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CONFERENCE ON POLICIES AND STRATEGIES
OF USAID IN EGYPT

January 18-20, 1978

Summary of Discussions
and Recommendations

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University of Pennsylvania
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Summary of Discussions and Recommendations

I. INTRODUCTION: PURPOSE OF CONFERENCE

The purpose of the conference was to review strategies, priorities and policies with respect to the United States' economic assistance programs to Egypt. Emphasis was given to the development of programs that would deal with the basic human needs of the majority poor of Egypt while achieving sustained and tangible economic growth without creating distortions in the Egyptian economy and social structure.

Implicit in the broader question of equity of income distribution is the application of USAID's financial and manpower resources to serve the common political and economic interests of the United States and Egypt.

The following issues and problems provided the framework for dialogue concerning USAID's role in Egypt's overall economic development:

- 1) As a first priority, U.S. economic assistance should concern itself with Egypt's balance of payments problem and long-term growth, as well as with problems of equity.
- 2) Development emphasis should be shifted from creating unnecessary new human needs programs to building upon the existing but inadequate social services in Egypt.
- 3) Potential conflicts arising from new development projects stimulated by Sadat's economic open door policy should be weighed for their impact on equity of income distribution.
- 4) USAID program design should encompass four categories of basic human needs:
 - a) the individual and his income-producing role;
 - b) the individual and his environment -- housing, urban and rural services;

- c) social services -- family planning, health, education, and social welfare;
 - d) the individual's participation in the decision-making process within the context of Sadat's decentralizing "corrective revolution."
- 5) USAID programs should be viewed in relation to America's emphasis on human rights in international relationships.

The conference dealt with a wide range of views and recommendations concerning the magnitude of Egypt's various economic problems as well as the relationship of economic development to domestic and foreign political factors.

This report reflects the consensus on each of the major issues which emerged from the discussion of the conference. In some instances, where the exchanges produced no consensus, the range of expressed opinions is incorporated and will be evident.

II. POLITICAL CONSIDERATIONS IN U.S. ECONOMIC ASSISTANCE TO EGYPT

1) Inasmuch as Egypt is strategically and politically vital to U.S. foreign policy objectives in the Middle East, and inasmuch as Sadat's role in achieving those objectives is pivotal, USAID programs must take into account the vulnerability of the present government to adverse internal and external political forces. In the short term, the significance and visibility of USAID projects are unlikely to have more than immediate symbolic importance to the success of Sadat's foreign policy, particularly his turn to the West and his peace initiative. However, the net effect of USAID projects will be to nourish hope of improvement among Sadat's key supporting elements in the Egyptian population. In the long term, U.S. economic assistance must be perceived as real, sustained, and independent of both U.S. diplomatic objectives in the region and of support for Sadat's peace initiatives. On the other hand, severe reductions in or termination of U.S. assistance would be exploited by Sadat's internal and external opponents as proof of the unreliability of the United States and the failure of his western orientation.

2) Egyptian foreign policy decisions focus on several interrelated factors:

- a) policy towards and relations with the two superpowers;
- b) policy towards the conflict with Israel and, derivatively, relations with Arab allies and adversaries;
- c) domestic politics and organization, a sphere subject to policy planning in Egypt;

- d) organization of the domestic economy, to which is linked the question of external financing;
- e) contribution of foreign aid to political stability;
- f) linkage of the peace initiative, economic development, and heightened economic expectations.

The first four factors (a-d) constitute a "package;" policy changes by Egypt or the United States (including USAID) along any one axis will unavoidably entail changes along all the others. Examples are the October War and the subsequent western orientation of Sadat's foreign policy together with the corollary open door economic policy with its consequent implications for U.S.-Egyptian economic and political relations on all four axes in both the short and long term. The success or failure of Sadat's foreign policy package depends on the success of U.S.-Egyptian relations. The contribution of economic foreign aid helps to maintain the continued stability of the Egyptian government. However, while the Sadat government is likely to be judged by Egyptians on economic progress, this factor has now become secondary to their judgement on the outcome of the peace talks. The peace talks have heightened economic expectations and, as the riots of 1977 demonstrated, the government is now more vulnerable since progress in economic development will inevitably be slow.

3) Categories of assistance largely determine the time frames of aid. Balance of payments support falls within a 6-18 month period; capital projects and technical assistance require a 2-5 year time span.

4) The U.S. government tends to think of U.S.-Egyptian relations in terms of support for Sadat personally. U.S. political judgements of and support for Egypt are governed by American policy-makers' perceptions of what Sadat represents -- peace, western orientation, and opposition to the Soviet Union. If these perceptions were to change substantially, with or without Sadat, the U.S. attitude would undergo revision. Most policymakers in the State Department and administration think of Egypt as the fulcrum of the peace effort in the Middle East and will do what is necessary to maintain Egypt in that position. U.S. policy aims at a comprehensive and durable peace settlement. What happens to Egypt after the peace settlement will, to a significant degree, be determined by USAID and State Department action. Congress may press for shifts in assistance programs but is unlikely to reduce them.

5) Aid to Egypt involves political trade-offs. As long as the U.S. perceives that support to Egypt insures political stability and restrains Arab adventurism in the Middle East, the level of U.S. assistance will reflect this view.

6) Differences exist within Congress regarding the content and level of aid to Egypt. In general, Congress wants a long-term strategy that will ultimately dissolve Egypt's dependence on foreign aid. While

House committees call for developing basic human needs and for new mandates in technology, family planning and income equity, the Senate wants to focus on short-term needs in economic development. The Humphrey Amendment emphasizes agricultural development as being faster than capital development and also reflects the view that the promotion of small business will benefit the middle class which supports Sadat.

7) If USAID must heighten the visibility of its programs to satisfy Congress, some long-term benefits may be sacrificed. This risk applies to the attempt to promote the private sector as an alternative to the public sector as a means of making the latter more efficient and of benefit to the middle class. Obviously, USAID often has to consider factors that are not purely developmental. In shaping its policies, USAID will have to consider the relative merits of short-term/political effects as compared to long-term/economic impact. Since the level of funding is not known with certainty from year to year, USAID is confronted with the dilemma of whether to initiate human needs programs which require a ten to twenty year effort on the basis of funding which can at best be committed for two to three years. USAID is consequently forced to determine which aspects of its strategy can be optimized and what margin of error is acceptable to the various constituencies it must satisfy.

IIa. RESPONSE OF THE EGYPTIAN PARTICIPANTS TO THE DISCUSSION ON POLITICAL CONSIDERATIONS

1) Egypt's orientation away from dependence on the Soviet Union was not exclusively in the direction of the United States. The U.S. is the smallest donor in an international community of donors which includes countries of the Far East, Europe, and the Arab World. Nevertheless, the U.S. is critically important to Egypt for its technical assistance. To serve its own interests, Egypt exercises independent foreign and economic policies and does not accept the dictates of any one power or interest. After 20 years of closed economic policy, it is difficult to change rapidly to a more liberal one.

2) Historically, Egypt's orientation has been to the West except for a short hiatus. It has now reverted to its traditional position. If Egypt has returned to the West, the West has also returned to Egypt.

3) Egypt has good economic, political, and cultural relations with many countries in the world. It turned to the U.S. as the leader of the western world and hopes to get the same level of support from the U.S. that it does from international organizations and other countries. Egypt appreciates the assistance of the United States that it receives through the USAID program and hopes to strengthen its relations with the United States, and assumes the feeling is reciprocated.

4) In terms of domestic politics, the success or failure of the open door economic policy does not rest on the success or failure of President Sadat. The open door policy has been debated and approved democratically in the Egyptian Parliament and by various social, political, and economic groups. Economic aid to Egypt does not support Sadat himself, but recognizes the strategic importance of Egypt to the international community. Paradoxically, some of Egypt's many problems stem from its geographical, political, and cultural importance.

5) After 30 years of war and its economic consequences, Egypt would be helped by peace and could easily adapt to peace without internal disorder. The army has been depoliticized by President Sadat and the country is moving toward increased democratization. The economic restraints of the past two decades are being alleviated through legislation.

6) This is not the forum in which political issues should be discussed. Political considerations should have been eliminated from the agenda.

7) The objective function of USAID programs should be spelled out by U.S. and Egyptian personnel in terms of constraints and limitations such as money and time, and in terms of Egyptian economic realities. Scenarios should be designed and the policies and priorities which underlie them established. A study should be conducted, based on the objective function of the USAID program, to provide guidelines for aid to Egypt.

8) Political issues affect USAID programs in many ways. For example, in 1956 when the political situation intensified in the Middle East, a USAID program in Egypt was suspended.

III. BASIC HUMAN NEEDS STRATEGIES

1) Basic needs programs cannot be achieved with foreign funds alone.

2) Egypt's policy of subsidizing food staples and other basic commodities has become a focus among the welter of economic and political problems. Elimination of subsidies would affect all areas of the economy with evident political consequences as demonstrated by the January 1977 riots. On the other hand, a general overhaul of the existing subsidy system would entail difficult wage, tax, and monetary policy decisions. While continued subsidization is necessary during transition to the new economic regime in order to mitigate potential inequalities and instability, it is important to separate those subsidies that directly affect low income groups from those that distort production signals. It might

be possible for foreign assistance, Arab and western, to provide sufficient imports and cash to make the inevitable price rise less painful and to allow time for adaptation.

3) Egypt, under its present leadership, is moving toward decentralization with participation of the individual in articulating human needs. Individuals plan for their own needs and participate in implementation through village councils. USAID is providing financial assistance at the individual level in the following ways:

- a) village council projects to improve agriculture and transportation;
- b) a loan forgiveness program under PL480, Title III, directed at development of village infrastructure projects for the improvement of sanitation, drainage, electrification, and village storage;
- c) conversion of the cooperative system from an instrument of government agricultural policy to one of greater participation by individuals, allowing them to express themselves on economic issues.

4) Income equity considerations do not conflict with growth objectives. USAID needs to link the human needs approach to future economic growth in such areas as limiting population and urbanization. USAID had been dealing primarily in short-term programs, but is beginning to formulate programs which coordinate with Egyptian programs. Funds from the Commodity Import Bill and PL480 account for 60% of those U.S. assistance programs which have had an impact on human needs and give visibility to U.S. aid.

5) USAID assigns a high priority to development projects involving other donors, especially those incorporating an income-producing role for the individual. Research and development to improve the income role of the agricultural sector is one example. On the other hand, USAID assistance for social services, such as Egypt's extensive health care system, is not a high priority.

6) The commitments of international donors to projects which are short-term but intensive raise questions such as Egypt's ability to sustain the projects, the relationship between basic needs and the need for economic austerity, Egypt's concept of social justice and how that concept might be reshaped in the future, and the meaning of the concept of basic human needs to the people in rural areas where traditions and symbols are more meaningful than concepts per se.

7) The U.S. does not intend to impose its perception of human needs on Egypt. There is constant dialogue between U.S. and Egyptian officials to identify social justice needs.

8) The relationship between the allocation of limited resources among various segments of the population and the ability of the present Egyptian government to survive is a cause for some concern on both political and economic grounds. Despite the high visibility of short-term USAID projects aimed at key urban elements who are crucial to the support of the government - the police, the military, and the bureaucracy - these elements could nevertheless topple the government. This issue refers especially to the role which these groups are called upon to play in the suppression of discontent among other elements of the population, such as occurred in the price riots of January 1977.

9) The key urban elements represent 45% of USAID's human needs target group. However, the problems are of such magnitude that the results of USAID's short-term, high-visibility assistance are ineffectual.

IIIa. RESPONSE OF THE EGYPTIAN PARTICIPANTS TO THE DISCUSSION OF BASIC HUMAN NEEDS STRATEGIES

1) Egypt is changing from a closed to an open society in which social services are supported by taxation and individuals are free to produce and earn as they will and to express themselves under laws which permit freedom of speech and a multiplicity of political parties. An increase in the standard of living could result in greater social justice. Social justice is also achieved through better distribution of wealth, through a more equitable tax system, and through changes in the economic structure. The Egyptian government is committed to social justice; as party to the social contract, the people will do their part even if it means enduring more economic austerity.

2) Subsidies were first initiated to limit price increases on domestic or imported commodities. There are three categories of subsidies:

- a) foods essential to the poorer classes, such as bread, poultry, and edible oils;
- b) semi-luxury items, such as televisions, refrigerators, and automobiles;
- c) a third [unspecified] group of commodities.

Egypt is gradually reducing and reclassifying the subsidies. For example, the government is considering the removal of subsidies on such items as textiles, animal foods, and starch used in industry, so that the final products can be sold at free market prices. However, the first category continues to be subsidized because an alternative wage structure which would enable the government to abolish these supports has not yet been developed.

IV. FAMILY PLANNING PROGRAMS

1) The current net increase of one million individuals per annum combined with the Egyptian people's expectation that their government must provide their needs will result in:

- a) an increase in the rate of per capita consumption and a decrease in available resources;
- b) increasing demands on government services and expenditures;
- c) a high rate of inflation;
- d) popular discontent as reflected in the riots of January 1977;
- e) emigration of the most educated and skilled elements of the population;
- f) internal migration from rural to urban centers or to sections of the country considered more promising for employment.

2) To increase resources, the government has been forced to use valuable foreign currency reserves which has required adoption of the open door policy, encouraging foreign investments with implicit political strings.

3) Government expenditures at present increase at twice the rate of the increase in resources. A decreasing mortality rate combined with a high fertility rate will swell the Egyptian population to 74 million by the year 2000 and to 139 million by 2030. Egypt's GNP will have to quadruple by the 21st century to keep up with the population increase.

4) War, expansion of arable acreage, internal and external migration, development, a decreased mortality rate, an increase in literacy, and the employment of women have not altered the critical population problem.

5) Without an effective family planning program, there can be no effective economic development. In this regard, the following recommendations are offered:

- a) Population increase should be emphasized as the leading domestic problem.
- b) The political leadership should become directly involved in re-establishing the credibility of family planning as a population control mechanism through legislative and administrative acts, outreach approaches, efficiency of the family planning delivery system, and through information, education, and communication programs.
- c) The birth rate should be controlled rather than the population.
- d) A positive and sustained support for birth control should be elicited from the Muslim religious establishment which currently supports individual family planning but not a broadly implemented government program.

- e) The expertise of Egyptians at home and abroad should be solicited in the solution of the population problem.
- 6) In Egypt, there is major disagreement as to whether economic development or family planning should be stressed in approaching the population problem. The emphasis shifted, for a time, away from family planning but has now shifted back with a loss of progress in the interim.
- 7) Change and development are factors of perception. The delivery of family planning services must be accompanied by a change in how people use them and their attitudes toward them. It is the process of change rather than the availability of services that explains the difference between urban and rural family planning attitudes.
- 8) If Egypt were to spend on family planning the money earmarked for development of the western desert, the expenditure would still be modest but produce better results.
- 9) USAID is prepared to support any meaningful effort in family planning, even sterilization, if it is non-compulsory. USAID is awaiting a more comprehensive population control program from the Egyptian government. Under a five million dollar agreement, USAID is active in such areas as contraception, an expanded pilot research program for delivery of social and family planning services, training programs, including one to bring more doctors into public health services, and is also engaged in financing other small related on-going projects.
- 10) The complementary World Bank project to develop community centers as an outreach approach can reach only 10% of the people. Research to determine the level of development necessary for a good family planning program is required.

IVa. RESPONSE OF THE EGYPTIAN PARTICIPANTS
TO THE DISCUSSION OF FAMILY PLANNING PROGRAMS

- 1) Egypt has not shifted its emphasis from family planning to economic development; rather, additional stress has been given to development.
- 2) The religious authorities have reduced their opposition to family planning and the subject is openly discussed by the people and the media.
- 3) Egypt has both a family planning and a resettlement program to deal with the population problem. For the long term, Egypt is planning five belts of development: north of the delta and lakes; the northwest

area; the western desert; south, across the Nile; and the eastern desert and Sinai. The government will not substitute development in these belts for a family planning program. To change the south-north migration pattern, Egypt plans to develop the south as a pilot effort to attract 7 to 15 million people during the next 25 years and has asked USAID for a feasibility study. Also, a remote sensing operation in the western desert, which will determine its geological character and technological potential, is 80% complete.

4) The resettlement program is not in itself sufficient to accommodate population growth. Education and changes in the economic structure are essential components of an efficient family planning program.

5) Population is expected to increase to 60 million, not 74 million, by the year 2000.

6) The World Bank McNamara Agenda for Egypt includes a major family planning program. The World Bank report on its family planning program may already be out.

V. ECONOMIC LIBERALIZATION AND LEGAL REFORMS

1) The reassertion of the contract as a major source of legal rights, implicit in the open door policy raises three areas of particular concern for the legal system:

- a) substantive rules of law as they relate to commerce and business will require a revision aimed at removing old restrictions, modernizing the basic commercial law, and formulating new laws and institutions tailored to the new policy, such as those in the areas of securities regulation and unfair competition; law reforms will have to harmonize contracts and plans as basic juridical principles in the system;
- b) courts and legal departments of the bureaucracy will require new skills, particularly in relation to complex economic transactions; administration and management of courts handling case loads will need to be modernized;
- c) the practising bar, having special skills of legal analysis and problem solving which make the lawyer a key figure in structuring economic transactions, must be revitalized; institutions of legal education are needed to provide the training and research to support law reform, revitalization of the judiciary, government legal departments and the practising bar.

2) USAID could develop a program linked to an American law school to assist the Egyptian legal system in meeting the new demands by:

- a) providing technical assistance in needed areas, supporting law reform studies and research by Egyptian legal scholars and lawyers, and strengthening the law revision process through appropriate institutional aid;
- b) providing technical assistance in the field of court administration and supporting training programs and seminars for judges and legal advisors;
- c) assisting in the organization of programs of continuing legal education for the practising bar and creating a post-graduate institution offering intensive training in modern economic and financial law.

VI. POLICY AND THE ORGANIZATION OF POLICY-MAKING IN EGYPT

1) Egypt's open door policy is at present little more than a guideline for a new policy with little specific content. As the dynamic of the economy works itself out, the policy emerges. Examples of this phenomenon are the revision of the investment law, reduction of dependence on bilateral trade, adjustment of the exchange rate, and the linking of farm prices to world market prices. Moreover, the effect of policies is crucial to how the system of policy planning evolves.

2) Egyptian policy-making machinery is not well suited to the tasks created by the redirection of strategies. Individuals in planning agencies are conditioned by a completely different economic environment than that engendered by the new open door policy. Thus the planning process has fallen into considerable disarray.

3) If the open door policy, in action, is taken to mean a commitment to a growth-oriented "mixed economy," with strong government concern for both growth and distribution, retaining "welfare state" overtones that could be called "socialism," but including a flourishing subsidiary private sector which increasingly attracts both foreign and domestic investment, then at a minimum, there is a need for:

- a) some kind of effective multi-year planning machinery that can formalize fairly clear macroeconomic goals and more specific targets for both the public and the private sectors;
- b) improved machinery for the appraisal of policy options related to those goals and targets;
- c) adequate political and bureaucratic institutions for making and implementing difficult choices.

The Egyptian government is wrestling with shortcomings in each of these areas at present.

- 4) Recommendations as to how USAID might contribute to Egypt's

policy-making process include:

- a) Simplistic solutions to many-sided problems should be resisted.
 - b) USAID should help to provide the essential maneuvering space within which the necessary adjustments of the economy can begin to take place while insuring that U.S. aid is sufficiently well-used.
 - c) USAID should give high priority to the process of medium-term planning by funding basic research, by supplying technical assistance in improving data-gathering systems, by providing models for moving from a centralized to a decentralized economy, by organizing training programs for technicians and professionals, and by working as a member of a consultative group to develop an effective planning process.
 - d) USAID should help improve the process by which policy choices are analyzed and evaluated by the Egyptian government through funding "operational" or "policy" research within the government at high levels, by giving technical assistance in setting up a policy analysis staff, and by establishing training programs for strengthening the staff work of such a group.
 - e) USAID should assist in the "administrative revolution" by focusing on ways to strengthen agencies responsible for the implementation of high priority goals, particularly those agencies concerned with follow-up and with reaching down into the bureaucracy to insure that tasks are carried out.
 - f) In connection with strengthening the economic planning, decision-making and implementation process, USAID should assist in reinforcing the role of the World Bank Consultative Group in its substantive view of broad economic strategies.
- 5) USAID or other donors to Egypt might be more helpful if they work to establish the capacity to handle the very complex problems facing Egypt rather than attempting to seek solutions. In particular they should assist the organizational capacity of government to establish and use professional staff work which is the necessary foundation for the decision-making and implementation process at the sub-cabinet level. This need is of the highest priority. Staffing operational policy research would be a major step forward.
- 6) Successful implementation of the various proposed development policies is contingent on two important factors:
- a) how different segments of Egyptian society perceive the benefits to be gained;
 - b) the means of communicating these benefits to the majority of the people at which they are aimed.
- 7) Urban populations are generally secular and national, yet the cities of Egypt contain large segments of unurbanized migrants. Policy

ambiguities often arise from differences in interpretation of Islamic precepts and in interpretation of regional idioms and traditions.

8) In the formation of policy, an important factor to be taken into account is cultural limitations. Neglect to do so in the past has resulted in the failure of some projects.

9) It is recommended that more detailed research into the cultural traditions of the Egyptian people be undertaken so that planners can determine more accurately the people's own perception of their needs and their attitudes toward implementation. Projects which take such data into account would improve the communications and assure a greater success.

10) Both legal instruments and policy-making machinery are required to transform policy into the law of the land.

VIa. RESPONSE OF THE EGYPTIAN PARTICIPANTS
TO THE DISCUSSION OF POLICY AND THE ORGANIZATION OF POLICY-MAKING

Anthropological approaches to development and family planning are irrelevant.

VII. THE EGYPTIAN BUREAUCRACY

1) Some potential foreign investors have been discouraged by slow bureaucratic procedures and conflicting information from bureaucrats and ministries.

2) The Egyptian government's policy of "employer of last resort" for university graduates has exacerbated the problem of an increasingly inefficient bureaucracy which causes great difficulties for management, and for defining and implementing policy.

3) The reform of the bureaucracy is an urgent major long-term struggle which requires deep governmental commitment. One of the more difficult solutions to bureaucratic reform would be to attempt a rapid expansion of demand for labor in non-governmental areas.

4) The bureaucratic impediments to foreign investment incentives are not entirely the fault of bureaucrats who have been saddled with the unaccustomed task of promoting a non-controlling approach. It is in part the system which is responsible for their not being as helpful as they might otherwise be. Attitude is as important as size, organi-

zation, and economic management capabilities.

5) Until the bureaucracy is reformed, the Egyptian government will continually be faced with the prospect of disciplining the bureaucracy to insure implementation of its policies or face the prospects that vested interests will be effectively able to thwart any attempt to implement them. The bureaucracy has not undergone sufficient change to allow it to perform its tasks efficiently.

VIIa. RESPONSE OF THE EGYPTIAN PARTICIPANTS TO THE DISCUSSION OF THE EGYPTIAN BUREAUCRACY

Delays and inefficiencies in the bureaucracy are being corrected. However, the Egyptian experience in the negotiation and approval of investment projects has shown that delays are prevalent in the American bureaucracy as well.

VIII. AGRICULTURAL STRATEGIES

1) Egypt's joint project with the University of California at Davis is a timely and novel project in view of Egypt's wide-ranging agricultural problems and the similarity of problem sets in California and Egypt. The project will involve the relevant research and training institutions as well as the expertise of individuals of both parties to identify key problem sets. Together they will recommend research, technical and training needs and other factors to solve agricultural problems in Egypt; they will evaluate proposals for funding an organized long-term development agenda to examine policy alternatives; they will train students in modern techniques of agriculture and agricultural problem-solving; and they will build and strengthen the capacity of Egyptian institutions for agricultural management. The project is mainly one of problem-solving, not of technology transfer. Using Egypt as a laboratory, university experts and students will attempt to identify problems in Egypt while gaining valuable experience. Title XII of the Finley-Humphrey Amendment will provide funds and resources to support research between the U.S. and foreign universities on food production problems in the poorest countries and to build their institutions on the model of land grant universities.

2) Recommendations in the USDA-UC-Davis Report suggest that USAID intervention should be in the form of research and pilot projects rather than as major agricultural efforts and should aim to develop bases on which larger efforts could be built in the 1980's.

3) At present, agriculture, Egypt's most important economic activity, is in the private sector where there are many inconsistent and contradic-

tory controls that affect long-term productivity growth and short-term planning and marketing decisions by farmers. Given its importance in the economy and its relations to some of Egypt's most crucial development objectives, the agricultural sector needs a great deal of attention. However, the fact that it is in private hands and is responding to price incentives while most of the rest of the economy is publicly owned and managed, makes even more urgent the design of an overall development strategy.

4) On the question of whether to emphasize improving old-land production or new-land development, concentration should be on the former since the latter is difficult, expensive, and long-term. USAID should play a supporting role by financing elements of the drainage programs which represents a heavy local cost out of local currency. Financial support should also be considered for the currency program.

5) When Colorado State University's program of research on water control is completed large resources will go into training Egyptians in water usage, particularly with a view to improving production through better handling of water.

6) USAID agricultural strategy emphasizes grain cultivation (rice, wheat, corn, sorghum) rather than fruit crops because larger number of farmers thereby benefit. Research to deal with the commodities' cycle from growth to processing to marketing as leading to financial flows, credit, better use of facilities, etc. is also emphasized.

7) USAID sees the development of new crops such as vegetables as a task to be undertaken by the Egyptian Ministry of Agriculture and USDA within the framework of the UC-Davis report.

8) USAID policy is to avoid becoming involved in the production of high-cost, high-technology crops in reclaimed lands; this is a field USAID recommends should be the purview of agribusiness.

9) USAID should examine deeply whether it should become more involved in such new-land development as in the western desert where drainage problems are enormous or on plateaus where water depths and drainage are favorable but good soil is limited; development in such areas are high-cost projects and not promising in the short run.

10) It is essential to understand the unique and historical Nile irrigation system and to benefit from the experience of the Egyptian farmers in order to develop an effective strategy for improvement.

11) All of Egypt's agricultural problems are difficult and inter-related. For example, livestock for meat and milk raises the corollary

problems of Egypt's large commitment to forage for the livestock it uses as beast of burden which in turn complicates policy questions of mechanization.

12) Since 1975, USAID has financed capital projects totaling 50 million dollars including grain and oil storage, irrigation pumping and canal maintenance.

13) USAID policy is intended to tie agricultural development to the problems of basic human needs. In its effort to improve the welfare of the population USAID is concerned with several factors: production and the quality of rural life; labor problems; and the kind of mechanization aimed directly at areas of labor shortage as in planting and harvesting. These problems need solving.

14) Although there are prospects for conflict between development priorities and meeting critical human needs, USAID should give more attention to organizing programs for rural development than to organizational programs. There should be wider linkage between infrastructure and basic needs, between agribusiness, development for land reform, ownership, and human needs, and between private sector financing and equity. But how far to go in any one direction is difficult to determine.

15) The difficulties in the old-lands/new-lands problem might be structural. A new-lands project, such as Coca-Cola's citrus program, is managed like a corporation. In dealing with older in-production lands, it is difficult to organize masses of farmers. What is needed is planning with a view to assembling resources at the right places and in the most efficient ways in terms of both structure and analysis.

16) Seen within the frame work of a political/economic dichotomy, Egypt's administration is managerially, attitudinally, and methodologically geared to the philosophy of urban/industrial development. Thus, USAID must cope with this emphasis, as opposed to rural agricultural needs and Egypt's problem in dealing with them. Yet, the Egyptian government would be pleased for USAID to assume more of the responsibility for these problems.

17) USAID's budget of 25 million dollars for agriculture will permit agribusiness to become a major factor in reforming agriculture's ability to process and market agricultural products. USAID should concentrate on the development of production that opens new markets and allow the development of old lands to shape itself to the market.

18) Relative to the new-lands/old-lands problem, new-land crops, such as citrus, are long-gestation products that hold up capital without return for up to seven years, and could require the government to provide the basic infrastructure despite involvement of agribusiness. Investment

in old lands with crops of short gestation is more lucrative.

19) In terms of strategy linkages with basic human needs, perhaps an effective way to achieve desired results is to attack needs indirectly by improving the way agricultural prices are set, by restructuring the exchange rates, or by working through the price system. Instead of designing technological activities for ten million small working agriculturists, USAID's objectives might be achieved through the price system.

20) In some cases, bad policy and poor pricing push up production of products that should be reduced, and vice versa. This hampers agriculture by allowing production of non-exploitable products; for example, lower quality cotton.

21) Remarkable improvements have occurred in village conditions and in the attitudes of villagers. These changes resulted from attempts at decentralization of authority and improved local government, from improved village infrastructure, and from increased national and international awareness of villagers. Nevertheless, numerous rural problems remain, due in large part to population pressures on available fertile lands which are being reduced further by urban expansion, municipal construction and brick-making for housing from valuable top soil no longer being renewed by Nile flooding.

VII.a. RESPONSE OF THE EGYPTIAN PARTICIPANTS TO THE DISCUSSION OF AGRICULTURAL STRATEGIES

1) The sixty percent of the Egyptian population living in rural areas and working in agriculture constitute a very important political and social factor. Egypt would like to emphasize development in the agricultural sector but faces difficult problems. A USAID program in the 1950's did little to help develop agriculture or improve rural life. USAID agricultural assistance is limited in scope and reflects limited experience. USAID needs to be provided with priorities and strategies in this area.

2) Egypt has limited technology but 6000 years of experience in farming. It needs advice on modernizing its agricultural sector and on improving the quality of rural life. The Egyptian government will, of course, make the final decisions. However, an understanding on development and the better utilization of existing land and water resources can evolve through dialogue. Agriculture is still part of the private sector with the government providing assistance. An Egyptian strategy for the rural areas and identification of priorities is still required.

3) Egypt has a preferential agreement with the EEC countries which reduces tariffs on some products by as much as 40 or 50%. There are no

agricultural tariffs. Egypt has doubled or tripled its export of agricultural products in the last year. Therefore, investors have an advantage in investing in export-oriented agricultural products in Egypt.

IX. PRIVATE SECTOR INVESTMENT AND THE ECONOMIC OPEN DOOR POLICY

1) In light of Egypt's open door policy with its emphasis on foreign and domestic private investment and greater use of market mechanisms, the government's ambiguous commitment to "socialism" not unexpectedly produces inconsistent signals and consequent confusions on the part of prospective investors as well as inconsistencies in attitude, performances, and decisions within Egypt. Development must be viewed within the context of this commitment. Government policy is clearer on the role of foreign investment than on the role of the private sector in economic development.

2) In its planning process, Egypt must address itself to the set of issues implicit in the relationship between the public and private sectors if both sectors are to contribute effectively to economic development. The concern of USAID and the Egyptian government is not only to accelerate private investment. It is rather to enable a thriving private sector to cohabit prosperously with a strong public sector, insuring that the social burden on the private sector is minimal so that development can proceed harmoniously in both sectors.

3) The open door policy attracted few foreign investors because of a variety of difficult economic, political, and managerial problems which U.S. assistance could help alleviate. Some of these problems and recommended measures to reduce them are:

- a) Egypt lacks a price mechanism that allows economic decisions to be decentralized. Such a mechanism is a precondition for successfully making the Egyptian economy more private in character and attracting needed foreign investment;
- b) Egypt, with its foreign exchange problems, its Arab boycott restrictions, and its reliance on East European imports, is unable to generate a large investment response;
- c) The bureaucratic bottleneck discourages smaller investors who hesitate to put in negative time for uncertain outcome;
- d) Egypt must overcome the war zone, high-risk image;
- e) Egypt must think up subtle policies to attract investment. Other countries offer almost anything to attract a first big-name company in order to use it as an investment attraction for other potential investors;
- f) More management training must be undertaken if basic marketing, financing, and production planning are to be available at the enterprise level.

4). Quick analyses are unavailable on the time lag between decisions

and their implementation and between rapid changes and their outcome. Analyses made by businessmen are guided by subjective rather than objective ideas.

5) A profitable investment is the best inducement to foreign investors.

6) The economic liberalization policy has been in a three-year period of change and transition - an insufficient time for conclusive judgements on its rate of progress. The small business team brought in by USAID for a short visit to Egypt was not familiar with the situation in Egypt. Yet, it discerned the extent of the problems of risk and confidence related to the transition period. So far, development is neither inconsistent with nor counteracts economic development in Egypt.

7) The prospect of growth in domestic investment in the private sector - an important element in the development of the economy - is inhibited by the lack of an inherent investment initiative in the Egyptian domestic sector which has been stifled by its recent past experiences. The Egyptian government must offer more specific incentives and policies designed to stimulate domestic private initiative. This sector requires more education in the benefits and requirements of economic liberalization and must be persuaded to involve itself in a dialogue on these matters with the government.

8) In terms of linkages, the private sector might be used by USAID to encourage the public companies to become more efficient productive enterprises.

9) The private sector is encouraged by improvement in the process of bank loans and by the prospects of loan expansion.

10) More time is required to allow the Egyptian government to demonstrate its good faith to the private sector; and by its good faith and through inordinate gestures the government can favorably influence private long-term and expansion investment decisions. From the government's point of view, foreign investment demands even greater time and is presently more important than domestic investment.

11) Peace is a basic factor in attracting and stimulating private investment.

12) The small business team in Egypt looked at the "what" and for the "how" of investment and found several areas for potential financial commitment:

a) the textile industry is advanced and has a good potential for

- expansion and export;
- b) there is a role for private contractors in the construction industry and a great need for construction materials; engineering service techniques and construction talent require updating;
- c) an innovative program which includes seed capital and modern management and techniques could meet the needs of foreign buyers and expand business;
- d) agribusiness should focus on the better use of land and on high-priced products for export;
- e) the tourist industry has great assets; a master plan for tourist activity, a national park-like plan to protect tourist areas against encroachments of development, and an increase and improvement in museum space all constitute areas for USAID assistance.
- f) fish culture is also an area for development and investment.

13) While it is difficult to establish priorities, the Egyptian government should address itself to systems problems.

14) To remove impediments and stimulate small scale foreign investment, financial assistance might be extended to small and medium businesses for the purpose of preparing costly feasibility studies which would guide them in their transactions with banks from which they seek loans. More studies may mean more loans. Assistance might also be given in accounting and balance sheet analyses so that credit could be attracted from the banking community. Short and medium term credit is required for the importation of machinery and equipment by small and medium business.

15) USAID should look for problems of basic importance in what is a developable private sector and hope for spillover effects to other parts of the sector.

16) The small business team was not particularly interested in exports but made two points with implications for assistance programs:

- a) given lack of local resources and business confidence, local demand was sufficient to absorb current levels of production;
- b) since the 1960's and nationalization, Egyptian business has not known how to compete and avoids expansion.

17) Egyptian products could suffer from stiff competition in European markets. Therefore, costly technical overhaul of some production might not be worth the effort.

18) Free trade is essential. Tariffs to protect special interests should be resisted. Trade should be beneficial to business and to government.

19) With respect to the desirability of a freer exchange rate and Egypt's reluctance to allow the pound to float, assistance might be made available to underwrite a looser exchange rate system and to reduce the harm of a run on the pound if Egypt allowed it to float. The exchange rate has modified, but the rate could change faster with underwriting.

20) USAID would prefer to deal with issues other than the difficult one of the exchange rate.

21) The price for capital is important. The ceiling on interest should be removed. Interest should be allowed to increase from 1% to perhaps 6% which is much lower than the rate of inflation.

22) One should look at the implicit subsidies in the system of import prices. For example, the price of cotton is lower than wool in the textile industry but no one knows whether the cotton textile industry is benefitting.

23) The rate of economic progress in Egypt has been much greater from 1973 to 1977 than in earlier years. Some of the problems which have appeared are themselves concomitants of the strains and changes of progress. This should be seen as a positive development.

IXa. RESPONSE OF THE EGYPTIAN PARTICIPANTS
TO THE DISCUSSION ON THE PRIVATE INVESTMENT SECTOR
AND THE ECONOMIC OPEN DOOR POLICY

1) The following are criticisms often made by those who visit Egypt for brief periods or are otherwise inadequately informed about changing circumstances in Egypt:

- a) Regarding the issue of dominance of the public sector relative to the private sector, Foreign Investment Law 43 and its amendments in Law 32 of 1977 remove restraints on investment, foreign and domestic, in the private sector, particularly with respect to foreign exchange, imports, exports, and labor. Although the public sector will continue to be a major factor in the five-year plan, there is wide scope for the private sector. Both are needed for effective development in Egypt and are not mutually exclusive. For sound growth, the public sector will concentrate on development of the economic infrastructure while the private sector is encouraged to assume responsibility for the superstructure of the economy.
- b) Other corrective measures include the reactivation of the Egyptian stock exchange (which is older than the New York Stock Exchange), and a review of housing and tax laws.

- c) Egypt is criticized for disapproving certain types of foreign investments. Egypt must make decisions on the basis of needs and priorities as the government perceives them. Only a handful of projects were rejected as compared to the hundreds approved, including those negotiated with major U.S. companies and banks. Egypt seeks investors with ideas that accord with its needs.
- d) The threat of war has not deterred European, Arab, or American long-term investors (including 33 oil companies) from investing in Egypt. The pessimistic view is exaggerated.

2) Americans do not seem to appreciate the advantages of foreign investments in Egypt. The American press does not publicize such incentives as the availability of minerals and other raw materials, Egypt's strategic location relative to markets in Europe, Africa, the Far East, the Middle East, and the Arab world, Egypt's year-round favorable climate, a large trainable labor force with unions that are not prone to striking repeatedly as in Italy where the U.S. has numerous investments, and a socially stable population.

3) The tangible results of Egypt's educational revolution, started in 1952, are evident in the number of Egyptian graduates with 4 to 14 years of education working in neighboring developing Arab countries where they contribute their skills. These citizens will return to Egypt when the prospects of good incomes exist. They will be accustomed to relatively high incomes.

4) Egypt has created inland and free zones of investment. One hundred and twelve projects with an investment of 300 million Egyptian pounds and 19,900 employees are already producing in the inland zone, while 171 projects are under consideration. In the free zone, Egypt has 72 producing projects with a capital of 93 million Egyptian pounds and 56 projects are under construction. The government is seeking other areas of investment to accommodate proposed projects.

5) Since the October War, Egypt's economic priorities have focused on controlling the rate of inflation, reducing the balance of payments deficit and easing the burden of the foreign debt. There has been progress in dealing with these problems. Increased Suez Canal revenues and remittances from Egyptians abroad have contributed to an improvement in the balance of payments. By means of long-term and medium-term loans from the Gulf States and Saudi Arabia and through Egypt's own resources, foreign debt payments to banks have been kept current since September, 1977.

6) Joint projects and enterprises, involving foreign and Arab capital, are encouraged.

7) In addition to the vast amounts of U.S. economic aid which Egypt has already received in the form of project funding, commodity imports,

balance of payment funding, and technical assistance, help is also available from the EEC member states, Japan, Iran, and international organizations such as the IMF and World Bank. Egypt also has access to Arab funds.

8) Development in Egypt must take place within the context of an economic program that sets out aims and priorities clearly. Egypt's priorities are determined by its five-year plan; they involve significant modification in the direction and methods of economic management and in newly established objectives. Some of these priorities are:

- a) first rank of importance for investment;
- b) consolidation of effective measures by the government to finalize on-going projects; this will involve up to 85% of the investments in the first year of the five-year plan;
- c) concentration of investment in the public sector on specific projects to allow the private sector freedom of action;
- d) preferences in the agricultural sector to quick-yielding products on existing and reclaimed land;
- e) fifty percent of construction investment towards raising the technological level of construction and towards strengthening its capacity in order to expedite existing projects, alleviating the bottleneck in Egyptian development and improving the economic infrastructure;
- f) preparation of a comprehensive plan to identify areas where external development assistance would be most effective with a schedule for disbursement commensurate with Egypt's payment obligations and domestic resources;
- g) improving the efficiency of the public sector at the materials and managerial levels and directing public sector activity toward internationally competitive exports; the Egyptian government and people feel that the private sector, which has long existed in Egypt, should receive more financing and improvement as indicated in the open door policy; more than one-third of total national production is private and unless that sector gets high priority, it is in danger of losing its traditional western and east European markets;
- h) implementation of a comprehensive population policy that would bring the growth rate to an optimum level and curb excessive urbanization; the current net rise of one million Egyptians annually increases the labor force by 300,000 and requires an additional investment of one billion Egyptian pounds to provide opportunity.

There is room in this list of priorities for flexibility and change.

X. RECOMMENDED PRIORITIES

1) In view of USAID's limitations in money, manpower, and management resources, it should maximize its effect by coordinating its priorities

with those of the Egyptian government.

2) There is a special and continuing need for USAID programs to be supportive of and responsive to the economic needs of the Egyptian government for reasons which include, but are not limited to, economic considerations. USAID must be sensitive to the short-term as well as to the broader diplomatic and security needs of the region which significantly influence economic development.

3) Support for the open door policy should be at the heart of USAID's planning to help Egypt overcome the extreme complexities of moving from a closed to an open economy.

4) As one of the special concerns of the U.S. Congress, USAID programs should reflect an immediate emphasis on basic human needs irrespective of the improvements that will accrue in this area from overall economic growth in the long run. The problem can be approached either directly by addressing such needs as health, housing, education, and social services, or indirectly by attempting to tailor all programs so as to give considerable weight to their distributive effects. However, the "trickle down" theory of growth is not sufficient to meet Congress's intent.

5) More effective family planning programs to reduce Egypt's net population growth rates should receive high priority. Population problems, central to long-term economic development, cannot be solved by overall development.

6) A high priority for USAID and Congress must be to support the policies of the Egyptian government which are aimed at encouraging foreign and domestic private investment, with special concern for the needs of small business, as contemplated in the open door policy.

7) Major resources of USAID programs should be used for increasing the productivity of agriculture. Declining productivity in old lands should be revitalized by improving agricultural practices through technology. USAID should undertake only limited experimental programs involving pilot projects on new lands development. (This is a developmental priority currently under discussion between USAID and the Egyptian government.) Agricultural research and the extension of the capabilities of the Egyptian government deserve emphasis. A coherent USAID-Egyptian agricultural strategy is urgently needed.

8) USAID should help strengthen Egyptian institutions concerned with medium-term planning, policy analysis and implementation, by promoting the development of professional policy analysis staffs or secretariats in the office of the Deputy Prime Minister for Financial and Economic Affairs. Such an effort is especially needed in the top-level offices responsible for coordinating agricultural policy.

9) For some time to come USAID should provide balance of payment support through the Commodity Import Program and/or other appropriate methods by helping to devise flexible and quick-acting responses to short-term foreign exchange needs. One of the functions of this program should be to provide "breathing space" thereby giving the Egyptian government a better chance to deal with the extraordinarily complex problems of liberalizing what had been a highly centralized closed economy characterized by many distortions.

10) The rehabilitation of basic services and their expansion as part of the improvement of utilities and other infrastructures is of utmost importance. The attraction of private investment and the growth of tourism is dependent on the improvement of communications, transportation and services.

11) USAID's own priorities can best be refined and the achievement of its priority goals can be greatly assisted by promoting multi-donor cooperation through interaction with the World Bank Consultative Group and through using systematic reviews and appraisals such as this group provides.

12) USAID should make a major effort to ascertain those points at which the highest priority goals intersect - that is, to determine where two or more major aims can be furthered by adapting and linking these to one another or to a given program or activity. Because USAID cannot wait until it has a full in-depth understanding of how the Egyptian economy works, it is important for USAID and the Egyptian government to know what kind of linkages exist, where primary efforts should be aimed, and how these efforts would induce other changes in the economic system. The notions of linkages is a process that falls somewhere between the "trickle-down" and the direct assault approaches to Egypt's needs.

13) The need to check urban sprawl by providing alternative building sites on non-arable land, and by providing building materials other than brick is a problem that requires immediate action.

Xa. RESPONSE OF THE EGYPTIAN PARTICIPANTS
TO THE DISCUSSION ON RECOMMENDED PRIORITIES

1) The objectives and priorities of the Egyptian government for the forthcoming five years have been enumerated by the participants of this conference. However, the Egyptian representatives would have preferred that USAID representatives had presented USAID's priorities for Egypt with greater specificity so that views could have been even more usefully exchanged. The general objectives of the Egyptian government are to accelerate economic growth and improve the availability of public and social

services in rural and urban areas. The realization of these goals depends on both Egyptian and USAID priorities. The following is a summary of priorities under the Egyptian economic plan:

- a) There should be concentration on developing specific areas of industry and agriculture, and these particular areas should be linked to the overall economy.
- b) As regards economic infrastructure, priority should be given to the public sector which will continue to be dominant in such areas as public utilities. The private sector will be included in cooperative joint enterprises or can undertake new activities in certain categories.
- c) Emphasis should be placed on the development of rural and urban infrastructures such as in the areas of transport, communications, electrification, etc.
- d) Industrial capacity should be upgraded with emphasis on industry that uses domestic raw materials.
- e) The quality of urban and rural life must be improved, particularly the latter.

2) Egypt has a list of projects which it will work to implement in 1978 - the first year of its five-year plan. Among the projects, priority should be given to the problem of the balance of payments. Commodity Import projects and the PL 480 program produce quicker results than capital project development and could be re-oriented in such a way as to help give the government maneuvering space. The list of projects is readily available.

3) Existing small business contributes one billion Egyptian pounds to exports with existing labor, and is financed by middle men who will pull out if there is no market. USAID should give priority to the small business program, particularly with technical assistance.