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Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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THE WORLD BANK
Washington, D.C.

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McNamara Papers

Travel brief
Jan. 17-



The World Bank Group
Archives

1772847

A1995-259 Other # 20

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Travel briefs, Egypt 01

Folder 1 of 5

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ITINERARY FOR MIDDLE EAST TRIP

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Jan. 17	1655	2155	Depart Washington (Dulles)	TW800 B707
Tues.	1815	2315	Arrive New York (JFK)	
	1930	0030	Depart New York (JFK)	TW800 B747 (Paris 0910-1015)
Jan. 18	1505	1305	Arrive Cairo	
Wed.			Briefing by staff	Meridien Hotel
	early evening		Meeting w/U.S. Ambassador	
Jan. 19	a.m.		Meeting w/Deputy Prime Minister for Financial and Economic and Economic Affairs and members of Economic Team	Ministry of Finance
Thurs.			Meeting w/Prime Minister	PM's Office
	p.m.		Meeting w/Vice Prime Minister for Production and Minister of Electricity	
			Meeting w/Mr. Sayed Marei, Speaker of People's Assembly	Either at Speaker's Farm or People's Assembly
			Dinner hosted by Dr. Kaissouni	
Jan. 20				
Fri.	a.m.		Meeting w/Deputy Prime Minister for Social Development and Services, Ministers of Health, Social Affairs and Education and Manpower	Prime Minister's Building
Approx.	1130		Depart Cairo for Suez Canal Zone w/Chairman of Suez Canal Authority	by helicopter
	1200--1300		Tour of Suez Canal (Suez-Ismaelia-Port Said-Ismaelia)	by helicopter
	1315--1400		Visit dredging of bypass	by boat
	1410--1440		Suez Canal Authority Laboratory	
	1445		Snack at Suez Canal Authority Guesthouse	
	1545		Return to Cairo	
	1630		Arrive Cairo	
Jan. 21				
Sat.	a.m.		Meeting w/Minister of Irrigation and Land Reclamation, Deputy Minister of Agriculture and Rural Development	
	1200		Depart Cairo	by car
	1330		Arrive Tanta (Nile Delta)	
	1430		Visit drainage facilities w/Minister of Irrigation and/or Chairman of Egyptian Public Authority for Drainage Projects	
	1600		Depart for Cairo	
	1730		Arrive Cairo	
Jan. 22				
Sun.	a.m.--p.m.		Visit Government priority investments in Upper Egypt	
Jan. 23				
Mon.	a.m.		Meeting w/Minister of Industry	
			Meeting w/Deputy Prime Minister for Financial and Economic Affairs	

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
<u>A. Mrs. McNamara Only</u>				
Jan. 25	0700	0500	Depart Cairo	KL558 DC8 Istanbul
Wed.	1210	1110	Arrive Amsterdam	0900/0950
	1315	1215	Depart Amsterdam	KL641 B747 nonstop
	1525	2025	Arrive New York (JFK)	
	1705	2205	Depart New York (JFK)	NA403 B727 nonstop
	1803	2303	Arrive Washington (National)	
<u>B. Mr. McNamara</u>				
Jan. 23	1930	1730	Depart Cairo	SV048 B747 nonstop
Mon.	2305	2005	Arrive Riyadh	Intercontinental Hotel
Jan. 24				
Tues.			Riyadh	
Jan. 25	0600	0300	Depart Riyadh	Chartered plane
Wed.	0700	0400	Arrive Kuwait	Sheraton Hotel
Jan. 26	0820	0520	Depart Kuwait	AZ751 DC8 nonstop
Thurs.	1150	1050	Arrive Rome	
	1330	1230	Depart Rome	PA111 B747 nonstop
	1645	2145	Arrive New York (JFK)	
	1800	2300	Depart New York (Laguardia)	Shuttle
	1900	2400	Arrive Washington (National)	

CKW
January 12, 1978

ITINERARY

January 23 (Monday)

Arrive Riyadh at 2305

Flight No. SV048

January 24 (Tuesday)

Stay Riyadh

BRIEFING FOR MR. ROBERT S. MCNAMARA

EGYPT VISIT (JANUARY 1978)

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- D. List of Cabinet Members and Biographical Data
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The Social Sector

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- (c) Issues

- (i) Prices and Markets
- (ii) Debt Management
- (iii) Domestic Resource Mobilization
- (iv) Development Planning
- (v) Coordination of Economic Policy

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 - (b) The monitoring system of the investment program (Adler Paper)
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 - (b) President Sadat's letter of April 23, 1977
 - (c) Prime Minister Salem's letter of June 1975
 - (d) Mr. R.S. McNamara's letter to Prime Minister Salem of July 8, 1975
 - (e) Minutes of meeting July 15, 1977 - Mr. McNamara and Minister of Health Badran
5. Statement of Professor Alex Moeller describing his report on structural, economic and financial problems of Egypt

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Mr. Work Wear

Jan. 18/1978

Mr. MCNAMARA's VISIT TO EGYPT

<u>DATE/ TIME</u>	<u>TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY /1</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Wednesday</u>			
<u>Jan. 18</u>			
3.05 p.m.	Arrival Cairo by TWA 800		
	Hotel	Meeting with staff	
<u>Thursday</u>			
<u>Jan. 19</u>			
9.30 a.m.	Ministry of Finance (Dr. Kaissouni's Office)	Dr. <u>Kaissouni</u> , Deputy Prime Minister for Financial and Economic Affairs and Members of Economic Team (i.e. Dr. <u>El Sayeh</u> , Minister of Economy; Dr. <u>Hamed</u> , Minister of Finance; Mr. <u>Abdel Fattah</u> , Minister of Trade and Supplies; Mr. <u>Fattah</u> , Governor Central Bank; Mr. <u>Hanafi</u> , Dep. Min. of Planning)	General Bank/IDA - Egypt's relations (including lending program); Macro- economic issues, Five Year Devel- opment Plan and investment prior- ities.
11.30 a.m.	Prime Minister's Office	<u>Prime Minister</u> , Dr. <u>Kaissouni</u>	General Pricing (publ. s.) Coordination Mobiliz of resources (taxes) Population fin + phys. Monitor. + Control

/1 Mr. Samir Koraiem, Undersecretary, Ministry of Economy, has been assigned to accompany you. Dr. El-Naggar, Executive Director, is likely to attend most of the meetings.

<u>DATE/TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Thursday</u>			
<u>Jan. 19</u>			
12.30 p.m.	Prime Minister's Building (Office of Dr. Hafez Ghanem)	Dr. <u>Hafez Ghanem</u> , Deputy Prime Minister for Social Development and Sudan Affairs and members of <u>Social Team</u> (i.e. Dr. <u>Badran</u> , Minister of Health; Dr. <u>Amal Osman</u> , Minister of Social Affairs; Mr. <u>Ahmed</u> , Minister of Manpower and Vocational Training; Dr. <u>Helmi</u> , Minister of Education; Dr. <u>Bindar</u> , Director Population and Family Planning Board.	Family Planning, Education and Manpower Planning
5.00 4.15 p.m.	<u>People's Assembly</u> <i>Mr. Marei's farm</i>	Mr. <u>Sayed Marei's</u> , farm <i>speaker</i>	General Bank/IDA - Egypt relations
about 6.30-6.45 p.m.	U.S. Ambassador's Residence 10 Willcoks St. Zamalek. (Tel.No. 804075/815147,, Embassy:28219) ext.222)		
8.30 p.m.	<u>Dinner</u> at Hotel Meridien, Alexandria Room	Dr. and Mrs. <u>Kaissouni</u> hosting	

<u>Friday</u>			
<u>January 20</u>			
8.50	Leave Hotel		
9.00	Cairo Office Suez Canal Authority	Eng. <u>Mashhour Ahmed</u> <u>Mashhour</u> , Chairman of <u>Suez Canal Authority</u>	

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Friday</u>			
<u>Jan. 20</u>			
(cont.)			
10.00 a.m.	Leave Cairo by helicopter from Almaza Airport for Tour of Suez Canal (Suez-Ismailia-Port Said-Ismailia by helicopter)	Eng. Mashhour Ahmed Mashhour, Chairman of Suez Canal Authority	Visit of Suez Canal reconstruction and expansion facilities
12.00	Arrival Ismailia Airport El Nakhil		
12.10 - 1.00 p.m.	Pause at SCA Guesthouse *		
1.00 - 1.30 p.m.	Suez Canal Authority Laboratory		
1.30- 2.30 p.m.	Snack at Suez Canal Authority Guesthouse		
2.30- 3.30 p.m.	Short boat trip to visit dredging of bypass		
3.45 p.m.	Depart for Cairo		
4.30 p.m.	Arrive Cairo		
6.30 p.m.	Hotel	Mr. Fouad Sultan, Managing Director Misr Iran Bank	x
7.30 p.m.	Hotel	Mr. Penachio UNDP Res. Rep.	

*Prayer time.

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITE TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Saturday</u>			
<u>Jan. 21</u>			
9.30 a.m.	Ministry of Irrig.	Mr. <u>Abul Atta</u> , Minister of Irrig. and Land Reclamation; Mr. <u>Hagrass</u> , Dep. Minister of Agric. and Rural Develop; Mr. <u>Kamel Hindy</u> , First Undersecretary, Min. of Finance; Mr. <u>Gatvari</u> , Under- secretary for Planning, Min. of Agric.; Mr. <u>Ahmed Fahmi</u> Drainage Authority	Investments in the agricultural sector, in particular in agro-industry and land reclamation, agricultural policy
11.45 a.m.	Leave Cairo		
1.30 p.m.	Lunch at Delta Barrage	Mr. <u>Abul-Atta</u> hosting	
1.45 p.m.	Leave		
3.00 p.m.	Arrive at drainage faci- lities near Shenoufa village	Mr. <u>Ahmed Fahmi</u> , Chairman of Egyptian Public Authority for Drainage Projects at Shenoufa	Drainage facilities- remodelling of open drains and tile drainage- financed under Nile Delta I Project, Cr. 181 - UAR of 1970.
3.30	Leave for Tanta	<u>Eng. Andrawas</u> , Contractor	<u>Enroute:</u> Compare drained areas with non- drained areas

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Saturday</u>			
<u>Jan. 21</u> (cont.)			
4.30 p.m.	Arrive Tanta		Visit plant producing pipes for drainage project.
4.45 p.m.	Leave for Cairo		
6.15 p.m.	Arrive Cairo		
<u>Sunday</u>			
<u>Jan. 22</u>			
	Upper Egypt*	Dr. <u>Kaissouni</u> , Eng. <u>Mashhour</u> , Dr. <u>El-Naggar</u> , Mr. <u>Koraïem</u> , Mr. <u>Rashwan</u>	To visit Govt. priority investments in Upper Egypt.
8.15 a.m.	Leave Hotel		
9.00 a.m.	Depart from local airport of Heliopolis by special plane	Advisor in Min. of Planning for Lake Nasser Development	
about 10.30 a.m.	Arrive Asswan		Tour Lake Nasser area, probably by helicopter

* Details still being determined.

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITE TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPIC DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>S. rday</u> <u>January 21</u>			
8.30 a.m.	Leave Hotel	Mr.El Gendy, Dep. Minister of Irrig.	
10.00 a.m.	Arrive Tanta		Visit plant pro- ducing pipes for drainage project
10.30 a.m.	Leave for Shnoufa Village		En route compare drained areas with non-drained areas
11.45 a.m.	Arrive at drainage facilities near Shnoufa Village		Drainage facilities remodelling of open drains and tile drainage financed under Nile Delta I Project of 1970
12.15 p.m.	Leave		
1.45 p.m.	Arrive Delta Barrage		
2.00 p.m.	Lunch	Mr. Abul Atta, Min. of Irrig. hosting	
3.00	At Barrage site	Mr. Abul Atta, Min. of Irrig. and Land Recla- mation; Mr. Hagrass Dep. Minister of Agric. and Rural Develop; Mr.Kamel Hindy, First Undersecretary Min. of Finance; Mr. Gatvari, Undersec. for Planning, Min. of Ag. ; Mr.Ahmed Fahmi Drainage Auth.	Investments in the agricultural sector, in particular in agroindustry and land reclamation, agricultural policy
about 4.30 p.m.	Leave		
at 5.00	Arrive Cairo		

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITE TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
Monday January 23			
9.00 ³⁰ a.m.	<i>Mu Sadat</i> Ministry of Industry	Mr. Hilal, Minister of Industry, Petro- leum and Mining	Industrial policy issues and proposed Bank Group lending
11.00 a.m.	Ministry of Finance (Dr. Kaissouni's Office)	Deputy Prime Minister for Financial and Economic Affairs, Ministers of Economy and of Finance	Concluding Session
12.00 p.m.	Ministry of Finance (Dr. Kaissouni's Office)	Mr. R. Stino, Minister of Tourism will join.	
1.00 p.m.	<i>Press Conference</i>		
7.30 p.m.	Depart Egypt by SV 048		

NASSAR KHAN M
KHAN KHALILY Engineer

Jan. 18/1978

Mr. MCNAMARA's VISIT TO EGYPT

<u>DATE/ TIME</u>	<u>TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY /1</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Wednesday</u>			
<u>Jan. 18</u>			
3.05 p.m.	Arrival Cairo by TWA 800		
	Hotel	Meeting with staff	
<u>Thursday</u>			
<u>Jan. 19</u>			
9:30 9.30 a.m.	Ministry of Finance (Dr. Kaissouni's Office)	Dr. Kaissouni, Deputy Prime Minister for Financial and Economic Affairs and Members of Economic Team (i.e. Dr. El Sayeh, Minister of Economy; Dr. Hamed, Minister of Finance; Mr. Abdel Fattah, Minister of Trade and Supplies; Mr. Fattah, Governor Central Bank; Mr. Hanafi, Dep. Min. of Planning)	General Bank/IDA - Egypt's relations (including lending program); Macro- economic issues, Five Year Devel- opment Plan and investment prior- ities.
9:30 11.30 a.m.	Prime Minister's Office	Prime Minister, Dr. Kaissouni	General
		<i>Coord Work Plan Pricing & Prod Sec</i>	<i>agri finance add'l Res - Fed Reform P/P - Use of Army for peace Need for monitoring Plan + Prog.</i>

/1 Mr. Samir Koraiem, Undersecretary, Ministry of Economy, has been assigned to accompany you. Dr. El-Naggar, Executive Director, is likely to attend most of the meetings.

<u>D. E/ TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
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Thursday
Jan. 19

12.30 p.m	Prime Minister's Building (Office of Dr. Hafez Ghanem)	Dr. Hafez Ghanem, Deputy Prime Minister for Social Development and Sudan Affairs and members of Social Team (i.e. Dr. Badran, Minister of Health; Dr. Amal Osman, Minister of Social Affairs; Mr. Ahmed, Minister of Manpower and Vocational Training; Dr. Helmi, Minister of Education; Dr. Bindar, Director Population and Family Planning Board.	Family Planning, Education and Manpower Planning
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5.00 4.15 p.m.	People's Assembly Mr. Marei's farm	Mr. Sayed Marei's, farm Speaker	General Bank/IDA - Egypt relations
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about
6.30-6.45 p.m. U.S. Ambassador's Residence
10 Willcoks St. Zamalek. (Tel.No. 804075/815147,, Embassy:28219) ext.222)

8.30 p.m.	Dinner at Hotel Meridien, Alexandria Room	Dr. and Mrs. Kaissouni hosting	
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Friday
January 20

8.50	Leave Hotel		
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9.00	Cairo Office Suez Canal Authority	Eng. Mashhour Ahmed Mashhour, Chairman of Suez Canal Authority	
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<u>DATE/ TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Friday</u>			
<u>Jan. 20</u>			
(cont.)			
10.00 a.m.	Leave Cairo by helicopter from Almaza Airport for Tour of Suez Canal (Suez-Ismailia-Port Said-Ismailia by helicopter)	Eng. Mashhour Ahmed Mashhour, Chairman of Suez Canal Authority	Visit of Suez Canal reconstruction and expansion facilities
12.00	Arrival Ismailia Airport El Nakhil		
12.10 - 1.00 p.m.	Pause at SCA Guesthouse *		
1.00 - 1.30 p.m.	Suez Canal Authority Laboratory		
1.30- 2.30 p.m.	Snack at Suez Canal Authority Guesthouse		
2.30- 3.30 p.m.	Short boat trip to visit dredging of bypass		
3.45 p.m.	Depart for Cairo		
4.30 p.m.	Arrive Cairo		
6.30 p.m.	Hotel	Mr. Fouad Sultan, Managing Director Misr Iran Bank	
7.30 p.m.	Hotel	Mr. Penachio UNDP Res. Rep.	

*Prayer time.

DATE/TIME	MEETING PLACE/SITE TO BE VISITED	OFFICIALS WHO MIGHT ATTEND/ACCOMPANY	PROPOSED TOPICS DISCUSSION/PURPOSE OF SITE/FIELD TRIP
<u>Saturday</u>			
<u>Jan. 21</u>			
8:30	Leave Cairo	<i>Dep. Min. of Agric.</i>	
9.30 a.m.	Ministry of Irrig.	Mr. Abul Atta, Minister of Irrig. and Land Reclamation; Mr. Hagrass, Dep. Minister of Agric. and Rural Develop; Mr. Kamel Hindy, First Undersecretary, Min. of Finance; Mr. Gatvari, Undersecretary for Planning, Min. of Agric.; Mr. Ahmed Fahmi Drainage Authority	Investments in the agricultural sector, in particular in agro-industry and land reclamation, agricultural policy
11.45 a.m.	Leave Cairo		
12.30 p.m.	Lunch at Delta Barrage	Mr. Abul-Atta hosting	
1.45 p.m.	Leave		
10. Arrive Tanta 11.30 Leave for Shenoufa village 3.00 p.m. 11:45	Arrive at drainage facilities near Shenoufa village	Mr. Ahmed Fahmi, Chairman of Egyptian Public Authority for Drainage Projects At Shenoufa	Drainage facilities-remodelling of open drains and tile drainage- financed under Nile Delta I Project, Cr. 181 - UAR of 1970.
14.15	Leave village		
11.45	Arr Delta Barrage		
2	Lunch		
3	At Barrage site		
3.30	Leave for Tanta	Eng. Andrawas, Contractor	<i>Enroute:</i> Compare drained areas with non-drained areas
4:30	Leave		
5	Arr Cairo		

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITES TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
<u>Saturday</u>			
<u>Jan. 21</u> (cont.)			
4.30 p.m.	Arrive Tanta		Visit plant producing pipes for drainage project.
4.45 p.m.	Leave for Cairo		
6.15 p.m.	Arrive Cairo		
<u>Sunday</u>			
<u>Jan. 22</u>			
	Upper Egypt*		To visit Govt. priority investments in Upper Egypt.
8.15 a.m.	Leave Hotel	Dr. Kaissouni, Eng. Mashhour, Dr. El-Naggar, Mr. Koraiem, Mr. Rashwan	
9.00 a.m.	Depart from local airport of Heliopolis by special plane	Advisor in Min. of Planning for Lake Nasser Development	
about 10.30 a.m.	Arrive Asswan		Tour Lake Nasser area, probably by helicopter

* Details still being determined.

<u>DATE/ TIME</u>	<u>MEETING PLACE/SITE TO BE VISITED</u>	<u>OFFICIALS WHO MIGHT ATTEND/ACCOMPANY</u>	<u>PROPOSED TOPICS FOR DISCUSSION/PURPOSE OF SITE/FIELD TRIP</u>
Monday January 23			
9.00 a.m.	Ministry of Industry	Mr. Hilal, Minister of Industry, Petroleum and Mining	Industrial policy issues and proposed Bank Group lending
11.00 a.m.	Ministry of Finance (Dr. Kaissouni's Office)	Deputy Prime Minister for Financial and Economic Affairs, Ministers of Economy and of Finance	Concluding Session
12.00 p.m.	Ministry of Finance (Dr. Kaissouni's Office)	Mr. R. Stino, Minister of Tourism will join.	
7.30 p.m.	Depart Egypt by SV 048		

January 9, 1978

ARRIVAL STATEMENT IN CAIRO

I am delighted to be back in Egypt for my third visit as President of the World Bank. I very much appreciated the invitation your Government extended to me last September. In the four months since I accepted that invitation the international scene in this area has been transformed by the initiative of your President. The new situation makes it possible to hope that, at long last, this great and ancient nation may be able to give its undivided attention to the supreme task of raising the living standards of all of its people.

The difficulties which face you on the economic scene are indeed formidable, but no-one who visits Egypt can fail to be impressed by the immense potential of this country. Its location at the crossroads of world commerce; its soil, limited in extent, but some of the most fertile in the world; and, outside the fertile valley, its resources as yet largely unexplored but with enormous promise; but above all -- your greatest resource -- the human resource of a people capable of hard work, skilled in agriculture and commerce and with an ancient tradition of excellence in education. If only these potentials can be fully mobilized I am convinced that Egypt can break out of its present economic poverty trap.

I have only one purpose in coming here today -- to see how far the World Bank can help this country, its government and people, to break the chains of poverty and bring a better life to all the people of the land.

We in the World Bank are happy that we are already associated with your efforts to develop and to renovate the key sectors of the economy. Since 1970 the Bank and its concessionary-loan affiliate, the International Development Association, have committed a total of \$1 billion for development projects and programs in Egypt, about \$700 million of this amount being approved in the past three years. We are involved in a broad range of projects designed to increase production and improve living standards.

/...

Our most recent loan was also our biggest to your country: a World Bank loan of \$100 million is helping to finance the expansion of the Suez Canal, a project which will not only benefit Egypt, through increased revenues, but will also indirectly have a beneficial impact on almost every country in the world.

Over four million people will benefit from your Government's agricultural drainage program, which is being supported by the Bank and IDA. The program is one of the largest of its kind anywhere in the world. It will help rid Egypt's agricultural land of waterlogging and soil salinity, prevent declining agricultural yields and make increased production possible.

Under the same projects we are helping finance your Government's program to reduce significantly the incidence of schistosomiasis or bilharzia. The program is now being extended to the whole of Upper Egypt, and over two million acres are being cleared of the threat of the disease. At least seven million people stand to gain, as many as 80% of whom, in the past, might have contracted the disease. It is one of the largest bilharzia control programs ever embarked upon.

At the request of your Government, the World Bank has helped to organize an aid coordination group for Egypt. It met for the first time in May last year. The group has brought together a number of Arab and other oil-exporting countries, major capital-exporting countries of North America, Europe, Japan and leading international and regional financial institutions.

The World Bank's objective in Egypt, as in other developing countries, is to support national efforts and initiatives to increase productivity of the people and to help modernize the economy. In line with your readiness to implement the necessary and often difficult measures that provide the basis for development, we are prepared to assist in any way we can.

Press Statement by *[Signature]*

-1-

Cairo
1/23/78

I want to begin by thanking the President the Prime Minister and members of the Government who have made this such a successful and enjoyable visit for me and my associates. Especially I want to thank Dr. Kaissouni and the Ministers of the Economic Group for their lucid and comprehensive way in which they have explained the problems and opportunities which challenge Egypt.

This has enabled me to compare the situation today with the situation I found four years ago on my last visit.

Four years ago your President asked me if the World Bank would substantially increase the level of its lending which then stood at about \$4 million a year. I replied that we would be glad to be more actively associated with Egypt's development effort. But it was clear that such increased Bank financing would only be effective if there were to be improvement in 4 crucial areas of Egyptian economic and financial policy.

First an overall Plan for development was needed - a plan in which investment priorities would be established. Second that Egypt's external debt needed reorganization and careful management. Third, that the system of pricing needed to be rationalized, and that included foreign exchange rates. Finally, and most important, that there should be proper coordination of financial and economic policies.

Now four years later I find that this coordination has been measurably strengthened by the creation of the position of Deputy Prime Minister for Economic Affairs, and by Dr. Kaissouni's successful management of that office. A comprehensive Five Year Development Plan has been produced and with year to year revisions should serve as the basis for the proper setting of priorities and investment decisions. There has been considerable rationalizing of prices, and the foreign exchange position has been strengthened by the extension of the parallel market. There has been a dramatic improvement in the overall debt picture. As a result there has been a sharp increase in public and private investment, and increased foreign exchange earnings. G.D.P. growth, the overall growth of the economy, has accelerated till in the last year it was 9%.

The new economic policies have enabled the World Bank to keep its own promise; and our lending has increased six fold, amounting to about \$250 million a year over the past three years, compared with \$40 million in 1974.

Furthermore, Egypt's obvious improvements and successes in these crucial policy areas has made it possible for the World Bank to sponsor a Consultative Group of those countries prepared to support your development efforts, and this has greatly increased the flow of aid funds to this country.

Now what about the future?

Egypt is now moving into a new economic phase; its economic situation is still difficult but most observers would agree that some of the worst problems are behind it and that the economic potential of Egypt - which was never in doubt - can now begin to be exploited in a rational and dynamic manner.

But for this to happen Egypt can now not stop on the road on which it has embarked. It must continue on the ^{path} ~~road~~ of economic ~~reform~~ and provide the right incentives to its producers in industry, in agriculture and in other sectors and particularly ⁱⁿ ~~for~~ those ^{which} ~~who~~ could produce for exports. Prices or tariffs which will not encourage production may have to be reviewed. The action that Egypt has taken in the past in ^{adopting} ~~the adaptation~~ of a realistic exchange rate for much of its trade, has yielded such good results in terms of remittances for Egyptian workers abroad and more competitiveness for a number of Egyptian products, that it would be a pity not to continue on this path and enlarge the area where competition can bring its beneficent effects.

A major area of concern where lack of progress would destroy all other achievements and negate the effect of painfully achieved investments is the area of population. It was not good news to hear that the rate of population growth is still on the increase.

Your rate of growth of 2.58% is one of the highest in the world. Ministers who are equally concerned at this rate have discussed with us the measures they contemplate in this connection.

High population growth intensifies the already severe problems of urban and rural overcrowding, underemployment, meeting food requirements, lack of educational opportunities and pressure on the health services. If unchecked, the total population will by the end of this century approach the 70 million mark. Such growth would absorb approximately 2/3 of all investments, expected to be made in Egypt until the year 2000, thus leaving only a small portion for improvement of the standard of living in the country.

The World Bank which has already given some assistance to Egypt in this area, stands ready to contribute in the future. We wish to support the plans of your Minister of Health in every possible way.

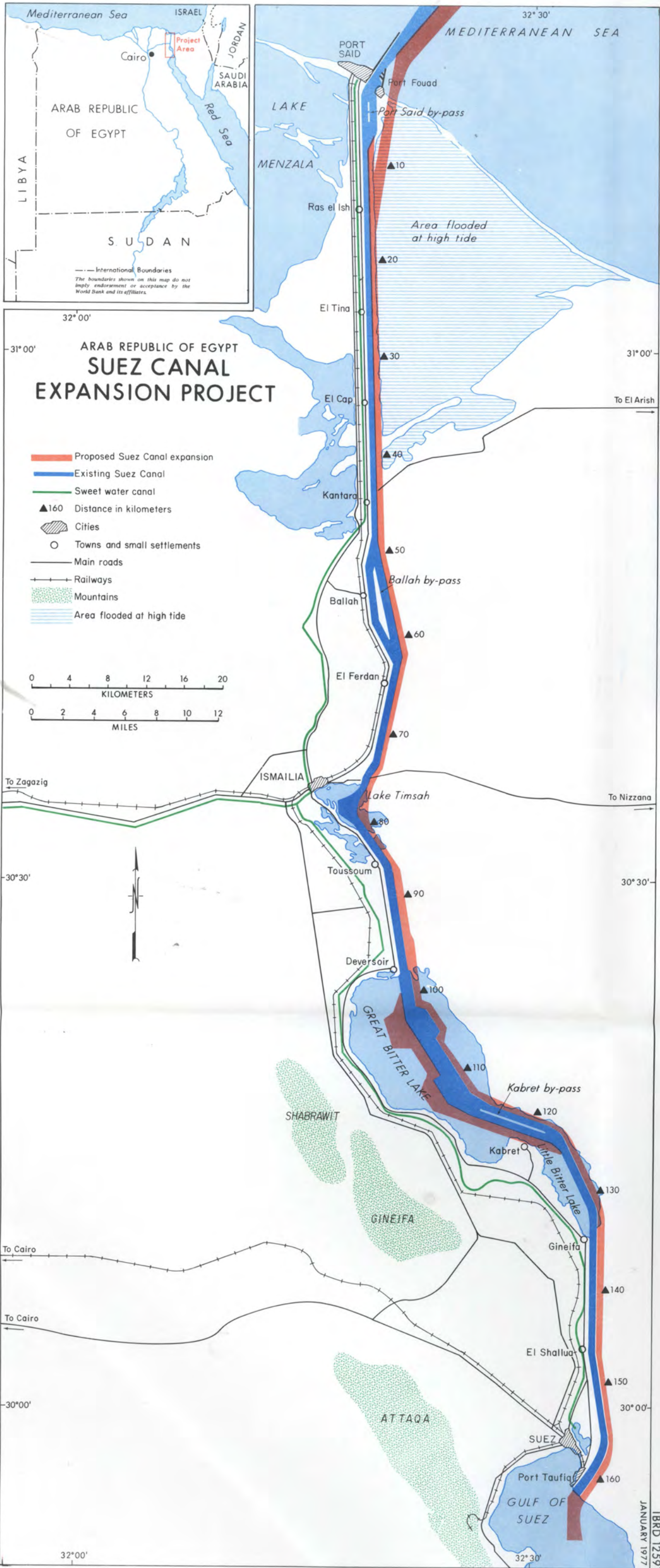
As I have said earlier it is a great achievement to have a five year plan, the next thing is to have the right investment priorities year after year in agriculture, in education, in industry etc. Sectors have to be looked at as a whole rather than in a piecemeal manner. For example the sector of transportation and infrastructure. While the need for ports, roads, railways and other transportation is

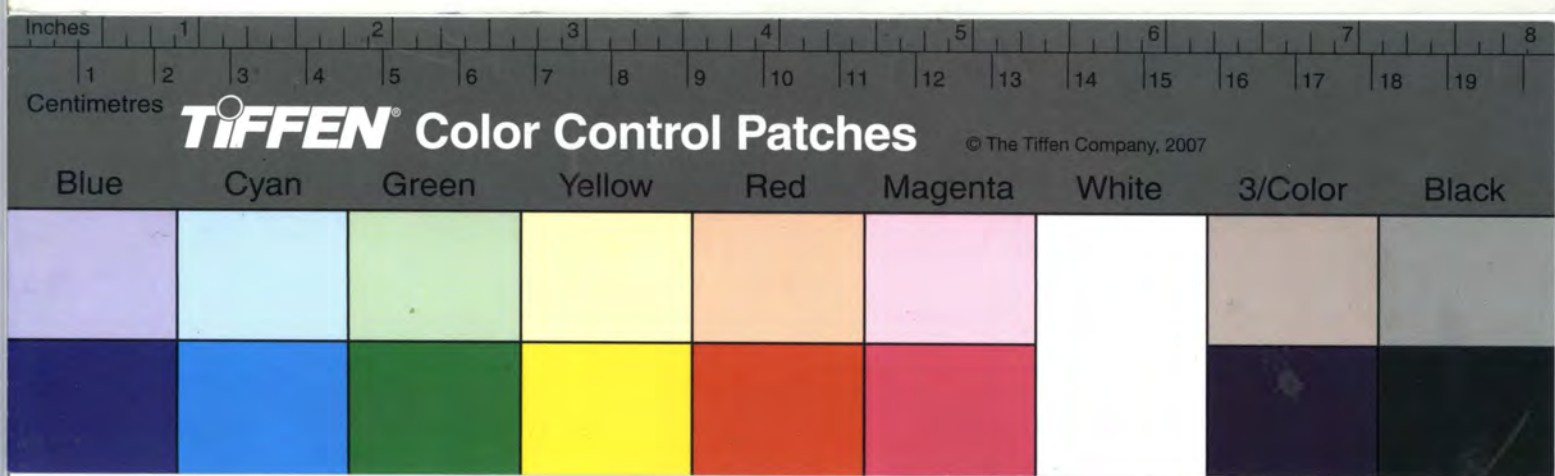
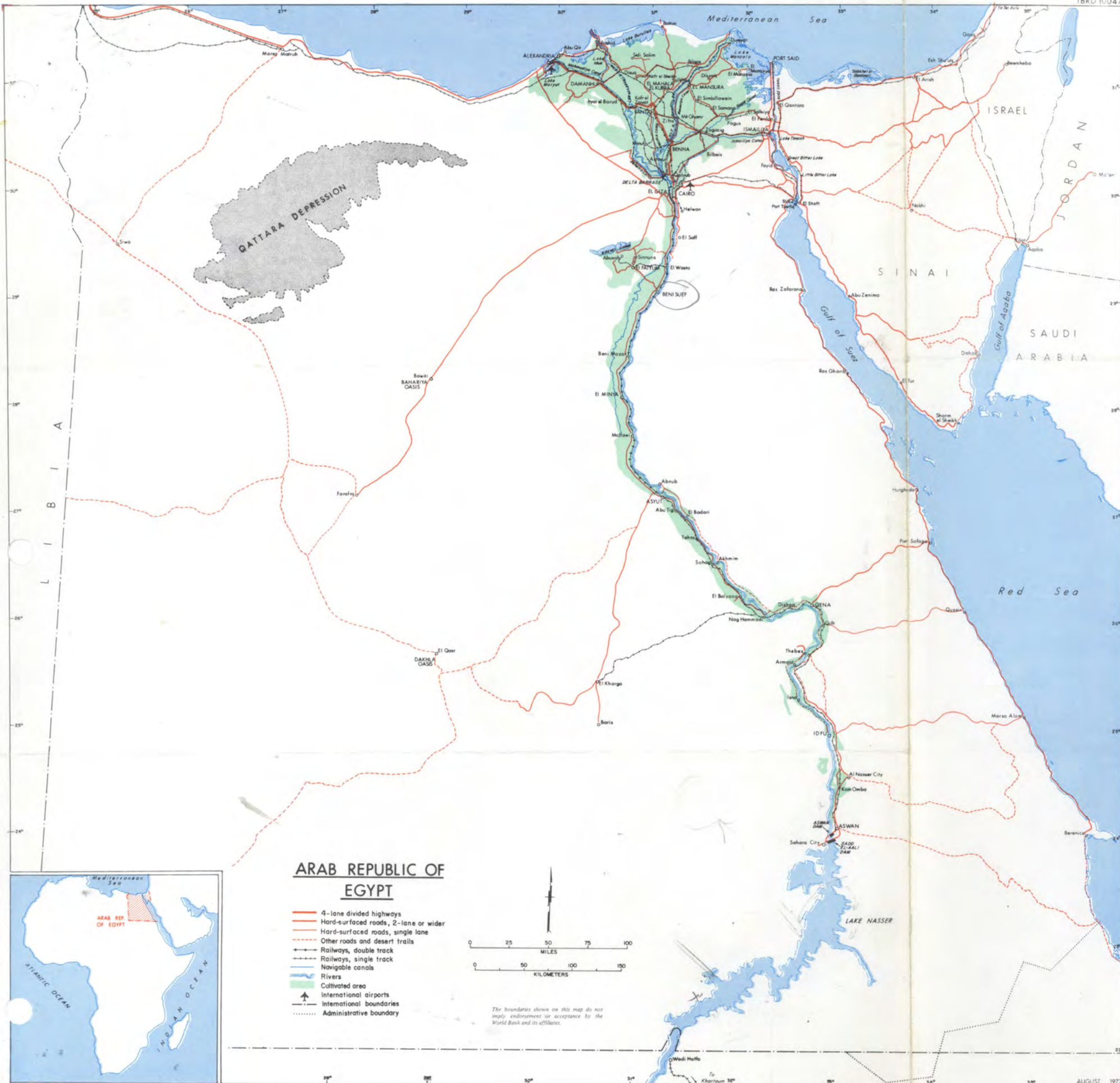
obvious, many of these forms of transportation are alternatives to each other and must be planned accordingly rather than risk the danger of expensive duplications. In the short run and certainly during 1978 it will be desirable to continue as in 1977 to place ~~pressing~~ ^{increasing} emphasis in the investment program on the completion, rehabilitation, and renovation of existing facilities in both industry and agriculture to maximize productivity and output before undertaking new projects

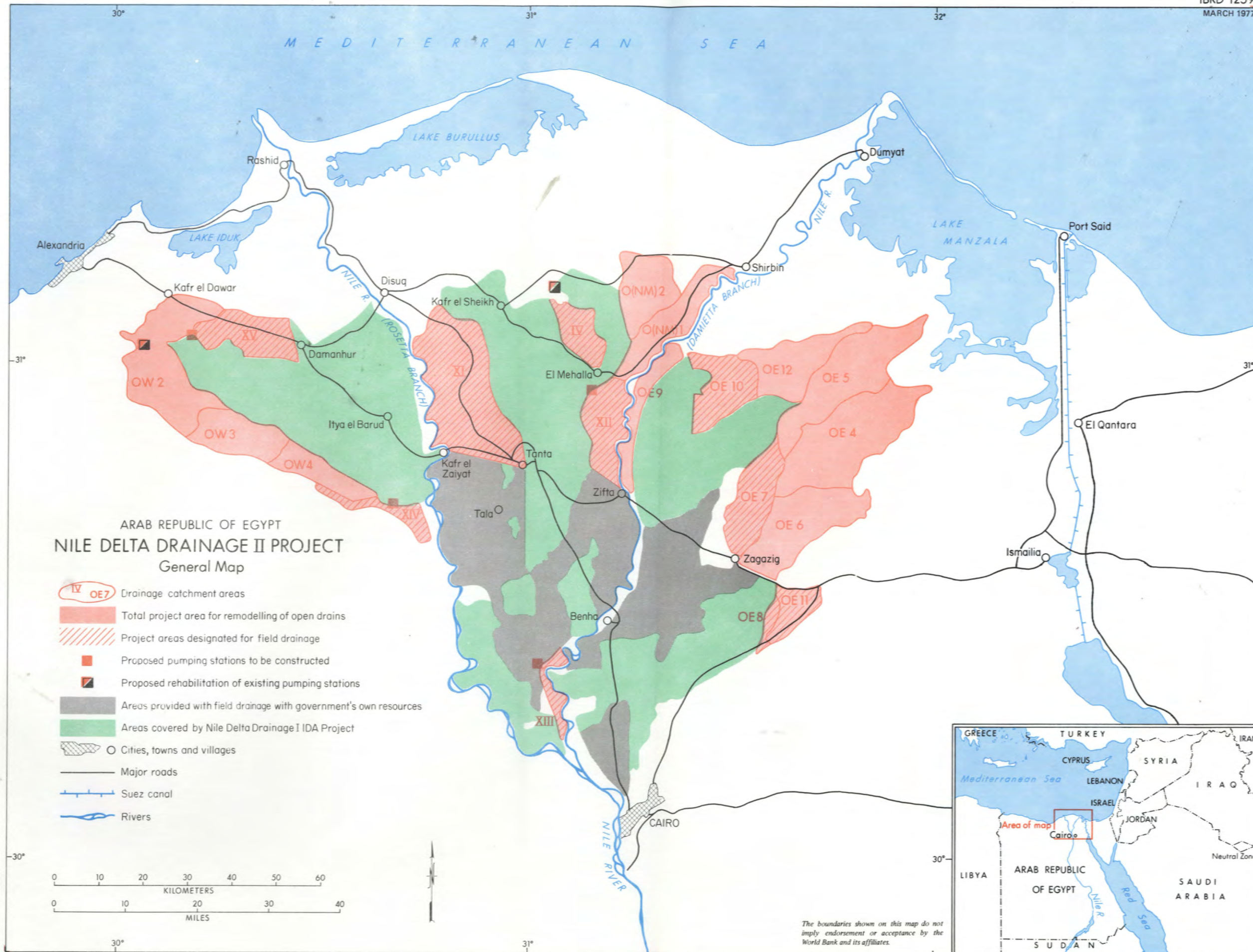
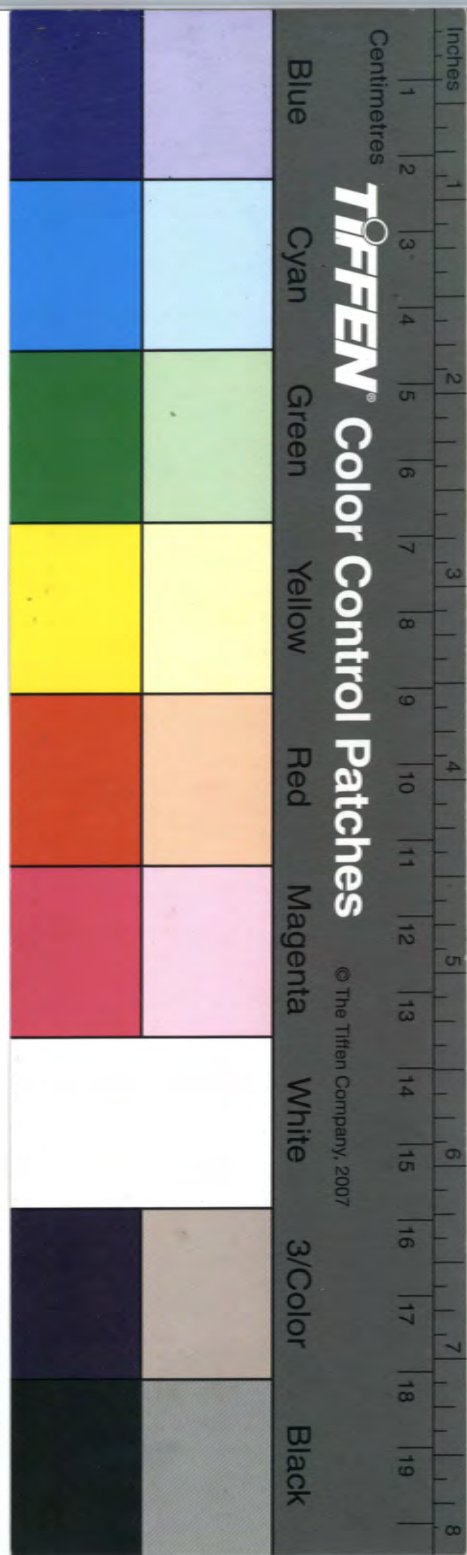
On a more general front, the Government will wish to continue to study carefully the relative shares the nation wishes to allocate to investment versus consumption.

If the policies so well begun are continued I am sure that the investment opportunities that will thus arise will lead to an even larger financial contribution from the World Bank than has been the case in the past and I believe the same should be true for other sources of external financing.

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background NOTES

Egypt

department of state * september 1975

OFFICIAL NAME: Arab Republic of Egypt

GEOGRAPHY

Egypt is located in the northeastern corner of the African Continent and is bounded on the north by the Mediterranean Sea; on the west by Libya; on the south by the Sudan; and on the east by the Red Sea, the Gulf of Suez, and the State of Israel. Only about 10,000 square miles of the area—consisting of the ribbon-like Nile Valley, the Nile delta north of Cairo, and a few oases—are cultivated. Water from the Aswan High Dam is expected to

increase the cultivable area eventually to about 12,500 square miles.

Egypt is an almost rainless block of desert consisting mainly of high plains and some rugged hills and mountains in the east along the Red Sea coast and along the valley of the Nile River. The country's existence depends almost exclusively on the Nile River, which rises in Ethiopia and Uganda and flows northward through Sudan into Egypt, where it stretches almost 550 miles from Aswan to Cairo.

Extending south from the 32d

parallel to below the Tropic of Cancer, Egypt has a warm, arid climate. Winter temperatures at Cairo normally range between 40° and 65°F; summer temperatures between 70° and 100°F. Rainfall is almost entirely limited to the northern coastal area, where it averages 8 inches a year. South of Cairo (where annual rainfall averages 1 inch), precipitation drops to nearly negligible amounts. The highest point is Mt. Catherine in the southern Sinai—8,600 feet above sea level. The lowest is the Qattara Depression, a basin in the western desert of about 10,000 square miles, the floor of which is some 400 feet below sea level.

PROFILE

Geography

AREA: 386,000 sq. mi. (slightly larger than Calif., Nev., and Ariz. combined). Includes the approx. 22,500-sq. mi. Israeli-occupied area of the Sinai peninsula. CAPITAL: Cairo (pop. 8.4 million). OTHER CITIES: Alexandria (pop. 2.5 million), Port Said, Suez, Ismailia.

People

POPULATION: 38 million (1974 est.). ANNUAL GROWTH RATE: 2.1%. DENSITY: 95 per sq. mi. ETHNIC GROUPS: Egyptians, Copts, Bedouins, Nubians. RELIGIONS: Sunni Muslim (90%), Christian. LANGUAGES: Arabic, English, French. LITERACY: 38%. LIFE EXPECTANCY: 54 years.

Government

TYPE: Republic. DATE OF CONSTITUTION: 1971. INDEPENDENCE: 1922.

BRANCHES: *Executive*—President (Chief of State); Prime Minister (Head of Government). *Legislative*—unicameral People's Assembly (350 elected members and 10 appointed by the President). *Judicial*—

Court of Cassation, State Council.

FLAG: Three horizontal stripes—red, white, and black from top to bottom—with a golden hawk in the center stripe.

Economy

GDP: \$9.2 billion (FY 1973). ANNUAL GROWTH RATE: NA. PER CAPITA INCOME: \$240.

AGRICULTURE: Land 3%. Labor 50%. Acres per capita 0.2%. Products—cotton, wheat, rice, corn.

INDUSTRY: Labor 11%. Products—textiles, processed foods, tobacco manufactures, chemicals, fertilizer, and petroleum and petroleum products.

TRADE (1973): Exports—\$1.3 billion: cotton, rice, petroleum, manufactured goods. Partners—U.S.S.R., East European countries, Italy, Federal Republic of Germany, India. Imports—\$1.8 billion: foodstuffs, capital goods. Partners—U.S.S.R., Federal Republic of Germany, France, the United Kingdom, Italy, U.S.

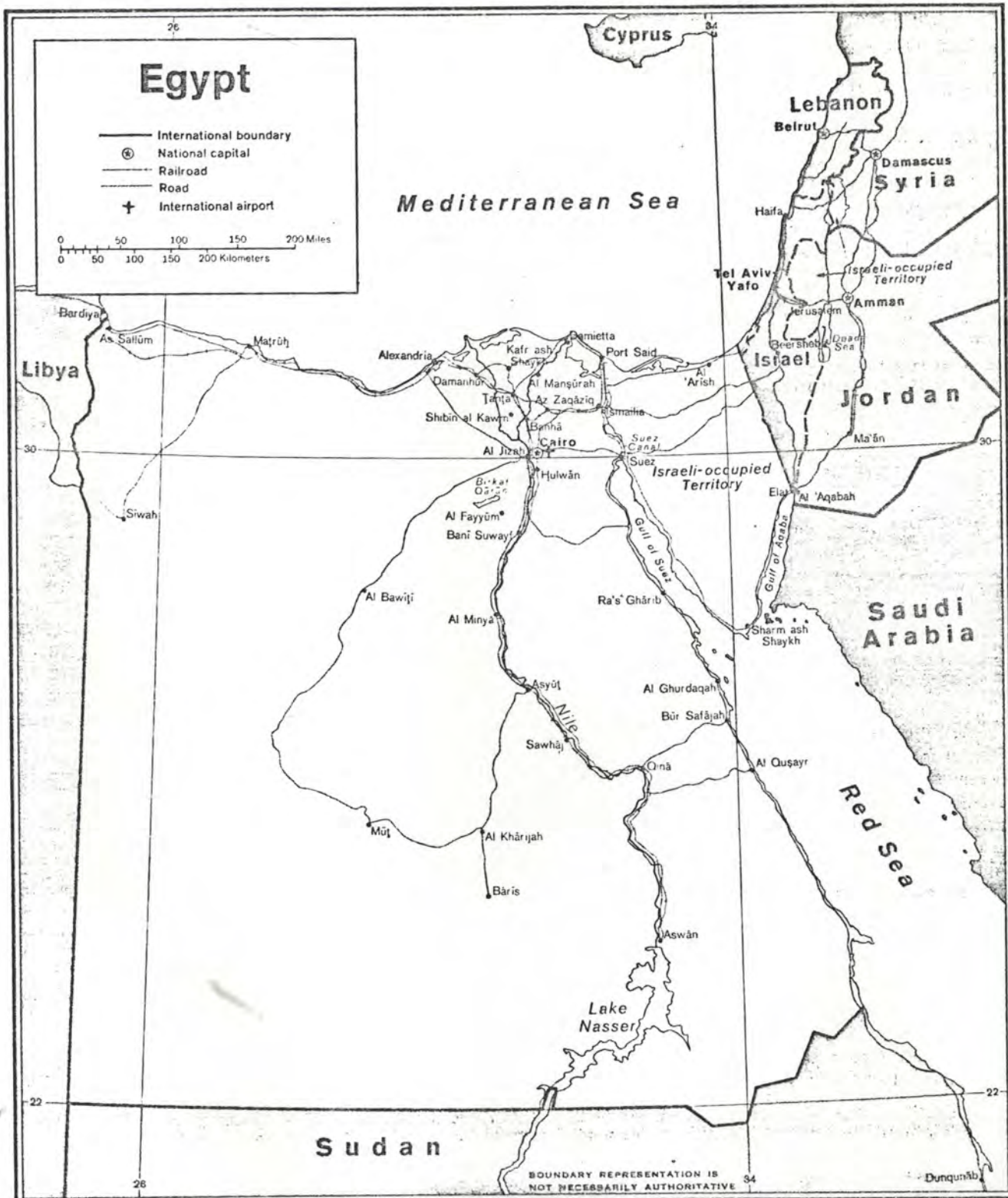
OFFICIAL EXCHANGE RATE: 1 Egyptian pound=US\$2.56.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N., Arab League, Organization of African Unity (OAU), General Agreement on Tariffs and Trade (GATT).

PEOPLE

Egypt is the most populous country in the Arab world and the second most populous on the African Continent (after Nigeria). Ninety-nine percent of the people are compressed into 3.5 percent of the country's area of the Nile Valley and its delta, making a population density there of more than 2,700 persons per square mile—one of the highest in the world. The proportion of people living in rural areas is decreasing as job opportunities in the urban centers are drawing more to the cities. The cities of Port Said, Suez, and Ismailia, which lie along the Suez Canal and had a combined population of 700,000 before the 1967 war with Israel, were largely evacuated as a result of the war. Many have now returned.

Lying at the crossroads of Asia, Africa, and the Mediterranean basin,



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Egypt has developed a fairly homogeneous population. Basically, Egyptians are of Hamitic origin, with some admixture in the north with people from the Mediterranean and Arab areas and in the south with the Nubian

groups from black Africa. However, the vast majority of Egyptians remain as they were when the pyramids were built—essentially a single people sharing a common ancestry and culture. Indigenous minorities include more

than 3 million Copts, who have retained their historic Christian affiliation; 50,000 Bedouins, who are basically nomadic; and Nubians, in the south, who originally came to the Nile Valley from Sudan.

HISTORY

Egypt has a continuous recorded history of 5,000 years, the longest in the world. The country has had periods of strength, when neighboring territories fell under its domination, and periods of weakness, when it came under foreign rule. Egypt was a united kingdom from about 3200 B.C. until Alexander the Great conquered it in 333 B.C. From then until the 20th century it was under continuous foreign domination—by the Romans, the Persians, the Arabs (who introduced Islam to Egypt, which had been one of the first countries to adopt Christianity), and the Turks. The last period of foreign rule began in 1882, when the British occupied that area; in 1914 it became a British protectorate.

Suez Canal

In the mid-1800's, while Egypt was under nominal Turkish sovereignty and Europe was experiencing industrial and commercial growth, the French took the initiative in providing a link for a shorter trade route between Europe and Asia. They obtained a 99-year concession from the Egyptian ruler to build and maintain a canal between Egypt and the Sinai Peninsula, thus providing a waterway between the Mediterranean and Red Seas. With European capital the French organized the Suez Canal Co., and construction on the canal began in April 1859. The Suez Canal was opened for navigation on November 17, 1869.

The British Government obtained effective control of the canal in November 1875 by purchasing more than 150,000 shares of stock from the Suez Canal Co. for about \$20 million. This purchase left France and the United Kingdom as the majority stockholders. The Convention of Constantinople of October 29, 1888, provided that the canal was to be open to vessels of all nations, although the Egyptians closed the canal to Israeli shipping after 1948 by invoking article X (which authorized closure if necessary for the maintenance of public order).

In 1956 the new Egyptian regime, headed by President Gamal Abdel Nasser, nationalized the canal in reaction to withdrawal of Western prom-

ises of aid in building the Aswan High Dam. The Suez crisis eventually led to war in October and November of that year, at which time Israel invaded the Sinai and was joined subsequently by the United Kingdom and France who attacked the Suez Canal area. During this war the canal was blocked by sunken ships. It was reopened to international traffic 5 months later, and in July 1958 the Egyptian Government and the new company, called the Suez Canal Authority, agreed to reimburse \$64 million to the former stockholders. The final payments were made in July 1963.

In June 1967 the canal was again closed as a result of war between Egypt and Israel. Egypt, however, received a subsidy from Saudi Arabia and Kuwait to compensate for the loss in revenue.

The canal remained closed during the years when Israeli forces occupied the eastern shores of the canal in Sinai. Following the October 1973 war and the military disengagement agreement concluded between Israel and Egypt under U.S. auspices, the whole of the canal, including the eastern shore in Sinai, came under Egyptian control. Egypt declared its intention to reopen the canal as soon as possible. The United States responded to an Egyptian request for assistance in this endeavor by initiating mine clearance and salvage operations, which began in the late spring of 1974. The U.K. and France also provided assistance. U.S. naval vessels and aircraft, along with U.S. Army ordnance experts, assisted and advised their Egyptian counterparts during these operations. On June 5, 1975, the strategic waterway was reopened to international traffic.

Independence and Revolution

Although an Egyptian nationalist movement developed in the 1870's against British and French domination of the government, the country did not gain its independence until post-World War I. In 1922, Egypt became a monarchy under King Fuad I. The British, however, retained extensive powers as well as a major military presence in the Suez Canal Zone, which was used as a major Allied base of operation during World War II.

Under the leadership of Lt. Col. Gamal Abdel Nasser, a group of military officers (the "Free Officers") staged a coup d'état on July 23, 1952, and exiled King Faruk, who had ascended the throne on the death of King Fuad in 1936. The Free Officers declared Egypt a republic on June 18, 1953. They were motivated by a desire to remove elements that traditionally had exploited the country. The regime they founded sought to raise the standard of living, develop the country's military and economic strength, and unify the Arab world under Egyptian leadership.

Pursuit of these objectives at times has led Egypt into collision with the West. Under Egyptian pressure, the British in 1954 agreed to evacuate the Suez Canal Zone. The year 1955 found Egypt opposing the Baghdad Pact. Four years later this was recreated as the Central Treaty Organization (CENTO), a Western-supported defense arrangement which included Iraq, Egypt's rival for leadership in the Arab world. Later in 1955 Egypt accepted military assistance from the U.S.S.R., and in 1956 it accepted the Soviet offer of aid to construct the Aswan High Dam after the United States withdrew its offer to help finance the first stage. Egyptian-Soviet military and economic relations have continued to grow over the years.

President Nasser's leadership and identification with Arab nationalism and social aspirations acted as a powerful magnet during the early years of the regime. The union of Egypt and Syria as the United Arab Republic was proclaimed on February 1, 1958, and was subsequently ratified by plebiscite. The union was troubled by economic and political incompatibilities, however, and Syria seceded in September 1961. Egypt nevertheless continued to call itself the United Arab Republic.

In April 1971 Egypt agreed to join Libya and Syria in a supranational federation to be called the Confederation of Arab Republics. Arrangements were made to draft a constitution and submit the federation plan to plebiscite in the three countries on September 1, 1971. On September 2, 1971, announced results showed that the formation of the Federation of Arab

TRAVEL NOTES

Climate and Clothing—Clothing should be suitable for hot summers or cool winters.

Customs—Visas are required and should be obtained before arrival. International health cards bearing valid smallpox certificates are required. Immunizations for typhoid, poliomyelitis, cholera, paratyphoid, and gamma globulin should be kept current.

Egypt, along with most Arab countries, forbids entry to anyone whose passport bears any indications of travel to or from Israel.

Health—Cairo has several well-equipped hospitals, and the practice of medicine and surgery is excellent.

Telecommunications—Telephone service on the whole is good, although delays may be encountered even on calls to towns near Cairo; service and reception vary with demand and atmospheric conditions. Telegrams can be sent from the main post office or from hotels (for an additional charge).

Transportation—Both regional and worldwide airlines serve Cairo's International Airport. Internal air service is available from Cairo to Luxor and Aswan. Rail service is available south to Aswan and north to Alexandria from Cairo. The capital has an abundance of taxis.

Republics was approved in Egypt, Libya, and Syria by some 10 million voters—98.1 percent of those eligible for the ballot. On the same day the United Arab Republic became the Arab Republic of Egypt.

Wars With Israel

In 1948-49 Egypt played a major role in a war between the Arab states and the newly established State of Israel. A truce was brought about under U.N. auspices, and in 1949 four armistice agreements were negotiated and signed at Rhodes, Greece, between Israel and Egypt, Jordan, Lebanon, and Syria. Egypt assumed the administration of the Gaza Strip, a small area of the original Palestine mandate bordering on the Sinai to which many of the Arab refugees had fled.

By 1955, however, the armistice had deteriorated seriously, and the

Egyptian-Israel armistice line became the scene of armed hostilities launched from both sides. In July 1956 the withdrawal of U.S. aid for the Aswan High Dam project, followed by President Nasser's nationalization of the Suez Canal for the stated purpose of using its revenues to finance the dam, climaxed in the 1956 Suez war. Israel's invasion of the Sinai Peninsula at the end of October was followed by British and French landings at Suez in November, which were made with the stated purpose of separating the combatants and preserving the international character of the Suez Canal. The canal was closed to all shipping as a result of the hostilities.

A cease-fire was quickly arranged, and British and French forces were replaced by the end of December with forces of the United Nations Emergency Force (UNEF). The Suez Canal was cleared and reopened in March 1957, following withdrawal of Israeli forces.

Although the Egypt-Israel line remained relatively quiet following the 1957 settlement, in 1966 and 1967 incidents of terrorism and retaliation across the other armistice lines with Israel became progressively more serious. With the rise of tension in the area, the arrangements with regard to navigation in the Gulf of Aqaba and for the stationing of U.N. troops between Israel and Egypt came apart in May 1967. Egypt moved armaments and about 80,000 troops into the Sinai Peninsula and asked the U.N. Secretary General to withdraw the U.N. forces from Sinai and the Gaza Strip. On May 22 President Nasser declared the Straits of Tiran closed, thereby blockading the Israeli port of Eilat.

Hostilities broke out on June 5 between Israel and Egypt. Jordan and Syria soon joined Egypt. After 6 days of fighting, all parties had accepted the cease-fire called for by U.N. Security Council resolutions. Israel was left in control of the Sinai Peninsula, the Gaza Strip, the Golan Heights, and the West Bank. The Suez Canal was once again closed to shipping.

Efforts to arrange a negotiated settlement based on Security Council Resolution 242 (November 1967) were unsuccessful and led to growing frustration and bitterness on the part

of Egypt and other Arab countries. After more than 6 years of what was called a "no peace, no war situation," Egypt and Syria launched a surprise attack on Israel on October 6, 1973. Israeli forces eventually were able to throw back the Syrian advance and to establish a foothold on the western shore of the Suez Canal. But Egyptian military forces were able to hold on to a thin perimeter along the eastern shore of the canal gained when Egyptian forces successfully crossed the canal and overran the Israeli-held Bar Lev Line.

U.S. diplomatic efforts during October and November in the capitals of the belligerents and at the United Nations brought an end to hostilities on all fronts. An intense diplomatic initiative led by the United States resulted in the introduction of U.N. forces and observers to the cease-fire zones. The parties directly concerned agreed to meet in Geneva in December 1973 for a peace conference under the cosponsorship of the United States and the U.S.S.R. to seek a negotiated settlement of the longstanding dispute. But it was U.S. diplomacy during this critical period that led to a military disengagement agreement, signed in January 1974 by Israel and Egypt. Israeli forces withdrew from the enclave gained on the western shore of the canal, and both sides agreed to the establishment of a U.N. buffer zone separating the Egyptian forces along the eastern shore of the Suez Canal from the Israeli forces concentrated further east. A similar military disengagement agreement was later reached between Israel and Syria. The way was thereby opened for further intensive U.S. diplomatic efforts toward progress on a negotiated settlement using the step-by-step approach.

In August 1975 U.S. diplomacy stimulated another attempt to achieve a second interim agreement between Egypt and Israel. This effort was successful, and on September 1 an agreement was initialed; on September 4 it was signed. The agreement notes that Egypt and Israel agree to resolve the conflict between them by peaceful means, to observe the cease-fire, and to abjure the threat or use of force or military blockade against each other. Egypt agreed to permit nonmilitary

cargoes destined for, or coming from, Israel to transit the Suez Canal. Israel agreed to withdraw its forces from the Giddi and Mitla Passes in the Sinai, to enlarge the buffer zone between Egyptian and Israeli forces and to return to Egypt the Abu Rudeis oil fields. The U.S. offered to man an early warning system in the Sinai. This proposal, which will result in the posting of up to 200 American civilian technicians in the Sinai, requires congressional approval. Implementation of the agreement is currently underway. The agreement specifically calls for continued efforts to negotiate a final peace agreement within the framework of the Geneva peace conference in accordance with Security Council Resolution 338.

GOVERNMENT

Egypt has a strong, presidential-type government. Under the Permanent Constitution proclaimed on September 11, 1971, executive authority is vested in the President. He is popularly elected to a 6-year term and must receive an absolute majority of the votes cast. The President appoints the Vice President, the Prime Minister, and the Council of Ministers (Cabinet). When the People's Assembly is not in session he rules by decree, but any legislation so promulgated must be submitted to the Assembly for approval when it reconvenes. Nonsubmission of decrees to, or their rejection by, the Assembly deprives them of force of law. In normal circumstances the President may veto a bill or draft law and return it to the Assembly within 30 days of its enactment. If the specified time limitation is exceeded or the Assembly again passes it by a two-thirds majority, it becomes law. Should a temporary event prevent the President from exercising his functions, the Vice President may act for him. If the President resigns, he addresses his resignation to the People's Assembly. In case of a mid-term permanent vacancy in the position of the President by death or disability, the Presidency is assumed by the Speaker of the People's Assembly. If the Assembly is dissolved at that time, power is then assumed by the Presi-

dent of the Higher Constitutional Court, provided that neither he nor the Speaker are running for President at the same time.

The unicameral People's Assembly has 360 members—350 elected from the 175 parliamentary constituencies and 10 appointed by the President. An Assembly term is 5 years. At least half of the members must be workers or peasants (*fellahin*). Under the Constitution the People's Assembly has the sole authority to enact legislation while it is in session.

Egypt's judicial system is based on European (principally French) legal concepts and methods. The highest court is the Court of Cassation, whose judges are appointed by the President.

Principal Government Officials

President—Anwar Al Sadat
 Vice President—Muhammad Husni Mubarak
 Prime Minister—Mamduh Salim
 Deputy Prime Minister, Minister of Foreign Affairs—Ismaïl Fahmy
 Deputy Prime Minister, Minister of War—Gen. Muhammad 'Abd al-Ghani al-Gamasy
 Ambassador to the U.S.—Ashraf Ghorbal
 Ambassador to the U.N.—Ahmad Esmat Abdel Meguid

Egypt maintains an Embassy in the U.S. at 2310 Decatur Place, NW., Washington, D.C. 20008. There are also Consulates General in New York and San Francisco.

POLITICAL CONDITIONS

Political parties in Egypt were outlawed in 1953. The regime has sought to replace them with a single mass organization which would support the regime and its policies. The first two efforts, the National Liberation Rally and the National Union, were not successful. The present organization, the Arab Socialist Union (ASU), was established in 1962 and was subsequently reorganized in 1966 and in 1971.

President Gamal Abdel Nasser dominated virtually every aspect of life in Egypt from 1952 until his death in September 1970. He was looked

READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

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upon as a leader among the Arab states as well. Following Nasser's death, Anwar Sadat, one of the 1952 revolutionary group, was nominated President by the governmental and ASU organs and elected by national plebiscite. His term began in October 1970 for a full 6 years. The last People's Assembly elections were held in October 1971.

On September 11, 1971, Egypt's Permanent Constitution, based on studies by the ASU and the People's Assembly, was passed by general referendum. It embodies the goals and principles of the revolution and henceforth serves as the basis of government.

The declared long-range objectives of the Egyptian Government are to bring the benefits of education, representative government, and modernism to all the people of Egypt. One of its major actions has been a restructuring of the socioeconomic system. Through a program of nationalization of major industrial and commercial companies, sequestration of foreign-owned proper-

ties, breaking up of large estates, and exclusion of traditional leaders from influential positions, the government has largely displaced the old landowning aristocracy. In its place there has emerged a new elite of technicians and army officers.

ECONOMY

Egypt's economic growth in recent years has been slow due in large part to the 1967 war. As a consequence of that war, canal earnings stopped, tourist receipts declined, and the Sinai oil fields were lost, seriously limiting imports of needed commodities and impairing repayment of foreign indebtedness. With the reopening of the canal, the return of the oil fields, and increased foreign contributions to promote economic development, it is expected Egypt's economic growth will now accelerate.

Egypt's economic problems cover a broad front. Severe import restrictions and deflationary policies have had to be imposed, creating a serious constraint on economic production and growth. Due to shortages of raw materials and spare parts, Egypt's industries have been operating at considerably less than full capacity. The lack of fertilizer imports has limited agricultural productivity (about 80 percent of Egypt's exports, mainly cotton, are processed agricultural products).

Investment expenditures have been low, and job opportunities have grown more slowly than the labor force, increasing underemployment. This has been intensified by the rapid population growth and a need to expand social services at the expense of investment in productive enterprises. Migration to the cities has increased the urgent need for social and welfare services.

The Egyptian economy is dominated by the public sector. However, Egypt has recently taken a number of significant steps to implement a new development strategy that envisages expansion of the private sector and the encouragement of foreign private investment.

Agriculture and Industry

The Egyptian economy is basically agricultural, as it has been for centuries. Half of the total labor force of 10 million is engaged directly in this sector, and many others are engaged in processing or trading agricultural prod-

ucts. Thus, the majority of the population depends on some 6 million acres of high fertility soil in the Nile Valley and delta areas for their means of support.

The climate and availability of water permit multiple cropping (several crops a year on the same piece of land) and almost doubles the actual crop area in any one year, but farming is generally inefficient by modern standards. Production is for the market with very little subsistence agriculture. Cotton, wheat, rice, and corn are the principal commodities; cotton provides almost one-half of all export earnings.

To limit development of a one-crop economy, the government restricts the planting of cotton to one-third of each owner's land. Although wheat is less profitable than several other crops, the law requires most landowners to plant at least one-third of their land in wheat. Nevertheless, the annual shortfall between cereal production and consumption averages 2.5 million tons.

In 1947 half of the cultivable land was held by less than 2 percent of the landowning population. Maximum holdings have now been reduced to 100 acres per family, and some 300,000 families (8 percent of the rural population) have received land under agrarian reform distribution.

Since the per capita resources of water and cultivable land are limited, Egypt has concentrated on industrialization as a means of raising productivity. As the government has assumed larger and larger managerial responsibilities, the role of the small entrepreneur class has dwindled. Since the nationalization of the early 1960's, all major industries and public utilities have been run by organs of the central government. Nevertheless, the principle of private enterprise continues to be recognized, and most agricultural land, as well as a large proportion of trade, remains privately owned.

The industrial sector currently accounts for slightly over 20 percent of GNP, 35 percent of total exports, and about 13 percent of total employment. As a result of the Egyptian Government's recent steps to encourage participation by foreign capital in the development effort, a number of projects—involving at least partial

foreign equity totaling more than \$3 billion—are being discussed. These projects range in size from immense petrochemical complexes, refineries, and sponge iron plants to a variety of small manufacturing ventures in the \$2-\$10 million range.

Natural Resources

Egypt has few natural resources other than the agricultural capacity of the Nile Valley. The major minerals found are phosphates, petroleum, and iron ore. Petroleum production is moderate from offshore fields in the Gulf of Suez and some recent strikes in the Western Desert. Egypt has become an exporter of small quantities of petroleum despite the loss, at least for the present, of its Sinai oil fields and has hopes that further petroleum discoveries will be made in the future.

In the past year, 22 petroleum companies, including about 15 American firms, have signed petroleum exploration and development agreements with the Egyptian General Petroleum Co. Obligations have been made to spend several hundred million dollars on exploration in the next 2 years.

Trade and Balance of Payments

In recent years Egypt has had regular and substantial deficits in its foreign trade—imports have exceeded exports. With growing domestic demand for its export crops and the forced shift of its earnings away from convertible foreign exchange, Egypt has been required to set import limits that severely hamper not only economic development but the efficient use of existing agricultural and industrial capacity. Lack of import capacity for pesticides and fertilizer has delayed the spread of the "Green Revolution" to Egypt, and much industrial plant lies idle or underutilized through lack of replacement machinery, spare parts, and raw materials. In short, Egypt's ability to earn foreign exchange for needed imports is circumscribed by its financial inability to import the necessary inputs for export production. In 1973 exports totaled about \$1.015 billion, while imports were about \$1.600 billion. Cotton is the most important export from Egypt, accounting for more than 50 percent of

total earnings. Rice, petroleum, and manufactured goods, however, are assuming increasing importance. Foodstuffs (especially wheat—almost 3 million tons a year) and capital goods have accounted for a substantial share of Egypt's imports. In recent years Communist countries have taken about 50 percent of Egypt's exports and supplied about 35 percent of its imports.

The recent balance-of-payments difficulties have forced Egypt to maintain a substantial level of short-term borrowing. Added to its long- and medium-term debts, this burdens the economy with a very substantial debt service ratio.

Until the June 1967 war, earnings received from Suez Canal revenues and tourism covered a substantial proportion of Egypt's trade deficit. In 1966 Suez Canal earnings amounted to about \$220 million. Despite the special subsidy payments from some other Arab states, Egypt is still dependent on substantial additional inflows of foreign capital to finance its economic growth.

Transportation and Communication

Transportation facilities in Egypt follow the pattern of settlement along the Nile. The major line of the nation's 4,000-mile railway network runs from Alexandria to Aswan. Other important lines run along the north coast to the Libyan border and eastward to the Suez Canal. More than 14,000 miles of motor roads (5,000 miles of which are hard surfaced) cover the Nile Valley delta and Red Sea coast. The Nile River system of approximately 1,000 miles, plus another 1,000 miles of navigable canals, are also extremely important for inland transport. The major ports are Alexandria and Port Said. All major cities, except Alexandria, have airports, of which Cairo International is the most important.

Radio Cairo, a government monopoly, is the most important communications facility in the Arab world and beams its broadcasts to all Middle East countries. Television was introduced in 1960 and can be viewed in 95 percent of the Republic. The Cairo and Alexandria press are very active, and Cairo newspapers and books are read throughout the Arab world. The Egyptian

film industry, once the Arab world's leading one, has become less active but is still important.

FOREIGN RELATIONS

Egypt is acknowledged as the leading state in the Arab world. Its population, industry, and armed forces are the largest of the Arab countries. The Egyptians are also Arab leaders in, among other spheres, the arts, literature, publishing, and movie production.

Egypt is influential in various other international contexts. From the 19th and early 20th centuries, when France and the United Kingdom competed for predominance and guided the building of and managed the Suez Canal, Egypt has retained a special importance for those two nations. Following the 1967 war, Egypt's relations with the U.S.S.R. grew increasingly close. Egypt also plays an important role as a Mediterranean state. It has been very active as a third world nation and, through a special relationship which evolved in the 1950's and 1960's with Yugoslavia and India, is looked upon by many in Africa and Asia as a leader of the nonaligned group of states. It has developed its cultural ties as well with the substantial Muslim population of sub-Sahara Africa and has extensive influence in that area.

The main themes of Egypt's foreign policy are Arab nationalism, Arab socialism, and the championship of the Arab cause vis-a-vis Israel. President Nasser caught the imagination of many Arabs as the first important Arab leader in the post-World War II era to espouse anticolonialism, sharply reduce foreign influences in Egypt, and vitalize dreams of unification of the Arab world as a single nation. Through dynamic leadership, the new Egyptian regime in the 1950's and early 1960's became the personification for many Arabs of a movement for (a) Arab unity, (b) reduction of foreign influence, and (c) modernization. For the Egyptians, however, insistence on pan-Arab nationalism has gone hand-in-hand with a strong sense of pride in their own Egyptian nationality, a stronger feeling of identity than is found in the other Arab countries.

Arab socialism, as espoused by President Nasser and adhered to by his

successor, was developed gradually by the Nasser regime in response to the economic and social needs of the population. The Arab socialism of Egypt is not rigidly Marxist, rejects the doctrine of class struggle, and does not oppose private ownership of property. It is centered on state capitalism, raising living standards through industrialization, and bringing about a broader distribution of wealth. Nasser's propagation of Arab socialism brought him into sharp ideological conflict with the governments of more conservative Arab countries in the period before the 1967 war.

The importance of the Arab-Israeli dispute in Egyptian foreign policy has varied over the years, depending on the extent of tensions with Israel and the vicissitudes of Egypt's disagreements with other Arab countries. Since the 1967 war it has been Egypt's all-encompassing external concern. Egypt accepted U.N. Security Council Resolution 242 of November 22, 1967, calling for a peaceful settlement of the Arab-Israel conflict, but it never abandoned the option of attempting to regain its territories occupied by Israel in 1967 through recourse to war.

Relations with the U.S.S.R. deteriorated following the expulsion of Soviet military advisers from Egypt in July 1972. Relations between Moscow and Cairo are troubled, however, by Egyptian complaints that the U.S.S.R., following a massive Soviet military supply effort during the October 1973 war, has dragged its feet on military supplies since the war and has turned a deaf ear to Cairo's requests for a rescheduling of Egypt's heavy debt burden.

U.S.-EGYPT RELATIONS

Before 1967, U.S. relations with Egypt went through several cycles. The United States attempted to cooperate with the new Egyptian regime when it came to power in 1952. Relations were soon soured, however, by differences over such matters as U.S. friendship with Israel, U.S. refusal to finance the Aswan High Dam, the Baghdad Pact, and U.S. arms supplies to other Middle East countries. Relations between the two countries began to improve late in 1958, and the

United States provided technical assistance, development loans, and large quantities of agricultural commodities to Egypt. In 1964 relations began to deteriorate again, primarily over questions relating to third countries rather than to strictly bilateral problems. When the "6-day war" broke out in 1967, Egypt accused the United States of being actively involved in the hostilities on the side of Israel and broke relations on June 6, 1967. (President Nasser subsequently admitted that this charge was based on misinformation.)

Formal diplomatic relations were

reestablished on February 18, 1974. A close cooperative effort aimed at working out a negotiated settlement of the Arab-Israeli dispute has been bolstered by efforts in the economic field. The United States launched a \$250 million AID program during FY 1975. An intense effort is underway to further deepen and broaden U.S.-Egyptian relations in the economic, cultural, and scientific fields under the auspices of the Joint U.S.-Egyptian Commission, established in June 1974 during former President Nixon's visit to Egypt.

Principal U.S. Officials

Ambassador—Hermann F. Eilts
Deputy Chief of Mission—Frank E. Maestrone

Counselor for Political Affairs—Arthur Lowrie

Counselor for Economic/Commercial Affairs—Edward L. Peck

Counselor for Public Affairs—Howard H. Russell, Jr.

Counselor for Economic Development—Wilbert R. Templeton

The U.S. Embassy in Egypt is located at 5 Sharia America Al Latiniyah, Garden City, Cairo.

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EGYPT - GOVERNMENT

DECEMBER 1977

Mr. Anwar <u>El Sadat</u>	President
<u>Members of the Council of Ministers</u>	
Mr. Mamdouh <u>Salem</u>	Prime Minister
Dr. Abdel Moneim <u>El Kaissouni</u>	Deputy Premier for Financial & Economic Affairs & Minister of Planning
Dr. Mohammed Hafez <u>Ghanem</u>	Deputy Premier for Social Development & Sudan Affairs
Gen. Mohamed <u>El Gamassy</u>	Deputy Premier & Minister of War & Military Production
Mr. Ahmed <u>Sultan Ismail</u>	Deputy Premier for Production & Electricity and Power
Dr. Fouad <u>Mohy El-Din</u>	Minister of State for People's Assembly
Mr. Ahmed Ezzel-din <u>Hilal</u>	Minister of Industry, Petroleum and Mining
Dr. Mostafa Kamal <u>Helmi</u>	Minister of Education
Mr. Mohamed Hamed <u>Mahmoud</u>	Minister of State for Local Administration & Popular Organizations
Mr. Zakaria Tewfik <u>Abdel Fattah</u>	Minister of Trade and Supplies
Mr. Abdel Azim <u>Abul-Ata</u>	Minister of Irrigation & Land Reclamation
Mr. Eissa <u>Shahin</u>	Minister of State for Control & Follow-up
Mr. Samih <u>Talaat</u>	Minister of Justice
Dr. Hamed <u>El Sayeh</u>	Minister of Economy & Economic Cooperation
Dr. Ibrahim <u>Badran</u>	Minister of Health
Dr. Mohamed Salah El-Din <u>Hamed</u>	Minister of Finance

Sheik Mohamed <u>El-Sharawi</u>	Minister of Wakfs & Al-Azhar Affairs
Mr. Abdel Moneim <u>El-Sawy</u>	Minister of Culture & Information
Mr. Ibrahim <u>Shukry</u>	Minister of Agriculture & Rural Development
Mr. Moheb Ramzi <u>Estino</u>	Minister of Tourism & Civil Aviation
Dr. Amal <u>Osman</u>	Minister of Social Security & Social Affairs
Mr. Mohamed Nabawy <u>Ismail</u>	Minister of Interior
Mr. Hasalballah <u>El Kafrawi</u>	Minister of Housing and Reconstruction
Mr. Mohammed Ibrahim <u>Kamel</u>	Minister of Foreign Affairs
Dr. Naiem Mustafa Abn <u>Taleb</u>	Minister of State for the Development Plan
Mr. Abdel Sattar <u>Megahid</u>	Minister of Transportation, Communication, and Marine Transportation
Dr. Ali El <u>Salmi</u>	Minister of State for Administrative Development
Mr. Saad Mohamed <u>Ahmed</u>	Minister of Manpower & Vocational Training
<u>Other Officials Likely to be Met</u>	
Dr. Bindari	Director, Population & Family Planning Board
Eng. Mashhour	Chairman, Suez Canal University
Mr. Abdel Tawab Hodayeb	Governor of Alexandria
Mr. A. Kabodan	Chairman, Development Industries Bank
Mr. Fouad Sultan	Vice Chairman & Managing Director, Misr Iran Development Bank
Mr. Sajid Marei	Speaker of Peoples' Assembly
Dr. Mowad	Chairman, Egyptian Iron & Steel Co.

BIOGRAPHICAL DATA

President Anwar Sadat

Anwar Sadat became the President of Egypt after President Nasser's demise in 1970.

Prior to that, he was the Vice-President of the then United Arab Republic.

Born in 1918, he trained for an army career at the Cairo Military College. He was one of the group of army officers, who along with Nasser, deposed King Farouk and established the Republic of Egypt in 1952. Since then, he remained a trusted confidant and friend of Nasser and served him in a variety of offices before becoming Vice-President. These included being the General Manager of the "Al Jumhuria" and "Al Tahrir" newspapers, the Secretary-General of the Islamic Conference (1957), the President of the National Union (1957-61) -- which is Egypt's only political party now called the Arab Socialist Union, Member of the Presidency Council (1962-64) and President (Speaker) of Egypt's National Assembly (1964-66).

President Sadat is married to a lady of Egyptian-Anglo descent and has two daughters and one son.

CABINET

H.E. Mamdouh Salem, Prime Minister

Born in Alexandria, March 1918. Graduated from the Police Academy in 1940. His first job was with the Customs police and was later transferred to Alexandria Police. Worked after that in the General Police Investigations, then as an inspector for the Passport Department of the Alexandria harbor. He was then transferred to the Regional Office of the Israeli Boycott, and later returned to the General Police Investigation of Alexandria. In August 1967 he was appointed Governor of Asuit, then Governor of Gharbia, and later Governor of Alexandria. In May 1971 he was appointed Minister of Interior. In November 1976 he was named Prime Minister. Accompanied the late President Nasser in his trips to the USA, Yugoslavia, Algeria, Tunisia, Morocco, Ghana, Guiana, Mali, Ethiopia, India and Saudi Arabia. Speaks English, French and Italian. His hobbies are golf, fishing and bird watching.

H.E. Ahmed Sultan Ismail, Deputy Prime Minister for Production and Minister of Power and Energy

Born April 14, 1923. B. Sc. Mechanical Engineering, Cairo University, 1945. Nasser Military Academy, 1967. 1945-48: Engineering, Ministry of Electricity. 1948-49: Government nominee for taking over electricity project from Leon Company. 1949-51: Government representative in England and France to supervise the production of the electricity generation equipment for the Northern Cairo Power Station. 1951-57: Supervising Engineer for the mechanical work at the Northern Cairo Power Station, and later Director of Maintenance at the station. May 1957-March 1960: Assistant Supervising Engineer at the Southern Cairo Power Station. December 1961-June 1964: Director of the Northern Cairo Power Station; Executive Director for the Western Cairo Electrical Project; Technical mission for 4 months at the Westinghouse Company concerning the Western Cairo Power Station. June 1964-May 1968: Director General of the Department of Executions and Installation of Power Stations; member of the Board of Directors of General Egyptian Association for the execution of electricity projects. May 1968-May 1971: Governor of Mounifia. May 1971: Minister of Electricity and Power. November 1976: Deputy Prime Minister for Production and Minister of Power and Energy.

H.E. Dr. Abdel Moneim El-Kaissouni, Deputy Prime Minister for Financial and Economic Affairs and Minister of Planning

Born in Cairo, May 1916. PH.D. Economics, University of London, 1942. 1954: Undersecretary, Ministry of Finance. 1955: Minister of Finance. 1958: Minister of Economics and Foreign Trade (during the Union with Syria). 1964: Deputy Minister for Economic Affairs, and Minister of Foreign Trade. January 1969: Economic Advisor to the Government of Kuwait. 1971: Chairman of the Board of Directors of the International Arab Bank. February 1974: Member of the National Council for Production and Economic Affairs. November 1976: Deputy Prime Minister for Financial and Economic Affairs. October 1977: Deputy Prime Minister for Financial and Economic Affairs and Minister of Planning.

H.E. Abdel Azim Abul-Ata, Minister of Irrigation and Land Reclamation

Born in Mounifia, May 18, 1925. Received his B.Sc. in Engineering (Construction) and M.Sc. in Irrigation from Alexandria University. Worked as Assistant to the Director of Irrigation, Assistant to the Resident Engineer of the Owen Dam in Uganda, Technical Assistant to the Minister of Works, and General Director of the High Dam Office in Moscow. In 1964 he was appointed Under Secretary of the High Dam Ministry. In 1970 he was appointed as Deputy Chairman for Land Reclamation then Chairman of Reclamation and Agricultural Projects, and later President of Land Reclamation. In 1973, in addition to his position, he was made President of the executive organ of desert projects. In November 1976 he was appointed Minister of Agriculture and Irrigation. In February 1977 he was made Minister of Irrigation and Land Reclamation.

H.E. Dr. Hamed El Sayeh, Minister of Economy and Economic Cooperation

Born on December 14, 1921. B.A. Commerce, Cairo University, 1943. M.A. Business Administration, University of Denver, 1947. Ph.D. Economics and General Finance, University of Kentucky, 1949. Teaching position (lecturing in Finance), Faculty of Commerce, Cairo University. 1954: Deputy Chairman, Department of Economic Affairs, Ministry of Economy. Director, Office of the Minister of Finance. 1957: Director of the Currency Control. February 1966: Supervising Undersecretary on Economic Cooperation and Foreign Cooperation and Banking Affairs, Ministry of Economy. March 1968: Alternate Governor, World Bank, February 1971: Chairman of the Board of Directors of the National Bank of Egypt. January 1975: Member of the Association for Industrialization. Undersecretary of the Ministry of Economics for International Economic Cooperation and negotiation with the IMF and the World Bank. Member of the Board of Directors of the Central Bank of Egypt. November 1976: Minister of State for Economic Cooperation. February 1977: Minister of Economy and Economic Cooperation.

H.E. Ahmed Ezzel-din Hilal, Ministry of Industry, Petroleum and Mining

Born in Alexandria, December 5, 1924. B.Sc. in Chemical Engineering from Cairo University. Graduate research in Holland and England. Nasser Military Academy, 1967. Held several governmental positions until he was appointed as the Director of the Petroleum refinery of El-Nasr Oil Company. In May 1968 he was appointed as the Director of the General Egyptian Association for Petroleum, and in October 1971 he was appointed Chairman of the Board of Directors of the Association. Supervised the establishment of all the petroleum refineries in Egypt, and a number of refineries in Greece, and Sri Lanka. November 1976, Minister of Petroleum. October 1977, Minister of Industry, Petroleum and Mining.

H.E. Dr. Mohammed Hafez Ghanem, Deputy Premier for Social Development and Sudan Affairs

Born in Alexandria, he is about 52 years old. Ph.D. in International Law from Paris and a law expert in the International Organization for Nuclear Power in Vienna. He is a member of the "Mediation, Conciliation, and Arbitration Committee in the Organization of African Unity and a member of the Ein Shams Faculty of Law. Received a State Award on his book "Basics of International Law. He was appointed in his present position in November 1976 and before that was Minister of Tourism, then Minister of Education, then Secretary General for the Arab Socialist Union, and then Deputy Premier and Minister of Higher Education.

H.E. Mr. Mohammed Ibrahim Kamel, Minister of Foreign Affairs

Born January 6, 1927. Graduated from Law College in 1947. Worked in the State Council. Joined the Ministry of Foreign Affairs as First Secretary in London in 1955. Returned to Egypt following the Suez crisis in 1956. Worked in the Department of International Treaties. Counsellor of the Egyptian Embassy in Rome. Deputy Director of Latin American Department in the Ministry of Foreign Affairs. Became Ambassador of Egypt in the Congo Leopoldville, 1964. Ambassador of Egypt in Sweden, 1971; later Ambassador in the Federal Republic of Germany. Appointed Foreign Minister on December 24, 1977. Married with 2 sons.

H.E. Dr. Mohamed Salah El-Din Hamed, Minister of Finance

B.Sc. Commerce, and two diplomas in taxes, Cairo University (1949), M.A. economics, University of Leeds, Ph.D. economics, University of Edinburgh. November 1972: Deputy Director of the National Institute of Administrative Development. February 1974: Member of the National Council of Education and Scientific Research. Brief Staff member of World Bank. Economic Advisor, Abu Dhabi Fund. November 1976, Minister of Finance.

H.E. Hassaballah El Kafrawi
Minister of Housing and Reconstruction

Born in Damietta, November 22, 1930. Graduated from Civil Engineering, Alexandria University in 1955. 1958-64: Engineer in the Ministry of Irrigation, and later in the High Dam Ministry. 1964-66: Director of the Southern District for electrical power in the High Dam. Member of the Board of Directors of the electrical companies of Elgekt, and Kahromek until November 1973 when he was Chairman of the Board of Directors of the Canal Contracting Company. 1974: Deputy President of the Executive Organ for the Reconstruction of the Canal. June 1975: President, Executive Organ for the Reconstruction of the Canal. November 1976: Governor of Damietta. June 1977: Deputy Minister for the reconstruction affairs. President for Association of the Development of new cities. Supervised the planning of El-Sadat City, tenth of Ramandan City, New Amriya City, south-west of Alexandria. October 1977 he was named Minister of Housing and Reconstruction.

H.E. Major General Abdel Sattar Megahed
Minister of Transportation, Communications, and Marine Transportation

Born in Dakahliya, 1923. Obtained a degree in Engineering in 1974. Worked as assistant to the Minister of War, Chief of Staff of the Engineering Corps, and later Chief in Command of the Engineer Corps. October 1977, Minister of Transportation, Communications and Marine Transportation.

H.E. Ibrahim Shukry
Minister of Agriculture and Rural Development

Born in Cairo, September 1916. After obtaining his B.Sc. in Agriculture he became a member of the Party of Egypt and was deputy President of the Party. He was the first to enter the House of Representatives as a representative of the Socialist Party in 1950. He was imprisoned for his political views, but was released after the 1952 revolution. He was a member of the committee for the formation of the Constitution in 1953. He was the first representative of the Arab Socialist Union Party for Dahlakia. He was elected President of the Farmers Association in 1965. He was elected as President of the Committee of Agriculture and Irrigation in the People's Assembly. In 1971 he was nominated to be the Secretary General for Technical Affairs in the Arab Socialist Union Party. In 1974 he was appointed Governor of the New Valley. However, he resigned and ran for office in the People's Assembly, and became Chairman of the Committee for Agriculture. He was Editor in Chief for the Magazine "Socialism". Prior to the 1952 revolution, he was a well-known political figure with socialist views and a program for agrarian reform. In February 1977 he was appointed Minister of Agriculture and Rural Development.

H.E. Moheb Ramzi Estino
Minister of Tourism and Civil Aviation

Born in 1912. Graduated from the Faculty of Engineering, Cairo University in 1934, and specialized in Municipal Affairs in London in 1960. 1934-57: Engineer and later General Supervisor, Ministry of Municipal Affairs. 1958: Director General of the General Association of Industrialization until 1971. 1964: Member of the National Council in 1964. 1971: Member of the People's Assembly 1971. 1974-76: President of Industrial Committee in the People's Assembly. Member of the National Council for Production. October 1977, Minister of Tourism and Civil Aviation.

OTHERS LIKELY TO BE MET

Mr. Sayed Marei, Speaker of People's Assembly

Born about 1914. Until January 1974, Sayed Marei was the Adviser to President Sadat. He has been one of his closest confidants and advisors. When Sadat became President, Sayed Marei was named the Deputy Prime Minister for Agricultural Affairs, besides holding the portfolio of the Minister of Agriculture. In August, 1972, President Sadat made him the Secretary-General of the Arab Socialist Union, in order to see through the significant party reforms that he wanted implemented. In February 1973, Mr. Marei became the Presidential Adviser.

Mr. Marei is a trained agriculturist and holds a Bachelor of Agriculture degree from Fouad I University. His earlier career has been concentrated in the field of agriculture. In 1952, he became the member of the Higher Committee for Agrarian Reform; in 1955, Chairman of the Agricultural Cooperative Credit Bank; in 1956-57, Minister of State for Agrarian Reform; and thereafter from 1957-61, the Minister of Agriculture and Agrarian Reform. He is one of the architects of Egypt's land reforms, and an author of books on agrarian reform and agriculture in Egypt.

In the sixties, he got deeply involved with the work of the Arab Socialist Union until he became Minister of Agriculture again in 1967, and then the President (Speaker) of the National Assembly.

He commands respect in the Arab World, has President Sadat's implicit trust and confidence and has been a demonstrated friend of the Bank.

Engineer Mashhour A. Mashhour

Chairman, Suez Canal Authority. Born 1918. A civil engineer, educated entirely in Egypt, and a graduate of Cairo University, he was an army engineer until 1956. When the Canal Authority was set up in 1956, he was appointed deputy director of the transit department, then director and became chairman of SCA in 1964. He is a religious man and does not drink.

Mr. Mashhour was one of the original group of "free officers", who overthrew the old regime in 1952, and as such enjoyed close contacts with both Presidents Nasser and Sadat. Although he owes his present position to his managerial capability and his good relations with his staff, he has the close confidence of President Sadat, which is noteworthy for someone who was also close to President Nasser.

He is a member of the People's Assembly representing Ismailia for the centre (government) party. As SCA Chairman he holds the rank of Minister, although not a member of the cabinet. Married. Fluent in English.

Dr. Aziz El-Bindari

Chairman of the Family Planning and Population Board

He is in his early 50s. A son of distinguished and highly regarded diplomat who was the Egyptian Ambassador for the Soviet Union for many years. Holds a Medical Degree from Cairo University and a Degree in Philosophy from the Sorbonne University. He worked in University hospitals and was the Director of a number of University hospitals for many years. He was considered a capable director. He later worked with the Public Organization for Pharmaceutical Products. In 1969 he was nominated by the Minister of Health to work part-time as Deputy Chairman of the Population and Family Planning Board. Since 1971 he has been Director of the Family Planning and Population Board. He speaks fluent English and French.

E

E. I. Topics for Discussions:

Aide Memoire -- Discussions with President Sadat

Summary of Main Topics

Economic Management
The Industrial Sector
The Agricultural Sector
The Social Sector

1. Economic Management

- (a) Introduction
- (b) Status of Economic Management Program
- (c) Issues

- (i) Prices and Markets
- (ii) Debt Management
- (iii) Domestic Resource Mobilization
- (iv) Development Planning
- (v) Coordination of Economic Policy

- 2. Consultative Group/Project Preparation
- 3. Family Planning
- 4. Industrial Sector Issues and Dialogue
- 5. Agricultural Sector Issues and Dialogue
- 6. Education and Manpower Planning
- 7. Monitoring of the Investment Program (Adler Visit)

II. Topics Likely to be Raised by the Government

III. Background Notes for Possible Field Visits or Discussions

- 1. Ismailia/Port Said -- Suez Canal Project Brief
- 2. Drainage in Egypt
- 3. Deputy Prime Minister for Production, Electricity and Energy
Power Projects Brief

2/15/78: Mr. McInerney made copious notes on his copy. Filed
in MemCon file: KMER Natw on Trip. B.

AIDE MEMOIRE -- DISCUSSIONS WITH PRESIDENT SADAT

Your discussions with President Sadat are not likely to be on technical matters but will tend towards broader, basic issues such as:

1. How the expectations now rising faster because of the prospect for peace, of Egypt's population can be met.
2. The prospects for future aid flows and Egypt's economic relationships with the Arab world, Western Europe, North America and Africa.
3. The question of modernizing Egypt's economic structure.

The attached brief provides some background information on these basic issues. This note is on, perhaps the most critical but also very sensitive, subject of the need for modernizing Egypt's administrative structure. We regard this as a precondition for meeting 1 and 3 above.

In our work on Egypt in both operational and general economic matters, we have encountered the full range of difficulties with Egypt's inefficient administration. Because of the structure of the decision-making process which reserves all important decision-making to the President, we believe there is only one person with whom this subject can be discussed productively -- President Sadat.

Perhaps with the exception of the Suez Canal Authority we find that the administrative structure in Egypt is very weak. Indeed, it is perhaps the most serious obstacle to Egypt making better use of (a) its resources, (b) the very large aid flow, (c) the substantial reservoir of very able people, (d) the water resources of the Nile combined with a good climate, and (e) strategically an excellent geographic location.

President Sadat has had little involvement in the planning and management of the development program. Responsibilities for policymaking, investment decisions, pricing, development and administration of legislation designed to promote development is divided among many ministers. There is little coordination between them. While the appointment of a Deputy Prime Minister for Economic Affairs was a welcome development, Dr. Kaissouni is responsible only for the Ministries of Economy, Planning and Finance. There are three other Deputy Prime Ministers -- one for Production and Electricity and Power, one for Social Development and Sudan Affairs and a third for War and Military Production.

Divided responsibility is not limited to the top of the Cabinet. For example, in the agricultural sector, policies, prices, investment decisions and supervision of relevant legislation are influenced by at least nine ministries. These are: Ministry of Irrigation and Land Reclamation, Ministry of Agriculture and Rural Development, Ministry of Planning, Ministry of Economy and Economic Cooperation, Deputy Prime Minister for Social Development and Sudan Affairs, Ministry of Trade and Supplies, Central Bank, Ministry of Finance, Ministry of Local Government.

A strong Minister of Industry was appointed recently. However, he is responsible for public sector industries only. Even in that sector he is not responsible for the cement and the pulp and paper industries. The cement industry is under the jurisdiction of the Ministry of War and Military Production and the pulp and paper industry is under the Ministry of Culture and Information. In addition to divided responsibilities, portfolios have changed frequently. For example, there have been five Ministers of Planning since 1974.

In addition to problems of organization, there is the very high number of ministers and under-secretaries, tremendous overstaffing in all public sector agencies plus almost complete security of tenure. Many civil servants spend minimal time at their desks and matters requiring action can be held up for months due to sheer administrative lethargy. These problems have made dealing with Egypt's bureaucracy so frustrating as to nearly scuttle one of the main objectives of the open-door policy, namely to bring in foreign investment, as well as slowing to a snail's pace many important public investment projects.

All points above reflect an urgent need for a review of the efficacy of Egypt's administrative structure. The timing may be opportune, if President Sadat should win peace, he may be ready to seek ways to lead his country vigorously across the threshold towards a modern economy. This will require an effective management role for the Presidency.

We do not think that President Sadat is likely to be open to advice from "experts." He tends to operate on a political plane and has had numerous expert reports, the last of which was the Moeller report (see Note below and Section G-5). However, he may well seek your advice for this most difficult task.

Although the Bank is not expert in matters of administrative efficiency for an entire government, should President Sadat raise the matter with you personally it would be a pity not to use the opportunity to address this critical problem. The Bank has had relevant experience in a number of sectors and it may well be possible to marshal this experience as well as some assistance from outside to formulate constructive suggestions for reform.

NOTE:

You should know that the Chancellor of the Federal Republic of Germany early in 1977 agreed to a request of the Government of Egypt to send Dr. Alex Moeller to Egypt to advise President Sadat. The report of his mission is summarized in a statement attached as Section G-5. The findings of the Moeller report coincide generally with ours. During the preparation of the report the Moeller team also became so much aware of the stifling problem of administrative efficiency that a separate, short, secret report was prepared for President Sadat suggesting an urgent need for administrative reform. To our knowledge there has not been any follow up to this report and at President Sadat's request there has not been any mention of it anywhere.

Summary of Main Topics

During Mr. McNamara's visit the discussions with the Government of Egypt could be focussed on 4 main topics involving also four different groups of Cabinet members:

1. Economic Management
2. The Industrial Sector
3. The Agricultural Sector
4. The Social Sector.

Below is a summary of points for discussion with references to additional information in the briefing book. Naturally the summary of points on Economic Management takes far more space than the other topics which, of course, are all related in some way with this crucial topic of economic management.

Economic Management

Economic management continues to be uneven with more progress in handling short-term external problems and less on structural matters.

(i) Coordination of Economic Policy

The appointment of a Deputy Prime Minister for Economic and Financial Affairs has improved coordination. However, as his jurisdiction does not cover some major economic activities, e.g. industry and agriculture, there are still problems of coordinating economic and sectoral policies. Therefore, further moves toward improving economic coordination are still necessary (further information on this subject under E I lc(v)).

(ii) Prices and Markets

Delays in the adjustment of prices have created impediments to a better allocation of resources, faster growth, and an improvement in the balance of payments. The main areas affected are:

The expansion of the parallel market exchange rates and the depreciation of the rate have devalued the effective exchange rate for import of goods and non-factor services by about 27.5 percent, and the export rate (to convertible currency areas) by 19 percent. Until an agreement with the IMF is reached on a unification of exchange rates and its level, the parallel market rate will have to be continually reviewed so as to maintain the incentive for workers' remittances and Egypt's competitiveness in the export field.

The prices charged by public sector enterprises and those paid to farmers for the major crops are controlled. This has constituted disincentive for overall production, lower savings, and (in agriculture) encouraged a switch to those crops whose prices are uncontrolled even if the social profitability of these crops was lower. It is necessary that a major revamping of the price system be implemented so as to substantially reduce the number of industrial commodities (at present covering about 65 percent of industrial output) for which price adjustments require a Cabinet decision, and to bring domestic price ratios in agriculture into line with international ratios.

*Compare
P. 7 (Tornis
for diff)*

The total subsidy bill in 1977 is estimated to be about \$2.1 billion compared with \$1.4 billion in 1976. Of this amount the direct subsidies on the supply commodities in 1977 accounted for \$1.1 billion compared with \$825 million in 1976. Much of this increase can be attributed to the shift of some of the items to the parallel market and hence being valued at a higher rate. In order to mobilize additional public resources, the subsidy bill must be gradually reduced, possibly by defining more rigorously which commodities are absolutely essential, and linking the receipt of subsidy to the level of income; this may require some institutional changes, such as the setting up of a rationing system.

As a result of adjustments in the interest rate structure and the removal of the withholding tax, the maximum deposit rate has risen to 6 percent and commercial bank lending rates to 8-9 percent. However, in view of the rate of inflation and the returns on non-financial assets, these rates are too low and will have to be adjusted. (Further information on this subject under E I 1 (c) (i)).

(iii) Debt Management

By end-September 1977, the amount disbursed and outstanding on short-term debt had been reduced by nearly \$600 million and the arrears had all been cleared. The contraction of further short-term debt must continue to be carefully regulated; otherwise the country may slip once more into arrears and possibly damage its creditworthiness.

Because of the change in the size and terms of aid inflows since 1975, it is likely that a substantial hump in debt service payments would arise even in the first half of the 1980's. Hence a coherent debt management policy has to be articulated with a view to lengthening the debt profile.

(Further information on this subject under E I 1 (c) (ii); F 4).

(iv) Domestic Resource Mobilization

The insufficiency of domestic resources has become a major constraint on development. This could be improved by adjusting prices of public sector enterprises, reforming the tax system so as to cover the increases in incomes and wealth that have taken place as a result of the "open door" policy, and by rationalizing subsidies and holding down consumption expenditures. (Further information on this subject under E I 1 (c) (iii)).

(v) Development Planning

A draft medium-term Plan covering the period 1978-82 has been presented to the Cabinet. This could be an important tool for setting priorities and managing the economy, but at present appears to be over-optimistic as regards both investment and output. In addition, a major effort will be required to develop a carefully formulated portfolio of projects to implement the Plan's objectives. (Further information on this subject under E I 1 (c) (iv); F 6 (a)).

(vi) Consultative Group (CG)/Project Preparation

The next CG meeting is scheduled for June 14 and 15, 1978. Preparations for the meeting must start well in advance. The Government must be prepared to explain its economic development policy and investment program. Since donor preferences are shifting increasingly towards project financing, project preparation needs to be encouraged. While there is no shortage of project ideas in Egypt systematic project preparation is lacking (further information on this subject under E I 2).

(vi) Monitoring of the Investment Program

The Government is not well informed of the status of the investment program. We therefore arranged for Mr. John H. Adler to visit Egypt in October 1977. In his report he recommends changes in the existing monitoring practices which if accepted would make the system far more useful /further information on this subject under E I 7 and F 6 (b)/.

The Industrial Sector

Industrial development is of critical importance for Egypt. It, in addition to the service sector, must provide productive employment opportunities for Egypt's large population. Issues in industry are complex resulting from uncoordinated sector administration and policies. Industrial development policy is still in the throes of changing the system from central control to greater reliance on market forces. The Bank is heavily involved in the sector

through lending and technical assistance. Bank/IDA financed projects have included provisions for overcoming basic weaknesses in the sector such as improving management, maintenance, production techniques, incentive for exports. We have also provided financing for a series of sector and sub-sector studies. We propose to continue to push for improvements in the sector through our future lending operations, additional technical assistance activities and occasional discussion of sector policies. (Additional information on this topic under E I 4; E III 3; G-3 provides project details for various industrial projects in Status Report.)

The Agricultural Sector

Progress in the agricultural sector has been disappointing. We believe that agricultural production could be increased substantially by rationalizing the system of control on production, price and marketing and by reviewing and revising agricultural policies and the present uncoordinated system of administration. To date the Government has tended to deal with issues in a traditional way making small adjustments here and there without addressing the basic issues.

The Bank is heavily involved in this sector through extensive lending for drainage but also for other projects. Sector issues have been studied in the context of the preparation of the basic report (presently under discussion with the Government) and other minor subsector studies undertaken in connection with project development.

Progress on the drainage program has been slow casting doubt on the feasibility of expanding irrigation works which the Government intends to do. Agricultural credit institutions are weak, borrowers are poorly organized as cooperatives are not functioning well. We propose to continue to push for improvements in the sector through lending, providing technical assistance and continuing the dialogue. (Additional information on this topic under E I 5; E III 2; G 3 provides project details for various agricultural projects in Status Report.)

The Social Sector

(a) Education and Manpower Planning

Egypt's educational system is ill equipped to meet the rapidly growing demands for skilled manpower. On the one hand nearly 61 percent of the labor force is illiterate, another 25 percent is minimally literate, on the other there is an oversupply of university trained staff in part prompted by government policy assuring university graduates public sector jobs. About 1.4 million Egyptians (including dependents) live abroad who account for substantial workers' remittances.

The Bank is supporting skill training through education projects. In the context of the appraisal of the second education project (March 1978) manpower planning will be reviewed. Coordination between ministries concerned with education and training needs to be improved. (Additional information on this topic under E I.6.)

(b) Family Planning

High population growth intensifies the already severe problems of urban and rural overcrowding and unemployment, meeting food requirements, lack of training schools and health facilities. The Bank has financed a population project and is preparing a second. Although there is growing awareness of the problem, public opinion does not realize its seriousness. Insufficient resources are being devoted to family planning. We have been told that it is the Supreme Council's intention to develop a population strategy and action program. The Bank is ready to assist in this worthwhile endeavor. (Additional information under E I 3, F 6 (c), G 4 e.)

I. Topics for Discussions

1. Economic Management

(a) Introduction: Egypt's fundamental problem is a large and growing population confined to a small cultivable area where output depends almost entirely on the water of the Nile. Population has grown faster than food production and industrial capacity has not grown sufficiently to offer an adequate number of effective employment opportunities. Cities have swelled, imports of food and other consumer goods have grown; potential exports have been absorbed by the local market. The public sector has become weighted down with excess staff by its effort to provide employment. While Egypt has many well-trained and experienced individuals, the administrative structure is historically cumbersome, overstaffed, uncoordinated and on the whole most difficult to work with. Egypt's educational system has not been adjusted to the manpower needs of the economy.

As summarized below, over the past two years progress has been made towards resolving the most pressing short-term problems in the financial sector such as debt, arrears and balance of payments problems resulting from the succession of wars and the shift from a centralized socialist economy towards a more market-oriented system following President Sadat's introduction of the Open-door Policy in 1973. This has been achieved through:

- (a) increased use of the parallel market exchange rate;
- (b) conclusion of an IMF Standby;
- (c) major restructuring of debt by payment of major arrears and conversion of short-term banking facilities to medium-term debt;
- (d) decentralization measures including abolishment of the General Organization which controlled industry;
- (e) removal of legal ceiling on interest rates and a strengthening of the Central Bank including the power to set interest rates;
- (f) passage of Law 43 in 1974 and its revision in 1977 which provides safeguards and incentives for foreign investment;
- (g) the formation of a Consultative Group under the chairmanship of the World Bank;
- (h) better coordination of economic policies through the appointment of a Deputy Prime Minister for Economic and Financial Affairs; and
- (i) formulation of a Medium-Term Plan.

The Government hopes that in the light of this encouraging progress on the most crippling immediate problems, it will be able to turn its attention increasingly towards the resolution of the structural problems in Egypt's economy.

The main structural issues requiring continued actions or further analysis and remedial actions are:

- (i) further improvement in the coordinating mechanisms of economic policies;
- (ii) further shift toward greater use of markets and the price system. This will include: completing steps toward using the parallel market rate leading to a realistic unified exchange rate, a gradual reduction of administered price and subsidies, and more realistic interest rates;
- (iii) continuing improvements in the management of debt, including improved monitoring;
- (iv) domestic resource mobilization through a gradual reduction in subsidies; and
- (v) improved development planning particularly project development and monitoring of the investment progress.

The Bank has been and is heavily involved in Egypt's efforts to deal with its difficult economic short-term and structural problems. We have learned a great deal about the problems of the Egyptian economy in the context of developing lending operations in various sectors through economic studies, technical assistance and the organization of the Consultative Group. Armed with this knowledge Bank senior staff have been able to conduct policy dialogues with senior Government officials regularly in the course of the last three years. As is shown throughout this brief, we have been able to assist the Government effectively in the shaping of economic policies, the formulation of the Plan and through many provisions in our lending operations.

The Egyptian economic problem is not only very serious and complex, remedial actions are also fraught with heavy political risks which are most difficult to judge realistically. For example, soon after a new economic team was installed in Cairo in late 1976 major reductions in subsidies and increase in prices were announced in January 1977. The announcement prompted widespread riots. As a consequence of this reaction, the Government had to rescind the proposed policy changes and has had to be much more cautious on questions of subsidies. If riots were to be triggered again, they might well topple at least the economic team and tie the hands of any future team in this critical area of pricing for a long time. Policy improvement especially in the area of pricing will have to be made gradually and with adequate preparation. The best contribution the Bank and the members of the Consultative Group can make is to exert pressure gently in strategic areas across the broad front of Bank involvement but we must remain as sensitive as possible regarding the political risks.

(b) Status of Economic Management Program: As a condition for substantially increased support to Egypt from the Bank, a number of measures to be taken were agreed between the Government and the Bank in an exchange of letters between Mr. McNamara and Prime Minister Salem in 1975 (copies of letters attached in Section G-4). Detailed progress on these measures is described below in tabular form.

When measured over the period of the last four years there has undisputedly been progress in a number of crucial fields. Objectives have been agreed upon with the Government, certain actions have been taken by the Government and others have been initiated. There is much greater awareness of the problems and their complexities among Egyptian policy-makers. The President and the Prime Minister are much more concerned about the economic sector than they appeared to be only a few years ago. This of course does not mean that the serious economic and social problems will be quickly solved or even that all solutions have been identified. Moreover, the recent political and diplomatic initiatives have made movement on economic reform even more circumspect. The popular feeling in Egypt is to identify peace with prosperity, not with an additional dose of austerity. Hence, although the economic Ministers reportedly pressed for significant reforms in the 1978 Budget, they were unable to make their views prevail in the Party (perhaps, in part, because the main economic Ministers lack a domestic political base). Hence, the best that the economic team has been able to achieve in the Budget is a holding action.

Finally, there is the important question of the relationship between economic and social policies. Most donors have been anxious to provide assistance so that economic pressures do not lead to a political upheaval. However, if economic management and policy is such that the benefits of aid and development are seen to accrue disproportionately (and visibly) to the richer groups, political unrest would easily be generated, and, ironically, foreign assistance would have been an important, even if unconscious, progenitor.

SUMMARY OF POLICY AND OTHER CHANGES PROPOSED TO
BE IMPLEMENTED BY THE ARAB REPUBLIC OF EGYPT IN
DR. SALEM'S LETTER TO MR. MCNAMARA DATED JUNE 5,
1975 AND ITS STATE OF IMPLEMENTATION (DECEMBER 1977)

INSTITUTIONAL CHANGES

<u>Description</u>	<u>Responsible Ministry</u>	<u>State of Implementation</u>
1. Improvement of Coordination of Economic Policies		Coordination improved by appointment of Deputy Prime Minister for Economic and Financial Affairs
2. Monthly Review of Foreign Exchange Budget by Supreme Council on Economic Planning	Ministry of Finance	Weekly review by Finance and Economic Ministries, PM briefed monthly
3. Regular Review of Government Borrowing from Central Bank	Central Bank	Credit ceilings set under IMF standby are monitored
4. Debt Management Unit	Ministry of Finance	Unit created to unify data collection but not yet fully operational
5. Preparation of 1976-1980 Plan	Ministry of Planning	1978-82 Plan submitted to Cabinet

POLICY CHANGES

I. External Sector

a) Ruling on use of short-term bank credit facilities	Ministry of Finance	Use of banking facilities gradually decreasing: end-1976 = \$1,395 million, disbursed or outstanding, end-September 1977 = \$788 million <u>1/</u>
b) Substantial refinancing of existing bank credit facilities	Ministry of Finance	See above -- Refinanced through GODE assistance and own efforts, e.g. issue of Government bonds <u>1/</u>
c) More frequent revisions of parallel market rate	Parallel Market Committee (Central Bank)	Revised February, May and December 1976

1/ All arrears had been paid by September 1977.

<u>Description</u>	<u>Responsible Ministry</u>	<u>State of Implementation</u>
d) (i) Widening of the Parallel Market through substantial allocation of official exchange receipts for imports through the Parallel Market	Ministry of Finance	Done in early 1977
(ii) Widening of Own Exchange Imports Scheme	Ministry of Commerce	Done in early 1977
<u>II. Domestic Policies</u>		
a) Increase resource mobilization through rationalization of laws pertaining to Income Tax, Customs, Sales Tax, Inheritance Taxes, and Stamp Duties	Ministry of Finance	Draft laws on this subject have been prepared by the Ministry of Finance and are being discussed within the Government before being submitted to the legislature.
b) Increase resource mobilization through reduction in subsidies:		
(i) Dual Pricing	Supply/Industry/Finance	Dual Pricing extended to rice, vegetable oil, horsebeans, sugar, tea, fertilizer. Kerosene, halwa and coffee taken off ration list.
(ii) Discrimination between income groups	Supply/Industry/Finance	Not done
(iii) Tax and licensing measures to restrain consumption of petroleum products	Ministry of Finance	Petroleum prices and license fees raised in January 1976
c) Central Bank:		
(i) Strengthening of role	Cabinet/Central Bank	Done by Law 120 of 1975
(ii) Relaxation of ceiling on interest rates	Central Bank	Done by Law 120 of 1975
(iii) Reduced borrowing from banking system	Ministry of Finance/ Central Bank	Governed by standby arrangement with IMF

(c): Issues

There are five main areas which remain to be addressed or which require major additional actions.

(i) Prices and Markets

There are four main areas in which delays in the adjustment of relative prices have created impediments to a better allocation of resources, faster growth, and an improvement in the balance of payments. These are: the exchange rate; administered prices in the agricultural and industrial sectors; consumption subsidies; and interest rates.

The Exchange Rate:

In recent years Egypt has made considerable progress in dealing with problems in the external sector. The parallel market, which was established September 1973, has progressively been widened and the rate applicable to transactions in the market has been steadily depreciated.^{1/} During the course of 1977 the authorities took action to move virtually all imports from convertible currency areas, except those of the basic items of consumption (the so-called supply commodities), to the parallel market. On the export side, all items except earnings from petroleum, the Suez Canal, and raw cotton were also moved to the parallel market. Thus, nearly all balance of payments transactions that are sensitive to price now take place at the parallel rate. As a result of the widening of the market and the changes in the parallel rate, the overall weighted average exchange rate for imports of goods and nonfactor services was depreciated by about 27.5 percent compared with the official exchange rate, and on the export side by about 19 percent for export to convertible currency areas. A continual watch will have to be kept on the parallel market rate so that it continues to provide an incentive for maintaining the flow of workers remittances and Egypt's competitiveness in the export field.

Administered Prices:

The Egyptian economy remains characterized by controls over prices at almost all levels. Perhaps the most important of these prices are those charged by public sector enterprises for their products and those paid to farmers for the major crops. On the industrial side, an important goal of policy must be to create a structure of relative prices that reflects costs of production and meets the need for an adequate return on capital. In order to attain this end, it would be desirable to substantially reduce the number of commodities (at present covering about 65 percent of industrial output) for which price adjustments require a Cabinet decision. On the agricultural side, the prices paid to producers

^{1/} For details on rate changes, see table "Egypt: Performance of Selected Indicators of Economic Management", F 3.

for a number of major crops^{1/} are well below world prices. This constitutes a disincentive for overall production, and additionally encourages a switch to those crops (such as berseem, fruits and vegetables) whose prices are uncontrolled, despite the fact that the gains to the country as a whole from these crops may be lower.

While some price adjustments have been made for cement, pharmaceuticals, reinforcing bars and automobiles, a revamping of price policy is still necessary in both the agriculture as well as in the industrial sectors, in order to mobilize additional resources, and to bring the social and private profitabilities of different activities into line with each other.

Consumption Subsidies:

Subsidies on a number of items of consumption form an important part of current expenditures. Direct consumption subsidies are expected to total about \$1.6 billion in 1977 (about 10 percent of GNP) and would be even higher if all the imported supply commodities were valued at the parallel market rate. The explicit cost of subsidizing supply commodities has increased in 1977 with the shift of a number of items to the parallel market; the estimate for 1977 is about \$1,100 million compared with about \$825 million in 1976 (when all the items were valued at the official exchange rate). The initial 1977 budget foresaw a substantial reduction in the cost of subsidies, however following the riots of January 1977 all subsidies were restored. Given the size and importance of the subsidy bill, it seems that its reduction must be a gradual affair.. Decisions must be made as to which are absolutely essential and how they can be linked to income levels. This might require some institutional changes, such as the setting up of a rationing system.

Interest Rates:

Until 1975 the Civil Code had imposed a ceiling of 7 percent on the interest rate. The Central Bank law reform of that year did away with this limit and in 1976 the whole structure of interest rates was raised by one percentage point. Additional incentives were provided to savers by abolishing the withholding tax of 40 percent which had been imposed on interest paid on deposits. As a result of these measures the maximum deposit rate has risen to 6 percent and commercial bank lending rates to 8-9 percent. However, the real rates are negative because of the rate of inflation; they are also substantially below the level required to encourage residents to switch foreign exchange holdings into Egyptian pounds, and do not provide adequate incentives for the rationalization of competing claims on investible resources.

^{1/} Especially cotton, though prices were raised somewhat recently.

(ii) Debt Management

Short-Term Debt:

By the end of 1976 the short-term debt (banking facilities) disbursed and outstanding stood at \$1,395 million, of which \$453 million represented arrears on repayments. As a result of cash assistance from CODE and efforts at mobilizing additional foreign exchange resources, such as through the issue of development bonds, the picture on short-term debt has improved. In September 1977 the amount disbursed and outstanding was about \$790 million, and the arrears had all been cleared. The contraction of further short-term debt must continue to be carefully regulated; otherwise a liquidity crisis and slippage into arrears could occur, which might adversely affect the country's creditworthiness.

Medium and Long-Term Debt:

Particularly since 1975, there has been an important change in the size and terms of aid inflows; the disbursed amounts have ^{1/} increased sharply but, while the terms are still very concessional, the proportion of grants has dropped substantially. This trend, if continued, could lead to a substantial "hump" in debt-service payments even in the first half of the 1980's.^{2/} It would be advisable to formulate a policy for managing the medium- and long-term debt which laid down guidelines regarding the minimum terms on which fresh debt could be incurred. Such guidelines could be expressed in a variety of ways, for example in terms of a minimum grant element in the loan and/or a minimum grace or maturity period. The aim should be to lengthen the debt profile; at end-1976, 15 percent of Egypt's disbursed medium- and long-term was due in 2 years, and 30 percent in 5 years.

(iii) Domestic Resource Mobilization

Although public sector revenues in 1977 accounted for slightly more than 40 percent of GNP, in the last year it has become evident that a major constraint on development is the mobilization of domestic resources. This could be improved in three major ways:

An adjustment of prices of the products of public sector enterprises would raise the profits of such enterprises, thereby increasing the transfers to the budget and decreasing the outflows from the budget to these enterprises for financing the domestic component of investment.

^{1/} The grant element on commitments in 1977 is estimated at 39 percent.

^{2/} Debt servicing in 1981 is estimated to be 71 percent higher than in 1977 (see Section F-4, "Foreign Assistance and Debt").

A reform of the tax system is necessary, because much of the increase in incomes that has taken place as a result of the "open door" policy is in areas that are inadequately covered by the existing tax system. The reformed tax system would have to cover gains from the appreciation of assets, the large profits on real estate dealings, the increase of agricultural incomes generated by the sale of products whose prices are not controlled (such as fruits, vegetables, berseem, poultry, meats), rents on furnished apartments, and the import and sales of consumer goods and durables.

The rationalization and reduction of subsidies would assist in holding down consumption expenditures and releasing resources for development.

(iv) Development Planning

Largely in response to the Bank's insistence, and with a significant amount of assistance on technical matters, a Five-Year Plan covering the period 1978-82 has been drafted and presented to the Cabinet. This represents an important achievement, as medium-term planning was, to all intents and purposes, suspended after the first Plan (1960-65). However, as our comments on the Plan indicate*, a considerable amount of further work will be needed to make it a more realistic and operational document for purposes of managing the economy.^{1/} Moreover, a vigorous effort will be required to develop a carefully formulated portfolio of projects that would implement the Plan's priorities and objectives.

(v) Coordination of Economic Policy

There has been some progress in the improvement of policy coordination. The appointment of Dr. Kaissouni as Deputy Prime Minister for Economic and Financial Affairs to oversee the Ministries of Finance, Economy, Planning, and Foreign Trade, has led to improved communication and coordination in this area. However, this has not quite made Dr. Kaissouni a primus inter pares on the economic side of the Cabinet, as some major economic activities, such as agriculture and industry, do not fall within the ambit of his jurisdiction. There are three other Deputy Prime Ministers. Deputy Prime Minister Sultan, for example, has overall responsibility for the important Ministries of Agriculture, Irrigation and Industry. This has created some problems of coordinating economic and sectoral policies. For example, a subsidy of about \$140 million on higher grade textiles was removed from the budget in February, but the price increase which was made necessary thereby had not been implemented by November. It seems, therefore, that further moves towards improving economic coordination, either by strengthening Dr. Kaissouni's hands or by having the Prime Minister play a more active role, are still necessary.

* See Section F 6 a.

^{1/} One of the major problems encountered in formulating an effective Plan has been the short tenure of Planning Ministers; since 1974 there have been five Ministers in charge of Planning.

2. Consultative Group/Project Preparation

The first meeting of the Consultative Group for Egypt was held in Paris on May 11 and 12, 1977, under the chairmanship of the World Bank. Representatives of the following countries were present: Canada, France, Germany, Iran, Italy, Japan, Kuwait, Netherlands, Qatar, Saudi Arabia, United Arab Emirates, United Kingdom and the United States. Also represented were the International Monetary Fund, the African Development Bank, the Arab Fund for Economic and Social Development, the Commission of the European Communities, the European Investment Bank, the Gulf Organization for Development in Egypt, the International Finance Corporation, the Islamic Development Bank, the OPEC Special Fund, the United Nations Development Program and the Development Assistance Committee of OECD.

The Egyptian delegation emphasized that many of the current problems of the economy had been the result of several years of greatly curtailed development effort because of the prevailing situation in the Middle East. The delegation discussed Egypt's longer-term development strategy and reasons for optimism about its long-term economic potential, particularly with regard to progress in industry, oil production, tourism and the rapidly increasing use of the Suez Canal, which emphasizes a high rate of growth based on increased earnings from petroleum, workers remittances and a more vigorous industrial sector; rehabilitating the infrastructure; and expanding export earnings so that external assistance finances only imports of capital goods. Special emphasis was placed on the efforts undertaken to improve the performance of the public sector and on the new measures to encourage private local and foreign investment in Egypt, which were now beginning to produce results.

Delegates at the meeting emphasized the need for continued efforts to control Egypt's population growth and to make Egypt's educational system more relevant to the needs of the economy. The delegates appreciated the magnitude of the task with which the Egyptian Government was confronted and recognized that the structural changes undertaken by the Egyptian Government would take a number of years to complete. They expressed their support of the Government's statement on its development strategy and of its efforts to direct future development within the framework of an integrated plan to be completed this year.

Action: At the first meeting of the Consultative Group, it was envisaged that a second meeting would be held in the Spring of 1978. Such a meeting is now scheduled for June 14 and 15, 1978. It is desirable that preparation for the meeting should start well in advance. Donors will place emphasis more than before on the Government's development priorities and on the projects for which the Government seeks finance. The meeting will therefore need a far more detailed and complete project list than the one prepared for the first meeting. The projects will have to be justified in the context of the development plan. The Bank remains ready to assist the Government in discussions of the project list and for project preparation in general. In view of the greater project emphasis of the next Consultative Group meeting and Dr. Kaissouni's limited responsibility for the key sectors of Agriculture and Industry, we shall request that these Ministries be represented at the Paris meeting. All subject matters requiring attention prior to the Consultative Group meeting are under discussion with the authorities.

3. Family Planning

Egypt's large and growing population is at the root of its development problem. The current 2.3 percent growth rate will lead to a population (now 38 million) of about 65 million by the year 2000, that is an increase equivalent to two Cairos and two Alexandrias. Costs to the economy in terms of economic and social growth foregone will be prohibitive as the additional population will use up to about two-thirds of resources expected to be available for investment. The high population growth intensifies the already severe problems of urban and rural overcrowding and unemployment, meeting food requirements, lack of housing, school and health, plus other facilities.

Government policy has two, complementary approaches, to meet its goal of annually reducing the birth rate by one per thousand. On the one hand it seeks to provide facilities so that everyone can have access to family planning information and contraceptives, and to establish programs to inform people about the benefits of reduced family size and spacing births. In these programs, there is a great emphasis on health benefits. On the other hand, the Government believes that significant and lasting reductions in fertility can only come about in the longer run through changes in society, by which people come to see a small family and reduced fertility as desirable. To this end, the FPPB^{1/} is developing a variety of pilot programs aimed at stimulating social change. The Bank Group made a first credit for family planning in FY74 (\$5 million). One of the main objectives of this credit was to start a dialogue on family planning with the Government. Progress on the dialogue was very slow at first perhaps due to a preoccupation of the Government with other issues. However, over the last year starting with the appointment of a new Minister of Health in late 1976, the Government has become increasingly aware of this need for action on population growth.

Prompted partly by Mr. McNamara's discussions with the Minister of Health, and by ongoing discussions between Bank officials and members of the Cabinet including the Prime Minister (but especially with Deputy Premier Hafez Ghanem, who is responsible for social affairs), and partly by the recently available statistics showing an increase in the birth rates in 1975 and 1976, the Government has restructured the Supreme Council for Family Planning and Population, which is chaired by the Prime Minister (Dr. Hafez Ghanem is Deputy Chairman). The Council, together with its executive arm, the Family Planning and Population Board (FPPB), is in process of formulating medium and long-term strategies for population activities in Egypt and plans for improving family planning services.

The Bank is now working with the Ministry of Health, with support of the Supreme Council and FPPB to prepare a second population project, which will concentrate on improving facilities for provision of family planning services, on training doctors and health workers, and include a community outreach program. In addition, as a component of the proposed second education project, the Bank will assist the Ministry of Education in its population education program.

^{1/} Family Planning and Population Board.

In July and October, there have been several discussions with Dr. Bindary, Chairman of the FPPB. He stressed that while he believed that socioeconomic change was essential for any long-term reduction in fertility, he had always also worked for expansion of the network of family planning delivery services, since creation of demand was of no use unless supply was also available. He expressed an interest in discussing with the Bank in addition to the above-mentioned second population project the design of a possible project in support of the FPPB's activities, and is writing to us on this subject. We are interested to review his proposal, which takes the shape of a combined rural development population project.

Actions:

- (a) Although there is a growing awareness of the problems of population growth, public opinion in Egypt still does not fully realize the seriousness of the problem, the costs which population growth imposes on the economy, or that reduction in population growth can be brought about by positive action. While there is some religious opposition to family planning, it would be desirable for the Government to mount a campaign to inform and influence leaders of opinion.
- (b) It is essential that adequate resources, especially of suitably qualified staff, be made available for the population program in the Ministries concerned: especially Health, Information and Social Affairs. The population activities of the Ministry of Health especially have until now been severely restricted by shortage of qualified staff at all levels. (Until autumn 1977 only one to two people were working on population in the Ministry of Health. A unit is now being set up: it is essential that it be adequately staffed, and have access to funds. An estimate of its needs is being developed in the context of the preparation work for the second population project. Staffing is also a problem at Governorate level: few if any Governorate Health Directorates have people with full time responsibility for the family planning program.)
- (c) We welcome the Supreme Council's intention to develop a population strategy and an action program for the years to come. We were told that a draft was to be presented by the end of 1977, and that the strategy would be developed by mid-1978. Only by active implementation of a policy for reduction in fertility can the Government's program be achieved of an annual reduction of one per thousand in the birth rate. We would be ready to assist the Government, should they ask, in development of this strategy.

4. Industrial Sector Issues and Dialogue

Egypt's industrial sector in some ways is the most critical for development as it must, in addition to the service sector, provide productive employment opportunities for the population that cannot be absorbed by other sectors. The sector suffers from some very serious problems mainly stemming from government policies that in recent years have sought to change the economic system from central planning to greater reliance on market forces. Politics have not been changed sufficiently to provide incentives needed and the bureaucracy continues to be stifling. Industrial policy is confusing for the entrepreneur as well as the policy-maker. Issues are complex and inter-related.

The Bank is involved in the development of Egypt's industry in a variety of ways. The following loans have been made or are proposed:

<u>Project</u>	<u>(\$ m)</u>	<u>FY Approved</u>
Development Industrial Bank (DFC I)	15.0	1973 (IDA)
Cotton Ginning Rehabilitation	18.5	1973 (IDA)
Talkha Fertilizer	20.0	1974 (IDA)
Agri/Industrial Imports (\$51 for industry)	70.0	1975 (IDA/IBRD)
Tourah Cement	40.0	1975 (IBRD)
Development Industrial Bank (DFC II)	25.0	1975 (IDA)
Textiles I	52.0	1976 (IBRD)
Industrial Imports	70.0	1977 (IBRD)
Iron Ore Beneficiation Engineering	2.5	1977 (IDA)
DFC III	40.0	1978
Textiles II	57.0	1979
Iron Ore Beneficiation	55.0	1979
DFC IV	50.0	1980
Industry (Pulp and Paper or Textiles III)	40.0	1980

In addition to gaining greater knowledge about the problems of the industrial sector through these operations, we have been able to: (a) make some progress towards developing long-term lending practices through DIB; (b) help modernize Egypt's major industry -- textiles; (c) through the imports loan, provide much needed foreign exchange for the purchase of raw materials and balancing equipment (under the most recent imports loan, funds will be allocated in such a way as to give preference to the more efficient enterprises and those that have valid export orders to convertible currency areas); and (d) provide assistance to expanding fertilizer and cement production both projects involving modernization and improvements in management.

In addition to loans made, the Bank has reviewed the industrial sector in the context of preparing the Basic Economic Report the draft of which is currently being discussed with the Government. Also, the Bank sponsored sub-sector studies undertaken by consultants financed from the proceeds of the

Agricultural/Industrial Imports Loan/Credit. Subsectors studied include: textiles, engineering industry, metallurgical industry, food industry, building materials and ceramics, and pulp, paper and board industry. All studies will be concluded in early 1978. The subsector study on textiles already provided important information on the shaping of the Textile II and Textile III Projects. Textile II is scheduled for late FY78. The other studies are also being reviewed by the Government and the Bank. These will serve as a basis for project and policy development. The Bank has also undertaken a survey of small-scale enterprises in Egypt -- final version has been submitted. The main conclusions of the report are: Small-scale industries have managed to hold their own during the nationalization process in the 1960's. Problems of this sector include outdated provision for management development, poor product design, and little or no access to institutional finance. In spite of these problems, SSI has already responded vigorously to the changed economic climate. Growth has averaged 15 percent in the period 1974-76. The survey recommends policy change to support SSI and technical assistance.

In the context of lending in industry and formulating technical assistance activities, we have had and propose to continue discussions of major sector issues which include: (i) low efficiency due to age of equipment, (ii) underemployment, (iii) lack of foreign exchange to import spare parts, raw materials and equipment, and (iv) lack of incentives for public sector enterprises as input and output prices of public sector enterprises are being controlled. In many industries, maintenance practices are poor, aggravating the problems of operating with aged equipment. Official unemployment is kept very low by placing workers in Government agencies or public sector enterprises regardless of need. Price administration is complex and extensive. In some instances prices are manipulated with desired effects: however many other administered prices bear no relationships to stated objectives. In the public sector prices of manufacturers have been set on the basis of cost plus. (Costs are defined in accounting, not in economic, terms.) As part of the general pricing problem, domestic interest rates continue to be officially subsidized. This, together with relatively free foreign exchange in the foreign market, encourages capital flight and distorts the allocation of resources. Export performance by public sector enterprises is generally poor. Production has not been export-oriented while private enterprises do somewhat better. Incentives have been skewed favoring exports to non-convertible currency areas. Management decision-making in public sector enterprises is limited; wages are controlled, investment, production and marketing decisions are influenced by the Government. The capacity of Egypt's construction industry falls far short of being adequate. Consequently, limited construction capacity imposes a major impediment to carrying out the ambitious investment program proposed by the Five-Year Plan.

Actions: We propose to continue to provide major support to the industrialization process in Egypt through focussed lending and technical assistance. An intensive sector dialogue has already taken place in the context of industrial lending. While some progress has been made, the important dialogue will be continued. Progress has been made in the following areas: Private

sector - Law 43 which was meant to encourage foreign investment in Egypt has been changed to eliminate weaknesses and ambiguities. For the public sector -- some progress has been achieved in improving the efficiency of public sector enterprises through Bank financed projects in textiles, cement, and fertilizer industries. Sector management -- at the last Cabinet reshuffle a very dynamic Minister for Industry was appointed. Discussions of relevant sections of the Basic Economic Report are under way but we will also continue to seek policy improvements in the context of future lending and technical assistance activities.

5. Agricultural Sector Issues and Dialogue

The Bank is involved in the development of Egypt's agricultural sector in a variety of ways. The following loans have been made or are proposed:

	<u>Fiscal Year</u>	<u>\$ M</u>
Nile Delta Drainage I	1970	26.0 (IDA)
Upper Egypt Drainage I	1973	36.0 (IDA)
Agricultural/Industrial Imports	1975	70.0 (IDA/IBRD) (19.0 for agriculture)
Fruit & Vegetables Development	1976	50.0 (Third Window)
Upper Egypt Drainage II	1976	50.0 (IDA/IBRD)
Nile Delta II	1977	66.0 (IDA/IBRD/Third Window)
Sohag Minufiya Agricultural Dev't	1978	27.0
Agro-Industries Fish Farming	1979	-
Rural Development	1980	-
Drainage V	1982	-

The Bank believes that Egypt, by rationalizing its system of control of agricultural production, prices and marketing, and by reconsidering its economic policies for agriculture, could increase substantially its agricultural production and therefore the benefits derived from agriculture. These views are shared by many officials in the Egyptian Government. The Bank will continue its series of discussions with the Government at all levels on this subject. The Government has tended to deal with agricultural issues in a traditional way making small adjustments here and there but not addressing the basic issues. In fact, there does not seem to be a clear vision of the sector's potential and how it could best be brought out.

Although much work still needs to be done, the Bank has done a great deal of analysis of the agricultural problems in the context of the sector report of 1975, the Basic Economic Report which is currently under discussion, various minor studies undertaken in the context of project development and its lending program. On the basis of this analysis, we are anxious to continue the discussions of sector problems. Unfortunately little progress has been made towards resolving these problems. Responsibility for the important agricultural sector remains split between two main ministries ^{1/} and several others (Ministries of Trade and Supply, Finance, Sudan Affairs). Financing of agricultural ventures is hampered by an extremely weak Agricultural Bank on the one hand, and ineffective cooperatives on the other. The important drainage program is progressing much more slowly than anticipated. Much of the investment in the sector in the last 15 years has been in the new land; however poor management and planning of the reclamation progress have made results to date disappointing.

^{1/} Agriculture and Irrigation.

Actions:

- (a) To succeed with the sector dialogue we need appropriate counterparts in the Government who are concerned with these issues and who would be able to influence decisions and policies in Egypt. Given the lack of clear sector responsibilities for agriculture in Egypt this will be difficult to arrange particularly if ministries continue to be changed frequently. But it should become our next priority to be pursued at every level of Bank authority.
- (b) The need for a suitable mechanism for coordination of agricultural policies: at present only a rather small and overworked department in the Ministry of Agriculture concerns itself with economic policies relating to agriculture. It may be that the best means of improving or strengthening work in this area would be to expand the size of the unit and its sphere of responsibilities. Alternatively, it might be preferable to establish an agricultural "think tank" outside the Ministry of Agriculture.
- (c) There is need for the Government to review its agricultural policies, and to simplify its system of agricultural administration.
- (d) The Bank would like to increase its lending for agriculture in Egypt but these divided responsibilities and the lack of any project preparation capability have made this difficult. The Bank has so far channelled its funds to the existing cultivated areas where the return to investment appears greatest. The Government on the other hand puts higher priority on investment for extending the cultivated area. It is therefore likely that the Government will raise the question of whether or not the Bank might be prepared to assist Egypt in bringing more land under cultivation through expanded irrigation facilities. This matter is under review. While the Water Master Plan (UNDP-financed; Bank is serving as Executing Agency; see Section H) will provide information on available water resources, this will not be available for another three years. Bank staff are already reviewing the feasibility of several reclamation schemes which could be implemented earlier than this without prejudice to the eventual findings of the Master Plan. The most important obstacle is likely to be Egypt's limited construction capacity which at present is not sufficient to carry out the drainage program at the planned rate. We are planning a mission in March to explore further the technical and economic feasibility of the reclamation program. Another mission will also be looking into project possibilities in the existing cultivated area, particularly in the field of agro-industries.

- (e) Government wishes to mechanize agriculture, with priority to mechanizing primary tillage, and water lifting for irrigation, over the coming ten years. In the context of the agricultural development project appraised in October 1977, we are analyzing the economic and social justification for mechanization. The Government has asked for technical assistance, which would be provided under the project, to develop an appropriate mechanization policy. The project would establish and provide an appropriate mechanization package, including tractors and complementary machinery, training and maintenance facilities.
- (f) Agricultural institutions (credit, extension, cooperatives) are weak. Technical assistance would be provided under the proposed agricultural development project.
- (g) Progress on the drainage projects has been very slow in the last year. These projects are the responsibility of the Egyptian Public Authority for Drainage Projects, an agency of the Ministry of Irrigation, but also involve the Ministry of Agriculture (especially in the need for extension agents to inform farmers about drainage and how to maintain drainage facilities on their land). We would welcome the personal attention of the Ministers of Agriculture and Irrigation to ensure improved performance on the drainage program. (See also Section E III 2.)

6. Education and Manpower Planning

The Bank has made one credit for education (\$25 million in 1977), a second is scheduled for 1979.

Egypt's educational system is ill-equipped to meet the rapidly growing demands for skilled manpower associated with economic recovery. Nearly 61 percent of the labor force is illiterate and another 25 percent is minimally literate, but not numerate. In contrast, there is an oversupply of university trained staff in many specializations, prompted by a Government policy assuring university graduates automatic (although very low-paid) employment in the public sector. This policy also discourages students from training as technicians or for middle-level management positions, despite the pressing need for this type of personnel in the economy.

Except for technician training, the formal education system is fairly well-developed in quantitative terms, but rapid expansion of enrollment in recent years has led to severe overcrowding of schools, most of which suffer from inadequate facilities, insufficient teaching materials, and underqualified teachers. Furthermore, curricula are too academic and do not provide the practical skills students need to find employment. Vocational training programs are available for industry and construction, and to a limited extent for agriculture, but have similar shortcomings to the formal education system.

An estimated 1.4 million Egyptians (including dependents) live abroad, chiefly in neighboring capital surplus countries. The expected continued growth of these economies in the coming decade will sustain the demand for skilled Egyptian workers and technicians. While on the whole beneficial to Egypt, this outflow of talent also has aggravated the country's shortage of skilled manpower in recent years, and will continue to do so, unless the demand of foreign countries is properly taken into account in Egypt's manpower planning. The Bank is undertaking a regional labor migration study that, once completed, will help both Egypt and the labor deficit countries in planning their respective development.

Actions: Under the ongoing education project, in addition to improving output and quality of training for semi-skilled construction workers, skilled industrial workers and for technicians and instructors, assistance for the Government's manpower planning system is being provided to determine the trained manpower needs of the key economic sectors and to translate this into medium and long-term educational targets.

In discussions with the Government, we stressed the need for close cooperation between ministries concerned (Ministries of Manpower and Planning on the one hand, and ministries in charge of education and vocational training programs on the other). Progress in manpower planning and possible needs for further assistance will be reviewed during appraisal of a second education project (scheduled for March 1978).

In view of the critical manpower needs, priorities for Bank support remain the training of (i) commercial, agricultural and industrial technicians; (ii) skilled industrial and construction workers; and (iii) primary and technical teachers. Further physical improvements to primary and secondary schools would be supported. Adult training in basic literacy and numerical skills will be initiated in connection with vocational training programs and may be attempted on a pilot basis for parts of the target group beginning with the urban poor. Universities and other higher learning institutions also need assistance, but Bank involvement is not recommended until a rational plan for university enrollment is developed, based on acceptable economic and social needs, and until the Government shows willingness to reform employment policies.

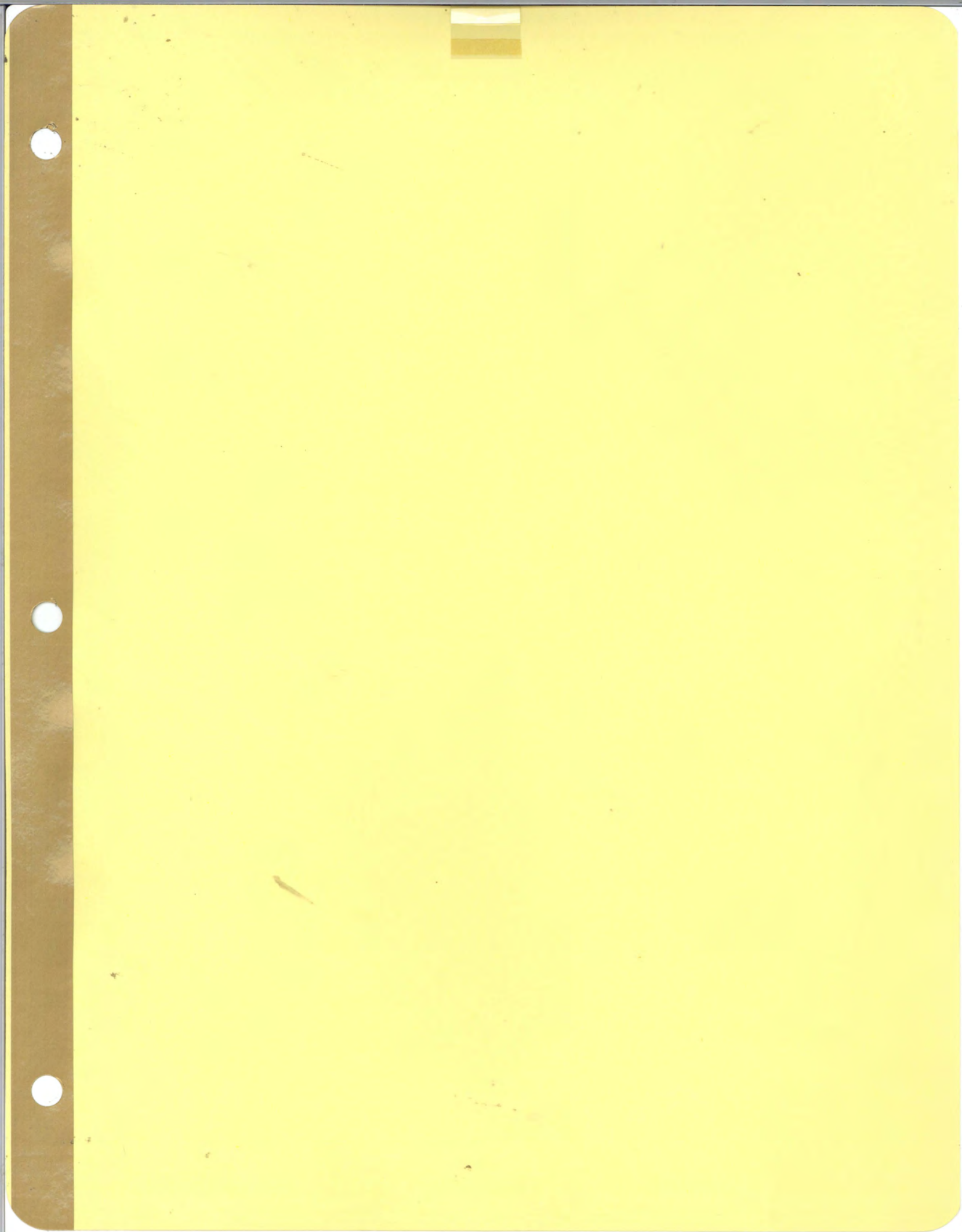
7. Monitoring of the Investment Program (Adler Visit)

To enhance the Government's management capabilities, it was arranged in discussions with Dr. Kaissouni earlier this year that Mr. John Adler visit Cairo in October to review monitoring arrangements for Egypt's entire investment program. His report and recommendations is attached to Section F (Reference Materials). Mr. Adler describes the existing monitoring system as incomplete and inefficient and makes the following major recommendations:

- (i) The existing system should be changed from a mere reporting to a true monitoring system, i.e., a system through which actual progress can be compared to originally expected progress.
- (ii) The monitoring reports should provide information on the progress of physical completion and on the amount of expenditures.
- (iii) A high-level and especially trained unit should analyze inputs and draw tentative conclusions on the basis of the monitoring reports on the emerging investment performance and regularly provide comments to appropriate Cabinet members.

The report has been transmitted to Dr. Kaissouni.

Action: We intend to press further on this matter to ensure the setting up of a useful and responsive system. A main issue remains the Government's willingness to make use of the system when it has been established.



II. Topics Likely to be Raised by Government

In our recent discussion with the Government, we were given to understand that the economic team is likely to turn its attention more toward major bottlenecks obstructing progress in the development program. The most serious among them are:

- (1) Limited construction capacity: The Government feels that Egypt's construction capacity is dangerously low; this situation if unresolved, will continue to have major negative implications for the development program. It appears, experience with many of the Bank-supported projects confirms the observation, that new projects with civil works components contribute to rising construction costs and their execution is very slow. Dr. Kaissouni is likely to request Bank support toward the eventual resolution of the problem.

Response: The problem appears to result mainly from inadequate management and lack of skilled manpower. We are proposing the following actions: (i) Encouragement of the formation of joint ventures in the construction industry -- through financing arrangements. 1/ (ii) We are advising borrowers on packaging of tenders for civil works in such a way as to be of interest to foreign construction firms. (iii) We are already providing finance for a cement plant in Egypt and may consider financing a second. (iv) IFC is considering providing assistance for a proposed construction steel plant near Alexandria. (v) The Bank-supported education project emphasizes skills training. (vi) A Bank-financed subsector study of the building industry is about to be completed. (vii) A desk study is under way in Washington bringing together all the knowledge we have of the sector.

- (2) Subject to resolution of the above problem, the Government proposes to explore possibilities of expanding the cultivable land area through greater use of the Nile waters. Dr. Kaissouni is likely to request that the Bank consider financing of new irrigation schemes near the northern coast and using overflow water from Lake Nasser.

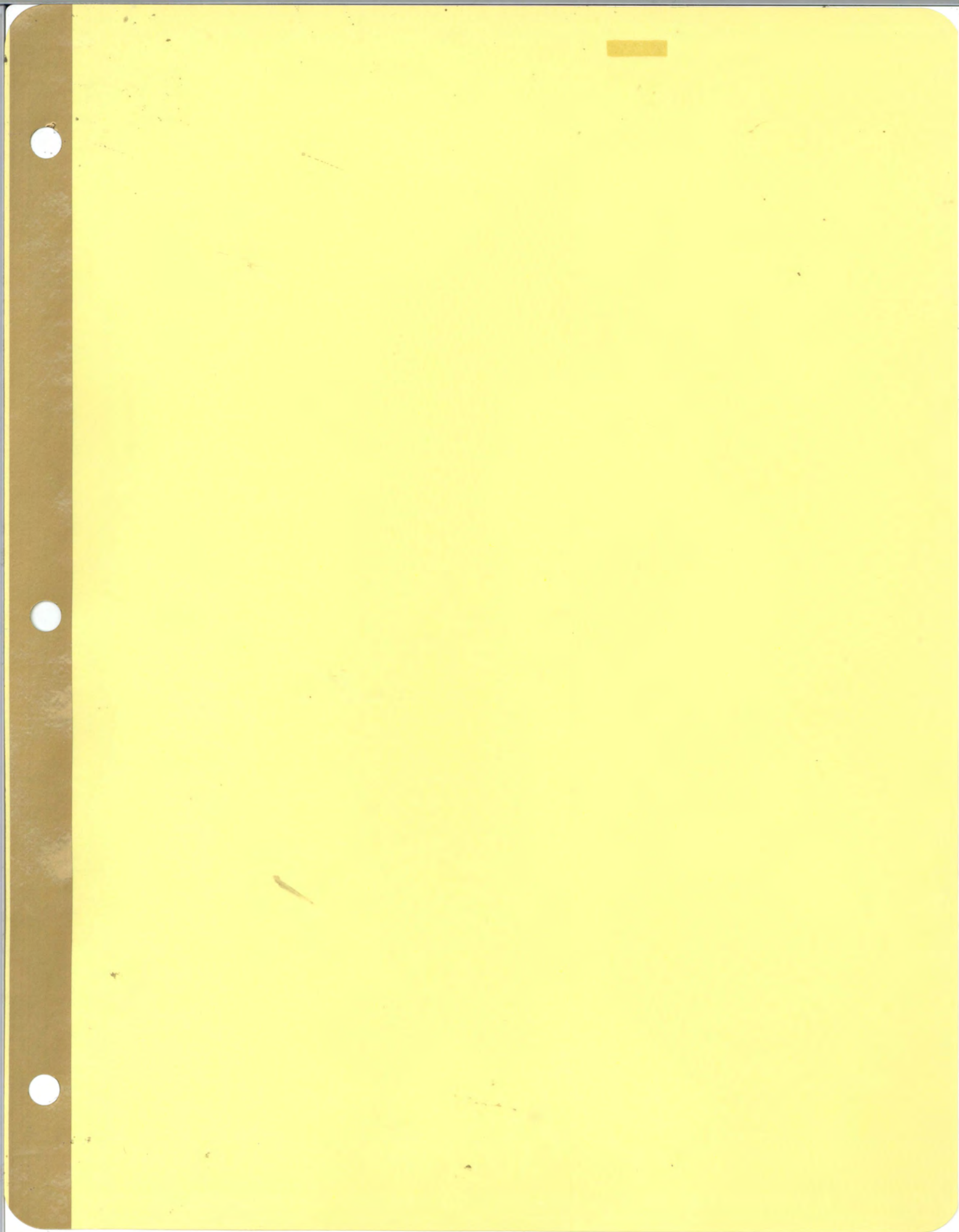
Response: We are already financing an irrigation scheme under the first Fruit and Vegetable Project. Additional schemes are under investigation. However, unless the progress of the drainage program can be speeded up, prospects for new irrigation schemes are not very good.

1/ Possibly in the context of a proposed loan to Misr Iran Bank, which is a financial institution partially owned by Iran and specialized in initiating joint ventures.

But is the linkage?

- (3) Again subject to (1) above, the Government will seek to expand employment opportunities in the industrial sector by (a) improving incentives for production and exports, (b) improving management, maintenance practices in public sector enterprises, and (c) improved skills training of the work force.

Response: The main objectives of our lending program in the industrial sector are to provide added employment opportunities, increase the efficiency of enterprises, and to encourage export. We are stressing skills training in our program for education.



III. Background Notes for Possible Field Visits or Discussions

Ismailia/Port Said -- Suez Canal Project

The Suez Canal expansion project is Egypt's major investment program during the late 1970's. The program which requires expenditures of about \$1.2 billion is supported by a Bank loan of \$100 million approved in August 1977. The proposed visit to the Suez Canal area should provide an insight as to the expansion and rehabilitation works already started, and reconstruction already completed.

Drainage

The proposed field trip to drainage facilities near Tanta, is located in an area which is the part of the Nile Delta I Drainage Project financed by IDA in 1970. The visit should give an idea of the various systems of drainage (remodelling of open drains and tile drainage), and of the problems involved in the program (shortage of cement, delays through undercapacity of contractors, administrative). The officials accompanying Mr. McNamara will explain to him the benefits the farmers are deriving from drainage as far as increased yields and different cropping patterns are concerned. This field trip will give an idea of Egyptian rural life.

1: Ismailia/Port Said -- Suez Canal Project

Summary Data:

Borrower: Suez Canal Authority (SCA)

Guarantor: Arab Republic of Egypt

Amount: US\$100 million equivalent

Terms: 20 years, including 5 years of grace, at 8 percent interest per annum

Project Description

The proposed project is designed to expand and improve canal facilities to allow it to be used by more and bigger ships. By 1980 ships drawing up to 16.1 meters (53 feet) will be able to use it. This would include almost all the world shipping fleet except for the larger tankers which still could not pass when fully loaded. The project includes dry excavation and dredging to widen and deepen the canal, breakwater construction, miscellaneous civil works of mooring facilities, workshops and a training center; also equipment and material procurement and technical assistance. The project generates economic benefits to Egypt through increased canal revenues, to shipowners who will benefit from shorter routes and possibly to consignors and recipients of freight through reduced freight rates. The benefits have been estimated on the basis of very conservative traffic forecasts. The project does not face any special implementation risks. Although large, its construction is relatively straight-forward.

Estimated Cost:

	US \$ Million		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
A. Dredging	121.6	346.3	467.9
B. Civil Works	105.5	35.8	141.3
C. Equipment	6.9	77.4	84.3
D. Technical Assistance	234.2	461.6	695.8
E. Contingencies	93.0	214.0	307.1
Total Cost	<u>327.2</u> 1/	<u>675.7</u>	<u>1,002.9</u>

see preceding
page
1.2

1/ Using the parallel market rate of exchange LE 1 = US\$1.43 since from March 1977 all equipment imports and civil works contracts have been required to be valued at that rate.

Financing Plan

	<u>\$.Million Equivalent</u>	
	<u>Foreign</u>	<u>Local</u>
	<u>Currency</u>	<u>Currency</u>
IBRD	100	
Japan - OECF (a) 1975 loan	135	
(b) 1977 loan	86	
Saudi Fund for Development	50	
Loans by Arab Fund for Economic and Social		
Development, Islamic Development Bank,		
Kuwait Fund for Arab Economic Development,	93	
Abu Dhabi Fund for Arab Economic		
Development		
USAID (1977 commodity aid loan)	25	
Bilateral equipment financing from various sources	40	
SCA (a) funds already spent	25	
(b) further contribution	<u>122</u>	<u>327</u>
Total project cost \$1003 million equivalent	<u>676</u>	<u>327</u>

Status

(a) The Bank loan of \$100 million was approved on August 9, 1977. Dredging is under way by a Japanese company (PentaOcean) financed by the Overseas Economic Cooperation Fund (Japan). SCA is carrying out dry excavation and revetment using its own forces. The Government and SCA are attempting to obtain further foreign exchange participation from other sources since SCA's cash flow may not be adequate to support further contribution by SCA in case of cost overruns.

(b) The loan and guarantee agreements are awaiting Parliamentary ratification. The date by which effectiveness conditions must be met is January 26, 1978.

Actions Required

(1) Before effectiveness SCA must: (a) employ consultants to advise on its financial, economic and traffic planning office; and (b) sign loan agreements with the Kuwait Fund. Agreement with Japan, and the Saudi, Abu Dhabi and Arab Funds and Islamic Development Bank have already been concluded. Also, a traffic planning office must be fully established.

(2) Tariffs: A significant question which might be discussed is that of tariffs. The present levels of tariffs were set when the canal was reopened in June 1975, on the basis of consultants' studies partly financed from the Bank loan, taking into account shipping cost savings from use of the canal.

Tariffs were not an issue during preparation of the expansion project, although the SCA's intentions were explored during negotiations. At the current level of tariffs, the project is economically and financially sound using conservative traffic forecasts, and the canal is and will be operated with satisfactory financial returns.

It is estimated that about 40 percent of the benefits of canal use flows to Egypt while the balance accrue to shipowners. Mr. Mashhour has commented on the subject of tariffs as follows. He feels it is important to keep the rate attractive to capture as large a share of world shipping as possible, that the rate might be adjusted after the canal has been accepted again. One of the difficulties is that while the rate is uniform the benefits vary substantially depending on the cargo and destination as well as the size of ships. Differential tariffs, based on ship size, could bring increased revenues without significantly reducing traffic. :

The SCA keeps tariffs under review, and from time to time makes detailed adjustments: for example, a reduction from 10 to 5 percent in the surcharge paid by container ships was made in December 1976, which was followed by a decision to use the canal by one of the major container traffic conferences. SCA believes and we agree that the present level of tariffs is currently approximately optimum, in the sense that it maximizes canal revenues, and that traffic which could save time from using the canal is not deterred from so doing by the level of dues. This is consistent with the SCA philosophy of maximizing canal traffic as well as revenues, so as to maximize the service it provides to the world.

Future tariff increases might well be possible particularly if the world shipping market improves. Increased tariffs would increase the flow of foreign exchange to Egypt, and thus bring to Egypt a larger share of the benefits which the canal (and the project) bring to the world at large. These issues have been mentioned, cautiously, at the highest level and must be kept carefully under review by the Canal Authority and the Government. The economic and financial office being established in the Authority's Planning Department will analyze the likely effects on traffic of various tariff levels and structures. In accordance with the various international agreements and instruments under which it operates, including the UN Security Council resolution of 1956, and following the Authority's policy of maintaining good relations with world shipping interests, any tariff increase would be the result of negotiations with users.

2: Drainage in Egypt

Waterlogging and salinity have recently become major physical limiting factors to crop production in many areas. Present drainage conditions result from the commissioning of the Aswan High Dam in 1965 and the resultant shift from basin to perennial irrigation. With the spread of perennial irrigation, the groundwater levels have been rising. The existing drainage system has not been able to cope with the additional irrigation water. The result has been to create waterlogging and increased salinity which have serious effects on agricultural output. Installation of drainage reduces waterlogging and allows soil to be flushed by irrigation, removing salt with the excess water.

In 1960 the Government decided to launch a 30-year program to improve drainage in about 5 million fd of irrigated land. However between 1960 and 1970 mainly because of financial and administrative constraints, only some 500,000 fd in the Delta and 80,000 fd in Upper Egypt were drained. The attached table summarizes the drainage situation in the country as a whole, showing the irrigated area and the lands in urgent need of drainage facilities.

The World Bank has supported this program since 1970, and intends to do so until it is completed. Four projects covering an area of 2.2 million fd have been approved:

- i) First Nile Delta Credit, \$26 million, 1970
- ii) First Upper Egypt Credit, \$36 million, 1973
- iii) Second Upper Egypt Credit and Loan, \$50 million, 1976, co-financed with USAID
- iv) Second Nile Delta Credit and Loan, \$66 million, 1977, co-financed with KfW.

A fifth is scheduled for FY82, and a sixth may later be needed.

The projects are implemented by an independent agency, the Egyptian Public Authority for Drainage Projects (EPADP), which reports to the Minister of Irrigation (currently Engineer Abdel Azim Abul Atta). EPADP has offices throughout the country.

Project Description

The project drainage works include:

- a) construction and rehabilitation of drainage pumping stations, including electric transmission lines;
- b) deepening and widening of existing open main drains;
- c) installation of covered field drains and collectors.

EPADP is also responsible for the construction of the Main Nubariya drainage outfall, under our Fruit and Vegetable Project (\$50 million of 1976). This outfall is to collect the heavily saline drainage water from the reclaimed lands on the western edge of the Delta, in which is situated the main (vegetable seed production) component of that project. The outfall would be approximately 70 km long, and cost over \$40 million, including \$15 million from the Bank.

Performance

The first two projects initially suffered from lack of local funds, shortage of engineers, shortage of cement for production of cement pipes, poor performance of local contractors and other managerial difficulties. This situation became critical after the 1973 October war and little was achieved during 1974. However during 1975-76 the situation improved. For the first time, in 1976, the annual field drainage construction targets of the two projects were met.

Unfortunately in 1977 performance has again fallen behind the program (between 150,000 and 200,000 fd completed compared with a target of 250,000). The main reasons for the poor performance seem to be (i) shortage of cement (which we are trying to ease by allowing our credits to be used to finance imports), (ii) the bottleneck in the local construction industry, which we are trying to ease by using foreign contractors (ICB) for the Second Upper Egypt and Nile Delta projects; and (iii) managerial delays. There have been several recent senior staff changes in EPADP. Progress to date on the Nubariya main drain has been dismally slow, largely due to the absence from the project unit of EPADP staff who were appointed as a condition of negotiation. However, consultants are in the field and project unit staff have been appointed.

Cost Recovery

The capital costs of installing field drains, plus a 10 percent administrative charge are required by law and the drainage credit agreements to be recovered from beneficiaries, by annual installments over a period of not more than 20 years, free of interest. Since the law does not specifically provide for any charges to be paid for the maintenance of field drainage systems, a ministerial decree providing for the full recovery for this and the other ongoing Bank/IDA-financed drainage projects was issued in 1977. EPADP is to conduct a socioeconomic study to determine the ability of beneficiaries to pay for the full cost of the field drainage investments, including the opportunity cost of capital for which farmers are presently not charged. EPADP has agreed to complete and to submit this study to the Bank by June 30, 1978, for review and comments. The Government has agreed to implement mutually acceptable recommendations of the study.

Bilharzia

The projects also finance programs against bilharzia in Upper Egypt. The program is hearteningly successful (under the administration of the Ministry of Health). We hope in future projects to support extension of the program to the Nile Delta. Bilharzia, or schistosomiasis, is a disease caused by a parasite which passes part of its life cycle in a water snail-host. It has been endemic in Egypt since ancient times, and is the most prevalent and serious endemic disease in Upper Egypt. Its spread has been intensified by perennial irrigation; over 60 percent of the rural population in some irrigated areas is infected.

Water Master Plan

In the Second Nile Delta Project, funds are provided to supplement the UNDP contribution to production of the Master Plan for Development of Water Resources and Uses, for which the Bank is executing agency. Mr. Abul Atta is honorary supervisor-general of the Executive Authority for Water Planning, the agency conducting this work. The project has made an excellent start in the past few months although the post of expatriate project economist has yet to be filled. The Minister would like to change the composition of the team and fill this economist post which we regard as critical to the success of the project, with a friend (a Professor of Engineering at the University of California, Gamal Mostafa, US citizen). The Minister himself earlier was interested in having the Bank employ him at an expatriate salary to be the supervisor general of the project. He dropped the idea after being informed that this was contrary to UNDP policy.

3. Deputy Prime Minister for Production, Electricity and Energy

Power Project Briefs

1. The Deputy Prime Minister Ahmed Sultan chairs the High Council for Production which comprises the Ministers of Agriculture and Rural Development, Irrigation and Land Reclamation and Petroleum, Industry and Mineral Wealth. He is also Minister of Electricity and Energy. Most of his interest seems to be focused on this sector.
2. Electricity generating capacity in Egypt increased sharply with the completion of the Aswan High Dam in 1971 and with a possible total annual production of 19 billion KWH, it is adequate to meet its present needs. However, a rundown and overloaded distribution system prevents much of the population from using electricity. About 60% of the population and as much as 80% of people in the rural parts of the country have no access to electricity. To remedy the situation, the Government has embarked on a \$400 million Rural Electrification Program to upgrade and expand power distribution in secondary urban centers, villages and hamlets. Priority items of this Program are included in the Regional Electrification Project for which a Bank loan of \$48 million was approved in June 1977. The project will improve and expand power distribution in 13 secondary cities and 19 rural zones, benefitting in all some 6 million people. The project also includes technical assistance for an economic review of the Rural Electrification Program and the setting up of proper planning procedures for electrification works.
3. As the distribution network is improved and industrialization progresses, power consumption will increase rapidly and additional generating capacity is needed after 1979. Total investment requirements of the power sector are estimated at \$1.8 billion up to 1980. Several projects for new power plant and transmission lines have already started with assistance from bilateral sources and regional financing institutions.
4. The development program for power generation and transmission mission, operational policies of the system and the institutional and organizational structure of the sector were reviewed in a UNDP-financed power sector survey carried out by the consulting firm Sanderson and Porter Inc./US under Bank supervision. Phase I diagnostic reports were submitted in November 1976 and April 1977. Under Phase II of the survey, five experts are now assisting in the implementation of the recommended changes in energy policy, system operation and planning, energy economics, and generation maintenance. Because of shortage of UNDP funds, the original scope of the survey had to be curtailed, and to allow the survey to be completed in full, additional assistance is being provided under the Regional Electrification Project for financial consultants to reform the accounting and financial management systems, for a study of electricity tariffs, for a review of safety and inspection practices and for manpower planning and the improvement of training centers.

5. A Second Power Project is included in the lending program for FY1979. The project was originally intended to follow-on to the ongoing Regional Electrification Project. In addition, the Government requested recently that Bank financing for generating plant, substations and further technical assistance be considered as a matter of priority. A project identification mission is scheduled for February 1978. USAID is presently selecting consultants for feasibility study of the generation component. If this component can be prepared in time and be included in the project, total project cost would be in the order of \$400 million and cofinancing from other donors would be needed in addition to Bank financing (\$32 million Bank and \$30 million IDA have been tentatively allocated for the project). USAID would probably participate in the project with a loan of about \$100 million. CIDA and KFW of Germany have also indicated an interest and we have mentioned the project to Japan.

6. A key recommendation of the Power Sector Survey on energy policy was to use the natural gas found in association with petroleum on the Gulf of Suez both for power generation and industrial purposes instead of flaring it as is done at present. The Minister for Petroleum, Industry and Mineral Wealth recently requested Bank assistance for two gas gathering and pipeline projects.