McNamara Papers

Travel brief - Midd[...]
Jan. 17-26, 1978

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F

F. Background Materials

1. CPP (current draft Attachment I -- 1977 CPP in separate folder)
2. The Political Situation
3. The Economic Situation
4. Foreign Assistance and Debt
5. Egypt's Relations with the IMF
6. Subject Briefs:

   (a) Summary of and Comments on 1978-82 Plan

   (b) The Monitoring System of the Investment Program (Adler Paper)

   (c) Background Note on Meetings with Bindary

EGYPT: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY83

($ million)

Population: 38.1 million (1976)
Per Capita GNP: $280 (1976)
Area: 1,002,000 sq. km
Literacy: 40% of Adult Population (1971)

		Through FY72	FY73	FY74	FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	Total FY69-73	Total FY74-78	Total FY79-83	Reserve Projects
Fruit and Vegetables Development I	IBRD					50.0 1/											
Agro-Industry/Fisheries	IDA									45.0							
Agro-Industry II	IDA												40.0*				
Nile Delta Drainage I	IDA	26.0															
Nile Delta Drainage II	IBRD						39.0 1/										
	IDA						27.0										
Drainage V	IDA											45.0*					
Upper Egypt Drainage I	IDA		36.0														
Upper Egypt Drainage II	IBRD					10.0											
	IDA					40.0											
Minufiya and Sohag Agricultural Development I	IDA							27.0									
Agriculture I (Unident.)	IDA										40.0*						
Agriculture II (Unident.)	IDA																40.0(FY82)
Agriculture III (Unident.)	IBRD												40.0				
	IDA												20.0				
Nile Barrage Reinforcement (Unident.)	IDA																20.0(FY83)
Rural Development I	IDA									30.0							
Rural Development II	IBRD											35.0					
	IDA											17.0					
Education I	IDA						25.0										
Education II	IDA								40.0								
Education III (Unident.)	IDA										50.0						
Education IV (Unident.)	IDA												40.0*				
DFC I (DIB)	IDA		15.0														
DFC II (DIB)	IDA					25.0											
DFC III (DIB)	IBRD							40.0									
DFC IV	IBRD									40.0							
DFC V	IBRD												50.0				
Misr Iran	IBRD										50.0						
Population I	IDA			5.0													
Population II	IDA								20.0								
Population III	IDA											40.0 *					
Agricultural/Industrial Imports I	IBRD				35.0												
	IDA				35.0												
Industrial Imports	IBRD						70.0										
Talkha Urea Fertilizer Engineering 2/	IDA			(0.4)													
Talkha Urea Fertilizer	IDA			20.0													
Tourah Cement	IBRD				40.0												
Textiles I	IBRD					52.0											
Textiles II	IBRD							16.0									
	IDA							40.0									
Cotton Ginning Rehabilitation Engineering 2/	IDA		(0.2)														
Cotton Ginning I	IDA			18.5													
Iron Ore Beneficiation Engineering 2/	IBRD						(2.5)										
Iron Ore Beneficiation	IBRD								58.0								
HADISOLB Rehabilitation	IBRD									50.0							
Industries I (Unident.)	IBRD									40.0*							
Industries II (Unident.)	IBRD										60.0*						
Industries III (Unident.)	IBRD											75.0					
Industries IV (Unident.)	IBRD												80.0				
Telecommunications I	IDA				30.0												
Telecommunications II	IDA							53.0									
Telecommunications III	IBRD										50.0*						
Urban Development I	IDA								30.0*								
Urban Development II	IBRD										50.0						
Urban Development III	IDA												50.0*				
Alexandria Water	IBRD						56.0										
Water Supply Engineering 2/	IDA							(2.0)									
Water (Secondary Cities)	IDA										47.0*						
Water/Sewerage (Unident.)	IDA											50.0					
Regional Electrification I	IBRD						48.0										
Regional Electrification II	IBRD								32.0								
	IDA								30.0								
Power Generation	IBRD											55.0					62.0 (FY79)
Power (Unident.)	IBRD																20.0 (FY80)
Energy I (Suez Gas)	IBRD																50.0 (FY82)
Energy II (Unident.)	IBRD																
Suez Canal	IBRD	56.5															
Suez Canal Rehabilitation	IBRD				50.0												
Suez Canal Expansion I	IBRD							100.0									
Railways I	IDA	30.0															
Railways II	IBRD				37.0												
Railways III	IBRD								60.0								
Railways IV	IBRD											50.0*					
Port of Alexandria Rehabilitation	IBRD					45.0											
Ports (Unident.)	IBRD									20.0							
	IDA									30.0							
Transport (Unident.)	IBRD																70.0(FY81)
Tourism I	IBRD									25.0*							
	IDA									5.0							
Tourism II (Unident.)	IBRD												60.0*				
LENDING PROGRAM	IBRD	56.5	-	-	162.0	157.0 1/	215.5 1/	156.0 3/	150.0	175.0	210.0	215.0	230.0	-	690.5	970.0	
	IDA	56.0	57.2	43.9	65.0	65.0	52.0	122.0	120.0	110.0	137.0	142.0	150.0	113.2	347.9	659.0	
	Total	112.5	57.2	43.9	227.0	222.0	267.5	278.0	270.0	285.0	347.0	357.0	380.0	113.2	1,038.4	1,629.0	
	Number	3	2	3	5	5	5	5	6	7	7	7	7	4	23	34	
	(of which IDA)	(2)	(2)	(3)	(1)	(1)	(1)	(2)	(3)	(2)	(3)	(3)	(3)	(4)	(8)	(14)	
Lending Program In Constant FY77 Dollars		--	76.1	53.9	260.9	238.2	267.5	259.1	235.0	231.7	263.7	253.6	252.2	179.3	1,079.6	1,236.2	
Commitment Deflator		--	75.2	81.5	87.0	93.2	100.0	107.3	114.9	123.0	131.6	140.8	150 7				
Standby Projects	IBRD							--	65.0	110.0	50.0	60.0	--				
	IDA							30.0	5.0	87.0	85.0	130.0	--				
	Total							30.0	70.0	197.0	135.0	190.0	--				
	Number							1	2	4	3	4					

1/ Third Window amount included in IBRD total.
2/ The engineering credits are not counted under the number of lending operations although their amounts are shown in the lending program.
3/ Planning assumption total Bank lending was $150 million. Since the Textiles II project, for $56.0 million, has been advanced from 79S to 78, in place of Urban Development I, programmed for $50.0 million, an extra $6.0 million is required.
* Standby projects.

EMIDA
December 13, 1977

1977 CPP -- SEE IN SEPARATE FOLDER.

2. The Political Situation

Prime Minister Salem, who was appointed in April 1975, was reappointed following the elections in November 1976. The new Cabinet incorporated an improved structure on the economic side: A Deputy Prime Minister for Economic and Fianacial Affairs (Dr. Káissouni) was appointed and the Ministers of Economy, Finance, Planning, and Foreign Trade were placed under him. Following the 1977 unrest, triggered by proposed reduction in subsidies, a change in government took place. However, the economic team was left in place. A new Minister of Planning (Dr. Abdel Meguid) was appointed in April 1977. He worked on the draft Five-Year Plan which was completed and delivered to the Bank during the Annual Meetings. After presenting the draft Plan to the Cabinet, he took up a position with the UNDP in New York. Dr. Kaissouni himself took on the planning portfolio. At the same time (October 1977) several other cabinet officer changes were announced. Most important for the Bank was the addition of the Industry portfolio to the former Minister of Petroleum, Ahmed Ezeddin Hilal. Minister Hilal has had a reputation for being active, decisive and forceful. The appointment reflects the importance the Government attributes to industrial sector. Also Major General Abdul Sattar was appointed as Minister of Transport, Communication and Maritime Transport. He too is known to be very forceful.

Prime Minister Salem is keenly interested in the Bank's involvement in Egypt, he took the decisive step toward the Bank Consultative Group and remains accessible to senior Bank staff, on occasion he has intervened personally; for example, to push for action on points of the economic management program, recently to maintain a negotiation schedule. Also we believe that the recent change in the Cabinet is a reflection of his keen and growing interest in the success of the development program.

President Sadat has liberalized political matters by permitting the creation of three forums (left, right, and center) for the elections of 1976. After the elections these three forums were turned into political parties. This liberalization of the political side has led to a more active role by the National Assembly in assessing and commenting on the Government's performance. This was very evident following the riots in January 1977 when the Assembly rejected the Government's budget and asked it to prepare a new one. Under these circumstances, the Government has had to act more circumspectly in taking actions that would impose an economic burden on the common man.

3: The Economic Situation

Overall Development

Between 1967 and 1973 Egypt's GDP in real terms grew only slightly faster than its population. However, since 1974 the growth rate has picked up very considerably. In part, this has been assisted by the freer availability of external assistance, the reopening of the Suez Canal, and the recovery of the Sinai oilfields. Real growth in 1974-76 has averaged about 9 percent annually, and the likelihood is that it will be of the same order of magnitude in 1977.

External Sector

Balance of Payments: Egypt's export earnings in 1976 were $1,612 million and its imports $4,214 million. After taking into account a surplus of $1,084 million on the invisibles account,1/ there was a deficit of $1,518 million on the current account. Repayments of $717 million had to be made on medium and long-term debt, together with other monetary movements, this left a total financing gap of about $2,600 million. This was met through Arab grants ($625 million), Arab deposits and loans to the Central Bank ($550 million), other medium and long-term loans ($760 million), suppliers' credits ($500 million) and miscellaneous sources, such as private transfers, private foreign investment, and a small movement in reserves. As a result, total non-military debt outstanding and disbursed at the end of 1976 stood at $5,858 million. In addition, banking facilities outstanding (including undisbursed) amounted to $2.4 billion; the disbursed and outstanding portion of this was $1,396 million, of which $453 million represented arrears.

The picture in 1977 appears somewhat better. The current account deficit is estimated at $1,655 million (exports $2,300 million, imports $5,450 million, surplus on invisibles $1,495 million) 2/ which in real terms is not higher than in 1976, but allows for a higher level of imports of capital goods for investment and raw materials to replenish inventories which had been somewhat depleted by the import squeeze of 1976. The financing plan also allows for a reduction of around $600-700 million in banking facilities. Together with the amortization of medium and long-term debts ($740 million) this necessitates a financing gap of about $3.2 billion. This is expected to be met by disbursements from the Gulf Organization for Development in Egypt of $1,225 million, medium and long-term loans of $1,200 million, Arab grants of $275 million, suppliers' credits $400 million, foreign private investment and miscellaneous of $100 million. A major move on reducing banking facilities has already been made. At end-1976 banking facilities disbursed and outstanding stood at $1,396 million, of which $453 million represented arrears. At end-September 1977, the disbursed and outstanding amount had been reduced to $788 million and the arrears had all been cleared.

1/ The major element in this was workers' remittances which (including the financing of "own-exchange imports") amounted to over $750 million.

2/ Workers' remittances are estimated at nearly $1,100 million.

The longer term prospects of the balance of payments are more promising. It is expected that foreign exchange earnings could grow at an average rate of around 10 percent per annum during the next few years. The main contributors to this increase would be exports of petroleum products (which are expected to double by 1980 from the current level of about $575 million), remittances from Egyptians working abroad (estimated to rise from about $1,100 million in 1977 to around $1,700 million by 1980), earnings from tourism, and the Suez Canal. Imports over the next three years are projected to grow at over 15 percent annually; they will be concentrated in items of capital equipment and intermediate products. This growth rate would be adequate to support a growth in GDP of between 7-8 percent annually in real terms, if an appropriate economic management program (as discussed, for example, in the Basic Economic Report) is adopted. With these developments the current account deficit is projected to remain in the vicinity of $2.2-2.3 billion in current prices, i.e. about $1.8-1.9 billion in 1977 prices. The debt service ratio is projected to decline from about 23 percent in 1977 to 17 percent in 1981.

Internal Sector

During 1977 a measure of progress was obtained on the external side. However, the internal sector also displays weaknesses which have to be tackled in the coming years.

Resource Mobilization

The domestic contribution to investment financing has been low in the last few years, but this does not indicate a problem of mobilizing revenues. Total public sector revenues in 1977 are estimated to be nearly 41 percent of GDP, with tax revenues nearly 30 percent. The problem, rather, is the fixity of certain large items of expenditure. The two major items of current expenditure are defense (11 percent of the GDP in 1977) and subsidies (13 percent). The first can only be reduced gradually and in the event of a major peace settlement in the region. The reduction of subsidies will also have to be carefully programmed, in view of the events of January 1977. Public sector investment in 1977 is put at LE 1,356 , or about 22 percent of GDP.

Income Distribution

Income distribution in Egypt is more egalitarian than in many countries as a result of active government policy since 1952. However, recent developments in the economy, coupled with the rapid rate of inflation since 1973, threaten to disrupt this situation. Many of the gains since 1973 have been made by income groups and activities that do not contribute commensurately to the national exchequer. Hence a reform of the taxation system is urgently required. Such a reform should stress direct taxes rather than indirect (which in general have a regressive impact), capital gains taxes, and taxes on items of conspicuous consumption.

According to estimates made by the Basic Economic Mission, the absolute poverty level in Egypt in 1975 in urban areas was about $540 per household per year while in rural areas it was about $390. This puts about 7.5 percent of the urban and 13 percent of the rural population below the absolute poverty level in that year. This underlines the importance of the subsidy system for the poorest segments of society. The pace at which the Government can move on the subsidy question will in large part be linked to maintaining the general income distribution prevalent in the past, at least in the immediate future.

The Public Finances. The revised 1977 budget estimates still show a substantial improvement over previous years. Total revenue receipts in 1977 are estimated at $7.6 billion, about $1.7 billion higher than 1976. This is almost entirely due to increased receipts from taxes on international trade which are expected to double from a level of $1.4 billion in 1976 to $2.8 billion in 1977. A major factor in this was the change in the basis of valuation of goods for customs purposes to the exchange rate applicable to that transaction (which has effectively raised the ad-valorem tariff on all goods, except capital goods and construction materials, imported through the parallel market or under the own exchange scheme by about 80 percent). Current expenditures are expected to increase more slowly to about $6.7 billion in 1977; about $675 million higher than 1976, due to the maintenance of subsidies and an increase in public economic sector deficits. Direct subsidies are expected to amount to almost $1,620 million in 1977 and public economic sector deficits to about $525 million i.e. a total of $2.15 billion compared to $1.42 billion estimated for 1976. The increase, however, is largely due to a change in the exchange rates applicable (now the devalued parallel market rate) to imports of certain subsidized commodities (or intermediate imports related thereto). In actual fact the number of 'supply' commodities available at subsidized prices during 1977 has been somewhat reduced by the elimination of the subsidy on coffee. In addition the subsidy on domestic consumption of cotton for better quality textiles has been eliminated.

SUMMARY OF STATE BUDGET
(in millions of US dollars)

	1974	1975	1976	Budget 1977
Current Revenue	3,658	4,549	5,913	7,642
(Taxes on Int. Trade)	(592)	(1,024)	(1,377)	(2,836)
Current Expenditures	3,622	5,245	6,072)	6,748
(Public Economic Sector Deficits)	(207)	(238)	(304)	(525)
(Subsidies)	(1,055)	(1,592)	(1,110)	(1,618)
Current Account Balance	36	-696	-159	894
Investment Expenditure	1,469	2,209	2,508	3,470
Overall Balance	-1,433	-2,905	-2,667	-2,576
(Borrowing from the Banking System)	(804)	(2,048)	(1,032)	(1,213)

11. Positive features of the behavior of Egypt's public finances during 1977 include: (i) increases in public resource mobilization (discussed above); (ii) an increase in public investment expenditures (the real increase is somewhat less because of the shifting of public sector capital good imports to the parallel market); and (iii) the establishment of credit ceilings (in agreement with the IMF) under which the net claims on government by the banking system would not increase by more than $900 million in 1977.

Egypt - Performance of Selected Indicators of Economic Management

1974 - 1977

GDP	1974	1975	1976	1977
GDP at current prices - factor cost (£E million)	4,111	4,779	5,455	6,300 1/
Annual Growth Rate (%)	–	16	14	15
GDP at 1965 market prices (£E million)	3,165	3,448	3,770	4,100 1/
Annual Growth Rate (%)	8.2	8.9	9.3	9.0
Per Capita GNP (Atlas Methodology) $	230	260	280	–
Income Distribution				
Share of lowest 40% of Population in GDP (%)				
- Rural	–	25	–	–
- Urban	–	21	–	–
Percentage of Population below Absolute Poverty Level				
- Rural	–	13	–	–
- Urban	–	7.5	–	–
Balance of Payments				
Exports, f.o.b. ($ million)	1,674	1,568	1,612	2,300
Imports, c.i.f. ($ million)	-3,475	-4,329	-4,214	-5,450
Balance on Goods and Services ($ million)	-1,632	-2,480	-1,519	-1,655
As % of GNP	(15.6)	(20.6)	(10.5)	(9.9)
Official Exchange Rate (£E1 = $)	2.56	2.56	2.56	2.56
"Parallel Market" Rate (£E1 = $)	1.70	1.57	1.50	1.43
Implicit Devaluation of the £E (%)				
Exports of Goods and Non-factor Services	–	6.3	6.7	14.1
Imports of Goods and Non-factor Services	–	3.0	14.9	27.4
External Indebtedness				
External Assistance (Disbursed) ($ million)	1,741	3,483	2,436	3,500
MLT Debt Outstanding & Disbursed ($ million)	2,760.0	5,101.2	5,858.3	8,700.0
MLT Debt Outstanding (including Undisbursed) ($ million)	3,860.5	6,928.8	8,349.5	–
Debt Service Ratio (%) 7/	31.3	21.5	25.5	19.8
Outstanding Bank Credit Facilities ($ million)	1,080.5	1,169.5	1,396.0	788.5 5/
(of which Arreas)	(-)	(32.9)	(452.9)	(-)
Public Finance and Money				
Public Sector Revenues (£E million)	1,184	1,524	2,015	2,600 2/
As % of GDP	(28.8)	(31.9)	(37.0)	(41.4)
Tax Revenues (£E million)	683	948	1,252	1,848 2/
As % of GDP	(16.6)	(19.8)	(23.0)	(29.5)
Public Sector Current Expenditures (£E million)	1,379	1,765	2,069	2,331 2/
As % of GDP	(33.5)	(36.9)	(37.9)	(37.2)
Defense Expenditures (£E million)	338 4/	587 4/	756 4/	695 2/ 4/
As % of GDP	(8.2)	(12.3)	(13.9)	(11.1)
Expenditures on Subsidies (£E million)	493	715	553	837
(Supply Commodities)	(329)	(491)	(322)	(437)
(Public Authority Deficits)	(81)	(93)	(119)	(205)
(Other)	(83)	(131)	(112)	(195)
Total Subsidies as % of GDP	(12.0)	(15.0)	(10.1)	(13.3)
Public Sector Saving (£E million)	50	12	241	654 2/
As % of GDP	(1.2)	(0.3)	(4.4)	(10.4)
Public Sector Investment (£E million)	574	863	980	1,356 2/
As % of GDP	(14.0)	(18.1)	(18.0)	(21.6)
Overall Public Sector Deficit (£E million)	560	1,135	1,042	1,007 2/
(Deficit Financed by Banking System)	(314)	(800) 3/	(403)	(474)
Maximum Interest Rate on Fixed Deposits (%)	4.00	4.00	5.00	6.00 6/

1/ Preliminary estimates
2/ Revised estimate
3/ Adjusted for the inclusion in the monetary accounts of foreign correspondent bank credit facilities for the first time in 1975
4/ Defense Expenditures including Emergency Fund deficits
5/ As of September 30, 1977
6/ As of March 1, 1977
7/ Ratio of MLT debt service as a percentage of exports of goods and non-factor services, and workers remittances.

December 16, 1977
EMIDA

Updating Note on Current Economic Situation

1977

I. Overall Assessment

The picture portrayed in the Briefing Book on the basis of 6-9 months 1977 figures remains valid, and Egypt ended 1977 in much better economic shape than it had started the year, especially on the foreign exchange side. At the start of 1977, Egypt's economy had just passed through a year in which imports had been squeezed, there was uncertainty regarding external assistance, inventories had been depleted, and short-term debt (banking facilities) disbursed and outstanding had risen to nearly $1400 million of which about $450 million represented arrears of repayment. During 1977, however, there were large commitments and disbursements of external assistance; imports were at a comfortable level (almost in line with the Bank's projections as presented to the Consultative Group); inventories were substantially rebuilt; and at end-November, banking facilities disbursed and outstanding had dropped to $685 million, which is a further reduction of about $100 million from the September figure. Also no arrears were incurred. Moreover, a substantial aid pipeline (especially for projects) has been built up for disbursements in the future.

As discussed in your Briefing Book, there has been less progress on the internal side. Initial attempts to rationalize prices and strengthen domestic resource mobilization had led to food riots in January 1977, and thereafter the Government has been extremely circumspect in all overt dealings with the issue of prices and subsidies. There was only a small improvement towards raising prices of items produced by the public sector, subsidies were largely untouched, and at year-end the major tax bills still remained under discussion by the Cabinet and the People's Assembly.

II. Macro-Economic Development

The Ministry of Planning has not completed its review of 1977 and thus estimates for the year are not available from any official source. However, we have obtained data for 9 months on the major magnitudes, and after discussions with other agencies such as the Ministry of Finance, the Central Bank, the Ministry of Agriculture, the EGPC, etc. the following picture emerges.

The real growth of GDP in 1977 is likely to be in the neighborhood of 7%, with agriculture growing at 1.5-2%, industry, petroleum and mining at around 8%, and services at around 8-10%. Agricultural growth certainly, and industrial growth probably, fell short of expectations, whereas petroleum production was on target, and services will probably exceed expectations. The overall investment performance is estimated at L.E. 1400 million, which is in line with the target. The savings ratio is likely to be more or less the same as 1976, i.e. in the neighborhood of about 10% of GDP.

III. Balance of Payments

This assessment is based on 9 months (January - September) data provided by the Central Bank and 11 months data from the Foreign Exchange Budget.

The outcome of the Trade Accounts is generally in line with the Bank's projections. Merchandise exports during 1977 are estimated at about $2160 million (about $140 million less than our projection) but still a considerable improvement over the 1976 figure of $1612 million. Merchandise imports are estimated at $5375 million (including $725 million of own exchange imports). There is some uncertainty about the capital goods imports because of inconsistencies between the Foreign Exchange Budget and Central Bank data, but using the latter we have estimated it at about $1200 million.

The Services Account did better than expected, largely as a result of the doubling in official earnings from workers' remittances (i.e. excluding the counterpart of own exchange imports). Official workers' remittances during 1977 are now estimated at about $700 million compared with $358 million in 1976; including the own exchange component the figures would be about $1425 million in 1977 as against $757 million in 1976.

The outcome of the capital account is also likely to be in line with our projections. The most encouraging feature is the large decrease in outstanding foreign short-term credit facilities of about $800 million. This reflects in large part the effectiveness of the aid package put together for Egypt and also the efforts made by Egypt to mobilize additional foreign exchange resources, for example, $210 million through the issue of development bonds. Egypt's creditworthiness for short-term external financing has thus been enhanced by these developments. When Egypt sought its traditional cotton pre-financing (about $100 million, for 6-8 months), 8 foreign banks submitted bids with the highest interest rate being 5/6 of 1% over LIBOR. (the rate finally accepted was 5/8 of 1% over LIBOR).

Medium and long-term debt at end 1977 could reach $8 billion as we had expected. However, a substantial part of this increase would be due to the replacement of short-term debt.

1978

I. The Budget

The 1978 Budget expects somewhat higher tax revenues, largely as a result of the revised income tax law which is expected to be approved by Parliament towards the end of this January. Current expenditures also continue at a high level, total subsidies, including public sector deficits, are projected at $2.1 billion i.e. the same level as 1977; therefore the Budget does not reflect any immediate or certain change in policies or in repricing system for 1978. This lack of movement is disappointing but it is likely to be of greater consequence to the IMF program than to assistance from other sources. On the other hand, any drastic improvement may be difficult to achieve under prevailing political circumstances.

The group of Economic Ministers indicated that during the course of the year there may be changes in subsidy policies and some increases in the prices of public sector products. It is possible that some change in policies may indeed occur, for example, until recently, the prices of 88 industrial commodities, which accounted for around 55% of the value of total industrial production, have been controlled. A ministerial Decree (Number 1031 of 1977) was issued on December 29, 1977 permitting the prices of 25 of these products to be set by the producing companies, as long as they remained below the corresponding import prices. We still do not have the relative share of industrial production that these 25 commodities represent /1. In addition, prices of some of the commodities that remain under control, such as the various grades of cotton yarn and cotton textiles, have also been increased (Ministerial Decree Number 39 of 1978, dated January 15, 1978).

II. The Balance of Payments

The Government's projections for the trade accounts in 1978 are disappointing; the deficit is estimated at \$4.6 billion, i.e. \$1.4 billion higher than the expected outcome in 1977. The major reason for this is a stagnation of exports, expected to amount to \$2.3 billion. All merchandise export sectors (except petroleum) show significant declines in real terms. A drop of 50% is expected in cotton exports. This to some extent is a policy decision since we understand that the planned cotton acreage for the coming crop has been reduced to 1.2 million acres compared with 1.42 million acres actually planted in the last crop year. Whether even the reduced target of acreage will be attained depends upon the prices to the farmers, which are still being discussed. The merchandise export problem is complicated by the possible disruption of trade with the Eastern Bloc, particularly with the Soviet Union. If trade relations with the Soviet Union are broken off, we estimate that about \$350 million of non-oil exports will have to be re-directed. The expected doubling of petroleum exports to about \$1050 million is the only bright spot and emphasizes the rapid shift of Egypt towards becoming an oil-exporting economy.

The estimated merchandise import bill at \$6.9 billion is nearly \$1.5 billion higher than in 1977. The major components of the increase are \$750 million in intermediate goods and \$600 million in investment goods (to support the larger investment program as outlined in the 1978 Plan). The import program presented by the Government appears ambitious. We hope that the Government will be able to achieve its import target since most of the increase comes from the import of capital goods and intermediate products. However, our own projections are somewhat more conservative.

/1 However, some of the more significant items are the following: iron pellets, alluminum products, plastic products, tractors, trucks, tires, radios, telephone sets, and some chemicals.

The Services Account is expected to be in surplus by about $1.9 billion with the main increase coming from higher - and realistic - estimates of workers' remittances and the Suez Canal revenues. The total deficit on goods and services for 1978 on the basis of the Government's Foreign Exchange Budget thus comes to about $2.7 billion.

The Government of Egypt therefore estimates total foreign exchange requirements for 1978 at about $3.4 billion, ($2.7 billion deficit on goods and services plus $0.7 billion as amortization of debt). The Government further estimates that if project and commodity aid commitments continue at the levels achieved in 1977, the remaining deficit will be in the order of $1.2 billion. While a part of this deficit could be filled through the Government's own efforts of raising foreign exchange development bonds (estimated at $500 million) it is likely that cash assistance will be sought for the remainder from GODE and other countries.

The Plan

The Five Year Plan (1978-82) has been approved by the Council of Ministers and submitted to the People's Assembly. So far only the first year, i.e. 1978, has been approved by the Assembly (the Constitution requires the existence of an Annual Plan). It is expected that the remaining four years will be discussed after Parliament reconvenes towards the end of January and that the Plan will be approved during the current Parliamentary session. During our discussions the economic team of Ministers emphasized the desirability of commitments from the major donors to providing an adequate level of support for the five years of the Plan, and to making some sort of commitment to this effect at the start of the Plan; this would presumably mean that the Government would like to achieve this goal during the Consultative Group Meeting. We pointed out the difficulties of securing commitments on aid from legislatures for such long periods, but the topic may well be raised in your meetings.

The Annual Plan (1978) aims at a GDP target of L.E. 7.8 billion in current prices ($20 billion at the official exchange rate).

This represents a growth of around 8% in real terms. The Plan projects an increase in real investment of about 16% in 1978 compared with 1977.

The largest shares of investment are allocated to transport and telecommunications (28.9%), and to Industry and Minerals (28.4%). About 68% of the 1978 public investment allocations are intended for the completion of ongoing projects, while another 18% is for rehabilitating existing facilities.

Population

Recently available data on population growth in Egypt in 1976 indicates a rate of population growth of 2.58% compared to the average of 2.31% estimated for the entire intercensal period (1966-1976). This increase in the rate of population growth has aroused considerable concern in Government circles (particularly in Dr. Kaissouni's economic group) and makes the Bank's insistence on a population program even more critical.

The draft population strategy and action program that was to be completed by end 1977 has not yet reached that stage; it is expected to be completed in the months ahead.

Major Issues

The National Development Bank

A significant proposal presented by the Minister of Finance in his Budget Speech was that of establishing a National Development Bank (NDB). As proposed, the NDB will hold all Government equity in corporate bodies and act as a development bank for public and semi-public enterprises. It will also appraise all proposed projects and supervise the implementation of those approved. The share capital of the NDB is proposed to be held entirely by the Government, but NDB will have the right to raise finances from all available sources including offering shares in ventures controlled by it to the private sector. The draft law which would establish NDB, proposes that the NDB be under the jurisdiction of the Minister of Finance.

The NDB should fill a vacuum which has existed in the public sector since the abolishment of the "General Organizations" (holding companies organized by sector in 1974), and it is recommended that the Bank Group support the creation of the Organization and assist in the training of its staff. The following factors, however, remain a matter of concern: (1) after the abolishment of the "General Organization" an autonomous agency to look after the financial affairs of public companies was created in the Ministry of Finance with extremely qualified staff (including over a hundred accountants and financial analysts) almost all of whom were concerned with top financial management in the old "General Organization". The Agency was expected to form the nucleus of the NDB. Since Jan. 1, 1978, however, it has been suddenly disbanded (because of inter-personal rivalries to head the new organization) and all functions transferred to individual departments (budgeting, accounting, financial control etc.) in the already over-burdened Ministry of Finance. It is therefore extremely probable that by the time the NDB is created most of its potential qualified staff would have disappeared. This should be avoided if the NDB is to start on a sound footing. (2) As proposed, the NDB will have limited autonomy and be under the absolute control of the Minister of Finance with its Board of Directors comprising Under-Secretaries of economic ministries.

An autonomous board headed by an experienced financier with the rank of an ex-officio Cabinet Minister would perhaps be the most appropriate form of organization for the NDB.

The Economic Consequences of Peace

This is a subject that is prominent in the minds of many people in Cairo. It has been touched upon in a number of our meetings, both with Egyptian officials as well as foreign assistance agencies. We understand that the Foreign Ministry has been asked to revise and update some studies on this subject which it had conducted earlier. It is obviously too early to provide any definitive answers because, among other things, the type of benefits that are likely to be derived will depend on the type of peace that is finally negotiated, and will include its acceptability not only to the confrontation states, but also the "banker" states such as Saudi Arabia and Kuwait. Subject to these caveats, our overall assessment is that a very quick change in economic fortunes cannot be expected, for the reasons discussed below.

Defence expenditures, including the deficit on the Emergency Fund, remain large, in the neighborhood of L.E. 600 - 700 million since 1974; this is about 10-13% of the GDP. However, the major part of this expenditure is for salaries and it is difficult to envisage that a large-scale demobilization could quickly be introduced. First, the corps of professional officers is a major mainstay of the regime, and in fact a number of pay increases have been given to it in recent years. Second, the size of the armed forces is estimated at about 6-7% of the civilian labor force (i.e. about 600-700,000); a major demobilization would hence put large numbers on to the labor market. Third, it is understood that as much as one-third of the army may consist of university graduates, while many "other ranks" also have education of some kind; hence large-scale demobilization could affect a particularly articulate group. For these reasons it would appear that a reduction in the size of the army could only be phased in gradually, and thus there would be only minor savings in expenditure on salaries in the short-run.

On the other hand, and increasingly in the last 3 or 4 years, the burden of defence purchases has been borne by the capital-surplus Arab countries, with the payments being made directly to the manufacturers. The capital-surplus states also make substantial annual contributions to the Emergency Fund. In the event of a peace agreement, it is likely that this support will be reduced and that it will not necessarily be switched into development assistance for Egypt.

It is sometimes argued that conditions of peace would bring about a rush of private investment to Egypt. We are somewhat skeptical of this view. First, it has been repeatedly said to us that it has been clear to most observers of the Middle East that another Egypt-Israel war after 1973 was extremely unlikely. The main reason adduced was the re-opening of the Suez Canal, and the reconstruction and resettlement of the Suez Canal Zone, (which had always been the front-line in hostilities) as a major growth pole for the Egyptian economy. No country, it is argued, would encourage hundreds of thousands of people to return to an area from which they had been evacuated in the previous wars, if the intention were to have another one. Nor does it make sense to offer a major segment of the economy (namely the reconstructed Suez Canal Zone) as a hostage if another war is in the country's calculations. In fact, we were repeatedly told these developments were the clearest non-verbal signal that Egypt could give to Israel and the world that she did not contemplate engaging in further hostilities. Thus, while the difference between a de facto and a de jure peace arrangement is no doubt important, under the circumstances outlined here it may still not make a decisive difference to the plans of investors.

We take the view that foreign private investment has been slow in coming to Egypt for three main reasons. First, some of the financial terms concerning investment in Egypt, such as the exchange rate at which profits and capital could be repatriated, were ambiguous in the investment laws. There has been some attempt to clarify the situation, but it is not certain that the attempt has been completely successful. A second and more fundamental reason is the state of the infrastructure. The state of telecommunications, the interruptions in the power supply, the bottlenecks in the construction capacity, the pressure on the port, all contribute to a situation in which frequent and expensive delays and breakdowns occur, and thus decrease the attractiveness of Egypt for investment. Third, in spite of attempts to improve the working of the bureaucracy, it still remains extremely cumbersome and slow-moving, and adds other frustrations to investors.

We have no doubt that Egypt will continue to make progress in rectifying the situation, but it will undoubtedly take time and may not be appreciably accelerated by the signing of a peace agreement.

However, there are some areas in which a start could be made in deriving economic benefits. We were told that during a state of war, combat units and support formations in the war zone are given extra pay. With the ending of the state of war, it may be possible to effect some savings in this area. Moreover, with decreased tension, expenditure on training, war games, etc. could also be somewhat reduced. Further, some parts of the army could possibly be used for development purposes, especially construction; this is vitally important because the construction industry is beginning to act as a bottleneck to the implementation of investment plans. Even with the cost of training, we feel that this is an area in which the army could have a significant development role. However, the most important immediate consequence to the economy of the peace may, in fact, be that it would enable the major policy-makers, from President Sadat down, whose time has been almost exclusively devoted to questions of defence and foreign affairs, to turn their attention towards domestic economic matters.

Finally, another implication of a peace arrangement which must be mentioned is the possibility of a short-term rise in consumption. It was emphasized to us in discussions that while serious analysts of the Egyptian economy might realize that peace was unlikely to bring instant prosperity in its wake, this was not understood by the bulk of the people. Thus, if the peace agreement were not followed fairly quickly by an amelioration in the standard of living, there may be political difficulties for the Government. Hence, not only is it likely that the Government would not undertake any major moves in 1978 to introduce austerity, but also that major aid donors might find it necessary (or expedient) to provide assistance of a volume and type that would enable the Government to quickly pass on some benefits to the bulk of the people. The latter part of this argument, of course, has implications for the sort of aid request to be presented to the Consultative Group this year.

4. Foreign Assistance and Debt

The Financing of Egypt External Deficit

1. Egypt's substantial foreign exchange requirements in the post-1973 period have been financed almost entirely through external assistance, and in the earlier years (1973 and 1974) through short-term borrowing. The major characteristics of aid patterns in this period involve: (i) massive volumes of (largely cash) assistance from Arab countries; (ii) increased commitments from western countries and international institutions; and (iii) the virtual termination of assistance from the USSR. Aid patterns have, however, not been consistent. This has been particularly true of Arab assistance which has not only changed in character (from grants to loans on concessional terms) but has also fluctuated in relative magnitudes (the relative drop in 1976 led to the accumulation of substantial arrears on foreign payments). Egyptian authorities have accordingly sought to institutionalize foreign assistance to Egypt. On the Arab front this has resulted in the creation of the Gulf Fund for the Development of Egypt (GODE), and internationally it has taken the form of a Consultative Group on Egypt under the sponsorship of the Bank Group, comprising major western and Arab countries and international and bilateral institutions (including GODE) as members.

Table I: FINANCING OF THE EXTERNAL DEFICIT
(In Millions of US Dollars, Current Prices)

	1973	1974	1975	1976	Est. 1977
A. Deficit on Goods & Services	-654	-1,632	-2,480	-1,518	-1,655
B. Financing of the Deficit	654	1,632	2,480	1,518	1,655
Arab Grants	725	1,264	988	625	275
Arab Deposits/Loans CBE 1/	..	..	1,580	550	250 3/
Arab MLT Capital, Net	..	5	17	50	1,300 4/
Other MLT Capital, Net	40	-152	340 2/	307	550
Suppliers Credits, Net	-117	- 12	83	87	-30
Short-term Comm. Bank Credits, Net	352	585	-265	- 5	-500
Others, Net (inc. Mon. Movements and Balance of Payments Agreement, Net)	-346	- 58	-263	- 96	-190 5/

1/ Including loans guaranteed by Arab countries.

2/ Includes $320 million cash loan by Iran.

3/ Eurodollars loan guaranteed by the Gulf Fund for the Development of Egypt (GODE).

4/ Includes $1,225 million from GODE.

5/ Provisional

2. <u>Arab Aid</u>: Actual transfers amounted to an estimated $725 million in 1973; $1,269 million in 1974; $2,585 million in 1975; $1,225 million in 1976 and $1,825 million (expected) in 1977. The sharp drop in magnitude of assistance in 1976 and also the increasing change in its character (from largely grant to concessional loan assistance) was accompanied by the creation of GODE in November 1976. Initially this was perceived as a hardening of Arab assistance attitudes to Egypt -- GODE was expected to disburse its funds largely as project assistance over a five-year period.

3. The Gulf Organization for Development in Egypt (GODE) was set up in 1976 with a capital of $2 billion; the shareholders were Saudi Arabia 40 percent, Kuwait 35 percent, United Arab Emirates 15 percent, and Qatar 10 percent. In 1976 GODE committed $250 million in cash, which was disbursed in January 1977. At the Consultative Group meeting the organization made a further commitment of $1,475 million, to be disbursed in two or more tranches. The first tranche of $825 million has been disbursed and was used to pay off arrears on banking facilities. Of the second tranche of $650 million, the first installment of $100 million has been disbursed and was used to pay off banking facilities ($70 million) and for purchases of wheat ($30 million). The remaining $550 million is to be used for the import of an agreed list of goods which cover four main sectors: (i) Agriculture: machinery, fertilizer and pesticides; (ii) Transport and Communication: list to be prepared; (iii) Construction: reinforcing steel, cement and timber; and (iv) Industry: machinery. An agreement covering the procedures and methods of disbursement has been prepared by Morgan Stanley and sent to the Government of Egypt and GODE for signature.

4. <u>Soviet Assistance</u>: The deterioration in Egypt's economic relations with the Soviet Union is reflected in the slowing down of disbursement under Economic and Technical Cooperation Agreements, the almost complete withholding of suppliers' credits, and the heavy repayments on these two accounts. As a result net capital movements from Soviet Union to Egypt changed from an inflow of about $38 million in 1972 to a net outflow of about $228 million in 1974, about $67 million in 1975 and about $148 million in 1976 (data for 1977 are not yet available).

Table II: Net Capital Movements: Egypt and the USSR, 1972-76

(in millions of US dollars)

	1972	1973	1974	1975	1976
Balance of Economic and Technical Agreements Accounts	50	63	-183	-41	-175
Balance on Suppliers' Credits Accounts	-12	-53	-45	-26	27
Overall Balance	38	10	-228	-67	-148

5. Western Economic Assistance (particularly from the United States) and aid from multilateral organizations has, on the other hand, become increasingly important in terms of commitments; although disbursements (except for the IMF and the program aid component of World Bank and United States assistance) were slow.

6. These commitments have, however, led to the creation of a substantial aid pipeline for future years.

Table III: M and LT[1/] Loans: Commitments from Western Countries and Multilateral Institutions, 1973-77

(in millions of US dollars)

	1973	1974	1975	1976	1977 (Est.)
World Bank	..	85.0	77.0	157.0	303.5
IDA	74.9	55.0	55.0	40.0	64.0
IMF	47.0	48.0	..	67.0	150.0
Italy	..	..	..	..	41.0
France	..	40.0	81.4	113.0	115.0
Germany	59.1	83.1	99.8	91.4	111.0
Japan	11.3	22.7	178.6	39.2	..
Netherlands	..	..	4.4	17.4	11.0
United Kingdom	24.5	..	..	..	73.0
United States	..	..	401.0	694.0	900.0
Iran	..	..	320.0	..	..

1/ Excludes Suppliers' Credits

7. External Indebtedness: At end-1976, the short-term disbursed and outstanding stood at $1,395 million, including about $453 million in arrears. As a result of mobilizing assistance from GODE, raising $250 million from a consortium headed by Chase Manhattan, and mobilizing about $200 million through the sale of development bonds (mainly to Egyptians holding foreign exchange), the short-term debt picture was much improved during the year. At end-September 1977, the short-term debt disbursed and outstanding amounted to about $790 million, and the arrears had been cleared. A further reduction of short-term indebtedness is part of the Egyptian authorities' financing plan, but its success is to a large extent contingent on the agreement that is reached with GODE regarding the disbursement of the latter's second tranche.1/

8. MLT Debt: The large inflows of MLT external assistance have resulted in a substantial increase in Egypt's indebtedness. Egypt's non-military medium and long-term debt outstanding and disbursed at December 31, 1976 was $5,858 million, over twice the amount of $2,760 million, outstanding at end-1974. Government MLT debt amounted to $3,175.3 million, MLT deposits with the Central Bank $1,966.8 million and suppliers' credits $715.9 million. The major creditors were Saudi Arabia and Kuwait, followed up by USA, USSR and Germany (Fed. Rep. of). Debt service on medium and long-term debt was $897 million in 1976, thereby giving a debt service ratio of 28.7 percent. The foregoing figures do not include Eastern bloc military debt; the service on this debt (estimated at $4 million) is understood to have been suspended.

9. If the external financing plan anticipated for Egypt during 1977 is realized, total MLT outstanding and disbursed could reach $8 billion. However, this substantial increase in indebtedness during the year is also due to the anticipated replacement of short-term debt obligations of up to $700 million by corresponding amounts of MLT debt on concessionary terms.

10. The debt service ratio 2/ is estimated at about 22.8 percent in 1977, and is projected to decline to 16 percent in 1980. The Bank Group's share in total medium and long-term debt is expected to rise from 3.6 percent in 1977 to 6.6 percent in 1980, while its share of debt service will increase from 0.7 percent to 3.7 percent between these dates.

1/ See the note on GODE above.

2/ Ratio of medium and long-term debt service (amortization and interest) to exports of goods, nonfactor services, and workers' remittances (excluding own exchange imports).

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

(In Millions of US Dollars)

	Actuals			Est.			Projected	
	1974	1975	1976	1977	1978	1979	1980	
TRADE BALANCE	-1,817	-2,929	-2,602	-3,150	-3,662	-4,299	-4,980	
Exports, f.o.b.	1,674	1,568	1,612	2,300	2,788	3,212	3,811	
(Cotton)	(663)	(370)	(312)	(525)	(505)	(553)	(593)	
(Yarn and Textiles)	(366)	(477)	(301)	(333)	(371)	(418)	(472)	
(Petroleum)	(104)	(164)	(269)	(575)	(910)	(1,065)	(1,360)	+785
Imports, c.i.f.	-3,491	-4,497	-4,214	-5,450	-6,450	-7,511	-8,791	
(Food)	(-991)	(-914)	(-1,036)	(-1,118)	(-1,290)	(-1,517)	(-1,826)	
(Intermediate Goods)	(-1,301)	(-1,750)	(-1,209)	(-2,351)	(-2,575)	(-3,013)	(-3,542)	
(Machinery & Equipment)	(-480)	(-728)	(-840)	(-993)	(-1,180)	(-1,395)	(-1,642)	
NON-FACTOR SERVICES, NET	110	148	591	822	973	1,150	1,489	
Receipts	434	629	1,152	1,550	1,878	2,172	2,637	
(Suez Canal)	(..)	(85)	(312)	(341)	(368)	(410)	(583)	+242 ✓
(Travel)	(266)	(332)	(465)	(642)	(762)	(901)	(1,061)	+419
Payments	-324	-481	-561	-728	-905	-1,022	-1,148	
FACTOR SERVICES, NET	75	301	493	673	880	967	1,104	
Receipts	292	621	828	1,080	1,275	1,466	1,686	
(Workers' remittances)	(189)	(367)	(358)	(430)	(525	(1,466)	(1,686)	+606
(Finance for own Exchange Imports)	(16)	(168)	(399)	(650)	(750)	(..)	(..)	
Payments	-217	-320	-335	-407	-395	-499	-582	
(Interest on short-term debt)	(-112)	(-198)	(-146)	(-170)	(-90)	(-100)	(-100)	
(Interest on MLT debt)	(-95)	(-111)	(-180)	(-237)	(-290)	(-380)	(-460)	
BALANCE	-1,632	-2,480	-1,518	-1,655	-1,809	-2,182	-2,387	

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BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

(In Millions of US Dollars)

	Actuals			Est.	Projected		
	1974	1975	1976	1977	1978	1979	1980
Deficit on Goods & Services	-1,632	-2,480	-1,518	-1,655	-1,809	-2,182	-2,387
Amortization of MLT Debt	-631	-476	-717	-740	-555	-567	-713
(of which suppliers' credits)	(-285)	(-281)	(-414)	(-427)	(-200)	(-210)	(-285)
Foreign Exchange Requirements	2,263	2,956	2,235	2,395	2,364	-2,749	-3,100
Supply of Funds	2,091	2,934	2,208	2,310	2,725	3,140	3,435
Private unrequited transfers	42	91	87	..	..	..	..
Official Grants	1,264	988	625	275	175	175	175
Gulf Fund for Egypt Dev.	..	..	..	1,225	1,140	800	580
Other MLT Loans	199	552	760	950	1,625	1,600	1,930
Suppliers' Credits	273	363	501	400	435	465	500
M&LT Deposits/Loans CBE	5	1,580	550	250	..	..	..
Foreign Investment	7	10	60	100	150	200	250
Short-term Commercial Bank Credits, Net	585	-265	-5	-700	-650	-100	..
Other Monetary Movements, Net including balances on Bilateral Agreements	-284	-385	-370	-190	..	..	..
Change in Reserves	-172	-22	-27	- 85	361	391	335

DEBT AND CREDITWORTHINESS

	Actuals 1974	1975	1976	Est. 1977	Projected 1978	1979	1980	1981	1986
A. MEDIUM & LONG TERM DEBT ($ Million)									
Total Debt Outstanding & Disbursed	2760.0	5101.2	5858.3	7943.3	11339.1	13635.4	15932.4	17974.4	28173.7
Total Debt Outstanding & Undisbursed	3078.0	6628.8	8349.5	11452.5	14255.8	16802.9	19084.2	21192.0	31459.9
Public Debt Service	725.5	587.1	897.3	977.0	894.8	1041.1	1300.0	1674.2	2920.9
(Amortization)	(631.0)	(476.0)	(716.8)	(740.0)	(555.3)	(566.7)	(712.8)	(1012.4)	(1809.9)
(Interest)	(94.5)	(111.1)	(180.5)	(237.0)	(339.5)	(474.4)	(587.2)	(661.8)	(1111.0)
B. DEBT BURDEN (%)									
Debt Service Ratio 1/	31.6	22.9	28.7	22.8	17.2	15.2	16.0	17.2	13.8
C. TERMS (%)									
Interest on Total DOD/Total DOD	3.4	2.2	3.1	2.7	3.0	3.5	3.7	3.7	3.9
Total Debt Service/ Total DOD	26.3	13.3	15.4	11.0	7.9	7.6	8.2	9.3	6.4
D. DEPENDENCY RATIOS FOR MLT DEBT (%)									
Gross Disbursements/ Imports (inc. NFS)	13.7	50.7	54.3	57.9	43.5	33.6	30.3	26.9	18.1
Net Transfers/Imports (inc. NFS)	..	37.1	35.5	42.3	31.3	21.4	17.2	12.1	5.1
Net Transfers/Gross Disbursements	..	73.1	65.4	73.2	72.0	63.6	56.8	45.2	28.1
E. EXPOSURE (%)									
IBRD Disb./Gross Total Disbursements	..	0.5	2.0	2.3	4.8	6.3	7.0	7.7	7.5
Bank Group Disb./Gross Total Disbursements	1.3	2.5	4.4	3.8	6.7	8.5	9.5	10.8	10.8
IBRD DOD/Total DOD	..	0.3	0.8	1.5	2.5	3.4	4.2	5.0	7.5
Bank Group DOD/Total DOD	0.7	1.9	3.0	3.6	4.6	5.6	6.6	7.6	11.2
IBRD Debt Service/ Total Debt Service	..	..	0.4	0.6	1.3	2.5	3.5	3.8	7.8
Bank Group Debt Service /Total Debt Service	..	0.2	0.5	0.7	1.4	2.6	3.7	4.0	8.2

($ Million)

F. EXTERNAL DEBT (Disbursed Only)	Outstanding Dec. 31, 1976 Amount	Percent	Outstanding Dec. 31, 1986 Amount	Percent
IBRD	49.7	0.8	896.0	5.3
IDA	125.9	2.2	470.3	2.7
Governments & Arab Dev. Funds	4691.2	80.1	12491.1	73.3
Suppliers' Credits	715.9	12.2	914.8	5.4
Other MLT Debt	275.6	4.7	2263.9	13.3
TOTAL	5858.3	100.0	17036.1	100.0

1/ Ratio of MLT debt source (amortization and interest) to exports of goods, non-factor services and workers remittances (including own exchange imports).

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AN UPDATED TABLE ON EGYPT'S EXTERNAL ASSISTANCE REQUIREMENTS WILL BE SUPPLIED IN CAIRO.

<u>Foreign Assistance Requirements in 1978</u>

Egypt requires during 1978 about the same magnitude of project and commodity assistances committed by Consultative Group members as last year. Cash assistance, which was vital in 1977, is still required, but in smaller--albeit still substantial--amounts. The change in the latter is because: (i) bank credit facilities are not expected to be reduced by as substantial an amount as last year; and (ii) the Egptian Government expects to place foreign currency bonds of $500 million in 1978 (compared to $210 million in 1977).

Gross foreign exchange requirements for 1978 are estimated at $3,295 million. This comprises the estimated deficit on the trade and services account ($2260 million), amortization of MLT debt ($705 million) and reduction of short-term external bank credit facilities ($330 million). Total funds presently available or likely to accrue normally, together with new commitments of project aid of $1,200 million and commodity aid of $1100 million, are estimated to lead to inflows of $2825 million. The special financing gap is accordingly estimated at $470 million, which is expected to be filled by cash assistance.

The share of GODE in financing the total requirements for 1978 works out at $1020 million of disbursements. This is made up of $400 million from the existing commodity aid pipeline, $150 million from new commitments for commodity aid, and the $470 million cash deficit. This level of disbursements compares with $1225 million in 1977, which was made up of $250 million cash from a 1976 commitment, $895 million cash and $80 million commodity from the 1977 commitment. On the assumptions used, GODE will need to commit approximately $1 billion in 1978 (half in commodity aid and half in cash) compared with $1475 million in 1977 (of which $895 million were received in cash).

The current projections show a decline in the cash requirements from GODE up to 1981. It should be pointed out that this decline can (realistically) be accelerated by assuming continued mobilization of development bonds at an annual rate, say, of $300-500 million in 1979-81.

Table 1: BALANCE OF PAYMENTS PROJECTIONS
TRADE AND SERVICES ACCOUNT
(In millions of Dollars)

	Revised Bank Est. /1 1977	Revised Bank Projections 1978	
I. TRADE BALANCE	-3,215	-4,150	
Exports f.o.b.	2,160	2,300	
(Cotton)	(500)	(250)	
(Yarn & Textiles)	(310)	(350)	
(Petroleum)	(590)	(1,055)	
Imports, c.i.f.	-5,375	-6 450	
(Food)	(-1,200)	(-1 250)	
(Intermediate goods)	(-2,100)	(-2,575)	+475
(Machinery & Equip.)	(-1,200	(-1,500)	+350
II. NON-FACTOR SERVICES, NET	535	725	
Receipts	1,450	1,750	
(Suez Canal)	(385)	(450)	
(Travel)	(660)	(825)	
Payments	-915	-1 025	
III. FACTOR SERVICES, NET	1,120	1,165	
Receipts	1,530	1,610	
(Workers' Remittances)	(700)	(725)	
(Finance for Own Exchange Imports)	(725)	(800)	
Payments	-410	-445	
(Int. on Short-Term Debt)	(-102)	(-90)	
(Int. on MLT Debt)	(-285)	(-325)	
IV. BALANCE	-1,560	-2,260	+750

/1 Based on nine months (Jan - Sept) actuals provided by the Central Bank of Egypt and Foreign Exchange Budget actuals for Jan-Nov.1977.

TABLE 2: FOREIGN EXCHANGE REQUIREMENTS
AND SOURCES OF FINANCING
(In millions of US Dollars)

	Revised Bank Est. /1 1977	Bank Projections 1978
REQUIRMENTS	3,180	3,295
Trade & Service Account Deficit	-1,560	-2,260
Trade Account Deficit	-3,215	-4,150
(Exports)	(2,160)	(2,300)
(Imports)	(-5,375)	(-6,450)
Net Services	1,655	1,890
(Receipts)	(2,980)	(3,360)
(Payments)	(-1,325)	(-1,470)
Amortization of M & LT	-820	-705
(of which Suppliers Credits)	(-450)	B. (-400)
Reduction of Short-Term Debt	-800	-330
SUPPLY OF FUNDS	3,175	2,825
Private Unrequited Transfers	--	65
Official Grants	140	150
Gulf Association for Egyptian Dev.	1,225	550/2
Other MLT Loans	925	1,210/2
Suppliers Credits	325	250
MLT Deposits/Loans/ Bonds CBE	460/3	500/4
Foreign Investment	100	100
Other Monetary movements, net, and errors and ommissions	--	--
DEFICIT (-) OR SURPLUS (+)	-5	-470

/1 Trade and Service accounts on nine months (Jan-Sept.) actuals provided by the Central Bank of Egypt and Foreign Exchange Budget actuals for Jan-Nov. 1977.

/2 Expected Disbursements on existing pipeline at end 1977 and from new commitments of projects and commodities.

/3 $250 million from consortium of banks headed by Chase Manhattan (with GODE guarantee) and $210 million raised as Development Bonds by the Central Bank of Egypt.

/4 The Central Bank of Egypt expects to place about $500 million of foreign currency bonds in 1978.

Table 3: GODE FINANCING
($ million)

	1978	(of which GODE)	1977
FINANCING	3295	1020	1225
A. Non - CG	1065	(-)	-
1. Private Transfers	65	(-)	-
2. Official Grants	150	(-)	-
3. Suppliers' Credits	250	(-)	-
4. Development Bonds	500	(-)	
5. Private Investment	100	(-)	
B. CG	2230	1020	1225
1. From Pipeline:	1370	(400)	(250)
i. Project Aid	520	(-)	(-)
ii. Commodity Aid	850	(400)	(-)
iii. Cash Aid	-	-	(250)
2. From New Commitments:	860	620	975
i. Project Aid	60	(-)	(-)
ii. Commodity Aid	330	(150)	(80)
iii. Cash Aid	470	(470)	(895)

Table 4: NET FOREIGN ASSISTANCE REQUIREMENTS 1978-81, BANK ESTIMATE
($ million, current prices)

	1977	1978	1979	1980	1981
Requirements					
Current Account	1560	2,260	2,183	2,387	2,253
Amortization of Debt	840	705	567	713	1,102
Reduction of Short-Term Debt	800	330	250	200	-
Requirements of Foreign Exch.	3180	3,295	3,000	3,300	3,265
Financing					
Suppliers Credits	325	250	250	250	250
Foreign Investment	100	100	150	250	400
Cash - Khartoum	150	150	150	150	150
- Development Bonds	400	500 /1	--	--	--
Miscellaneous	?	65	100	100	100
	1035	1065			
Gross Gap	2145	2,230	2,350	2,550	2,365
AID Disbursements					
From Pipeline	2290	1,370	1,375	1,555	1,685
From New Commitments		390	445	500	555
Net Gap					
(Cash Requirements)	5	470	530	495	125

/1 $500 million of foreign currency Development Bonds are expected to be placed by the Central Bank of Egypt in 1978

Assumptions Regarding Requirements from GODE

Commitments	1977	1978	1979	1980	1981
Program Assistance	580	500	500	500	500
Cash /2	895	470	530	495	125
Total	1475	970	1,030	995	625

/2 This would be further reduced if it were assumed that development bonds would be raised in years after 1978.

Table 5

Consultative Group for Egypt
Aid Pledges for 1977
(In millions of US$)

	New Commitments /1					
	Project	Commodity	Food	Cash	Technical Assistance	Total
1. Canada	..	..	..	..	..	..
2. France	108	--	5	--	2	115
3. Germany	84	21	--	--	6	111
4. Iran	..	..	..	..	..	..
5. Italy	40	--	--	--	1	41
6. Japan	..	..	..	..	..	..
7. Kuwait	..	..	..	..	..	..
8. Netherlands	9	--	--	--	2	11
9. Saudi Arabia	80	--	--	--	--	80
10. UAE	--	--	--	--	--	--
11. UK	69	--	--	--	4	73
12. USA	270	400	200	--	30	900
13. ADB	12	--	--	--	--	12
14. AFESD	..	..	..	..	..	..
15. CEC	86	--	15	--	--	101
16. EIB	110	--	--	--	--	110
17. OPEC Fund	..	..	..	..	..	..
18. UNDP	6	--	--	--	--	6
19. GODE	--	550	30	895	--	1475
20. IMF	--	--	--	150	--	150
21. Bank/IDA /2	300	70	--	--	--	370
TOTAL	1,174	1,041	250	1,045	45	3,555

/1 Those made after December 31, 1976
/2 Commitments expected in calendar 1977.

1978 BALANCE OF PAYMENTS PROJECTIONS
BANK AND IMPLIED COE

1. Trade and Services Accounts: The major difference is on merchandise imports where we feel that (i) the Government,s targets of capital goods imports are unlikely to be achieved, and (ii) imports of intermediate goods for stock-building purposes as projected by the Government appear to be too high in view of the fact that imports of these goods in 1977 was adequate to rebuild inventories. Our projected imports for 1978 are about 20% higher than estimated for 1977.

2. Foreign Exchange Requirements: The difference in the deficit on the trade and deficits account ($435 million) is carried over into this account.

3. Supply of Funds: The major difference in the supply of funds picture is that we feel that the MLT project and commodity pipeline will disburse more slowly than assumed by the Egyptian authorities and indeed than that assumed in our own earlier projections. Our estimate of Egypt's deficit during 1978 after disbursements on existing commitments at end 1977 and expected new commitments in 1978 (including $500 million of additional commodity assistance from GODE) is $905 million which is expected to be financed through Development Bonds $500 million and GODE Cash Assistance ($400 million). The implied Egyptian deficit of $1216 million excludes any assumptions regarding new financing from GODE. If we include the following major items (i) Development Bonds ($500 million) and (ii) Khartoum Payments ($150 million) the amounts to be financed through other sources amount to $566 million.

4. Although our gap and the implied Egyptian deficit ($405 million versus $566 million) appears close, it should be pointed out that we have assumed a higher reduction in banking facilities.

Table 1: BALANCE OF PAYMENTS PROJECTIONS
TRADE AND SERVICES ACCOUNT
(In millions of Dollars)

	Revised Bank Est. /1 1977	Revised Bank Projections 1978	Implied GOE Projections/2 1978
I. TRADE BALANCE	-3,215	-4,150	-4,585
Exports f.o.b.	2,160	2,300	2,265
(Cotton)	(500)	(250)	(235)
(Yarn & Textiles)	(310)	(350)	(320)
(Petroleum)	(590)	(1,055)	(1,055)
Imports, c.i.f.	-5,375	-6 450	-6,850
(Food)	(-1,200)	(-1.250)	(-1,250)
(Intermediate goods)	(-2,100)	(-2,575)	(-2,850)
(Machinery & Equip.)	(-1,200	(-1,500)	(-1,800)
II. NON-FACTOR SERVICES, NET	535	725	725
Receipts	1,450	1,750	1,750
(Suez Canal)	(385)	(450)	(450)
(Travel)	(660)	(825)	(825)
Payments	-915	-1 025	-1,025
III. FACTOR SERVICES, NET	1,120	1,165	1,165
Receipts	1,530	1,610	1,610
(Workers' Remittances)	(700)	(725)	(725)
(Finance for Own Exchange Imports)	(725)	(800)	(800)
Payments	-410	-445	-445
(Int. on Short-Term Debt)	(-102)	(-90)	(-90)
(Int. on MLT Debt)	(-285)	(-325)	(-325)
IV. BALANCE	-1,560	-2,260	-2,695

/1 Based on nine months (Jan - Sept) actuals provided by the Central Bank of Egypt and Foreign Exchange Budget actuals for Jan-Nov.1977.

/2 Implied GOE projections based on 1978 Foreign Exchange Budget adjusted for Balance of Payment implications.

Table 2: FOREIGN EXCHANGE REQUIREMENTS
AND SOURCES OF FINANCING
(In millions of US Dollars)

	Revised Bank Est. /1 1977	Revised Bank Projections 1978	Implied GOE Projections /2 1978
REQUIREMENTS	2,380	2,965	3,400
Trade & Service Account Deficit	-1,560	-2,260	-2,695
Trade Account Deficit	-3,215	-4,150	-4,585
(Exports)	(2,160)	(2,300)	(2,265)
(Imports)	(-5,375)	(-6,450)	(-6,850)
Net Services	1,655	1,890	1,890
(Receipts)	(2,980	(3,360)	(3,360)
(Payments)	(-1,325)	(-1,470)	(1,470)
Amortization of M & LT	-820	-705	-705
(of which Suppliers Credits)	(-450)	(-400)	(-400)
SUPPLY OF FUNDS	2,325	2,060	2,184
Private Unrequited Transfers	--	65	--
Official Grants	140	150	--
Gulf Association for Egyptian Dev.	1,275	550	400
Other MLT Loans	925	1,275	1,634 /3
Suppliers Credits	325	250	250
MLT Deposits/Loans/ Bonds CBE	460 /4	--	--
Foreign Investment	100	100	--
Short term Commercial Bank Credits, net	-800	-330	-130
Other Monetary movements, net, and errors and ommissions	-100	--	30
DEFICIT (-) OR SURPLUS (+)	-55	-905	-1,216

/1 Trade and Service accounts on nine months (Jan - Sept.) actuals provided by the Central Bank of Egypt and Foreign Exchange Budget actuals for Jan - Nov. 1977.

/2 Implied GOE projections based on 1978 Foreign Exchange Budget adjusted for Balance of Payments implications.

/3 Disbursements on existing pipeline at end 1977 ($2.6 billion for projects and $700 million for commodities) and expected disbursements from new project aid commitments during 1978 (estimated at the same level as last year).

/4 $250 million from consortium of banks headed by Chase Manhattan (with GODE guarantee) and $210 million raised as Development Bonds by the Central Bank of Egypt.

Table 3: NET FOREIGN ASSISTANCE REQUIREMENTS 1978-81,
BANK ESTIMATE
($ million, current prices)

	1978	1979	1980	1981
Requirements				
Current Account	2,260	2,183	2,387	2,253
Amortization of Debt	705	567	713	1,102
Reduction of Short-Term Debt	330	250	200	-
Requirements of Foreign Exch.	3,295	3,000	3,300	3,265
Financing				
Suppliers Credits	250	250	250	250
Foreign Investment	100	150	250	400
Cash - Khartoum	150	150	150	150
- Development Bonds	500 /1	--	--	--
Miscellaneous	65	100	100	100
Gross Gap	2,230	2,350	2,550	2,365
Aid Disbursements				
From Pipeline	1,435	1,375	1,555	1,685
From New Commitments	390	445	500	555
Net Gap				
(Cash Requirements)	405	530	495	125

/1 $500 million of foreign currency Development Bonds are expected to be placed by the Central Bank of Egypt in 1978

Assumptions Regarding Requirements from GODE

Commitments	1978	1979	1980	1981
Program Assistance	500	500	500	500
Cash	405	530	495	125
Total	905	1,030	995	625

Pipeline Statement
($ million, current prices)

	Pipeline at Jan.1	Disbursements from Pipeline	New Commitments	Disbursements from New Commitments	Total Disbursements	Pipeline at Dec.31
Project Assistance						
1978	2,600	520	1,200	60	580	3,220
1979	3,220	645	1,200	60	705	3,715
1980	3,715	835	1,200	60	895	4,020
1981	4,020	1,005	1,200	60	1,065	4,155
1982	4,155	1,145	1,200	60	1,205	4,150
Commodity Assistance						
1978	1,200	850	1,100	330	1,180	1,120
1979	1,120	730	1,100	385	1,115	1,105
1980	1,105	720	1,100	440	1,100	1,045
1981	1,045	680	1,100	495	1,175	975
1982	970	630	1,100	495	1,125	945

5: Egypt's Relations With the IMF

On November 28 the Board of the IMF approved the third drawing by Egypt of 21 million SDR's under the Standby Arrangement. This brings to a total of 105 million SDR's the drawings under this arrangement. This, of course, implies that the Fund Board has found Egypt to be in compliance with the performance criteria laid down under the Standby Arrangement.

However, the Fund is apparently concerned about slow progress in the fields of public finance, and price adjustments. The Egyptian authorities have informed the Fund that these matters will be addressed in the 1978 budget.

The Fund has also initiated discussions with Egypt on the setting up of an Extended Fund Facility when the present Standby Arrangements terminate. These discussions will be resumed early in 1978, but could run into difficulties. In order to cushion the impact of the measures that would be required by the Extended Arrangement, the IMF thought that it might be able to provide Egypt up to $700-$800 million over the next 3 years. However, this was dependent on the approval of the Fund's Supplementary Financing Facility. It now appears that this approval may be delayed in the Congress for about a year and the Fund may be able to offer Egypt only about $250 million over the three-year period. Also the Fund has serious doubts, ere if the Extended Facility were available, that it could reach agreement with the Government on the necessary policy conditions. Under the circumstances the Fund intends to negotiate in February an extension of the Standby Arrangement for another year, and negotiate for an Extended Facility after that. The Fund Director (Mr. Shakour Shaalan, an Egyptian national) is fully aware of the sensitivity of the situation in Egypt and recognizes that the moment is not opportune for demanding very major changes in Egypt's financial setting.

Office Memorandum

TO : Mr. Munir P. Benjenk

DATE: December 15, 1977

FROM : A.S. Shaalan

SUBJECT : Brief for Mr. McNamara--IMF Stand-by Arrangement with Egypt

The present stand-by arrangement between Egypt and the Fund, in an amount of SDR 125 million, was entered into in April 1977 and runs for a period of one year. Egypt has so far made three drawings under the stand-by for a total of SDR 105 million; the fourth and final drawing is scheduled for February 1978.

Egypt has indicated a desire to enter into an extended arrangement with the Fund on the expiry of the present stand-by. The last Fund mission to Cairo (in October 1977) initiated preliminary discussions on this, and these discussions will be resumed by a mission to visit Egypt in February 1978. If augmented by supplementary financing the amount that might be available under an extended arrangement could total SDR 600 million or more. The Egyptian authorities have been made aware that the negotiations for such an arrangement would be facilitated by the successful completion of the present stand-by.

To date, performance under the present stand-by has been disappointing. The main fiscal and monetary ceilings have been observed (and therefore drawings have continued), but this has been to some extent due to fortuitous circumstances, and very few of the substantive measures agreed in the letter of intent have been taken. The following are the main areas in which the Fund believes Egypt has lagged relative to the policy intentions expressed in the letter of intent.

1. Public sector pricing

It was understood that price increases for the output of the public sector would be phased in, so as to offset cost increases stemming from shifting imports to the more depreciated parallel exchange rate and other factors. Very few price increases have taken place, though we have been told that some measures will be taken soon.

2. Fiscal measures

Unspecified improvements in the budget were agreed in the letter of intent, but thus far have not been introduced.

3. Interest rates

A substantial increase in interest rates is needed for several reasons.

4. Exchange rate

Unification of the parallel and official exchange rates should take place at an early date, and in the Fund's judgment could be done without significant cost to the economy. Exchange reforms in recent years have been commendable, and have paved the way for this further change.

The economic team in Egypt does not dispute the ultimate desirability of any of these objectives. However, they stress the need to move gradually in the present political climate. Without belittling the difficulties, in the Fund staff's opinion, a bolder approach is possible given the political will and, moreover, inaction carries its own dangers. It would be helpful if the importance of restoring a rational price structure and taking steps to restrain the budget deficit could be stressed to the President and Prime Minister. In this connection, it may be noted that none of the measures referred to involve cutting subsidies on the essential consumption items of the poor. It would also be helpful if the positive effect that agreement with the Fund on an extended arrangement would have on the attitudes of other aid donors (and private investors) could be pointed out.

6. (a) Brief Summary of the Five-Year Plan (1978-82)

Production and Income

GDP and GNP, both at market prices, are expected to grow at an annual compound rate of 12.0 percent in real terms over the plan period (Table 1). By 1982, GNP is expected to be around LE 10.5 billion, compared to about LE 5.5 billion in 1976, yielding a per capita income of LE 250 (assuming a population growth rate of 2.3 percent per annum) in 1982.

Is this realistic?

(1) This increase in the economy's growth rate is predicted mainly on increasing revenues from the Suez Canal and from (2) crude oil sales, an (3) increasing volume of remittances, and a (4) higher level of public savings than in the past,1/ allowing for a higher level of investment. Aid flows would need to continue as well.

Expenditures Components of GDP

Consumption. Private consumption is assumed to increase at an annual rate of around 8 percent, leading to an increase in per capita private consumption of around 5.7 percent. Based on Ministry of Finance estimates, public consumption is expected to grow at 9 percent per annum.

Investment. A dramatic rise in investment of the private and mixed sectors is expected (30 percent per annum). However, public sector investment, which is expected to grow at 10 percent per annum will continue to dominate, averaging more than 85 percent of total investment during the Plan period (Table 2). The investment ratio (to GNP) is expected to increase from 20 percent in 1976 to 28 percent in 1982.

Out of a total public investment of around LE 10 billion (1977 prices) under the plan, around 45 percent will be almost equally divided between transportation/communications and industry/metallurgy (Table 2). Electricity and services will each receive almost 10 percent.

Exports. The growth of foreign exchange earnings is projected at around 16.5 percent annually over the Plan period. This growth will be mainly due to higher levels of: (i) oil exports; (ii) Suez Canal revenues; and (iii) remittances from Egyptians working abroad.

The Plan expects crude oil production to reach 62 million tons in 1982. Of that, 43.5 mt would make up the Government's share, which would be divided between feedstock for refining (18.0 mt) and exports (25.5 mt). The net trade surplus of the oil sector is expected to reach LE 25 million (1977 prices) in 1982 (exports of LE 710 million less imports of LE 85 million).

Imports. Growth of real imports during the Plan period is expected to be around 8 percent per annum. Over the 1976-82 period, imports of consumption goods would increase at 5 percent annually, those of intermediate goods, capital goods, and services at 8.2, 19.8, and 20.5 percent, respectively.

1/ The fact that revenues from Suez and oil accrue directly to the Government leads the authorities to believe that a higher savings ratio may be attached.

That is, consumption goods imports would increase at double the rate of population growth. Growth of intermediate goods imports would be less than that of production since the main contributors to national production would not be large users of such goods. Large inflows of investment goods would be required to sustain the expected high growth. The large growth of service imports is mainly due to increasing profits of foreign oil companies.

Domestic Resource Balance, External Trade and Borrowing

The cumulative current deficit in international payments for the Plan period is estimated at LE 3.3 billion (1977 prices), decreasing from LE 791 million in 1978 to LE 209 in 1982. These amounts, which do not include repayments of outstanding loans, will have to be borrowed from abroad.

Investment Strategy

Overall

The Plan enunciates the following elements of its overall investment strategy:

(i) completion of ongoing projects, especially those which are more than half completed;

(ii) renewal of current projects that have partially depreciated and have developed idle capacity;

(iii) financing of projects which would play a strategic role in development (fertilizers and building materials), which respond to the needs of the people (food, clothing, housing, storage and distribution), and which are export-oriented;

(iv) assigning a larger role to the domestic and foreign private sector to share effectively in development;

(v) emphasizing rural development.

Sectoral

Sectoral investment allocations of the Plan are presented in Table 2. The overall emphasis is on infrastructure and industry. More than 50 percent is designated for the various components of infrastructure, and more than 30 percent to industry (including petroleum).

Although the private sector is assigned a relatively larger role than in the past, it would still contribute slightly more than 10 percent of total investment. As in most development plans, the Plan does not explicitly spell out the role of the private sector and the manner in which private investment allocations fit into the development program.

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COMMENTS

First, the rates of GDP growth that have been projected (12% in real terms over the period 1978-82) are unprecedented in Egypt's economic history since at least 1950, and could only come about as the result of an extremely fortunate and fortuitous consolation of circumstances, for example, a much faster rate of petroleum production, or much more efficient use of capital. In fact, the capital output ratios implicit in the Plan appear to be exceedingly optimistic, particularly given that considerable spending will be necessary on rehabilitating the infrastructure.

Second, positing a very high rate of growth of GDP enables the planners to afford high rates of both consumption and savings. Thus, the authorities have not faced up to the difficult choice between consumption and further growth that would have to be made if the Plan's assumptions do not materialize.

Third, the set of assumptions on which the Plan is based could leave the Government's development strategy vulnerable if the Plan's assumptions are invalidated. The experience of several countries has shown that in such a case the reaction is to make hasty ad hoc cuts in investment allocations which impinge mainly on the social sector; thus, welfare and income distribution can be very adversely affected in the short run. It is suggested that this risk be minimized by formulating a "basic needs" component of the Plan, which would be protected even if circumstances, such as a short fall in resources, require the lowering of sights for growth and other goals. Such an approach would require the identification of target groups and sectors that needed particular attention, as well as the institutional changes that would have to be made.

Fourth, the (perhaps unrealistically) large investment volume proposed for the planned period could easily reduce pressures for a more rigorous setting of priorities, and dilute movement towards a greater selectivity in accepting projects for the Plan.

Fifth, there is little discussion in the Plan of specific policy measures that would be required to transform performance of the Egyptian economy to a degree that is unprecedented in Egypt's modern economic history.

Sixth, the role of the private sector, and indeed planning for this sector, is only sketchily indicated; this weakens the Plan's authority to act as an operational document for implementing the "open door" strategy.

DRAFT FIVE-YEAR PLAN - NATIONAL INCOME AGGREGATES AND GROWTH RATES (1978-1982)
(1977 Prices)

	Amounts (LE Million) 1978	1982	Compound Growth Rate (Percent) 1978/82
GDP (factor cost)	5,960	9,575	12.6
GDP (market prices)	6,643	10,444	12.0
GNP (market prices)	6,861	10,794	12.0
Expenditures			
Consumption	5,792	7,966	8.3
(Private)	(4,065)	(5,530)	8.0
(Public)	(1,727)	(2,436)	9.0
Investment	1,860	3,037	13.0
(Private and Mixed)	(176)	(500)	30.0
(Public)	(1,584)	(2,350)	10.4
(Inventory Change)	(100)	(187)	100.0
Exports	1,762	3,268	16.7
Imports (-)	2,791	3,827	8.2
Errors and Omissions 1/	+ 20	-	-

1/ The draft Plan document does not have such an entry. However, it is needed for internal consistency of the accounts.

Investment (1976-82)
(1977 Prices)

	Annual Average 1976/77	1978	1982	1978-82	Percent of Public Investment (1978-82)
	-------------------(L.E. million			------------	
Public	1,090.1	1,584.1	2,350.3	10,175.4	100.0
Agriculture		65.4	91.1	395.7	3.9
Irrigation & Drainage		93.8	102.4	483.2	4.7
Industry & Metallurgy		344.1	633.3	2,412.6	23.7
Petroleum		75.0	149.0	562.4	5.5
Electricity		122.6	193.7	924.0	9.1
Construction		32.0	48.4	213.8	2.1
Transportation & Communications		370.5	528.5	2,307.3	22.6
Suez Canal		119.0	32.0	474.8	4.7
Commerce & Finance		30.7	50.5	215.8	2.2
Housing		85.0	134.6	585.0	5.8
Utilities		94.6	135.0	622.8	6.1
Services		158.5	221.8	978.0	9.6
Private	100.0	176.0	500.0	1,458.0	
TOTAL	1,190.0	1,760.1	2,850.3	11,633.4	
Public as percent of total	91.6	90.0	82.4	87.5	
Foreign Partnership in Public Sector		84.0	500.0	1,125.0	
(percent)		(5.3)	(21.3)	(11.0)	

Domestic and Foreign Components of Public Investment	1978	1978-82
Local component	945.7	6,099.5
Foreign (official rate)	638.4	4,075.8
Total (official rate)	1,584.1	10,175.3
Foreign (parallel rate)	1,116.7	7,133.0
Local (parallel rate)	2,062.4	13,232.5

Source: Draft Five-Year Plan (1978-82), Tables 8, 9, 10, 11, 12

GOVERNMENT BUDGET '76, '78, '82
(1977 Prices)

	1976	1978	1982 2/
Current			
Revenues	1,346	2,009	3,415
Direct taxes	415	468	793
Indirect taxes	800	1,083	1,438
Public companies surplus)		150	374
Suez and SUMED revenues)	131	160	360
Petroleum revenues)		148	450
Expenditures	1,954	2,319	3,429
Wages and salaries	774	1,018	1,500
Commodity purchases	587	709	1,000
Subsidies	480	400	569
Net transfers	113	192	360
Current Balance	-608	-310	-14

	1976	1978	1982
Financing Public Investment			
Current balance		-310	014
Social security surplus		342	495
Revenues from commodity loans		454	365
Exchange rate losses		-75	-56
Public Sector Investment		-1,584	-2,350
Foreign Investment		84	500
Net borrowing 1/		1,089	1,060

1/ From business sector, individuals and abroad.
2/ The source tables in the draft plan document are arithmetically inconsistent.

Source: Draft Five-Year Plan, Tables 6, 7

EMIDA
October 21, 1977

W Koch Weser

Egyptian Thinking on Longer-Term Development

Possibilities (Background for your trip to Upper Egypt)

1. Having just completed the preparation of the 1978-1982 Plan, the Government has now started thinking on a perspective for longer-term development (up to the year 2000). A few months ago, a committe has been set up under the chairmanship of Dr. Kaissouni. According to Mr. Abdel Rahman (former head of UNIDO and now adviser to the Prime Minister), who is one of its members, this committee is mainly composed of broad-minded "thinkers" rather than narrowly focused planning bureaucrats (Dr. Bindari, Director, Population and Family Planning Board, is also one of its members). The committee is still in the phase of establishing a framework for its task, and no concrete plans or proposals have emerged yet.

2. It is clear, however, from statements by Dr.Kaissouni that, in order to cope with the population growth and to satisfy the economic and social needs, the Government is thinking of embarking on some grandiose plans for the development of (a) Egypt's Southern region, (b) the North-West coast, and (c) the Red Sea region. The trip to Upper Egypt will take you to part of the first of these areas. By showing you the potential of the Lake Nasser area, especially in agriculture, Dr.Kaissouni (who will accompany you), may well try to get the Bank involved in this major development idea. He has in the last days been talking of the need for a major international effort, the desirability of having the Consultative Group focus on this subject matter and, the need for establishing a sort of TVA for the Lake Nasser, and he is obviously looking to the Bank in this respect. Very little concrete thinking has, however, taken place yet. No feasibility or even pre-feasibility studies exist, only a short, very preliminary draft paper providing "glimpses of main projects to be established in each of the 3 regions" has been prepared so far, which is basically a list of still rather vague ideas. With respect to the specific idea of engaging in large scale "horizontal" expansion some comments on "New Land Investments" which were prepared in the Bank are attached.

3. We feel that basically it is a very encouraging sign that the Government is beginning to take a long-range view on its development needs and potential and we would like to

encourage the Government to pursue this task as thouroughly as possible. We do feel, however, that we should not be underwriting highly tentative and vague ideas and that we should not commit ourselves to implement such ideas before they have developped into well thought through plans and economically justified projects. We might agree to help draw up terms of reference for, and supervise, specific studies (for sectors and/or projects) and we certainly suggest that we should be prepared to consider financing any resulting sound long-term projects. It would, however in our view, be rather premature to make any such promises at this stage.

Attachment

Cairo
Jan. 17, 1978

New Land Investment. One of the major justifications for the construction of the High Dam was to use the extra water to bring new land into production. Initially it was planned to reclaim about 900,000 feddans, of which 700,000 was to be cultivated. About 500,000 feddans are now cultivated, although with varying levels of productivity. However, although the reclaimed area would represent about 12 percent of Egypt's agricultural land, it produces only 3% of output and is expected to produce only 5% by 1980. Reclamation costs have been higher (up to LE 1,000 per feddan), potential lower, and reclamation has taken longer than expected. Much of the new land has poor soil and a high water table.

The Government reclamation authorities now quote a minimum of 15 years before much of the land can begin to cover operating expenses. Nonetheless, there are areas of the already reclaimed lands where further investment could bring good returns. There is a need to analyze investment priorities within these "old" new lands, so as to find ways of making use of the sunk investment.

Despite the discouraging prospects, Government policy calls for further reclamation, in the face of population pressures, land shortage, and the need for food and foreign exchange from additional agricultural production. The current Minister of Agriculture has grandiose plans for developments in Upper Egypt, to be irrigated by canals leading directly from Lake Nasser. He points out that Egypt cannot afford not to expand its fertile area, and in view of the long lead time for bringing new land into production, he believes that a continuing program is necessary.

The draft plan for the agriculture sector unfortunately does not indicate investment priorities within the sector, and given the limitations on Egypt's resources, it is apparent that by no means all of the desired expenditures can be made. Further reclamation might be justifiable, so long as the needs f the old and the old new lands are first dealt with adequately. There is an urgent need for an intra-sectoral analysis of the relative priorities of possible investment expenditures, taking into account factors such as the immediate incremental production from old land investment resources compared with the economy's needs, population pressure and the need to provide jobs and food for the fast increasing population. The Minister of Agriculture and Land Reclamation, who is a former Governor of the New Valley, has on several occasions mentioned his desire for reclamation of 4.5 million feddans between 1978 and 2000, including 450,000 by 1981. He has, however, indicated neither where the amounts of at least LE 450 million for 1978-80 and LE 4.5 billion for 1978-2000 needed for this work would be found, nor how the extra water needed can be obtained (2.5 billion cubic meters by 1981 and 25 billion by 2000). Egypt's share of the additional water available because of the High Dam was estimated to be 7.5 billion.

6 (b): The Monitoring System of the Investment Program (Adler Paper)

His Excellency
Dr. Abdel Moneim El-Kaissouni
Deputy Prime Minister
For Financial and Economic Affairs,
CAIRO.

October 24th, 1977

Your Excellency,

Please find enclosed my Report and Recommendations on the Monitoring of Public Investment in the Arab Republic of Egypt. I hope that the report will be of help to the authorities of Egypt in the management of financial and economic affairs of Government.

The short time available and the complexity of my task have not made it possible for me to study and evaluate in detail the flow of reports to the various parts of Government, and from them to the office of the Prime Minister and to the Cabinet. Moreover, since I had to rely for my information on conversations with several ministers and high Government officials, I cannot offer documentation for my findings, nor would it be, I believe, appropriate for me to do so. Therefore, I have limited comments to general observations which are more a reflection of impressions than the result of detailed study and evidence.

Nevertheless, I hope you will find my observations essentially correct and my recommendations worthy of consideration. In preparing my report, I have followed your advice to report my findings in full frankness. My aim was not to find fault but to assess the reporting system as it was described to me and as I understand it, and to suggest some modifications and improvements.

If you wish to follow up this report by further inquiries and more detailed recommendations and would like to have advice on the implementation of the recommendation which the report makes, I am confident that the World Bank, which as you know is taking a keen interest in the development efforts of your country, will again make its services available to you.

I want to take this opportunity to thank you and your colleagues in the Cabinet and the high officials of Government with whom I discussed my assignment, for the friendly reception accorded to me and the frankness of their replies to my questions. I hope they will not consider my comments as unwarranted criticism. They are entirely based on what I learned from them.

I am sending a copy of this report to His Excellency Hamed El-Sayeh, the Minister of Economy.

Yours sincerely,

John H. Adler

Encl.

CONFIDENTIAL

Report and Recommendations on the Monitoring of Public Investment in the Arab Republic of Egypt.

I. INTRODUCTION

Several months ago, in a discussion between His Excellency, the Deputy Prime Minister for Financial and Economic Affairs, and Mr. Martijn Paijmans, Program Director of the Europe, Middle East and North African Region of the World Bank, regarding the utilization by the Egyptian authorities of I.D.A. credits and I.B.R.D. loans, the subject of the flow of information from the various parts of governments responsible for public investment activities, and the central government authorities, the Prime Minister and the Deputy Prime Minister, was raised. It was agreed that the World Bank would make a staff member available to study the existing system of reporting, to report his findings to the Egyptian authorities and if necessary to make recommendations how the efficiency and effectiveness of the system could be improved. This discussion followed a conversation on the same topic between His Excellency the President of the Arab Republic of Egypt and Mr. Munir Benjenk, Regional Vice President of the World Bank. The management of the World Bank has designated me to carry out the assignment.

I arrived in Cairo a week ago and have spent the last several days inquiring into the present system of reports on public investment and the use to which reports are put. Because of the close relations between the subjects, it was inevitable that I also became interested in the process of follow-up and decision making regarding public investment. I called on six cabinet ministers and eight vice ministers and undersecretaries to obtain information and to ascertain their views on the reporting system. In some ministries several other officials took part in the discussions and helped to answer my questions. Everywhere I have found the ministers and high officials ready to respond to questions and to give me their views on the present situation and what modifications they would consider desirable. I regret that my enquiry was by necessity limited to a small number of ministries. But I have been told that the situation in other ministries and agencies is basically not different from the ministries which I visited.

I present below my evaluation of the present situation, together with suggestion for the improvement of the system of reporting and its management, and some comments on the process of decision making in the public sector of the Egyptian economy.

II. The Present Information System

According to the latest figures which I have readily available public fixed investment in 1975 -- as shown in the Economic Report on the Arab Republic of Egypt of the World Bank of March 22, 1977 (No. 1624-EGT)-- amounted to L.E. 1088 million, or 91% of total fixed investment. Since then the real value of public investment has increased but its share in total investment may have decreased slightly. With such a large proportion of total investment taking place in the public sector, it is not surprising that a large number of reports on investment activities are prepared in the government.

Most of the reports are prepared for the information of the ministry in charge of particular investments and contain much detailed information. In some ministries, such as the Ministry of Irrigation these reports are produced monthly, but in most ministries reports are prepared in less frequent intervals. Some of these, especially those of the Ministry of Irrigation and of the Ministry of Electricity are excellent in quality (accuracy), form and timeliness, while in others the coverage is incomplete and inaccurate, especially as far as the activities of the private sector (which are to be controlled by the Ministry) are concerned (e.g., the Ministry of Housing and Reconstruction). In other ministries, reports to the ministry are prepared late by some reporting units (e.g., public sector companies reporting to the Ministry of Industry, to the Ministry of Planning, and to the Ministry of Finance).

I did not get a clear picture of the use that is made of the information received by the ministries, nor of the flow of information from the various ministries to the Office of the Prime Minister and the offices of the Deputy Prime Ministers. Again, the General Department for Planning and Follow-up of Ministry of Irrigation prepares regularly a summary of the reports it received and tabulates and passes them on to the Office of the Minister of Cabinet Affairs and Follow-up in the Prime Minister's office, and to the Ministry of Planning. The reports of the Ministry of Industry are sent to the Office of the Prime Minister and to all ministries concerned with the affairs of the Ministry of Industry, i.e., the Ministry of Economy and Economic Cooperation, Finance, Planning and Commerce. In the Ministry of Planning I was told that the reports it is supposed to receive from the ministries responsible for investment projects every quarter about the state of implementation are usually much delayed and come too late to be taken into account in the preparation of annual investment plans for the following year.

While the Ministries of Electricity, Irrigation and Industry appear to prepare and circulate separate reports on current operations and the implementation of investment projects, it is my impression that in most other ministries little or no distinction is made between current operations and the implementation of investment projects.

The apex of the reporting system is the Minister of State for Cabinet Affairs and for Follow-up and Control. The Office receives the periodic reports prepared by the various ministries and the Suez Canal Authority, and in turn prepares reports for the Cabinet, Cabinet Committees (on Planning, on Public Services, on Local Administration, on Production, and on Public Investment). The reports prepared by the Office of the Minister appear to be concerned with specific issues which are considered to require the attention of the Cabinet, of the Cabinet Committees or special adhoc committees (e.g., on the Iron and Steel Complex, or on the tunnel under the Suez Canal). I was also told that the Office also prepares a monthly report on the achievements of each ministry, but it is not clear to what extent these reports are based on the reports by the various ministries, or on information provided especially for that purpose. The office also prepares, I was told, every six months a report on international loans and grants and their use.

My overall impression is that the Ministry of Cabinet Affairs and Follow-up is primarily concerned with problems and issues which require the attention of the Cabinet or a Cabinet Committee, but it does not follow the implementation of public investment or the pre-implementation activities of the ministries on a regular basis. This is borne out by the rule to which my special attention was called, i.e., that "all reports much reflect the views of all ministries" concerned with the subject of the report. It seems that at present the Ministry is not equipped to coordinate reporting on public investment (or on other matters), to check the accuracy of the reports, or to evaluate the progress of the project implementation.

A certain amount of detailed analysis of the current operations and investment activities of the public sector companies is done in the section of the Ministry of Finance concerned with public sector companies. The report which the companies are asked to prepare for that purpose relate actual operations to annual plans and budget allocations (export evaluation). They are also used in connection with the preparation of the budget for the following year. The information contained in these reports also permits an evaluation of the efficiency and financial and economic viability of each company.

The preceeding paragraphs contribute a very sketchy description of the present reporting system on public investment. But since the ministers and other high officials of government are fully familiar with the system, little would be gained by a fuller account. Although, as I mentioned already, a great deal of reporting takes place, and the reports of some ministries are more than adequate, the system as a whole lacks cohessiveness and shows wide variations in quality. Its principal weakness is that the information which the reports generate is not integrated and therefore cannot be used as a basis for measuring continuously the progress of public investment activity. Moreover, I have been told on several occasions that there is little connection between the preparation of reports and the making of decisions: some official has expressed the view that delays in the execution of investment projects were not caused by the reporting system - and therefore would not be eliminated by improvements of the system - but by delays in making decisions.

I shall return to this point at the end of this report. I now proceed to describe the essential characteristics of the system of reports on the implementation of public investment as I envisage it. I then make a number of suggestions for modifications and improvements in the preparation and processing of these reports.

III. Characteristics of Proposed Reporting System

A. Limitation of Coverage

A distinction should be made between reports on the implementation of public investment projects and reports on current activities of public authorities and public companies. Although the reports which I have seen relate only to the implementation of investment projects, I became aware in the discussion with various officials that they do not distinguish between reports on annual activities, including financial operations, and reports which deal exclusively with the implementations of investment projects. Some official pointed out with considerable satisfaction that certain activities and production figures are reported weekly or even daily. This may be desirable or even necessary, but it does not contribute to a better flow of information on the state of investment projects.

The reporting system with which this report is concerned relates to the preparation of quantitative information on public investment projects only. It should not cover current activities. In this connection some difficulties may arise in distinguishing between new investment and expenditures on renewal and replacements. The distinction should not be based on the source of finance (e.g., depreciation reserves as against appropriations and borrowings) because frequently depreciation reserves are insufficient to cover replacement cost and have to be implemented from other sources, while on the other hand internally generated funds may be used to finance in part new investment. The distinction should be based on the difference between maintaining and expanding capacity. The creation of new capacity, financing from whatever source, should be considered new investment and covered in reports on public investment, while renewal, replacement and maintenance expenditures should not be reported as new investment.

B. Investment Preparation and Investment Implementation

In the "life cycle" of any investment project two separate phases may be distinguished. The first phase covers the preparation of investment projects, the second the actual implementation, or construction. The completion of any project and therefore indirectly also its usefulness and profitability depend both on the speed of project preparation and on the timeliness of physical implementation. In the case of some projects, the two phases may overlap; nevertheless, as a general rule the distinction between them is clear and therefore two sets of reports should be prepared, one covering the preparation of investment, or the pre-investment phase, the other the phase of physical implementation through construction and installation.

The pre-investment phase is of particular importance in the relations of the government authorities to external sources of finance; but the preparation of a schedule of pre-investment activities and close adherence to the schedule is also important for the provision of funds in the budget or from other sources.

Since I am not aware of any reports on pre-investment activities being prepared at present on a regular basis, I list below what steps should be covered in the reports. They are:

a) initial description of project;
b) completion of feasibility study;
c) completion of project appraisal;
d) completion of detailed engineering;
e) completion of financial arrangements;
f) completion of legal preparations;
g) preparation of tenders;
h) selection of contractors;
i) start of physical implementation;
j) completion of project and;
k) start of operations.

This "master schedule", which, as suggested in section E below, should be prepared as a plan, with which the actual turn-out can be compared, may have to be modified to meet the special circumstances of each project and the requirements of particular external sources of finance. For example if a feasibility study is to be prepared by consultants, the schedule would have to allow for the selection of consultants and the preparation of terms of reference for consultants. On the other hand some of the steps listed above may not be required; in that case they should be shown as "not applicable"; they should not be omitted, however.

Pre-investment schedules and implementation reports should be prepared for all investments for which provisions are included in the budget or in the development plan (investment program) for the next two years. The schedule should reflect "best" estimates of the time required for the various phases, with "best estimates" being defined as the most probable outcome, not the most desirable. But even if the schedule of pre-investment activities is initially considered realistic, it may be necessary to revise the schedule from time to time to take account of unforeseen delays. Therefore the report forms should have three columns or showing a) the original schedule; b) the revised schedule; and c) the actual date.

Since most of the discussion of this part of the report deals with the characteristics of the reports on investment implementation, little needs to be said about it here. Implementation reports should be prepared for all projects for which provisions are made in the budget or from other sources of finance, even if actual implementation has not started.

C. Uniform Definition of Terms

In order to assure the usefulness of the reports and to avoid misinterpretations, it is essential to adopt definitions of terms which should be applied uniformly throughout the entire reporting system. I have been advised that some ministries report projects as completed as soon as tenders have been prepared; they report as expenditures amounts which have been committed for payments to be made at some future date.

The distinction between investment preparation and implementation will eliminate some of these ambiguities, but it will still be necessary to issue a set of uniform definition of terms which must be strictly adhered to by all ministries (and public companies and authorities reporting to ministries) preparing reports on investment activities. It is impossible for me to prepare a comprehensive list of terms to be used in the report. But by way of illustration, the following examples may be useful:

a) completion of feasibility study: the date at which the completed study is received by the ministry, or the company or authority responsible for the preparation of the project;

b) completion of financial arrangements: the date at which a loan or grant agreement has been signed;

c) completion of legal preparation: the date at which a loan or credit (e.g., from the World Bank) is declared effective: or, if the issuance of a law or decree is required, the date at which the law or decree has been published in the Official Gazette.

Exact adherence to uniform terminology is especially necessary in those parts of reports relating to investment expenditures. In order to make it possible to relate expenditures on particular projects to the government's budgetary operations, to reports of financial institutions, and the debt reporting system operated by the Central Bank, it is essential to distinguish the following categories of expenditures:

a) actual expenditures (cash disbursements and payments orders issued);

b) advance payments made;

c) obligations made;

d) requests for withdrawals made (in the case of foreign loans, credits, or grants).

In every case a distinction must be made between the use of national currency and foreign exchange, even if foreign exchange is used, or obtained as reimbursement, for domestic expenditures.

D. Physical Implementation and Financial Expenditure

One of the most essential but at the same time most difficult requirement of an effective reporting system on project implementation is that reports must provide information both on the progress of physical completion and the amount of financial expenditures. The need for this dual form of reporting is especially great at times like the present when general price increases, or particular cost increases affecting investment projects (e.g., higher wage costs of skilled construction workers) lead to expenditures running ahead of budgeted cost. As a consequence the amount of expenditures incurred is not an appropriate measure of the progress of investment expenditures.

Another reason for discrepancies arising between expenditures and the extent of physical project completion even in the absence of price increases is the initial underestimate of the cost of a project. In that case too, reports based only on expenditures could provide misleading information regarding the project completion and additional costs to be incurred in the future.

It must be realized however, that it is difficult to prepare reports on the physical completion of projects which are complete and unambiguous. For some projects which are "homogeneous", such as simple road construction, or tile drainage, a measurement of physical completion is simple. Reports about kilometers of road or drainage canal completed, or, in the case of the widening and deepening of the Suez Canal, of cubic meters of soil are excavated, are likely to provide adequate and accurate information. The problem of measuring physical progress is much more difficult if the project is not homogeneous, such as roads involving the construction of bridges, of industrial project consisting of plant construction and the installation of various types of machinery and equipment. In that case one physical measurement is not enough and an adequate description of the progress of a project requires measurements of two or three "dimensions". Several measurements may then be combined and supplemented with estimates of work that remains to be done to provide estimates of the percentage of project completion. In many instances information about the percent of the project completed corrects the information on the proportion of original cost actually spent.

The fact that the physical measurements of project supplementation must necessarily differ from sector to sector, and even from project to project (or at least progress of projects makes it impossible to devise needed forms to be used by ministries and authorities and companies, reporting to them. While I assume that the parts of the reports covering financial expenditures will be uniform for all ministries and more or less uniform for all must reporting to ministries, the parts of the reports relating to the physical implementation will inevitably differ from sector to sector. In the preparation of the summaries of the reports which I outline below it will be necessary to limit reports on physical completion to those ministries and projects whose progress can be measured by simple "dimensions". For all others, and for the overall assessment of the progress of public investment, estimates of percentages completion, related to annual plans and multi-year plan targets, should be prepared.

E. Monitoring Versus Reporting

As already implied in the preceding discussion and mentioned specifically in part B above, the reporting system which I envisage and recommend should not consist only of the preparation of periodic reports, but should relate the progress of project preparation (pre-investment) and project implementation to the schedules and plan originally prepared for every project. The regular preparation of reports in which physical implementation and financial outlays are compared makes it possible to evaluate continuously the success (and failure) of public investment activity. I have been warned that a system in which ministries and units reporting to them are asked to compare the accomplishments with their plans would not be acceptable to various ministries. I do not believe that this will be their reaction if they are persuaded that they themselves and the individual unit reporting to them stand to benefit most from such a system. It would permit them to monitor their own activities and to detect which investments are lagging and which are "on target", making it easier for them to devise or recommend remedial action, and it will enable them to prepare more realistic investment schedules and plans. Moreover, a monitoring system acts as stimulus to those responsible for investment projects to make every effort to carry them out on time.

But the project "Managers" feel committed only if the schedules and plans against which they work, have been prepared by them and have not been imposed on them by other authorities. Fortunately I have been told in various ministries with considerable emphasis that investment projects originate in them, or in units under their control; this has been confirmed by the planning ministry which looks to the "operating" ministries for the preparation of projects. Moreover, the two reporting systems which I have studied with some care, of the Irrigation Ministry and those pertaining to the operations and investments of the public companies in the Ministry of Finance, relate their periodic reports to budgetary, allocations and plans, apparently without having caused any resentment or objections by the individual reporting units.

There is no need to stress the great advantages which central authorities can devise from a monitoring system relating performance to schedules and plans. Such a system readily pinpoints where delays occurred, where and when cost overruns take place. If it is combined with an opportunity to offer explanations for the delays and recommendations for remedial action, as suggested below, the system becomes self-reinforcing; it indicates to the various levels of authority what action is required and when decisions have to be taken to carry out investment on time, when plans and schedules have to be made more realistic, and how further delays can be avoided.

F. Explanatory Comments and Requests for Action

One aspect of the present system of reporting which limits its usefulness is the absence, in the report forms themselves, and as far as I know, in whatever other material is forwarded with it, of any explanation for the delays and for apparent discrepancies between financial and physical performance data. Moreover, requests for action to expedite the implementation of public investment by the ministries to other ministries, or by the lower reporting units to the ministry, appear to be taken independently for the preparation of reports.

If the reporting system is to serve not only as a basis for systematic (and reliable) information about the state of public investment but also as a tool of management of the public sector, it is essential that the reports be used as a means of explanation of the causes of delays, of larger than budgeted expenditures and of other factors affecting the progress of project preparation and project implementation. Explanatory comments should also be used to report on request for action addressed to other ministries (e.g., requests by the Ministry of Industry to the Ministry of Housing and Reconstruction for the additional allocation of structural steel or cement) and when appropriate on the disposition of action requested previously. Confirming in one document explanatory comments on the reasons for delays and other discrepancies between schedules and plans on the one hand and performance on the other, requests for action to be taken by higher authority and periodic reports on progress of public investment is bound to stimulate and expedite the making of decisions necessary to carry out investment projects. The last part of this report addresses itself further to the problem of decision making.

The originators of reports on investment projects should decide for themselves when explanations on the reports and requests for actions by higher authorities should be prepared if the delays or other discrepancies between schedules or plans and actual results are minor. If however the delays exceed a certain limit, say one month or the differences between plans and performance exceed, say 15% (of work to be completed, or expenditures to be incurred) it should be made obligatory to give an explanation.

G. Frequency, Timeliness and Accuracy of Reports

After the description of the essential characteristics of the monitoring system which I envisage and recommend, the question arises how frequently the reports on public investment should be prepared. The present situation differs from ministry to ministry. The Ministry of Irrigation prepares in its General Department for Planning and Follow-up comprehensive monthly reports and summary reports, apparently without any difficulty. Likewise the banking system is providing regularly monthly data on credit and other aspects of its operations. On the other hand, many of the public companies from which the Ministry of Finance requests reports every quarter, fail to comply with the request. The Ministry of Planning complains that quarterly follow-up reports are not prepared on time.

Under these circumstances it seems advisable to start with a system of quarterly reports which should be prepared by all units of government responsible for public investment projects, and in summary form by all the ministries. However, those ministries and reporting units under their jurisdiction which prepare monthly reports should be encouraged to continue their present practice. In due course, i.e., a year or eighteen months after the introduction of a comprehensive system of quarterly reports, a system of monthly reports covering all parts of government could start.

But even if a quarterly reporting system is to function properly, it will be necessary to decide on its establishment promptly and organize and train the staff required and to issue instructions for the preparation of the reports. The next part of this report makes more specific recommendations on the organization of the reporting system.

One of the most important prerequisites for the effectiveness of a reporting system is its timeliness. Any reporting system becomes ineffective when the data which it reports, are obsolete and superseded by more recent events by the time the report is issued. Therefore, from the outset of the quarterly reporting system but especially since it has to be converted as soon as possible into a monthly system, it is essential that the summary reports are in the hands of the Ministry for Cabinet Affairs and Follow-up before the end of the month following the end of each quarter. If for instance the reporting system is to start as of the end of December 1977, then the summary reports should be transmitted to the Ministry of Cabinet Affairs and Follow-up not later than, and preferably before January 31, 1978. That implies that the units of government reporting to the various ministries must in turn submit their reports not later than January 15, or at the most January 20.

I realize that it is difficult to meet such tight deadlines because the gathering of information in the field and the preparation of financial data going into the report take time. It may therefore be necessary to rely on the reports from the units responsible for investment projects upon estimates instead of exact verified data. The use of estimates - preliminary data may be a more accurate term - must not lead to abuses, and distortion, however. Once the reporting system which I envisage starts to function, the staff responsible for the preparation of reports will realize that incorrect estimates which exaggerate the results of one reporting period are bound to be followed by reports which understate results for the next period, unless the first report was so misleading that it must be subsequently corrected.

Lest my suggestions regarding the timeliness and accuracy be misunderstood, it may be useful to say here that I realize that in many ministries and lower reporting units the preparation of reports on investment activities is well established and may have to be modified only marginally to make it conform to the system of reports which I have in mind. Moreover, my suggestions do not imply in any way that the reports or data collection on other activities should be discontinued or changed. I hope, however, that they will try to conform as closely as possible to the instruction which I recommend should be issued for the preparation of reports on investment activities.

IV. Organization of Monitoring System

This part of the report deals with the organization which I believe is necessary to operate, and make full use of the reporting system outlined in the preceding part. As I indicated already, and as I have been told by many officials, the Ministry of Cabinet Affairs and Follow-up is at present not equipped or staffed to combine and analyze the reports on public investment which it receives, or to supervise their preparation. But I have also been told that the Ministry is the proper place in the government to take charge of the reporting system, especially after it has been modified in line with my suggestions, because it acts with the authority of the Prime Minister's office behind it. Although other parts of government, especially the office of the Deputy Prime Minister for Financial and Economic Affairs, the Ministry of Finance, and the Ministry of Planning also have a direct interest in the proper functioning of the reporting system. It should be the Ministry of Cabinet Affairs and Follow-up which should take responsibility for modifying the present system and supervise its operation from now on.

Therefore my first organizational recommendation is to establish in the Ministry of Cabinet Affairs and Follow-up a separate unit for the supervision of Public Investment (supervision unit). In order to discharge the functions which I list below, it will require, a staff of some 10 to 15 professional analysts and necessary supporting staff, under the supervision of an Undersecretary. The professional staff should be experienced civil servants familiar with the way in which government departments operate, with some technical knowledge about public investment activities and competence in simple financial analysis and budgeting. I would expect that the proposed unit can be staffed by transferring personnel from other ministries.

The Supervision Unit to take on the following functions:

a) Issue Instructions for the establishment of the monitoring system.

This would obviously be the first task of the Unit. But before it can be undertaken, it will be necessary to gather information about the reports on investment activities which are regularly prepared at present, and to discuss with the various ministries and perhaps also lower units their own reporting requirements. The system of report preparation by units reporting to the various ministries should be changed to the extent necessary to introduce in the system comparisons with existing plans and schedules (monitoring) and to record physical as well as financial results. (Section D of Part III of this report).

The form of the monthly reports prepared by the General Department for Planning and Follow-up of the Ministry of Irrigation should be used as a sample and adopted, with appropriate modifications by other ministries. The units should however, intervene sufficiently to assure the preparation of more or less uniform summary reports which are to be prepared by the various ministries and forwarded regularly, at a set date to the Supervision Unit. In the preparation of instructions special attention should be given to the preparation of reports on project preparation (Section B above) since at present these activities are not covered by regular reports. In the preparation of this part of the instructions, it may be advisable to seek the advice of the Ministry of Economy and Economic Cooperation, since the Ministry is familiar with the project preparation requirements of the different sources of external finance. The proposed instruction should include a set of definition of terms to be used in the preparation of the monitoring reports (see Section C above).

b) Analyze and check reports.

This will be an essential function of the Supervision Unit. The analysis of the summary reports of the various ministries should result in a periodic evaluation of the overall state of public investment. Factors limiting the progress of investment projects which appear common to several ministries, (e.g., shortages of investment material, delays in the selection of consultants, awards of contracts) should of course obtain special attention.

The information provided in the monitoring reports should be checked against information from other sources, and explanation for discrepancies should be sought. For example, the reports of investment expenditures should be checked against information obtained from the Ministry of Finance with regard to budgeting expenditures, from the Ministry of Economy and Economic Cooperation regarding the use of external resources, and from the banking system regarding the use of bank credit.

c) Prepare Summary Reports for Cabinet or Cabinet Committee on Investment.

As soon as it has completed its analysis, the Supervision Unit should prepare an analytic report summarizing the reports received from the ministries, evaluating the overall state of public investment and recommending whatever action required to overcome difficulties in the preparation or the implementation of public investment projects. These reports should form the basis to decisions of the Cabinet or the Cabinet Committee, and will have to be taken in account in the preparation of deyelopment plans and budgets for the following year.

d) Disseminate Summary Reports of ministries and overall summary of Ministry of Cabinet Affairs and Follow-up.

I have been told by officials of several ministries that they do not know how the reports which they prepare, and especially the summary reports are used by the recipients. This "reporting into space" without obtaining any response is bound to discourage the preparation of timely and accurate reports. If ministries and units reporting to them realize that effective use is made of the report which they prepare, they are bound to pay more attention to their preparation. Moreover, the summary reports will enable them to compare their own investment preparations and performance with that of other ministries and encourage them to take, or seek, action to improve their own investment activities. In addition to strengthening the follow-up function of the Ministry for Cabinet Affairs and Follow-up it will also be necessary to improve the staffing of the reporting units of the ministries preparing reports for their own use and for the Ministry for Cabinet Affairs and Follow-up. It seems that the organization and staff size of the units vary considerably from ministry to ministry since their reporting requirements are different. But if they are to carry out the monitoring function which I have suggested, many of them will need more and better qualified staff. The strengthening of the reporting units should be undertaken at the same time as the re-organization of the Supervision Unit of the Ministry of Cabinet Affairs and Follow-up is taking place.

V. Reporting and Decision Making

In my discussions in various ministries I have been told repeatedly that I would find that the system of reporting was essentially adequate but that the investment activities of the government suffered seriously from difficulties encountered in the decision making process, and that it was this problem and not the insufficiency of information that held back the flow of public investment. Although except for a few stray examples I have not become aware of any acute difficulties in the decision making process, I feel I would be remiss in my task if I were not to refer to the connection between the flow of information and the process of decision making.

The purpose of an information system is not to compile a historical record and to serve as a tool of management. The primary objective of a monitoring system of public investment is to facilitate the making of decisions regarding public investment and specifically to bring into the open the impediments standing in the way of preparing and carrying out public investment projects. The preparation of reports on public investment must by necessity lead up to decisions. The best monitoring system is useless if it does not bring up action. The government authorities are constantly faced with difficult choices in the priorities given to the use of scarce resources, in the selection of alternative courses of action, of consultants, suppliers, and so on. As Mr. McNamara said in his address to the Board of Governors of the World Bank "to govern is to choose", even if the choices are difficult.

These remarks are my response to the many assertions that many of the delays in the preparation and implementation of investment projects are caused by the reluctance or the technical inability to make decisions necessary to proceed with the preparation or the implementation of investment projects.

In this connection three specific problems have been called to my attention, one is the reluctance of public companies to make use of the provisions of law 111/75 which re-establishes the decision making authority of the board of directors and the general assembly of public companies. I have been told that in many cases the public companies still look to the ministry under whose jurisdiction they operate for decisions which they themselves have now again authority to take. It's understandable that after many years of deferring decisions to higher authority the management and the general assembly of public companies find it difficult to take the decisions which they are authorized to take. (It may be added, however, that their right to make decisions is narrowly circumscribed since decision on prices, wages, employment and lay-off still require ministerial approval.) It may be hoped however, that the monitoring system will point out the need to make timely decisions and go a long way toward encouraging decision making at the company level.

The second problem is similar to the first. The central authorities, especially in the service sector, have recently delegated authority to the service of the Governorates. But the local and regional authorities are not yet accustomed to taking decisions and coordinating action at the local or regional level. Again, the proposed monitoring system is bound to encourage decision making at that level.

Thirdly, I have been told that sometimes decisions are not taken because the ministry or authority in question lacks the technical know-how to make a decision. In that case, the problems must be solved by seeking the advice from other parts of the government with technical experience or competence in financial analysis, or from consultants outside the government. I have been specifically asked to advise on the problem of comparing the cost of two different methods of financing a particular project. The attached technical annex provides the answer.

Finally, it must be recognized that in many cases it may be difficult, or even impossible to arrive quickly at decisions (regarding prices, wages, allocations of foreign exchange or scarce materials) because they have important political implications which no single ministry can assess by itself. In those circumstances, the Cabinet or the competent Cabinet Committee must make the decision - if at all possible without delay because whatever political advantages a delay may entail, it must be weighed against the disadvantages and economic costs of a delay in the preparation and implementation of public investment projects.

CAIRO, October 22, 1977, JOHN H. ADLER

TECHNICAL ANNEX

The Problem: How to compare the cost to the borrower of a specific project with two different loans, one with a higher capital cost but more lenient terms (alternative A) another with a lower capital cost but shorter terms and a higher interest rate (alternative B).

Answer: The discounted present value of the stream of interest and amortization payment must be compared.

Example I:

The terms of alternative A are:

Capital cost : $ 100 million

Interest : 3% per annum

Final maturity: 20 years

Grace period : 4 years

Repayment schedule: equal payments (for interest and amortization combined) from the end of 5th to end of 20th year.

Disbursement: One fourth ($25 million) p.a. in first four years.

Alternative B:

Capital cost : $ 75 million

Interest : 6% p.a.

Final maturity : 15 years

Grace period : 3 years

Repayment schedule: Equal payments (for interest and amortization combined) from end of 4th to end of 15th year.

Disbursements : One third ($25 million) p.a. in first three years.

Alternative A	Cost including compound interest at 3%
Disbursements	to end of 4th year
Year 3 25,000,000	$ 26,522,500
Year 4 25,000,000	$ 25,075,000
Principal including interest due at end of fourth year.	$ 107,053,400

Annual equal payments from end of 5th to end of 20th year $ 8,522,628 (16 installments).

Present discounted value of all payments	at 10% discount	$ 45,422,000
	at 8% discount	$ 55,448,000
	at 12% discount	$ 37,773,000

Alternative B	Cost including compound interest (6%)
Disbursements	at end of 3rd year
Year 1 25,000,000	$ 29,775,400
Year 2 25,000,000	$ 28,090,000
Year 3 25,000,000	$ 26,500,000
Principal including interest due at end of third year	$ 84,365,400

Annual equal payments from end of fourth year to end of 15th year (12 installments). $10,062,851

Present discounted value of all payments	at 10% discount	$51,514,000
	at 8% discount	$60,200,000
	at 12% discount	$44,773,000

<u>Conclusion</u>: The cost to the borrower of alternative A is smaller, irrespective of the discount rate applied to determine the present value. This is so although the capital cost of alternative A is one third larger.

<u>Example II</u>:

Alternative A: Same as in Example I.

Alternative B: Same is in Example I except interest rate is 4% instead of 6%.

<u>Disbursement</u>		<u>Cost including compound interest (4%) at end of third year</u>
Year 1	25,000,000	$ 28,121,600
Year 2	25,000,000	$ 27,040,000
Year 3	25,000,000	$ 26,000,000

Principal including interest due at end of third year $ 81,161,600

Annual equal payments $ 8,647,931

Present discounted value of all payments	at 10% discount	$ 44,271,000
	at 8% discount	$ 51,735,000
	at 12% discount	$ 38,129,000

<u>Conclusion</u>: The cost to the borrower of alternative B is smaller in the present value calculated with discount rates of 10% and 8%; if however a discount rate of 12% is used, the cost of alternative A is smaller.

<u>Note 1</u>: Note the importance of a) the interest rate charged to the borrower, of b) of the discount rate used to determine the present value. The selection of the discount rate is usually based on the opportunity cost of capital.

<u>Note 2</u>: The calculations of the example were made with the help of Compound and Discounting Tables for Project Evaluations, a World Bank publication (EDI Teaching Materials Series No. 1). The publication also contains instructions and samples for its use. On request, the World Bank could make a limited number of copies available to the Government without charge.

6. (c) (i) Population Policy -- Discussions with Dr. Bindary

In meetings with Bank staff, Dr. Bindary has claimed to be a strong advocate of the socio-economic approach to fertility reduction. He points out, that at the Bucharest conference he had been responsible for restoring, to the final resolution, articles on targets and goals for fertility reduction. He says his views reflect Egyptian Government population policy: while programs to bring about social and economic changes in Egyptian life are in his view the best means of forming a desire for fertility reduction, he says he has stressed the need for provisions of family planning facilities. There is no difference of view between himself and Dr. Badran. Both are concerned about the recent increase in Egypt's birth rate, and are "trying to do something about it." It is necessary that fertility reduction objectives be accepted by the people, rather than being only a government policy. He is working with other Ministries to ensure that their projects and activities take account of the need for fertility reduction. His articles in El Ahram, he said, had been mainly intended as a criticism of the Egyptian Government's development policy: he believed that more emphasis needed to be placed on the social aspects of development, rather than on capital-intensive industry. The articles had, however, been truncated editorially and had given a false impression of his views. He describes a philosophy of rural development very similar to that of the Bank, based on stimulation of initiative and managerial capacity at village level.

Dr. Bindary said that the second Bank project which concentrates on improving the delivery system, was "very much within the context of our policy." He said that a working group of the Supreme Council was making similar recommendations to improve provision of family planning services.

Dr. Bindary handed over to Bank staff the statement of his policy (attached). He has requested IDA financing of a project to be organized by the Family Planning Population Board.

In recent meetings with Dr. Bindary, he appeared to have a more positive attitude towards family planning and fertility reduction. It has been rumored that he has been instructed by the Prime Minister to adopt such a positive attitude. There could be value in working with Dr. Bindary, should his project outline appear promising, since he holds an influential position and it would be useful to integrate his ideas into our approach in Egypt. Some of his pilot schemes appear useful, and may prove worthy of support. Working with Dr. Bindary, in addition to the Ministry of Health, would make the Bank's approach to Egypt's family planning program more comprehensive. We should not, of course, postpone consideration of the second project with the Ministry of Health while waiting for a possible project with the Family Planning Population Board: the Deputy Prime Minister for Social Development, Dr. Hafez Ghanem, confirmed to the mission that the Government preferred us to proceed without waiting for other components. The project stands on its own; other complementary activities could be included in a subsequent project.

Attachment

October 1977

Notes
On the Population and Family Planning Policy of Egypt

(Drafted by Dr. Aziz Bindary, Chairman of the Egyptian Family Planning & Population Board)

The Population Policy of Egypt has raised a controversy which indicates:

1. A misinterpretation of the policy and the way it is being implemented.

2. The implication of a discordance within the Egyptian Administration on such a policy.

The clarification of these two points is warranted.

The Population Policy of Egypt

Egypt is one of the early countries which have declared a comprehensive population policy. Declared in 1973 it underwent a process of development and refinement. In its present form, the policy reaches beyond the conventional conception of Family Planning as a means to reduce fertility to the considera-tion of all dimensions of the population problem, i.e. growth, spatial distri-bution and population characteristics, in an integrated framework of socio-economic development.

This policy is in agreement with the international concensus revealed in the World Population Conference at Bucharest, and is contained in our National Policy Documents.

The policy stipulates that the ultimate solution of the Egyptian Popula-tion problem in its multidimentionality lies in socio-economic change and development.

It is natural that such a policy would have both long and short-term implications.

One component of this policy relates to the desirability of reducing birth rates. Its basic premise in this connection is that reducing the average number of children a couple procreates is determined by two factors:

1. The decision of the couple to have a small number of children.
2. The means to implement this decision.

The scientific consensus is that the parental decision on the number of children is affected by a complex network of objective socio-economic condi-tions. The present socio-economic conditions in Egypt are still consistent with a relatively high level of birth rates. Change in such conditions is, clearly the domain of socio-economic development. However, the degree of availability of family planning methods plays an essential role in the imple-mentation of the decision.

Thus, on the fertility reduction component of the Egyptian Population and Family Planning policy, the long-range dimension relates to creating and reinforcing the socio-economic conditions consistent with a low level of birth rates and the short-range aspect relates to the provision of inexpensive and efficient family planning service. What is his plan

Government responsibility in the area of family planning service provision has been established since 1966 and has continuously been made to develop and reinforce it.

The policy also stresses that substantial and rapid gains can be achieved in reducing fertility through the manipulation of a number of critical determinants and focuses on the following nine factors:

1. Raising the socio-economic standard of the individual and the family.
2. Education & training with particular emphasis on vocational and functional education.
3. Raising the status of women.
4. Mechanization of agriculture.
5. Industrialization of rural communities with particular emphasis on small scale agro-industries.
6. Reduction of infant and child mortality.
7. Social equity and security.
8. Family planning services (their provision and quality).
9. Information and communication.

Some have criticized the policy document on the basis that family planning services are ranked as the eighth factor, thus expressing a low priority.

This is over-ruled by a closer reading of the policy document which stresses that these nine factors are not independent but have to be manipulated simultaneously and stresses the importance of Family Planning services and the prominent place they have to take in all programs, both for short and long term perspectives.

In implementing this important aspect, the Board has encouraged the institution of Family Planning Units in most of the Agencies represented in the Supreme Council, starting with the Ministry of Health in 1973 and ending recently with the Ministry of Education.

In this respect, all agencies involved in formulating these overall policies are encouraged to develop their sectorial policies which to some may appear as conflicting or independent. This image is sometimes confirmed by individuals in different ministries of ministers themselves. But what seems to be segmental is in reality part of an overall comprehensive policy.

The Egyptian Policy, is also markedly paralled by policies expressed by most of International Agencies. This is illustrated by comparing the nine basic elements of the Egyptian Policy cited above with the basic elements of the World Bank Policy declared by its present President. (*)

(*) R. S. McNamara - Address to the Massachusetts Institute of Technology - International Bank for Reconstruction & Development, April 1977.

viz 1. Reducing infant and child mortality.
2. Expanding basic education.
3. Increasing productivity of small families and expanding earning opportunities in the cities.
4. More equitable distribution of economic growth.
5. Enhancing the status of women.
6. Public information programs.
7. Promoting a social concensus.
8. Coersion.
9. Family planning services.
10. Reproductive biology.
11. Family planning in relation to the stage of development.
12. Raising population concensus.

(In the list of elements suggested by the President of the World Bank, Family Planning Services is also occupying the ninth order, without necessarily meaning that it has the ninth rank in a hierarchical order of importance).

Implementation of the Population Policy

The Supreme Council and its Population and Family Planning Board are responsible for Policy Formulation - Coordination, Monitoring, Research and Evaluation.

Thus, execution is not the direct responsibility of the Council or its Board but primarily that of Executive Agencies within the country - governmental and non-governmental.

The only Executive responsibilities the Board retains are in the fields of multidisciplinary training, research, action research and projects on a pilot scale.

While the Board is actively supporting the development of each ministry's responsibility in implementing the national policy, it is also launching a new approach worth mentioning, which is community based and capitalizes on the concept of local government.

This pilot project involves 250 Village Councils in 19 governorates over a period of four years (¼ of present Egyptian villages) and aims to achieve - among other things - fertility reduction through:

1. The formulation of developmental goals at the village level to increase productivity and income of farmers.
2. Coupling this with the formulation and implementation of population objectives.
3. Raising community participation in achieving these goals.
4. Instituting an intensive training program to raise the management capabilities at the community level and in particular in :
   a. Formulation of goals and objectives.
   b. Upgrading of Family Planning Services at the community base through the provision of efficient and inexpensive services as well as increased supervision of these services by the local community.

c. Developing family planning motivation activities through the recruitment of non formal extension workers.
d. Instituting a literacy program based on functional and vocational education and training.

In spite of the short life of the program, implementation started only five months ago, indices of substantial changes and increased acceptance can be noted.

In implementing the population policy, the Board has to adapt its attitude and tactics to a continuously changing and frequently aggressive environment, such as the presently growing religious opposition to P.P. which to our estimates calls for more concerted action with less propaganda.

It thus may become clear that within a changing environment and inspite superficial images, Egypt has a comprehensive Population and Family Planning Policy and that all institutions implement this policy under the leadership of its Supreme Council.

ABindary
October 1977

6. (c) (ii) Population and Health Facilities

An example of spontaneous activities.

Fayoum Maternity Home

An experiment was started at the beginning of 1976 by the Population and Family Planning Board (PFPB) in five villages in Fayoum Governorate.

Origin of the Idea

The idea behind the maternity homes developed in the course of studying the influence of special interest groups on family planning awareness and acceptability and how to absorb them in the family planning program. Among these are the traditional village midwives or dayas. Since pregnancy and childbirth are the bases of their livelihood and position in the community, the dayas are expected to have a pro-natalist influence. Such influence can be widespread since their contacts with village women are continuous and intimate and, unlike those of family planning workers, need no special explanation or effort.

As acknowledged by medical practitioners most deliveries continue to be done in the homes by the dayas in rural Egypt. Only when there are complications does the daya herself seek the assistance of paramedical personnel or the doctor in the Rural Health Unit (RHU). The daya's functions do not stop at childbirth; she is the family confidante and after delivery bathes the born baby and keeps company with the mother for eight-nine hours, functions that no government employee could replace.

Dr. Badran, Minister of Health, attended in September 1977 a workshop organized by medical practitioners in Alexandria about the role of dayas. There was consensus that the Ministry of Health cannot continue to ignore their existence. Yet no agreement was reached about methods of absorbing them in official health and family planning efforts.

The Maternity Home is an innovative approach to mobilize the dayas in the family planning program without relinquishing their major role of assisting in deliveries. It also respects the prevalent cultural values that a delivering mother receives food presents from her family and has beside her a host of relatives. It involves renting a simple house in the heart of the village to induce women to deliver their babies there with the assistance of the daya under medical hygienic supervision where food is brought to them from home and where family members are allowed to stay with them.

Involvement of different ministries and agencies

In order to start the experiment, a committee was formed in Fayoum Governorate from among the directors of Health and Social Affairs Departments, the Governorate Secretary General, the Director of the Family Planning Bureau, a representative from the Organization for Reconstruction and Development of Egyptian Villages (ORDEV) and a representative from the local council. The committee members convened a series of meetings in the evenings with community leaders and the people for a week in each of the selected villages. In each village the local council is responsible for the experiment.

Three criteria were laid for selecting the villages: each village should have: (a) a minimum population of 10,000; (b) on-going family planning services; and (c) its community leaders should demonstrate interest in participating in the experiment.

The committee selected the sites and premises of the maternity homes. These are usually simple, old large houses rented for LE 10 (US$15) per month, of one or two stories comprising a large reception room and five rooms for accommodating delivering mothers and their families for two days.

The Department of Health appointed a part-time doctor and a certified assistant midwife for each maternity home and contributed the necessary equipment. The Department of Social Affairs appointed a social worker and a rural female leader from the village. These work together with the 2-3 dayas in the village.

The Maternity Home at Defnou Village 1/

The rural female leader was able to convince the dayas to persuade the rural women to be checked during pregnancy at the maternity home and to deliver there instead of at their homes. There was no difficulty in winning the dayas since they were promised PT 75 (US$1.20) per delivery at the maternity home. They were also reassured that they would continue to get their usual remuneration from the family of the mother who delivered (usually in kind such as wheat or maize or in cash from US$1-2).

The idea of formal training for the dayas was discarded for fear of antagonizing them. They assist the women at the maternity homes under supervision of the assistant midwife or the doctor, who is able to subtly guide them. Each daya is responsible for a number of families in a section of the village. She is given a kit for emergency use and replenishes it from the maternity home as required.

Forty days after delivery, the dayas start to talk to mothers about family planning and sell them contraceptive pills. Again they get something out of the proceeds of the sale of contraceptives.

Cost

The PFPB allocated LE 5,350 for each maternity home and the Ministry of Social Affairs allocated LE 1,000. The village community is expected to continue supporting the experiment itself.

1/ Defnou village has a population of 19,200.

Monthly costs are broken down as follows:

	LE
House rent	10
Remunerations:	
doctor	6
head of local council	6
social worker	6
assistant/midwife	4
rural female leader	3
janitor	3
daya	.75 (per delivery).

Preliminary Evaluation

Results of the experiment to date are quite encouraging. Out of 260 deliveries in 1976 in the whole village, 228 took place at the maternity home. Of the newly delivered mothers only 18 used contraceptives in 1976. But in 1977 out of the 249 women who delivered at the maternity home (until October), 119 women now use contraceptives (65 oral contraceptive acceptors and 54 IUD acceptors). The percentage of delivering women who suffered from maternal puerperal sepsis dramatically decreased. Children are being inocculated by the maternity home staff. The effect of the maternity home program on reducing infant mortality is being presently studied.

The maternity home experiment presently offers post partum family planning services. But it is planned to expand the role of the daya in family planning motivation and not limit it to post partum cases. It is, however, too early to pass judgment on the potentialities of this experiment for further expansion.