would soon be as high as 35%. The lack of foreign exchange had thus distorted the whole economy and it seemed obvious that a development program, matching needs and resources, would have to give first priority to the use of Egypt's existing capacity, ahead of using scarce foreign exchange for new investment.

The third point stressed by Mr. McNamara was Egypt's very difficult debt situation, particularly with regard to the growing short-term debt, such as bankers' facilities and short suppliers' credits, with which Egypt had hitherto financed a considerable part of its investment expenditure. Egypt could not become fully creditworthy until this situation was remedied. What was required was a plan which would first maintain at its present level and then gradually phase out this particular aspect of Egypt's balance of payments management.

Mr. McNamara then went on to say that, subject to the steps above being undertaken, and to the results of the forthcoming missions of the Bank and the IMF, he would be favorable to an expanded activity on the part of the Bank Group and, in particular, of the involvement of IBRD itself in the financing of Egypt's development, always assuming the prevalence of peace. As part of the Bank's involvement, and assuming conditions progress in the areas discussed above, he would be favorable to some program lending in order to contribute to

President has seen

the needed inflow of raw materials necessary to utilize more fully Egypt's idle productive capacity. Hopefully, this could be part of a package of foreign exchange, untied to projects, long-term and low interest in nature. He was hopeful that the United States might contribute to such a package and possibly other countries, as well as the IMF. These arrangements could be made for a first year and, subsequently, reviewed and repeated.

Dr. Hegazy thanked Mr. McNamara for his statement and said that he saw Egypt's problems very much in the same light as Mr. McNamara. Egypt was on the verge of important economic policy changes and he himself had asked President Sadat to make decisions on many matters related to the subjects which had just been raised. The President would soon make a speech to announce some of the new trends. Many matters of this kind were "on the President's table", pending this announcement.

Dr. Hegazy fully agreed with the need to set priorities in the allocation of resources. He would admit quite frankly that the Egyptian planning mechanism, as applied through the Ministry of Planning, was unsatisfactory and theoretical and that he needed additional authority to allocate funds among competing claimants. He, too, felt that the utilization of idle capacity should have high priority and had argued strongly until this had become more generally recognized. He urged Mr. McNamara not to be too worried after having heard the ambitious plans which each of the Ministers he had seen had described for their sectors; this was particularly true for the Minister of Reconstruction, who was a very able businessman in whom the President had confidence; but he himself recognized that not enough money was available for all his targets. In the end reasonable decisions would have to be made. Egypt would firmly embark on the path of greater liberalization, both in its foreign trade and in encouraging the private sector, while not abandoning a socialist philosophy.

Dr. Hegazy accepted that a Bank mission should come to Egypt in mid-April to further progress in the directions which Mr. McNamara had mentioned. He said Mr. Lotfy would be in charge of arrangements.

In reply to a question by Mr. Benjenk on the reliability of Egypt's economic statistics, Dr. Hegazy admitted that they left much to be desired, although a great deal of progress had recently been made through new laws standardizing the statistical presentation of budgets of ministries and enterprises. He asked Dr. Lotfy to do his utmost, before the arrival of the Bank's mission, to iron out discrepancies in the statistical presentations made to the Bank. Dr. Hegazy would rule himself on any discrepancies still outstanding when the Bank mission came.

Mr. McNamara asked whether any specific points should be made to the President in the forthcoming interview. Dr. Hegazy advised that Mr. McNamara should raise exactly the matters which he had raised with him.



M.P. Benjenk
March 6 1974

Mr. McNamara (2)
Mr. Knapp

23

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Montague Yudelman *my.*

SUBJECT: Possible meeting with Mr. Sayeed Marei

DATE: April 17, 1974

1. Mr. Clark suggested that I prepare a brief note on our work with Mr. Marei and the World Food Conference.
2. We were asked to work on four major items as a contribution to the basic document of the World Food Conference:
 - a) The Bank's lending for agricultural development;
 - b) The Bank and the CGIAR;
 - c) The fertilizer situation;
 - d) Credit and Agricultural Development.
3. The papers were prepared and delivered in Rome on schedule on March 29; they will be incorporated in a first rough draft of a basic document to be presented to the next meeting of the preparatory committee in June.
4. I believe that we can make a limited contribution to the success of the World Food Conference by strengthening the analytical document that will be the basis for the discussion at the conference. In line with this view we have been as forthcoming as possible with papers, data information etc. and suggestions on how to improve this basic document. However, in common with the other agencies assisting in preparing the document, the Bank has reserved the right to scrutinise the final draft of the analytical document and to modify or delete references which it finds to be unacceptable.
5. In discussion with Mr. Marei I have found that he is very much interested in rural development and the Bank's approach to this topic. [I have not had an opportunity to discuss this at any length with him]. Mr. Marei is also very much interested in stimulating the production of nitrogenous fertilizers in the Middle East.
6. Ed Martin advised me that Mr. Marei discussed this at length with him when he paid a call recently. Mr. Marei has also mentioned this to me and I believe he hopes to develop more interest in this idea in the next few months.

cc: Mr. W. Baum
Mr. W. Clark

MYudelman:lkt

President has seen

OFFICE MEMORANDUM

TO: Files

DATE: October 9, 1974

FROM: A. J. Davar ~~EMENA~~ CP1ASUBJECT: EGYPT - Meeting between Mr. McNamara and the Egyptian
Delegation to the Annual Meetings

1. The Egyptian Delegation (Dr. Amin, Minister for Economic Cooperation, Dr. Zandou, Governor - Central Bank of Egypt, Dr. Sowelem, Under-Secretary, AAIEC, Dr. El-Sorraf, Under-Secretary Finance Ministry and Mr. El Nahal, Minister, Egyptian Embassy) met with Mr. McNamara on October 3. Messrs. Knapp, Benjenk, Paijmans and Davar also participated. The principal points discussed are summarized below.
2. Mr. McNamara expressed his satisfaction at the steps being taken by Prime Minister Hegazy on key economic matters, particularly on the utilization of existing capacity in industry and agriculture, Egypt's external debt burden and the establishment of priorities for investments in full recognition of available resources. He referred to the exchange of letters between himself and the Prime Minister on these matters, in line with the discussions they had on the subject during his visit to Cairo in February/March. Mr. McNamara felt that Egypt had great assets which would help it to resolve the country's current problems. He added that the Bank was always willing to help those who wanted to help themselves, and in view of the efforts that Egypt itself was mounting to achieve its economic recovery, the Bank was quite prepared to contribute as much as it could to that effort.
3. Dr. Amin conveyed his Government's great appreciation of the understanding which Mr. McNamara and his staff had shown for Egyptian problems and for the cordial relations that now existed between Egypt and the Bank. He mentioned that the intermediate plan (July '74/December '75) had been completed and work on the Five-Year Plan (1976-80) commenced. The Government was continuing its policy of liberalizing the economy and taking steps to restrict the further growth of short-term debts.
4. In view of the increasing scope of the Bank's future activities and the expert technical advice which Egypt might need from time to time on economic matters, Dr. Amin then conveyed to Mr. McNamara, his Government's request for the establishment of a Bank resident mission in Cairo. He indicated that while the detailed terms of reference for such a mission could be commented upon by Egypt soon after they were received from the Bank, his Government was convinced that considerable benefits would flow to both Egypt and the Bank from such a mission. Mr. McNamara indicated that while he was receptive to the idea, he did not know whether the sort of expert technical advice which Egypt might need in the immediate year ahead, was best provided by a resident mission or by sending experts, when needed, from Washington. He would however consult with his colleagues and the Bank could then communicate with the Government on this subject.

5. Mr. McNamara then inquired about the level of aid commitments which Egypt might have received from OPEC countries. Dr. Amin responded that for 1974, Saudi Arabia had committed \$300 million, Abu Dhabi, \$250 million and Qatar \$50 million; the level of Kuwaiti assistance had still not been finalized. He hoped that this level of aid, would be repeated in 1975 and that it would continue, despite the reopening of the Suez Canal.

6. Mr. McNamara also asked about the progress of the study being done by Egypt on the tariffs that a reopened Suez Canal might charge. Dr. Amin at first thought that Mr. McNamara was referring to the Aide Memoire on the Canal's expansion plans, which Egypt was to send to the Bank. On being corrected, he responded that the tariff study was proceeding well, and took into account both the plans for the Canal's expansion and the building of the Sumed pipeline. However, the level of tariffs to be charged would ultimately be a "very high level policy decision". Mr. McNamara stated that he understood that, and his only concern was that the tariffs were fixed at a level which would maximize Egypt's earnings from the Canal, without turning away traffic to other routes.

7. Dr. Amin has been asked to prepare the investment budgets for 1975 and 1976. In this connection, he wanted to know the level of Bank/IDA assistance on which Egypt could plan. Mr. McNamara stated that as he had mentioned in his recent letter to Prime Minister Hegazy, on economic matters, the Bank Group was prepared to help Egypt with lending at a level of about \$200 million a year. Dr. Amin thanked Mr. McNamara and the Bank for its constructive help and the meeting ended on this cordial note.

Cleared with & cc: Mr. Paijmans

cc: Mr. McNamara
Mr. Ljungh (2 copies)

cc: Messrs. Knapp, Benjenk, Karaosmanoglu,
Wapenhans, Aiyer

AJDavar:js

BIOGRAPHICAL SKETCH

Dr. Abdel Aziz Hegazy
(Governor, IBRD)

First Deputy Prime Minister since April 26, 1974. He was originally appointed Minister of Finance in 1970 and Deputy Prime Minister for Economic Matters and Minister of Finance, Economy and Trade in February 1973. Prior to this he headed his own private firm of chartered accountants and has also been the Dean of the Commerce Faculty at the Ains Shams University. Dr. Hegazy is a budget and fiscal technician of first rank, both by training and experience, and holds a Ph.D. in Commerce from the UK.

Dr. Taher Amin
(Alternate Governor, IBRD)

Chairman, Agency for Arab and International Economic Cooperation since June 13, 1974. His previous appointment was that of Deputy Chairman, Egyptian General Organization for Industrialization (which is responsible for all foreign collaboration in Egyptian industry, including planning and supervision of projects until completion). Before joining GOFI, Dr. Amin was Professor of Commerce at Alexandria University. He holds a Masters degree in Commerce from Leeds University and is a qualified chartered accountant of the Institute of England and Wales.

Mr. Abdel Razak Abdel Meguid
(Advisor)

Undersecretary, Office of the First Deputy Prime Minister. Mr. Meguid was a staff member of the Bank between May 1970 and December 1973. A competent economist, he served with the UNDP in Ceylon before joining the Bank. He is a graduate of Oxford University and has taught Economics at the University of Texas.

Mr. Ahmed Zandou
(Governor, IMF)

Governor of the Central Bank. He has served previously in various Government capacities in finance, economics and industry affairs; becoming Minister of Economy before appointment to the Central Bank. Although not a trained economist, he is identified more as a technician than a politician.

Dr. Fuad Saraf
(Alternate Governor, IMF)

First Undersecretary, Ministry of Finance. Has been a career public servant throughout. Educated in Switzerland.

OFFICE MEMORANDUM

TO: Mr. William Clark

FROM: Julian Grenfell *JG*

SUBJECT: Mr. Ibrahim Nafie's Appointment with Mr. McNamara

DATE: January 17, 1969

You will doubtless want to give Mr. McNamara the following information about Mr. Nafie before he meets him at 2.45 p.m. today, January 17.

Mr. Nafie, Economic Editor of "Al Ahram", is near the end of his two-week visit to the Bank as the first participant in the Information and Public Affairs Department's new program to bring each year two or three senior journalists from the developing countries to the Bank to see at first hand how we operate.

Four days of his Washington program were lost when he succumbed to 'flu, but by the time he leaves for a visit to the U.N. next Wednesday, January 22, he will have had extensive briefings and discussions with appropriate Bank Area Department personnel and with the IFC, and will have attended several sessions of the E.D.I. General Development Course. He has been briefed by the IMF and had quite a lengthy talk with Mr. Schweitzer. He will be seeing Mr. Eugene Black in New York next week; they got to know each other well during the Suez Settlement negotiations.

To see the Bank at work in the field, he is going to Brazil for a week -- his personal choice of country -- before returning to Cairo. In this connection he has also visited the Inter-American Development Bank.

Mr. Nafie is 35 years old. He trained as a lawyer and then spent a period studying statistics at Berkeley, California. He worked for Reuters in Cairo between 1956 and 1960 before joining "Al Ahram". He covered the first UNCTAD Conference in Geneva in 1964.

R.M.C.N.

JPG:lmt

I met him on a trip to Cairo and he covered very well in deed. He is worth drawing out on Egyptian politics and economics, & will talk better than I will you.

W.D.C
(William Clark)