

PROGRAM ASSISTANCE PAPER

EGYPT - FY 84 PROGRAM CASH TRANSFER (263-K-608)

USAID/CAIRO  
SEPTEMBER 1984

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)

1. PAAD Number 263-K-608	
2. Country Egypt	
3. Category Cash Transfer	
4. Date September 19, 1984	
5. To M. Peter McPherson Administrator, A.I.D.	
6. OYB Change Number 26, 28	
7. From W. Antoinette Ford Assistant Administrator, NE	
8. OYB Increase None  To be taken from: Economic Support Fund	
9. Approval Requested for Commitment of \$ 101,894,000	
10. Appropriation Budget Plan Code NES3-84-33263-KG31 72-113/4-1037 (370-62-263-00-50-41)	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None
13. Estimated Delivery Period N/A	
14. Transaction Eligibility Date N/A	
15. Commodities Financed N/A	

16. Permitted Source U.S. only Limited F.W. Free World Cash \$101,894,000	17. Estimated Source U.S. Industrialized Countries Local Other \$101,894,000
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18. Summary Description

This assistance is part of a continuing assistance program to Egypt. Egyptian political and economic stability are deemed essential to achieving a comprehensive peace in the Middle East. New policies are gradually being adopted by Egypt to exploit more fully its economic potential and discourage uneconomic consumption while, at the same time, cushioning the income losses to some firms and households. Flexible program assistance is sought by Egypt to help manage its balance of payments current account deficit and to assist in this adjustment process. The Egyptian Government will provide Egyptian pounds, equivalent to the amount of the cash grant, which will be used for development purposes to support improvements in Egypt's housing and health sectors. These Egyptian pounds will be beneficial to an extremely important sector of Egypt's economy and will help assure that the momentum of development is sustained. The cash grant simultaneously will provide timely assistance for Egypt's balance of payments needs.

It is recommended that you authorize a Cash Transfer Grant in the amount of one hundred one million eight hundred ninety-four thousand U.S. dollars (101,894,000) from funds deobligated in FY 83. Disbursement will be made after execution of the grant agreement, agreement on the side letter and satisfaction of conditions precedent.

19. Clearances GC:HFry 9/21/84 DAA/NE:BLangmaid NE/PD:RHBell NE/DP:JHoltaway GC/NE:CDavidson NE/E:DMorrissey NEA/EGY:DBooth FM/C:CWChristensen	20. Action <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Authorized Signature Date Title
9/21/84 9/21/84 9/21/84 9/21/84 9/21/84 9/21/84 9/21/84 9/21/84	Frank B. ... Sept 25, 1984 for Administrator, A.I.D.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON DC 20521

ADMINISTRATOR  
COORDINATOR

SEP 25 9 34 AM '84

21 SEP 1984

EXECUTIVE SECRETARIAT

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: A/AA/PPC, Richard Derhan *RD*  
FROM: AA/NE, W. Antoinette Ford *WAF*  
SUBJECT: Egypt - FY 84 Program Cash Transfer

Action: Your approval is required for a \$101,894,000 FY 1984 Program Cash Transfer to the Government of Egypt under the Economic Support Fund Account.

Discussion: Since late 1983 A.I.D has made known its intent to reobligate funds deobligated from prior year Egyptian program funds for balance of payments support to the GOE. A portion of those funds were reobligated for the Commodity Import Program; the remainder, \$101,894,000, has been earmarked for a cash grant. Based on discussions with congressional committees and the GOE, it has been agreed that in exchange for balance of payments support, the GOE will provide an equivalent amount, in Egyptian pounds, for development purposes to support improvements in the housing and health sectors. Additionally, we have confirmed that, over and above the level of procurement financed under the normal A.I.D. assistance program, the GOE annually procures goods and services from the United States in an amount substantially in excess of the amount of this cash transfer.

With the finalization of these arrangements and congressional lifting of its hold on this transaction, you may now approve the Cash Transfer Grant.

Recommendation: That you approve a \$101,894,000 Cash Grant to the Government of Egypt.

Approved: \_\_\_\_\_ *X*  
Disapproved: \_\_\_\_\_  
Date: \_\_\_\_\_ *9/25/84*

Attachment: Program Assistance Paper

Clearances:  
GC:HM Fry *HM Fry* Date *9/24/84*  
AAA/PPC/PDPR:RHullander *RHullander* Date \_\_\_\_\_  
Drafted: NE/PD/E:JMcCarroll:vj/Ext. 29734/17 Sept 84/Doc 2092b

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EGYPT  
FY 1984 PROGRAM ASSISTANCE PAPER  
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## U.S. OBJECTIVES

The proposed FY 1984 cash transfer program has both political and economic objectives. The immediate political objective is to demonstrate the continuity of U.S. political support for a comprehensive and durable peace settlement in the Middle East. With the realization of the Egyptian-Israeli Peace Agreement, the cornerstone of a comprehensive peace has been laid. Over the longer term, our policy aims at a satisfactory evolution of political and economic relations among all countries in the region. The cooperation of Egypt, the principal Arab country, is essential for these purposes. The GOE has demonstrated by its actions that it shares our desire to seek peaceful resolution of Middle East differences and an end to the state of tension that has adversely affected the well being of the people throughout the region. The continuing ability and willingness of Egypt to proceed toward this ultimate goal will depend on (a) sustaining domestic political stability; (b) avoiding short-term deterioration in the standard of living of the population; and (c) obtaining sufficient foreign resources to permit a continuing development effort. The overall objective of U.S. assistance to Egypt is to foster economic and social development that will facilitate and encourage the establishment of a permanent comprehensive peace. The critical importance of this objective, together with the fragile state of the Egyptian economy and its dependence on foreign assistance, at least over the next few years, justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt.

U.S. program assistance seeks to help sustain Egyptian production and investment levels by providing a portion of the foreign exchange these require. The import requirements of each of these aggregates are substantial and cannot now be funded on a self-sustaining basis out of such market-determined sources of foreign exchange as petroleum exports, worker's remittances, tourism and Suez Canal revenues. Developing exports of agricultural and industrial products as additional sources of foreign exchange will be a lengthy process. In the meanwhile, sustaining the Egyptian economy at its present level of activity will require concessional and flexible balance of payments assistance.

The Egyptian Government will provide Egyptian pounds, equivalent to the amount of the cash grant, which will be used for development purposes to support improvements in Egypt's housing and health sectors. These Egyptian pounds will be beneficial to an extremely important sector of Egypt's economy and will help assure that the momentum of development is sustained. The improvements to be carried out in the housing and health sectors from the Egyptian pound proceeds of the cash grant will be in addition to A.I.D. programs which are being undertaken in those sectors.

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The GOE will continue to give priority to policy changes essential to sustain economic development and to enhancing the contribution of the housing and health sectors to the overall economy of Egypt and the well-being of its citizens.

## II. Background and Justification

During the period 1965-1974, the Egyptian economy grew in real terms by only 3% annually and experienced severe pressures in its balance of payments as problems stemming from a long-term trend of eroding external competitiveness and a rising domestic demand were exacerbated by the burden of defense expenditures. Between 1975 and 1980 however, Egypt's real economic growth soared to some 8% annually and balance of payments pressures were substantially relieved through a surge in foreign exchange receipts from petroleum exports, earnings from the Suez Canal, tourism receipts supplier credits, and emigrant remittances. This surge is portrayed in the following table (in \$ billions:)

Table 1

	<u>1975</u>	<u>1980</u>
Petroleum	0.4	2.7
Suez Canal	0.1	0.7
Tourism	0.4	0.8
Supplier Credits	0.4	0.8
Worker remittances	0.4	5.0
	<u>1.7</u>	<u>10.0</u>

With receipts from tourism and worker remittances levelling off since 1980 and with petroleum export receipts slightly off the peak of \$3.0 billion reached in 1981/82, real growth rates are currently more modest. Suez Canal dues are continuing to rise by about 10% annually and substantial domestic growth has continued in the construction, private business, electricity and transportation sectors. However, these increases have not been sufficient to replace the stimulative effect on the national income of the earlier surges in foreign exchange income. Petroleum export receipts are likely to continue to be level as the effect of small production increases is offset by rising consumption and higher foreign company-owned shipments. An especially disquieting development is the stagnation in agriculture and industry. While the production of onions, potatoes and some fruits has expanded significantly since 1977/78, the production of wheat, cotton, rice, maize and millet has stagnated. Production of most industrial commodities has increased little, on an overall basis, and industrial exports have declined in real terms from the LE 477 million achieved in 1978.

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Agriculture and industry are the only growth stimuli to replace the earlier four foreign-source stimuli which together are projected to be level. Growth in these two sectors is needed to provide the export earnings supplements and gainful employment opportunities required to sustain favorable economic performance.

Egypt's balance of payments position is thus again gradually becoming more adverse with the increases in debt servicing obligations and the slow rise of the main foreign exchange earners. The level of imports has been almost frozen even in nominal terms since 1980/81, but steady rises will now be required in response to an active development program and to the social needs of a burgeoning population. Historical and projected data on Egypt's main balance of payments categories are presented in Table III. An adequate total of investment for the productive sector is certainly a necessary condition for significant growth in output and exports. Also important is an appropriate pricing policy for energy, agricultural products, industrial products and foreign exchange so as to encourage production efficiency, discourage uneconomic consumption, and channel new investment into Egypt's areas of comparative advantage. The GOE is moving slowly on price reform, in order to cushion or minimize the income losses occurring to some firms and households. Donor assistance through both project and non-project modes could alleviate the adverse effects of this adjustment process, and encourage the GOE to accelerate these reforms.

### III. Recent U.S. Assistance Program

The United States has committed economic assistance to Egypt totalling \$8.5 billion since FY 1974. Non-project assistance has totalled \$4.9 billion as is indicated in Table II. The present annual programming level for the Commodity Import Program is \$300 million and for PL 480 it is \$225 million in FY 1985.

### IV. Grant Administration

A. We have raised with the GOE our concern about the possible impact of this proposed cash transfer on the level of U.S. exports to Egypt. In a side letter to the U.S.A.I.D. mission, the GOE is committing itself to take all necessary steps to ensure that, during U.S. fiscal year 1985, the dollar level of Egyptian non-defense imports from the United States, other than those financed by A.I.D. economic and PL 480 assistance, will not be less than approximately the same level as during the past five years. Additionally, the GOE is committing itself to continue importing during fiscal year 1985 bulk corn under the A.I.D.-financed Commodity Import Program at the same approximate level as in the past five years.

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B. Following receipt of a statement warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee, a U.S. treasury check drawn to the account of the GOE Central Bank will be transmitted to the authorized GOE representative.

C. The grant agreement will also contain a covenant, to the effect that the GOE will provide Egyptian pounds, equivalent to the amount of the cash grant, which will be used for development purposes to support improvements in Egypt's housing and health sectors.

V. Recommendation

It is recommended that a \$101,894,000 cash transfer to the Government of Egypt (GOE) be approved and authorized for obligation at this time.

Project Review Committee

NE/PD:JCarroll  
NE/E:DMorrissey  
GC/NE:RJohnson  
NE/DP:JHoltaway  
SER/COM:WVonSpiegelfeld

Table II

U.S. Economic Assistance to Egypt FY 1974-1983  
( In Millions of Dollars)

<u>Program</u>	<u>Amount</u>
Commodity import program	2,824
PL 480 Titles I, II and III	2,065
Industrial equipment, Credit and technical assistance	565
Infrastructure	1,273
Urban and regional support	1,010
Agriculture and irrigation	249
Education and training	183
Science and technology, health and population	242
Other	107
Total	<u>8,518</u>

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Table III

Egypt's Balance of Payments 1974-1989 Including  
Unrecorded Flows  
(In Current \$ Billions)

<u>Transaction</u>	<u>1974</u>	<u>1978</u>	<u>1981</u>	<u>1982/83</u>	<u>1985</u>	<u>1989</u>
<u>Receipts:</u>						
Petroleum exports	0.1	0.7	2.8	2.5	2.7	2.0
Other exports	1.6	1.3	1.1	1.0	1.0	1.5
Worker remittances	0.3	2.5	3.4	4.0	4.2	5.0
Suez Canal dues	0.1	0.5	0.9	1.0	1.3	1.8
Tourism	0.4	0.8	0.9	0.9	1.2	1.6
Other current	0.1	0.5	1.1	1.7	2.2	2.5
Total "current"	<u>2.6</u>	<u>6.3</u>	<u>10.2</u>	<u>11.1</u>	<u>12.6</u>	<u>14.4</u>
Foreign aid	1.8	1.1	1.5	1.8	2.0	1.8
Other credits & investment	0.6	1.0	2.5	2.4	2.4	2.6
Total receipts	<u>5.0</u>	<u>8.4</u>	<u>14.2</u>	<u>15.3</u>	<u>17.0</u>	<u>18.8</u>
<u>Payments:</u>						
Imports	3.5	6.0	9.6	9.5	10.8	12.0
Civilian debt servicing	0.7	1.2	1.7	1.8	2.6	2.9
Other	0.8	1.5	3.0	3.2	3.6	3.9
Total payments	<u>5.0</u>	<u>8.7</u>	<u>14.3</u>	<u>14.5</u>	<u>17.0</u>	<u>18.8</u>

Source: USAID/Cairo estimates incorporating flows unrecorded in official statistics. These unrecorded transactions may have been valued as follows during 1982/83 (\$ billion): worker remittances-1.0, tourism earnings-0.6 and imports-1.2. (Unrecorded earnings held idle-0.4) Military imports and foreign military assistance are excluded from this table. Also excluded are the following transactions whose 1982/83 values were probably (\$ billion): military exports-0.2, foreign company share petroleum exports-1.3 and direct investments and imports of petroleum equipment-0.75.

September 17, 1984

Annex A

Environmental Determination

MEMORANDUM

TO: Joseph M. Carroll, Project Officer  
FROM: Barbara A. Ormond, Deputy Environment Coordinator  
SUBJECT: Egypt Cash Transfer Grant, PAAD 263-K-608

The subject project is exempt from environmental review under the provisions of 22 CFR 216.2(c), Categorical Exclusions, (1), (i) and (ii), "AID Environmental Procedures".