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EGYPT - PL 480 TITLE I

Paul D. Morris  
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	<u>Page</u>
I. Introduction and Summary	1
II. Program Objectives & Size, Egyptian Needs, & Use of Resources	5
A. Objectives	5
B. Program Size	6
1. Historically	6
2. Currently	8
C. Use of Foreign Exchange	10
III. Incentives/Disincentives	14
A. Marketing	14
B. Wheat Production/Availability	16
C. Producer Options	18
IV. Policy Dialogue	20
A. Self-Help Measures	20
B. Wheat-Related	23
V. Budget/Local Currency	26
VI. Programmatic Issues	27
A. CUP Exchange Rate	27
B. Program Level	28
Appendix A	
Appendix B	
Appendix C	

## EGYPT - PL-480 TITLE I

### I. Introduction and Summary

Narrative in A.I.D.'s Congressional Presentation annually explains that Egypt has a crucial leadership role to play toward achieving a comprehensive and lasting peace in the Middle East. Egypt's continued socio-economic stability is central to that role. The U.S. economic assistance program supports Egypt's constructive contribution to that peace process by complementing Egyptian investment in infrastructure, productive enterprises, and human resources--all necessary to sustain relatively vigorous levels of gross investment now and equitable growth over the longer term.

The U.S. program of economic assistance to Egypt has four major emphases: balance of payments support, development of the economic infrastructure, improvement of productivity in agriculture and industry, and enhancement of human resources. PL-480 Title I program resources, along with the commodity import program, remain the principal tools for achieving balance of payments support. In FY 1984, FY 1985 and FY 1986, those two components were supplemented by cash transfers. These programs provide direct support for near-term economic stability and are increasingly being shaped to assist in attaining longer-term productivity objectives.

The requirements of development support the A.I.D. Administrator's intention that the flow of PL-480 Title I resources to Egypt be gradually reduced as the Egyptian economy is restructured through the government's economic reform program. Egypt should finance more of its import bill through improved domestic production that can compete in export markets, and to create the incentives for doing so economically.

The PL-480 Title I program provides wheat and wheat flour to Egypt. The self help provisions of the Title I sales agreement cite specific public policies needing change, to facilitate increased agricultural production. Under the FY 1984 and FY 1985 sales agreements the government began to address important issues in farm pricing and subsidies, and input pricing and distribution. Commencing in FY 1984 the Egyptian government agreed to dialogue with the U.S. annually regarding improving price incentives for Egyptian farmers. That year the government did raise prices for wheat, onions, cotton, groundnuts and oranges. Additionally, the government agreed to raise domestic agricultural prices to world price levels by the end of the Five Year Plan in 1987. This progress occurred within the context of the policy dialogue as it was then associated with the Title I program.

The size of the PL-480 program for Egypt, in absolute level and as a share of total Title I resources, implies significant political importance for the program, hopefully not at the expense of development. Egyptian government objectives vis-a-vis Title I resources, however, are

different than those of the U.S. government. In Egypt's administered economy normal market forces do not operate with unlimited freedom in the food sector. Since 1964, the government has attempted to provide basic foodstuffs to the masses at price levels arbitrarily determined by the GOE to be affordable to the urban poor. That welfare-oriented objective has generally effectively insulated Egyptian consumers from world market food prices, including those for PL-480 commodities.

During the post-1975 period, when foreign exchange earnings dramatically increased from oil-related sources, the value of Title I commodities constituted less than 4 percent of the annual inflow of foreign exchange from principal sources. The balance of payments justification for use of Title I in Egypt may have been valid for the 1955-66 period, but has been less so since 1980, in light of (a) the total inflow of foreign exchange resources, and (b) the excess availability of wheat products domestically, particularly since 1978. It is questionable, therefore, whether the relatively low level of Title I resources can continue to be cited as a factor in ameliorating Egypt's foreign exchange shortage.

Existing data indicate that the government distribution system is providing the Egyptian population with a wheat supply (nearly 1400 calories/day) that is now significantly above the World Food Program's minimum (1000-1100 calories/day) food security standard. That distribution level can be regarded as a contribution toward attainment of equitable development. On the negative side, however, that equitable distribution, at subsidized prices, must also constitute a production disincentive--equally comprehensively distributed to all farmers equipped to grow wheat.

Given the widespread government interventions and erroneous price differentials among crops, the resultant disincentives may have had greater impact on overall agriculture sector production than on wheat alone. The strongest influences on domestic production of wheat appear to have been (1) the relative abundance and wide availability of wheat at subsidized prices, and (2) the comparative income earning capacity of wheat versus other crops.

Livestock sector producer prices in Egypt, particularly those for red meat, are above world market prices, due in part to restrictions on imports, and in part to Egyptian preference for high-quality, fresh domestic products. Therefore, the financial return for red meat production is high in comparison to that from other domestic agricultural production. One result of this situation is the allocation of 25 to 30 percent of the seasonal cropped area to berseem, in response to derived demand for fodder. Wheat and berseem are the two most important winter crops, and both are grown in virtually every region of the country. The impact on wheat production appears to be mixed. The area sown to wheat has remained rather constant over the past decade. That may be inconsistent with the data which indicate that wheat production is a poor source of income in comparison to fodder crops, even including consideration of the fodder aspects of wheat straw (Table A-11).

Agriculture sector reform was originally promoted through the PL-480 program, then was incorporated into the macro-economic policy dialogue between the government, the International Monetary Fund and the World Bank, and now receives continuing emphasis through A.I.D.'s sectoral projects. A.I.D.'s primary objective in promoting reform is to free up agriculture from government control so that market prices can play an increasing role in production and consumption decisions. Egyptian intent to become more self-sufficient in food production has served as catalyst to the government's participation in the reform dialogue. In this process there has been both some progress and some confusion.

There is some evidence that the current self-help measures have been progressively stripped over time of some minor specificity they originally contained. This comparison and conclusion are possible because nearly identical wording for the measures has been retained from 1984 until 1987. It is somewhat contradictory that over this same period the policy reform dialogue has become of increased importance to A.I.D. as policy weaknesses have been revealed and highlighted by deterioration in the Egyptian economy.

Since the 1970s the widespread availability of subsidized flour and below-world-market procurement prices offered by the government have made it unprofitable for the Egyptian farmer to produce wheat as a food grain. Instead, wheat has been grown primarily as livestock feed. Both the grain and straw are used, and farmers prefer to grow traditional varieties rather than adopt new varieties which yield more grain but less straw.

Government policies, specifically pricing policies relevant to wheat, encourage consumption and discourage production. To the extent that Title I commodities reduce the cost of the overall wheat import bill, they help the Egyptian government maintain policies which keep producer prices for wheat low and discourage domestic production. To help close the gap between demand and supply, the government in Egypt has long considered the PL-480 program a crucial element for financing wheat and flour imports, as well as for providing general balance of payments support.

A.I.D. does not participate in the programming of the local currency net sales proceeds, however, the Ministry of Finance is required to submit an annual report on their use. The FY 1984 report indicated that net proceeds had been incorporated into the government's central budget and used to finance food subsidies and development programs in the agriculture sector.

Does political stability in Egypt depend upon the annual importation of 1.4 million tons of concessionally available PL-480 Title I wheat/flour? Of necessity an answer must occur in and be modified by the context of the time and circumstances then applicable. Assuming

accuracy of the data in Table A-3 and the implications thereof, in the current context the answer to the above query has to be negative. The analysis and discussion in this paper indicate a strong probability that PL-480 Title I imports add to other existing disincentive effects on domestic production of wheat, which theoretically can be overcome through domestic price increases.

A significantly excess supply of wheat in Egypt, primarily through commercial and concessional imports, along with the equitable distribution of wheat/bread subsidy benefits to the overall population, imply that a 1.4 million ton cut in the supply of wheat (15 percent of total domestic availability) would not negatively impact on human consumption and/or nutrition levels. This reduction should merely reduce the total disappearance rate and leave domestic supplies still 30-35 percent in excess of average per capita annual basic requirements. If allowed by the government, a reduced supply and higher prices could achieve better balance in total supply and demand. Current annual consumption (disappearance) of a 50 percent excess supply implies a strong need for increased efficiency in the utilization of this food resource, theoretically probable through a reduction in supply. With the addition of effective targetting guaranteeing supply to the poor, the retention of political stability should be assured.

## II. Program Objectives & Size, Egyptian Needs, & Use of Resources

### A. Objectives

Title I assistance to Egypt serves two main functions, both of which are central to U.S. development strategy in Egypt. First, it provides balance of payments support when foreign exchange reserves are inadequate to meet Egypt's food and investment import needs. Secondly, the Title I program provides opportunity for an expanded bilateral dialogue on Egyptian policies affecting agricultural production. The implementation of policies which would allow market forces to allocate agricultural resources could increase the rates of growth of production and productivity in the agriculture sector and reduce Egypt's food (wheat) import levels. The Title I self-help program addresses the imbalances and inefficiencies in the agricultural sector resulting from extensive government intervention. The self-help provisions require, in general terms, that Egypt undertake measures to increase agricultural production and to improve commodity storage and distribution. These objectives are consistent with the development-oriented needs of Egypt.

Egyptian objectives vis-a-vis Title I resources, however, are different than those of the U.S. That government is interested in making food available at artificially low prices. In Egypt's administered economy normal market forces do not operate with unlimited freedom in the food sector. Since 1964, the government has attempted to provide basic foodstuffs to the masses at price levels arbitrarily determined by the government to be affordable to the urban poor. That welfare-oriented objective has generally effectively insulated Egyptian consumers from world market food prices, and penalized domestic producers.

Government development plans and the annual budgets express the intention to improve domestic agricultural production. However, the government traditionally has not used price incentives, but has relied upon administrative mechanisms and regulatory policy to improve agricultural production, achieve equity and political stability. In the process, agricultural production has not noticeably improved. Food security appears to be the overall primary objective of the government. PL-480 commodities constitute a convenient tool on the supply side for addressing both the Egyptian food security and the U.S. balance of payments and policy dialogue objectives. Analysis for this paper indicates that Egyptian government objectives continue to give the appearance of being dominant over U.S. objectives for Egypt's agriculture sector plans and activities.

The program is administered jointly by the U.S. Department of Agriculture (USDA) and A.I.D. The primary responsibility of A.I.D. is the negotiation, monitoring, and evaluation of self-help provisions of the loan agreement which require the government to take specific measures to strengthen the economy. USDA is responsible for purchase, shipment and quality control of commodities. The primary Egyptian implementing agent is the General Authority for Supply Commodities (GASC).

B. Program Size

1. Historically

The data in Table 1 show Egypt to have been a long term major market for Title I commodities. Even so, the percentages for 1955-1975 understate Egypt's true relative shares. During eight of those earlier years (1967-1974) the PL-480 program, for political reasons, was not operative in Egypt, and in 1966 it amounted to a relatively mere \$16.4 million. Those relatively high percentages, therefore, represent Egyptian participation for only about 60 percent of that 21 year period. To the extent that other participating countries were not similarly limited, the data understate Egypt's long term absorption of Title I total resources.

On the basis of population and the number of countries participating in the Title I program, Egypt received more than its proportionate share of Title I commodities for the 21 year period 1955-1975. In relation to 15 countries of the Near East and South Asia areas (because those areas include the most heavily populated food-poor countries--Bangladesh, India and Pakistan--receiving PL-480 commodities), and in relation to the worldwide Title I total program, Egypt's shares of the commodities were:

Table 1

Egypt - Share of Title I Commodities  
Programmed, 1955-1975 <sup>1/</sup>  
(percentage of volume)

	<u>As % of Near East &amp; South Asia Total</u>	<u>As % of Total Title I</u> <sup>2/</sup>
Wheat/Wheat Products	9.7	6.5
Animal Feedgrains	6.9	4.4
Tobacco	65.6	13.2
Fats and Oil	10.5	5.5
Other <sup>3/</sup>	28.5	3.4

<sup>1/</sup> Derived from Food for Peace - Fiscal Year 1975, Report to the Congress, USDA/FAS, February 9, 1977, Table 9. Cumulative basis.

<sup>2/</sup> Includes allotments to 71 countries in Latin America, Asia, Africa, Europe and Near East-South Asia regions.

<sup>3/</sup> Includes poultry, red meat, lentils, dried fruit, soybeans.

The absence of Title I commodities to Egypt during 1967-1974 (in the Nasser era) coincided with a period severe in the shortage of foreign exchange resources. Due to stagnating exports, rising domestic demand for imports, and a heavy burden of defense expenditures during that period, Egypt's pool of foreign exchange reserves decreased nearly \$1 billion. Those balance of payments shortages were substantially relieved after 1975 through a surge in foreign exchange receipts from petroleum, the Suez Canal, tourism, supplier credits, and worker remittances. The flow of Title I commodities re-commenced in 1975, and appears (Table 2) to have been accurately justified, at least initially, for balance of payments reasons.

Table 2  
Egypt - Principal Foreign Exchange Receipts  
( \$ Billion)

	<u>1967</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1982/83</u>	<u>1984/85</u>
Petroleum	0.1	0.1	0.4	2.9	2.8	2.9
Suez Canal	0.2	--	0.1	0.7	1.0	0.9
Tourism	0.1	0.1	0.4	0.8	1.0	1.2
Worker Remittances	0.1	0.2	0.4	4.0	4.4	4.3
Totals	<u>0.5</u>	<u>0.4</u>	<u>1.3</u>	<u>8.4</u>	<u>9.2</u>	<u>9.3</u>

Source: Central Bank of Egypt. Data for 1975-85 include USAID/Cairo adjustments for unrecorded transactions; 1967-70 are unadjusted.

Had the traditional annual value of Title I commodities going to Egypt during 1955-66 been continued during 1967-75, that resource would have added the equivalent of nearly 25 percent to Egypt's annual foreign exchange earnings. On the other hand, during the post-1975 period, when foreign exchange earnings dramatically increased from other sources, the value of Title I commodities constituted less than 4 percent of the annual inflow of foreign exchange from principal sources. It is questionable whether that relatively low level of resources can be cited as a factor in ameliorating Egypt's foreign exchange shortage. The balance of payments justification for use of Title I in Egypt may have been valid for the 1955-66 period, but has been less so since 1980, in light of (a) the total inflow of foreign exchange resources, and (b) the excess availability of wheat products, particularly since 1978. Given the government's continued highly inefficient use of foreign exchange (section II.C.), it is doubtful that the temporary downturn in the availability of foreign resources in 1986 reversed this lack of balance of payments justification.

## 2. Currently

The production, import and consumption of wheat in Egypt has been rather thoroughly researched, analyzed and discussed by Grant Scobie in his work for IFPRI/A.I.D., "Government Policy and Food Imports: The Case of Wheat in Egypt" published in December 1981. His data series does not extend beyond 1979, and his conclusions, including the following, need consideration to determine their continued relevancy:

- a. The marginal propensity to spend foreign exchange on commercial wheat imports is estimated to be about 0.05. This low value implies that high priority is given to wheat imports, and that imports have a high degree of non-responsiveness to changes in the availability of foreign exchange.
- b. The high priority of food security implies that in the event of a shortage of foreign exchange the GOE will maintain food imports and destabilize nonfood imports.
- c. Wheat import levels are a reflection of domestic pricing policies. Through the sale of large quantities of imported wheat, subsidized prices can be maintained.
- d. Increased capacity to import, afforded by PL-480 wheat supplied under long term concessional conditions, allows the Egyptian producer price to remain low, reducing incentives for import-substituting production.
- e. A rise in world wheat prices leads to a reduction in the volume of food aid provided to Egypt, encouraging the GOE to raise domestic prices. Economic theory is relevant to Egypt's wheat sector in that higher consumer and producer prices have occasionally led to declines in domestic consumption, output increases and reduced commercial imports. (This finding by Scobie is verifiable only through a longer data series than is dealt with in this current analysis.)
- f. The rapid rise in wheat consumption in the latter half of the 1970s--when domestic wheat supplies increased from 104 percent to 126 percent of requirements (Table A-3)--reflects a decrease in the real cost of marginal imports, which was passed on to consumers.

In addition to an uninterrupted flow of wheat/wheat flour, the Title I program occasionally provided very limited volumes of dry beans, corn and tobacco, through 1981. Presently, wheat and wheat flour are the only Title I items still supplied to Egypt, and Egypt has continued to receive more than its

proportionate share of these commodities (Table A-4). Therefore, this discussion will focus only on these two commodities.

Egypt has, for several years, been the world's third largest importer of wheat and flour, following the Soviet Union and China. In view of the trend of steady gains in China's wheat production, Egypt may have moved into second place as the largest importer. In 1985, Egypt imported from all available sources about 1.6 million tons of wheat flour (2.3 million tons wheat equivalent), in addition to 4.9 million tons of wheat (Table A-3), continuing its status as the world's leading importer of wheat flour.

Egypt's dependence upon imported wheat rose to about 79 percent of consumption in 1985, up from 65 percent in 1975. Since 1975, growth in domestic production of wheat has been missing as farmers have shifted resources to the production of higher value crops and livestock. Domestic production in 1985 remained at 1.8 million tons, 7-8 percent below production in 1982 and 1983, while imports continued to rise. The demand in Egypt for imported wheat continues to expand for a number of reasons: highly subsidized bread is available to everyone; per capita domestic wheat output is declining; incomes have been rising; and foreign suppliers compete intensely via attractive prices for larger shares of the Egypt market.

Egyptian imports of wheat and flour could remain above 7 million tons annually for the foreseeable future, unless the government attempts to radically alter consumption patterns. A change in consumption patterns is being addressed, but only indirectly by the government through efforts to reduce its direct budget subsidy burden. Forty percent of that subsidy burden is for wheat and flour, the reduction of which is a priority item in the current reform program. The government, however, is hesitant to make changes too quickly, particularly changes which may be noticeable and/or harmful to Egypt's large urban population at or below the poverty level. For this reason it is expected that import demands for wheat will not significantly be decreased in the near future. While demand for wheat may remain strong it is hoped that improvements on the supply side may be of assistance. In the USAID program there are efforts to enact pricing and other meaningful economic reforms which could lead to substantial improvements in Egyptian crop (wheat) production.

Egyptian wheat production is expected to rise to a plateau of no more than 2 million tons, as new land reclamation projects come into production to help replace lost wheat cropping areas. At the same time output from small farmers, particularly in the Delta, will probably continue to decline.

Farmers prefer to grow higher value crops such as berseem (clover) and vegetables (Table A-11) during the season when wheat could be cropped. The shift out of wheat is only a natural result of economic conditions the farmer faces.

In 1984 free market exchange rate terms, farmers received about \$27 profit per ton for wheat, after allowance for production costs, and including the benefit of selling the straw by-product. However, that profit level is less than half the level for competing crops. Doubling the procurement price of local wheat varieties to over \$100 per ton, considerably above world market level, would probably be necessary to bring any noticeable response in domestic production, given the relative profitability of other crops.

The U.S. share of Egypt's imports of wheat and flour increased dramatically from 43 percent in 1982 to a peak of 58 percent in 1983, but retreated to only 33 percent in 1984, due to increased competition from other suppliers and the growing absolute level of imports.

P.L.-480 financing for 1 million tons of wheat annually in this period was the beginning for U.S. exports to Egypt. The P.L.-480 terms are generous, with an initial 5 percent payment in pounds, and a CUP payment of about 10 percent. From 1975 through 1977, loan terms were 20 years repayment, including a 2 year grace period, 2 percent interest during that grace period and 3 percent for the remainder of the loan period. Starting in 1978, the repayment schedule was extended from 20 to 40 years, including a 10 year grace period..

### C. Use of Foreign Exchange

Egypt's balance of payments position has been deteriorating for a number of years, primarily through the trade account. This has occurred under an umbrella of expansionary fiscal policies and severe relative price distortions which, in turn, have resulted in misallocation of resources and the creation of an economic structure not export-oriented.

The gravity of foreign exchange shortages in official channels in Egypt caused the government to undertake several corrective measures in 1985-1986, primarily in fiscal restraint and greater price flexibility. While in the right direction, those measures were not sufficiently comprehensive to reverse the deterioration in Egypt's external accounts. Most importantly, those steps do not adequately address the structural weakness of the economy (multiple exchange rates, highly subsidized prices for most energy products, negative interest rates, etc.). The resultant continuing drain on external reserves has been limited only through the use of overall import stringency and the accumulation of external debt service payment arrears. Even so, continued high import levels for wheat, in excess of basic nutritional requirements, tend to verify Scobie's findings on the use of foreign exchange (section II. B.

2. a.). Government policies are directly responsible for the structural imbalances of Egypt's economy, and for the resultant wasteful drain on foreign exchange reserves. It is a conclusion of this analysis that balance of payments support would be unnecessary if the government implemented comprehensive economic reform.

On the surface there is need in Egypt for balance of payments support, at least for official purposes. In the short to medium term the Egyptian balance of payments will not become viable unless comprehensive fiscal and monetary reform measures are implemented vigorously. IMF projections for FY 1986/87, based on weak reform of existing trade and exchange rate policies as proposed by the government in its letter of intent to the IMF, in conjunction with multiyear debt rescheduling, indicate annual financing gaps of \$3 to \$5 billion in the decade beyond 1992. Those annual gaps will exist after completion of the weak reform program outlined by the government of Egypt.

Below the surface the explanation of this situation creates a different impression. Data available indicate that if the balance of payments could be disaggregated on a public/private sector basis, the foreign exchange shortage would be limited as a public sector phenomenon. In the context of the entire economy there are sufficient foreign exchange resources available to meet the needs of Egypt, but inappropriate policies keep them from government use. For example, Egyptian laborers in third countries may remit earnings to Egypt at the commercial bank rate (1.36 LE/\$1), or earn an additional 50 percent by selling their foreign exchange at the free market rate (2.10 LE/\$1) to finance imports. Egyptians may also hold funds in foreign currency-denominated deposits within the domestic banking system, or as an alternative, leave their savings outside of Egypt.

As a result of sizable exchange rate differences an increasing share of private foreign exchange has been diverted away from (i.e., not sold to) the official banking system, and has either been sold in the free market, retained in residents' foreign currency accounts, or deposited abroad. Egyptians maintain a large pool of savings (estimated at possibly up to \$50 to \$70 billion) held abroad. Furthermore, we know that \$9 to \$10 billion of private savings, or over half of broad money (M2) held by the private sector in Egypt, are held in foreign currency accounts in Egypt's commercial banks--an amount sufficient to solve the country's short-to-medium term economic problems if the government could entice them into official channels. The existence of these savings in foreign currency tends to support analytical claims that Egyptian exchange and interest rate policies are inadequate. Egypt could have access to the domestically-generated resources it needs, but its reliance on disincentive policies denies the government opportunity to use those resources, and forces the government to plead its needs to the donor community. This in turn has become the U.S. justification for a Title I program.

The economy is vulnerable to an increase in this dollarization, particularly if Egyptians lose further confidence in the macroeconomic

policies of their government. The net foreign currency exposure of public sector commercial banks is already above \$2.5 billion, which represents a minimum of 25 percent of foreign currency deposits. Growth of this exposure could threaten confidence in the banking system and lead Egyptians to move more of their domestic deposits abroad. Government reforms to build that confidence have, however, tended to rely on tighter control of the banking system as the means to limit foreign exchange losses, rather than implement exchange and interest rate reforms. As a result, a severe foreign exchange shortage exists in official channels, not in the private sector.

Is that official foreign exchange shortage being helped or hindered by the Title I program? A 1983 A.I.D. evaluation of Title I lends validity to the conclusion of the Table A-3 data, i.e., that domestic wheat requirements are noticeably less than the level of available supplies in Egypt. That A.I.D. evaluation concluded, inter alia, that if the consumer subsidy was removed domestic consumption of wheat would decline due to improved efficiency in the use of this commodity, total commercial and concessional imports could decline, domestic production would increase, and foreign exchange could be released for utilization in other endeavors. Removal of the consumer subsidy would be prerequisite to alteration of Scobie's finding regarding the government's marginal propensity to utilize foreign exchange for wheat imports (section II. B. 2. a.).

In view of the relative size of total needs, imports, and Title I concessional supplies, the PL-480 program is providing wheat additional to that which should be imported. The current use of foreign exchange for Title I imports, even if at long term concessional rates, appears to be less than a necessary employment of those very limited official resources. The Title I program in Egypt could indirectly be providing foreign exchange for that economy if it is assumed that at any cost the government will continue to promote a supply of wheat considerably above the level necessary to satisfy basic requirements. On that basis, at least in the short run, Title I allows the government to continue other programs which require the use of that scarce foreign exchange. If, however, the conclusion/implication of the Table A-3 data is accepted, then the Title I program does not supplement foreign exchange resources of the Egyptian economy. In either case, determination will not alter the conclusion that foreign exchange is not used productively by the government of Egypt.

In further support of that conclusion one need merely examine the trade and exchange rate policies in force in Egypt. Complexity of the exchange system, and continuous overvaluation of the pound at officially-determined exchange rates, have led to shifts in cropping patterns away from wheat (for which Egypt has some international comparative advantage). Crops such as maize, berseem, and fruits, which are relatively free from government control, are preferred by farmers. Agricultural exports have been declining in nominal terms since 1974. Egypt's external trade balance for agricultural commodities has shifted from a surplus averaging US\$300 million a year in the early 1970s, to

annual deficits of approximately US\$3 billion since the first half of the 1980s.

Erosion of the agricultural economy, and its severe impact on the balance of payments, are perhaps the major expenses of the price and exchange rate distortions which have accumulated in the Egyptian economy. For these reasons trade and exchange rate policies in Egypt are not conducive to effective use of foreign exchange earnings. In terms of the Title I commodity (wheat) being analyzed herein, compounded inefficiencies of the Egyptian foreign exchange system make it difficult to clearly determine the amount of wheat which should/should not be imported on commercial/concessional terms.

Does the balance of payments situation, the existing policy orientation, and the limited structural adjustment efforts of the government merit balance of payments support? There is no evidence to indicate that the government would use such support with any less inefficiency than it is doing presently. Examination of the context which created the foreign exchange shortage implies the need for a negative response to that question. Furthermore, high level protection for domestic production, in addition to the overvalued exchange rate and controls on competing imports, foster inefficiency, bias production toward services and nontraded goods, discourage exports and necessitate the inefficient and excessive use of foreign exchange resources. These conditions remain uncorrected. Correction of these basic inefficient policies ought to precede the receipt of balance of payments support. There is scattered evidence from Egypt and from other developing countries in similar circumstances that rather than balance of payments support, a more liberal trade policy (including exchange rate changes) would be a better corrective measure. The latter could encourage private and public sector efficiency, increase the production of tradeable goods in the domestic market, and expand exports.

The question of meriting balance of payments support, however, is very subjective. The fact that significant balance of payments support is "required" to maintain a viable economy in Egypt may not equate with "meriting" such support. While Egypt's balance of payments situation deteriorates, suggested solutions, and particularly the pace of reform, continue to be debated by the government. In a development sense, continuation of balance of payments support to the government, absent comprehensive economic policy reform, merely prolongs the implementation of negative policies prohibiting actual development. On the other hand, the absence of balance of payments support, notably during a period of severe and prolonged foreign exchange shortages in official channels, should help encourage the government to implement basic structural reforms. Reviews of the past indicate that pressure from most other sources and situations has not been effective in Egypt. In the final analysis there are persuasive arguments and evidence for proposing that balance of payments support through the Title I program is not merited, and the program should gradually be reduced.

### III. Incentives/Disincentives

Wheat provides an estimated 50 percent of total daily nutritional requirements in the average Egyptian's diet, supplied through an extensive and expensive subsidy system. The wheat/bread subsidy system appears to intentionally enjoy a wheat supply that is excessive and is not targetted. Among LDCs, Egypt has probably the most equitable distribution of this basic consumption item. That distribution, however, is accomplished through extreme inefficiency and economic cost. Inefficiencies in the Egyptian economy arise from, inter alia, the structural imbalances discussed in section II. C., appear to be at least marginally compounded by PL-480 Title I commodities (wheat), and result in production disincentives to wheat farmers. Those disincentives are evident in the following three major areas--comprehensive marketing/distribution of the subsidy impact, the excessive supply of imported wheat, and financially attractive farming options in crops other than wheat.

#### A. Marketing

The annual PL-480 Title I agreement between the U.S. government and the government in Egypt is generally signed by the U.S. Ambassador and the Egyptian Minister of Planning and International Cooperation (MPIO), with the Ministers of Agriculture, Economy and Foreign Trade, and Supply witnessing the agreement as representatives of implementing organizations. Importation of the commodities is then under the jurisdiction of the General Authority For Supply Commodities (GASC) in the Ministry of Supply. GASC is the government unit responsible for procuring and providing to the consuming public, and/or public sector processors, a consistent supply of those basic consumer items subsidized by the government.

Since 1961, when all foreign trade was nationalized, wheat and flour imports have been totally under the control of the government. GASC records an annual loss on its accounting books (to be financially covered by central budget allocations) for the difference between the import/purchase price and the highly subsidized price at which wheat and flour are supplied to millers, bakers and consumers. Marketing of wheat, flour and bakery products then proceeds along normal commercial channels through private and public outlets.

The wheat subsidy paid through GASC is considerable (Table 3), both in actual amount and as a percentage of the total budgetted subsidy bill for six basic consumer items (corn, edible fats/oils, sugar, tea, coffee) imported into Egypt. The level of actual subsidy climbed noticeably in 1979, and has fluctuated since that time on an upward trend due to price and quantity changes. The wheat subsidy as a percentage of GASC total subsidies fluctuated widely for the same period. The abrupt increase in 1979 was not the result of an increase in import levels (Table A-3). It reflects some change in the world market price of wheat (Table A-10), but was primarily the result of an exchange rate devaluation. The government's official rate for food import transactions

Table 3

Egypt - Government Budget Subsidy For Wheat & Flour Imports <sup>1/</sup>

	<u>Actual Subsidy</u> (LE millions)	<u>As % of GASC Total Subsidies</u> <u>For Basic Necessity Imports</u> (Percentage)
1974	216.4	65.8
1975	260.9	53.1
1976	171.6	53.4
1977	149.1	47.6
1978	222.8	49.6
1979	647.0	64.6
1980	NA	NA
1981	776.0	70.0
1982	736.0	33.6
1983	778.4 <sup>2/</sup>	58.2
1984	849.7 <sup>2/</sup>	70.3
1985	790.8 <sup>2/</sup>	42.5

<sup>1/</sup> Derived from IBRD, Current Economic Situation and Economic Reform Program, Report No. 6195-EGT, October 22, 1986, Tables 5.6 and 5.7. A series in dollars, through 1981, may be found in John E. Parker, Urbanization and Agricultural Policy in Egypt, USDA/ERS Report No. 169, September 1981, Table 21.

<sup>2/</sup> Derived from Tables A-3 and A-10.

was changed from LE .40/\$1 to LE .70/\$1. The GASC subsidy for wheat inversely reflects domestic prices for wheat products. Wheat bread is the fundamental food staple in Egypt, and maintaining a low price for bread continues to be a government policy priority for keeping the cost of living low for poor (in reality, all) consumers. The full production cost (in international prices) for bread has been calculated at 4 to 5 piasters per Egyptian loaf, whereas the sales price is fixed at 2 piasters/loaf.

The 1983 A.I.D. impact evaluation of Title I in Egypt, utilizing 1980-81 data from an International Food Policy Research Institute (IFPRI) study, developed a Lorenz curve analysis (Appendix B) of wheat distribution by level of consumer income. That analysis revealed an equitable distribution pattern--the most disadvantaged 40 percent of the population is receiving 30 percent of wheat and wheat products consumed; the most advantaged 10 percent of the population is receiving 15 percent of total wheat consumption. This distribution pattern is highly equitable, particularly when compared to income distribution for Egypt and similarly-situated LDCs. Typically, the lowest 40 percent of the populace receives less than 10-12 percent of total income. On the other hand, the relative cost of maintaining this subsidy indicates the system is also highly inefficient, even though Egyptian government guidelines

allow nearly 90 percent of the population to fall within the eligible poverty classification.

Data underlying the Lorenz curve analysis suggest that Upper Egypt (poor, rural) governorates generally receive larger-than-proportionate per capita shares of the available wheat, with Cairo and Giza (major urban areas) receiving shares right at the mean per capita level. Separate analysis of evidence from 1979-1980 indicates there are other differences in the wheat distribution pattern among various sub-groups in the population. For example, urban dwellers overall are generally consuming more than rural dwellers, on a per capita basis. And, in both rural and urban areas the lowest expenditure groups are consuming more wheat than the more affluent population in the same areas. Additionally, bread is primarily consumed in urban areas, whereas wheat flour predominates among the poor in the rural areas. This overall equal distribution of wheat consumption supports the claim that the government monitors local production of wheat prior to distributing imported wheat and wheat flour.

Existing data indicate that the government distribution system is providing the Egyptian population with a wheat supply (nearly 1400 calories/day) that is now significantly above the World Food Program's minimum (1000-1100 calories/day) food security standard. That higher distribution level is consistent with World Bank nutritional data which indicate that Egyptian caloric intake is 128 percent of the daily requirement, nationwide average. It also represents a contribution ... toward attainment of equitable development. On the negative side, however, that equitable distribution, at subsidized prices, must also constitute rather comprehensive distribution of any production disincentives to all farmers equipped to grow wheat.

#### B. Wheat Production/Availability

Cereals constitute the most important crop group in the Egyptian agricultural system, accounting for almost 43 percent of total cropped area. There are two major cropping seasons in Egypt--winter (November-May) and summer (May-October). Wheat, for on-farm consumption and as a cash crop, is one of the two most important winter crops (berseem is the other) and is grown in virtually every region of the country.

Population growth, decreasing arable land supply, the availability of relatively inexpensive imported grains, and new technologies have combined to facilitate change of the farm product-mix over the past 3 to 4 decades. Then change of the product-mix became a catalyst, along with socio-political theories, to promote government intervention in agriculture during the 1950s and 1960s, which in turn has intensified further change in the product mix. Intervention began when the government attempted to limit price increases for many commodities, wheat included, through establishing price ceilings. This stimulant to demand was a depressant on supply, and led the government into applying

compulsory cropping area allotments to promote production. Procurement of a portion of the harvest at fixed low prices became a natural followon.

Allotments for planting certain portions of each farmer's cultivated area into wheat are determined on a regional basis and then assigned to farmers through the cooperatives. Traditional mandatory plantings have been widely criticized as a disincentive to overall production, and are now being eroded by liberalization reforms. Even though that system remains in effect, the allotments are now reportedly indicative, and are not being enforced. IFPRI's comprehensive study of Egypt's food subsidy system reveals that strict control of wheat acreage is no longer necessary for maintaining approximately the current level of domestic production. High prices for wheat straw for fodder, in response to very positive earnings in the livestock sector, provide somewhat competitive net revenues to wheat farmers. This is particularly applicable for local varieties, which result in longer straw. This increasing demand for fodder, promoted by inaccurate pricing policies, discourages expanded production of high-yielding wheat varieties, and thus negatively impinges on total production.

The compulsory sale of wheat to the government was also unsuccessful and became optional in 1977, when Egyptian policymakers found that food aid, concessional imports, and lower international prices made imports a more reliable supply source. Simultaneously, new sources of foreign exchange also made reliance on the world market less of a burden. Prior to 1977 farmers had been required to sell approximately 10 percent of their wheat production to the government--down from 28 percent a decade earlier. Those deliveries were made at prices sometimes considerably below the prevailing level for local varieties in the domestic market, and below prices for high-yielding varieties sold on the international market (Table A-10). Farmers failing to deliver their quota became liable to a fine. At times price differentials have been extreme enough to incline farmers to sow their wheat acreage in higher-value unregulated production for on-farm consumption (berseem, meat, dairy products) and/or for export (horticulture, vegetables), and to willingly pay the penalty from their added profits. Farmgate prices, representative of the domestic free market, have consistently diverged from fixed procurement prices, implying rather steady encouragement to farmers to market their harvest outside of the government system.

The area allotment and compulsory procurement quotas affected only small portions of total cultivated area and domestic production of wheat, and therefore could have contributed only a relatively small influence on total supply and/or budgetary and foreign exchange savings. Given the widespread government interventions and erroneous price differentials, the resultant disincentives may have had greater impact on overall agriculture sector production than on wheat alone. The weighty influences on domestic production of wheat appear to have been (1) the relative abundance of imports, (2) the wide availability of wheat at subsidized prices, and (3) the comparative income earning capacity of wheat versus other crops.

The relative abundance of wheat and wheat/flour products, and their untargetted marketing, were discussed above in sections II.B. and III. A., respectively. Additionally, every available analysis of the topic has concluded that prices on the domestic free market are depressed by, inter alia, the relatively low procurement prices paid by the government and by the widespread availability of subsidized grain, flour and bread through public and private ration shops and bakeries. Despite somewhat reasonable agricultural growth (3.5 percent/year in the 1970s, 2.6 percent/year since 1980, in real terms) at or above the population growth rate, wheat imports have increased an average of over 7 percent/year for the past decade. Surging consumer incomes, following Egypt's 1974 open door policy, may account for a noticeable share of that import growth. Nevertheless, in the process Egypt dropped from 70 percent self-sufficiency in the production of wheat in 1960 to 35 percent in 1974, and to 21 percent in 1985. These data would thus tend to confirm Scobie's findings for the recent period (section II. B. 2. d.). While it may be valid that those degrees of self-sufficiency improve significantly when domestic production is measured against the lower levels for national nutritional requirements instead of against total wheat consumption--becoming 37 and 40 percent in 1974 and 1985, respectively--the disincentive of excess availability at subsidized prices remains. In consequence, the domestic free market/farmgate price of grain (at the market rate of exchange) is considerably below world market levels. Comments below address a final disincentive factor, that is, weak comparative income earning capacity of wheat farming in Egypt...

### C. Producer Options

In addition to the government interventions referred to in III. B. above, Egyptian farmers are faced with other externally-imposed constraints to decision-making: the prices of important production inputs are decreed by the government; energy is heavily subsidized, making farm mechanization more economical than the traditional use of human or animal labor; and, the deteriorating productivity of land (due to water-logging and increased salinity) has left some land worthwhile only for urbanization.

The farmer does, however, have control over a number of decisions. One of the most important of those is the allocation of household and workers' limited time. In addition to this labor/time allocation he enjoys some latitude in determining when he will plant, weed, water, and harvest each crop. Furthermore, he retains considerable leeway to decide how much fertilizer, acquired at subsidized prices for application on government-preferred commodities, will in fact be so used or be allocated to such non price-regulated commodities as vegetables or berseem.

Each farmer also decides the extent to which by-products from major commodities influence his production decisions. Reportedly it has increasingly become a fact that the primary motivation for growing wheat is to obtain straw for use as animal feed in the early summer, as matting

in and around houses, and as a principal ingredient in brickmaking. Without straw as a high-demand by-product of wheat production the gross margin from wheat farming in past years was negative, given prices, yields, and production costs. Until recently, farmers obtained a greater return per unit of weight from straw than from the grain itself. February 1982 prices indicated straw yields of 10-11 piasters/kilogram, whereas wheat was sold for around 8 piasters/kilogram. After the procurement price increase for wheat in August 1985 and again in December 1986 the return is now about 17 piasters/kilogram.

If we assume that each farmer attempts to maximize his income, the data of Table A-11 are instructive. The table is accurate for 1984, and it does not include some of the most remunerative activities, such as growing fruit and livestock production. Nevertheless, it does reveal several important aspects of long term validity in the Egyptian economy. To begin with, the estimated gross margins, excluding a return to labor, vary considerably from crop to crop. Prices for wheat, cotton, rice, and maize are influenced by the government to a greater or lesser degree through established procurement prices, mandatory quotas for sales to the government, and/or area cropping allotments.

Of at least equal interest to the farmer, however, is the required labor input and the farmer's return per unit of labor expended. Incorporating the labor factor increases the incentive to favor wheat over the other three administered crops, particularly after adding in the straw by-product. With about one-quarter of the labor input the farmer can obtain a return per unit of time considerably larger than for cotton (but only because of the straw). The time savings allows him to either produce another high-value crop, or work off-farm for part of the year.

Livestock sector product prices in Egypt, particularly those for red meat, are above world market prices, due in part to restrictions on imports, and in part to Egyptian preference for high-quality, fresh domestic products. The financial return for red meat production is also particularly high in comparison to other domestic agriculture products. One result is the allocation of 25 to 30 percent of the seasonal cropped area to berseem, in response to derived demand for fodder. Berseem is financially very profitable for the farmer, so much so that the proportion of total cropped area planted to berseem has increased gradually over the last 20 years. In light of Egypt's dependence on imported grain, concurrent with a shortage of official foreign exchange, this land allocation is obviously not the most economical and efficient use of an increasingly scarce resource, but the set of financial incentives to farmers precludes economic efficiency.

The apparent impact on wheat production appears to have been mixed. The area sown to wheat has remained rather constant over the past decade. That may be inconsistent with the findings in Table A-11 which indicate that wheat production is a poor source of income in comparison to berseem.

#### IV. Policy Dialogue

Agriculture is where the most dramatic reforms have taken place in the Egyptian economy. Agriculture sector reform was originally promoted through the PL-480 program, then was incorporated into the macro-economic policy dialogue between the government, the International Monetary Fund and the World Bank, and now receives continuing emphasis through A.I.D.'s sectoral projects. In the process, the self help measures have been weakened and generalized. Measureable deterioration of the Egyptian economy has caused the government of Egypt to focus on the need to (a) raise farmgate prices as incentives to production, (b) reduce the budgetary burden of food subsidies, (c) increase private sector participation in the marketing and distribution of fertilizer, (d) undertake production campaigns through improved research, credit and extension services, and (e) target low-income small farmers with assistance to increase production and farm income. A.I.D.'s primary objective in promoting reform in these areas has been to free up agriculture from government control so that market prices can play an increasing role in production and consumption decisions. Simultaneously, the comprehensive subsidy system needs to be limited and targetted on the poor segment of the society. Egyptian intent to become more self-sufficient in food production has served as catalyst to the government's participation in the reform dialogue. In this process there has been both some progress and some confusion.

##### A. Self Help Measures

Targets of the current self-help measures are:

- to increase the level, and improve the structure of, agricultural prices to both improve performance in the agricultural sector and increase farmers' incomes
- to decrease subsidies to meat production, and target consumption subsidies to the poor
- to decrease subsidies for phosphate and nitrogen fertilizers sold through the Ministry of Agriculture
- to increase private sector participation in the marketing and distribution of fertilizer and other chemical inputs
- to continue to improve technology and production, through improved research, agriculture credit and extension services, and
- to target low income rural areas for direct assistance which will allow small farmers to participate actively in increasing agricultural production (Appendix C).

These targets, however, have not been quantified, and in fact have become progressively less specific, thereby raising questions as to their

effectiveness. Annual PL-480 negotiating instructions from Washington (for an example see State 314297 of October 6, 1986 for the FY 1987 Agreement) detail and specify that Embassy representatives, with host government officials, "to the maximum extent feasible, in specific and measureable terms..." develop self-help measures. And, "it must be possible, after a given period, such as a year, to determine the extent to which the self-help measures have or have not been carried out." Furthermore, "the mission must seek specific commitments or targets as a means to measure the extent to which ...measures have been carried out."

The instructions allow for such specificity to be part of the basic agreement or to be included in an agreed minute or memorandum of understanding (MOU) attached to the basic agreement. Appendix C, and/or the lengthy MOU attached to the basic agreement for each fiscal year readily disclose the absence of quantified measureable targets. There is some evidence that the current self-help measures have been progressively stripped over time of some minor specificity they originally contained. This comparison and conclusion are possible because nearly identical wording for the measures has been retained from 1984 until 1987. It is somewhat contradictory that over this same period the policy reform dialogue has become of increased importance to A.I.D. as policy weaknesses have been revealed and highlighted by deterioration in the Egyptian economy.

The following items cite the removal of specifics from the self-help measures:

1. In the FY 1984 self-help measures, item 1., incentive prices were to be improved for specific crops: cotton, rice, onions, groundnuts and oranges. Reference to those specific crops was dropped from the FY 1986 agreement.
2. Item 2. in FY 1984 specified the "reduction" of subsidies, whereas in the following year the word "reduction" was changed to "rationalize". This nebulous term raised questions, and the FY 1986 agreed minute clarified that "rationalize, as used by the (host) government, has the same meaning as to have market prices reflect real costs."
3. The overall intent of item 5. in FY 1984 was to "reduce eligibility" for subsidized goods and "reduce total food subsidies". The FY 1986 agreement altered that intent by having the target become to merely "adjust" the total food subsidy burden.
4. In item V. C. for FY 1984, the government committed to bring domestic agricultural input and output prices "into alignment with world market prices by the end of the five year plan in (June) 1987." In FY 1986 that commitment was written devoid of reference to any specific timeframe.

The deleted specifics referred to above have not been transferred to the agreed minute for any year, nor have the targets been

accomplished. To varying degrees those targets are being addressed in general terms in the macro-policy dialogue between the government and the World Bank, and in some specificity in active and upcoming projects funded by A.I.D.

Policy reform in Egypt remains the most dynamic in the agriculture sector. A variety of reforms, all relevant to the self-help objectives for Egypt, have occurred in the past two years. For example, the government recently announced (a) the removal of compulsory delivery quotas for all crops except cotton, sugarcane and 50 percent of rice, and (b) the termination of mandated planting areas for maize, broadbeans and wheat. Implementation during the past year has also included higher farmgate procurement prices for cotton (21 percent), rice (32 percent), sugarcane (11 percent), and wheat (53 percent). Additionally, the food subsidy bill has been reduced from LE 2.2 billion in FY 1982 to an estimated LE 1.6 billion in FY 1986, due primarily to decreased world market prices and secondarily to increased domestic consumer prices.

The price of yellow maize for stock feed was raised from LE 60 per metric ton to LE 120/MT in August 1986. This constitutes a significant decrease in subsidies to beef production and consumption, although the government recently postponed another planned increase in the price of maize to LE 180/MT. The price of cottonseed cake, another important cattle feed, was doubled. Moreover, the late 1986 removal of the import quota on less expensive foreign frozen meat should also cut the subsidy bill by relieving some of the demand for subsidized domestic meat.

Delay and confusion in Egypt's reform process stem in part from the conflicting goals of the five ministries that influence policy in the agriculture sector. Within the Egyptian bureaucracy there reportedly is residual hostility to market-force pricing, and it is also reported that emotional distrust of private sector middlemen remains extreme. Moreover, the 3000 employees of the Principal Bank for Development and Agricultural Credit, which draws 50 percent of its overall profit from the subsidized sale of fertiliser, have no intrinsic interest in handing over that business to the private sector.

There are, therefore, significant ingrained influences against reform implementation. The PL-480 self-help measures have become so general and non-specific in nature, however, that almost any related reform could be counted toward target fulfillment. Even so, in the event the government does not perform in line with the self-help measures, potential actions to be taken would depend on an interplay of commercial, economic and political forces. Those forces are difficult to anticipate, but an obvious step for early consideration would be accelerated reduction of the Title I program.

Funding in some new projects is also conditioned on agricultural reform consistent with the broad parameters of the self-help measures. As an inducement to further reform, A.I.D. and the government initiated their first policy-centered \$120 million Agricultural Production and Credit Project in September 1986, focusing increased attention on details

no longer in the self-help measures enumerated above. That project links performance payments to government progress in freeing up agriculture. It also provides increased credit to small farmers, and loans to rural entrepreneurs for improving their capacity to market farm inputs and outputs. That project is to be complemented by the upcoming National Agriculture Research Project, which will offer additional funding in support of yet-to-be-determined policy progress.

To the extent that these projects succeed, controls on farm prices, cropping areas and procurement quotas will disappear, and the marketing of farm inputs will be opened to the private sector. The policy dialogue and self-help measures have also elicited a commitment from the Egyptian government to eliminate the subsidy on inputs such as fertilizer.

#### B. Wheat-Related

The government in Egypt recognizes that reform of economic policies is needed to improve the effectiveness of investment and production, as well as the pattern of consumption within the country. One of the most important direct and indirect consumer subsidies is that for basic foods, especially bread and flour. These subsidies have, in turn, contributed to rapid expansion in consumption. However, much of the consumption increase has been in animal feed and handling losses. Meanwhile, domestic wheat production has stagnated. Since the 1970s the widespread availability of subsidized flour and below-world-market procurement prices offered by the government have made it unprofitable for the farmer to produce wheat as a food grain. Instead, wheat has been grown primarily as livestock feed. Both the grain and straw are used, and farmers prefer to grow traditional varieties rather than adopt new varieties which yield more grain but less straw.

Studies completed in 1982-83 by the government's Shura Council, an appointed consultative body, generated several proposals for reducing these subsidies. Simultaneously, government officials announced that changes should be made in the system in order to target subsidies toward the poor. The May 1987 standby arrangement with the IMF more recently highlighted the need for subsidy reform. To-date, however, the government has not taken significant action to curb the wheat/bread subsidies provided, despite levels of consumption high by international standards and that have been rising faster than average per capita income.

Government policies, specifically pricing policies relevant to wheat, encourage consumption and discourage production. To the extent that Title I commodities reduce the cost of the overall wheat import bill, they help the Egyptian government maintain policies which keep producer prices for wheat low and discourage domestic production. Equally important is the effect of these policies in promoting excessive demand and the wasteful use of domestically-produced grain for animal feed. To help close the gap between demand and supply, the government in Egypt has long considered the PL-480 program a crucial element for financing wheat and flour imports, as well as for providing general

balance of payments support. The Title I contribution varies. It supplied nearly 21 percent of total wheat/flour imports and 7 percent of total food imports in 1987, but contributed less than 1 percent toward satisfying total foreign exchange needs that year. Title I is, therefore, a resource which contributes to the grain supply necessary for government continuation of its overriding policy of satisfying, rather than attempting to dampen, excessive demand for consumption purposes. In the policy dialogue A.I.D. and the multilateral institutions have for some time encouraged Egyptian officials to initiate reforms to reduce Egypt's expensive wheat/bread subsidy program.

Analytical studies consistently conclude that implementation of a program allowing market forces to allocate agricultural resources would begin to reduce Egypt's dependency on food imports, and simultaneously increase growth rates of domestic production and productivity. Significant by-products from that approach would include reduction of the central government budget deficit and of the balance of payments financing gap, along with an increase in real farm income. Would there be an impact on wheat import levels, and domestic production and/or consumption? Analysis by USAID/Cairo affirms that there would be.

USAID/Cairo's draft Country Development Strategy Statement (CDSS) for FY 1989 advocates adoption of a primary strategy that would encourage the government to implement sectoral and macro economic reforms. Each assistance delivery mode utilized by A.I.D., including commodity assistance through Title I, would be utilized to obtain and reinforce reform. Consistent with that end, resource flows would be linked to policy reforms. Mission emphasis on agriculture requires the project delivery mode in that sector maintain consistency with the reforms sought. A gradual reduction in the value and physical volume flow of Title I resources to Egypt is therefore projected. A resulting significant impact on domestic production and consumption of wheat is strongly implied by the fact that Title I wheat/flour imports are equivalent to above 90 percent of domestic production. Reduction in the excessive supply of wheat in Egypt should begin to allow a shift wherein demand, manifest through higher prices, will impact more noticeably on domestic production than on imports. The data to-date, however, imply that more than just PL-480 wheat imports must be reduced (Table A-1) if domestic production incentives are to be generated (Table A-3). Although the value of the Title I program has decreased annually since 1980, international price changes have not resulted in consistent and concomitant decreases in the volume of wheat shipped to Egypt.

It is recognized by A.I.D. that reduction in the flow of Title I commodities to Egypt must be gradual, primarily because of the pervasive bread subsidy, and because the price of bread addresses Egypt's most politically sensitive commodity. From a practical point of view it is acknowledged also, that even if policies provide proper incentives to farmers, their ability to increase production will still be limited by lack of the technology and inputs needed for success with high-yielding wheat varieties. The emplacement of that technology will require time. Egypt's centrally-directed agricultural research and extension system is

inadequate to respond to the needs of farmers. Extension has traditionally served as a means of control rather than technology dissemination. USAID/Cairo's agricultural research investments have helped to create a research infrastructure, nevertheless, further work is needed to make it farmer-responsive. There is also a need for increased agricultural credit to procure the higher-cost inputs necessary for use with high-yielding seed varieties and new technology.

V. Budget/Local Currency

PL-480 agreements with Egypt consistently specify that the net sales proceeds accruing to the government from the sale of commodities financed under the agreements are to be used for financing the self-help measures, and for promoting progress in the agricultural and rural development sectors. Additionally, Part II, Item VI of each PL-480 agreement provides that in the use of sales proceeds, emphasis shall be placed on directly improving the lives of the lowest income group of the recipient country's people, and improving their capacity to participate in the development of their country. Emphasis in the latter is to be relevant especially to their ability to carry out programs of agricultural development, rural development, nutrition and population planning. This emphasis is also agreed to by the government through an item in the self-help measures.

Calculation of the net sales proceeds generously allows the government to deduct all relevant expenses to arrive at a minimal figure. The agreed minutes accompanying each agreement allow the government of Egypt to deduct freight charges, insurance, unloading charges, port fees, etc. from retail sales receipts. A.I.D. does not participate in the programming of the local currency net sales proceeds, however, the Ministry of Finance is required to submit an annual report on their use. The FY 1984 report indicated that net proceeds had been incorporated into the government's central budget and used to finance food subsidies and development programs in the agriculture sector.

Reports for FY 1985 and forward have not been submitted by the government. Recent attempts by USAID/Cairo to obtain these delinquent reports have consistently met verbal replies from the government that "net proceeds of sales have been incorporated into the government's central budget and have been used to finance food subsidies (especially wheat and flour), agriculture sector subsidies, debt service, and the development of housing projects." At the aggregate level of available budget data, the PL-480 local currency generated constitutes a measureable contribution in relevant categories of the budget. Utilizing a free market rate of exchange for conversion of fiscal 1986 estimated net sales proceeds, they were equivalent to 2 percent of budgetted total expenditures, or 3 percent of total revenues, or 4 percent of current expenditures, or 5 percent of investment expenditures, or 20 percent of direct subsidies. Government budget data are not disaggregated sufficiently, however, and are not available in long enough consistent time series, to empirically verify government claims as to their application. Nevertheless, aggregate data do provide a context which allows for accuracy of the government claim (Table A-9).

## VI. Programmatic Issues

### A. CUP Exchange Rate

One of the most important issues raised during negotiations leading to the FY 1987 PL-480 agreement dealt with the exchange rate at which the currency use payment (CUP) would be calculated. In concurrence with instructions from Washington, supported by rather exhaustive legal analyses of the topic, Egyptian representatives were reminded that the rate utilized must be the highest rate available on the date of payment. Language to that effect is included in Part I, Article III (G) of the basic agreement signed June 7, 1974 and was specifically repeated in the agreed minutes for FY 1987, as follows:

"...the exchange rate used for calculating currency use payments shall be at the rate in effect on the date of payment by the importing country which is not less favorable to the government of the exporting country than the highest exchange rate legally obtainable in the importing country and which is not less favorable to the government of the exporting country than the highest exchange rate obtainable by any other nation."

The Egyptian representatives accepted the above language, although they did not accept the U.S. interpretation thereof when it was specified that the commercial bank rate (then LE 1.35/\$1) fulfills that legal requirement.

Existing records indicate that from FY 1982 through FY 1986, the Egyptian government used the official bank rate (LE 0.70/\$1) to calculate the CUP. This was in accordance with instructions from Washington, even though higher legal rates were then available to the U.S. in Egypt. In FY 1982 and FY 1983, the agreed minutes signed in conjunction with the PL-480 agreement officially notified the Egyptian government that the U.S. would accept the lower LE 0.70 rate. In FY 1984 through FY 1986, the issue was not raised in the negotiation stage and the exact rate was not specified in the accompanying documentation. By default the rate became the LE 0.70 rate.

In the current discussion the Egyptian government position is that their Central Bank official rate of LE 0.70/\$1 for wheat and flour imports remains appropriate for all matters related to PL-480 imports, and there is a lengthy precedent for its use in calculating the CUP. The U.S., however, officially notified the Egyptian government, in a December 1986 letter, that the commercial bank rate (then LE 1.35/\$1, but now LE 2.20/\$1 after initiation of Egypt's May 1987 exchange rate reform) is the rate at which the CUP will be calculated. The Egyptians have not responded to that official notification, and the issue remains unresolved as of July 1987.

The American Embassy in Cairo has suggested several possible approaches for handling this issue, including the following:

(a) Agree to disagree with the Egyptians, but make the outcome irrelevant by negotiating the CUP at zero in each future agreement. This solution leaves two important issues unresolved: how will the U.S. Disbursing Office replace the foregone local currency, and how settle the issue for FY 1987?

(b) Because of the established precedent, accept the Egyptian position, even though it is contrary to U.S. law and the bilateral agreement, and suffer a significant annual exchange rate loss. With a 10 percent CUP, the FY 1987 amount involved is the equivalent of \$7 million in local currency.

(c) Remain with the U.S. position of entitlement to the highest official exchange rate (i.e., the commercial bank rate), and present all bills for CUP under the FY 1987 agreement at that highest rate available on each relevant payment date. If the Egyptians balk at full payment, resolution of the issue could later be attempted by delaying signing the FY 1988 agreement until full payment is made. Use of this approach presumes (perhaps mistakenly) that the U.S. will be able to hold out on signing the FY 1988 agreement longer than the Egyptians.

(d) Stay with the U.S. position and notify the Egyptian government that any shortfall in payments will be added to Egypt's outstanding dollar obligation. This will require that the U.S. unilaterally bill Egypt in dollars for any difference between our two assessments of the amount due in local currency, and may merely postpone the issue to become one of debt payments and arrears.

#### B. Program Level

Factors influential in the determination of A.I.D.'s position that the PL-480 Title I program in Egypt should be reduced were discussed in detail in Sections II through IV above. In anticipation that a relevant question would be raised during Administrator-designate Woods' confirmation hearings before Congress, the level issue was succinctly expressed thus:

A.I.D. believes that Title I should be phased down because it acts as a disincentive to local production and supports a costly system of food subsidies. State, however, continues to press for the highest possible levels of food aid on grounds that it increases overall levels and provides balance of payments support. This conflict has been played out against the background of strong popular opposition in Egypt to any change in food subsidies, a political issue State uses to support its position.

In communication to Congress, however, the State view has also included expression of a need for further study of the issues. Regarding a proposed budget amendment directing that the FY 1987 and FY 1988 phased

reduction in Title I be continued in FY 1989 and subsequent fiscal years, State said:

The Administration supports continuation of Title I assistance for Egypt. Regarding the proposed phased reduction, however, the Administration would like to retain the flexibility to determine Title I levels on a year-to-year basis depending on an analysis of the impact of our resources on Egyptian agricultural production and marketing and Egypt's balance of payments requirements.

A unified A.I.D./State position has not yet been determined, but may have been indirectly implied by the most recent turn of events. State efforts to increase the Title I program in Egypt have been modified to concentrate on commodities other than wheat and flour, e.g. vegetable oils. Justification has focussed on commercial sales generation. A.I.D. has simultaneously altered/refined its approach by proposing that a decreasing tonnage level, not necessarily dollar value level, should be the operative figure.

Left unaddressed to-date in this A.I.D./State discussion, however, are the Agricultural Attache's annual negative Bellmon determinations. To the extent that Egyptian government-determined low prices for wheat (Table A-10) are permissible through the availability of Title I and other concessionally-imported resources (Tables A-1 and A-3), creating structural imbalances in the economy and resulting in the farm management options/disincentives available (Table A-11), those negative determinations may require explanation.

## Appendix A

- A-1 Commodities Imported Under PL-480 Title I
- A-2 Food Imports
- A-3 Wheat Availability in Relation to Nutritional Requirements
- A-4 PL-480 Title I Wheat Allocations By Value and Volume
- A-5 Production of Major Agricultural Crops
- A-6 Agricultural Exports
- A-7 Balance of Payments, Current Account
- A-8 Gross Domestic Product and the Agriculture Sector
- A-9 Central Government Budget Summary -
- A-10 Wheat Prices
- A-11 Farm Management Options in 1984

Table A-1

## Egypt - Commodities Imported Under PL-480 Title I

	\$ Millions	Thousand Metric Tons 1/					Total Wheat 3/
		Dry Beans	Corn	Tobacco	Wheat	Wheat Flour	
1975 <u>2/</u>	110.0	-	-	3.4	651.0	-	651.0
1976	212.0	-	-	4.4	1018.3	310.4	1431.1
1977	200.9	1.8	176.4	5.4	1193.6	261.8	1541.8
1978	172.8	-	-	-	968.2	354.7	1428.0
1979	229.3	-	-	-	1081.7	352.9	1551.1
1980	299.4	-	62.5	-	1035.3	388.9	1552.5
1981	287.5	-	24.9	-	1060.8	381.6	1568.3
1982	274.4	-	-	-	1160.4	391.6	1681.2
1983	247.2	-	-	-	973.6	365.9	1460.2
1984	246.1	-	-	-	968.6	486.4	1618.5
1985	218.4	-	-	-	945.4	392.1	1466.9
1986 <u>4/</u>	213.0	-	-	-	1023.0	381.0	1529.7
1987 <u>4/</u>	185.0	-	-	-	992.0	373.0	1483.1

1/ Source: U.S. Department of Agriculture, Foreign Agriculture Service, EC/PAD; actual shipments.

2/ U.S. fiscal year.

3/ Includes wheat flour, converted at factor of 1.33.

4/ Appropriation/planned obligation.

Table A-2

Egypt - Food Imports <sup>1/</sup>  
(\$ millions)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Live Animals	9.4	7.9	12.2	20.5	13.8	14.6	54.7	128.8	173.6	NA
Meat	21.0	49.1	65.3	98.3	91.5	203.7	345.7	253.2	296.2	"
Dairy Products	24.7	55.3	74.2	130.3	78.3	117.6	215.5	167.5	239.1	"
Cereals	795.6	703.6	683.1	810.9	768.3	1141.8	1717.2	1570.1	1456.2	"
Fruit & Vegetables	54.5	65.7	46.3	64.7	46.6	61.1	125.7	130.1	129.1	"
Sugar	195.6	64.2	43.2	123.7	71.2	240.5	432.5	222.9	194.9	"
Coffee, Tea, Coco	43.9	57.4	87.7	141.1	76.0	70.4	81.7	115.1	129.3	"
Beverages	0.7	5.2	2.6	1.2	1.4	1.5	1.6	2.4	2.2	"
Animal & Vegetable Oils	245.5	193.4	234.8	298.0	309.8	333.7	381.4	313.5	310.1	"
Fish	13.9	25.5	26.8	54.4	21.8	33.2	66.7	66.6	68.8	"
Miscellaneous	0.1	1.8	6.3	17.5	6.4	6.2	53.6	29.6	42.3	"
Totals	1314.9	1229.1	1282.5	1760.6	1485.1	2224.3	3476.3	2999.8	3041.8	NA

<sup>1/</sup> Source: FAO Trade Yearbook, Table 134, various years.

Table A-3

Egypt - Wheat Availability in Relation to Nutritional Requirements  
(000 metric tons)

Year	Wheat Required for:			Available from:			Available as % of Requirements
	Nutrition 1/	Other 2/	Total	Domestic 3/ Production	Imports 4/	Total	
1975	4959	556	5515	2033	3694	5727	104
1976	4820	534	5354	1962	3888	5850	109
1977	4808	537	5345	1699	4345	6044	113
1978	4793	537	5330	1933	5120	7053	132
1979	4832	541	5373	1856	4907	6763	126
1980	4879	544	5423	1796	5423	7219	133
1981	4858	547	5405	1938	5878	7816	145
1982	4994	550	5544	2017	5503	7520	136
1983	5131	553	5684	1996	6591	8587	151
1984	5292	556	5848	1815	7034	8849	151
1985	5449	559	6008	1872	7150	9022	150
1986	5611	562	6173	NA	NA	NA	NA
1987	5777	565	6342	NA	NA	NA	NA

1/ Derived from A.I.D., IFPRI and IMF reports: per capita caloric consumption levels supplied by wheat food items in urban and rural areas, for 1974/75 (A.I.D. Project Evaluation Report #45, PL-480 Title 1, The Egyptian Case, June 1983, p. 34) and for 1980/81 (H. Alderman/IFPRI, Egyptian Public Food Program Study, Report on Tasks 2&3, July 1984, Table 14, p. 31) were extrapolated to form urban, rural and total series for 1975-87. Result provides an average of 1050 calories/day/capita from wheat items, and requires nutritional supplies of 152 kgs. of grain equivalent per capita per year. This consumption is consistent with a variety of analyses, except by the World Bank, which uses a nutritional requirement of 310 kgs/capita/year. However, the World Bank figure results in wheat supplying an unrealistic 86% of daily caloric consumption (IBRD Report NO. 5285-EGY, Population Sector Review, Sept. 1985, p. 11). Population data are from IMF, Egypt - Recent Economic Developments, SM/86/215 of August 26, 1986, Table 17, p. 76, with 1986-87 projected at 2.97%/year. Wheat caloric content is 3350 calories/kilogram (A.I.D. Evaluation Report #45, pp. 35-6).

2/ Includes industrial use, feed, seed and waste; G. Scobie/IFPRI, Government Policy and Food Imports: The Case of Wheat in Egypt, December 1981, Table 14, pp. 69-70 for 1975-78; 1979-87 are extrapolations of same.

3/ IMF, Recent Economic Developments, various annual reports.

4/ FAO Trade Yearbook, various annual reports.

Table A-4

Egypt - PL-480 Title I Wheat Allocations By Value And Volume <sup>1/</sup>  
(\$ millions; thousand metric tons)

	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Total Title I Sales By U.S.	\$536; 3230	\$867; 3094	\$816; 2809	\$720; 2849	\$796; 3242	\$804; 3410
Total To Countries With Lowest Per Capita GNP <sup>2/</sup>	\$309; 1837	\$721; 2760	\$628; 2323	\$602; 2500	\$651; 2771	\$648; 2844
Sales to Egypt <sup>3/</sup>	\$110; 651	\$299; 1553	\$288; 1568	\$275; 1681	\$247; 1460	\$246; 1619
-As % of Wheat Value Going To Lowest Per Capita GNP Countries	35.6	41.5	45.9	45.7	37.9	38.0
-As % of Total Sales	20.5	34.5	35.3	38.2	31.0	30.6

<sup>1/</sup> Source: Food for Peace, Annual Report on PL-480, various years.

<sup>2/</sup> Includes all Title I recipients with annual per capita GNP less than \$600 as of 1975, and \$805 as of 1984.

<sup>3/</sup> Includes wheat equivalent of flour.

Table A-5

Egypt - Production of Major Agricultural Crops <sup>1/</sup>  
(ooo metric tons)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Wheat	2033	1962	1599	1933	1856	1796	1938	2017	1996	1815	1872	NA
Rice (paddy)	2423	2300	2272	2351	2534	2384	2236	2441	2442	2236	2310	NA
Maize	2781	3047	2724	3117	3089	3231	3309	3347	3509	3697	3700	NA
Millet (sorghum)	775	759	648	681	643	642	653	596	622	561	535	NA
Cotton	382	386	399	438	471	529	499	461	401	399	435	NA
Sugarcane	7902	8446	8379	8296	8791	8618	8805	8740	8424	9142	9429	NA
Horsebeans	234	254	270	231	236	213	208	260	295	271	302	NA
Onions <sup>2/</sup>	229	246	263	223	119	331	328	296	442	373	435	NA
Groundnuts	28	28	30	26	26	26	26	24	20	21	23	NA
Citrus Fruits	1013	889	797	990	1216	1067	1033	1288	1297	1407	1399	NA

<sup>1/</sup> Crops listed are those from IMF, Recent Economic Developments, annual reports for various years. Data are for agricultural year ending October 31. Value of production for individual crops is not available.

<sup>2/</sup> Winter export crop only.

Table A-6

Egypt - Agricultural Exports  
(\$ millions; 000 metric tons)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
<u>Cotton Lint</u>												
Value <u>1/</u>	514.2	395.6	491.4	336.0	381.9	423.4	394.3	430.0	387.1	522.8	435.3	NA
Volume <u>2/</u>	185.1	165.2	143.9	132.9	146.6	164.1	177.6	200.1	208.9	170.0		
<u>Rice</u>												
Value	61.6	79.1	59.6	50.9	31.6	35.2	38.6	35.7	10.9	18.7	10.0	NA
Volume	104.3	211.0	223.0	145.1	94.9	98.1	93.0	22.9	19.0	65.0		
<u>Oranges</u>												
Value	47.3	48.3	54.6	52.9	20.6	38.9	47.1	54.3	64.1	74.1	76.4	NA
Volume	210.3	169.7	170.6	133.1	82.9	109.5	114.0	101.6	149.8	183.0		
<u>Other <sup>3/</sup></u>												
Value	159.4	211.0	218.2	224.4	172.5	180.4	261.3	150.8	263.0	136.7	102.0	NA
Total Value	782.5	734.0	823.8	664.2	606.6	677.9	741.3	670.8	725.1	752.3	623.7	NA

1/ Dollar values are from IMF, Recent Economic Developments, annual reports for various years; 1980 data are from FAO Trade yearbook. Egyptian fiscal year, July 1 to June 30.

2/ FAO Trade Yearbook, various years.

3/ Primary, semi-processed, and processed commodities, including fish products.

Table A-7

Egypt - Balance of Payments, Current Account <sup>1/</sup>  
(\$ millions)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u> <sup>2/</sup>
Exports	1566	1610	1995	1984	2513	3985	4144	3555	4033	3883	3250
Imports	4398	4370	4715	5476	6908	9063	8978	9153	10,738	10,819	8980
Trade Deficit	-2832	-2760	-2720	-3492	-4395	-5078	-4834	-5598	-6705	-6936	-5730
Services, Net	357	1160	1460	2219	2789	3473	2211	3366	3795	3281	1875
Official Transfers	691	494	269	206	NA	NA	51	791	772	947	1490
Current Account Deficit <sup>3/</sup>	-1784	-1106	-991	-1067	-1606	-1605	-2572	-1441	-2138	-2708	-2365

<sup>1/</sup> Source: IMF, Recent Economic Developments, annual reports for various years; Egyptian fiscal year. USAID and American Embassy/Cairo analysis of GOE balance of payments incorporates modifications to GOE basic data to allow for estimated impact of unofficial transactions in the economy at the free market rate of exchange, particularly for imports, worker remittances and tourism. The results include a larger annual trade deficit and net services, and slightly larger current account deficit. However, the data for 1982-1986 only have been adjusted by USAID, therefore, in the interest of presenting a consistent series for 1975-1986, the IMF version of the basic data is utilized.

<sup>2/</sup> Estimate.

<sup>3/</sup> Balance of payments data for Egypt are reported in dollar terms; GDP data are in pound (LE) terms. GOE use of multiple and varying exchange rates precludes calculation of a rational series for the current account deficit as a percentage of GDP.

Table A-8

Egypt - Gross Domestic Product and the Agriculture Sector <sup>1/</sup>  
(LE millions; percentage)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980/81</u> <sup>2/</sup>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u> <sup>3/</sup>
<u>Gross Domestic Production</u>											
In 1981/82 Prices	11,468	13,139	14,794	5,647	16,586	18,765	20,171	21,379	22,477	23,663	24,491
Growth Rate <sup>4/</sup>	8.9	14.6	12.6	5.8	6.0	13.1	7.5	6.0	5.1	5.3	3.5
In Current Prices	5218	6727	8344	9795	12,705	17,320	20,171	23,259	27,488	32,627	40,294
Growth Rate	20.3	28.9	24.0	17.4	29.7	36.3	16.5	15.3	18.2	18.7	23.5
<u>Agriculture Sector Production</u>											
In 1981/82 Prices	3306	3360	3261	3443	3589	3780	3743	3856	3937	4032	4173
Growth Rate	5.9	1.6	-2.9	5.6	4.2	5.3	-1.0	3.0	2.1	2.4	3.5
In Current Prices	1468	1744	2038	2286	2530	3326	3743	4353	5157	6131	7572
Growth Rate	14.7	18.8	16.9	12.2	10.7	31.5	12.5	16.3	18.5	18.9	23.5

<sup>1/</sup> Draft version of IBRD, Egypt - Current Economic situation and Economic Reform Program, May 5, 1986, Tables 2.1 & 2.2.

<sup>2/</sup> GOE changed data tabulation to fiscal year basis, July 1 to June 30, incorporating 1980 data for most categories into reporting for 1980/81.

<sup>3/</sup> Preliminary.

<sup>4/</sup> Percentage change over previous year.

Table A-9

Egypt - Central Government Budget Summary <sup>1/</sup>  
(LE millions)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u> <sup>2/</sup>
<u>Revenues</u>	1524	2016	2755	3306	3684	7372	8322	9749	10,946	11,396	15,010	14,451
Indirect Taxes	692	907	1416	1421	1672	2392	2821	3271	3716	4138	5535	6159
Direct Taxes	330	416	551	726	870	1824	1945	2091	1964	2443	2941	2967
Other	138	119	136	147	267	494	606	834	1573	1052	3681	3602
Public Sector Surplus	364	574	652	1012	875	2662	2950	3553	3693	3763	2853	1723
<u>Expenditures</u>	3015	3280	4169	5559	7097	10,093	13,438	14,532	15,985	18,557	19,910	20,002
Current	1352	1670	1701	2037	2495	3790	5089	6177	7608	8857	10,176	10,788
Public Sector Deficit	39	42	55	58	60	64	101	128	193	268	NA	NA
Subsidies	622	434	650	710	1352	1571	2909	2054	1987	2457	1996	1746
Investment	1002	1134	1763	2754	3190	4668	5339	6173	6197	6975	7738	7467
<u>Gross Deficit</u>	-1491	-1264	-1414	-2253	-3413	-2721	-5116	-4783	-5039	-7161	-4900	-5552
Financing Sources:												
External	310	488	608	882	1135	1102	1252	1354	1441	1869	1005	1839
Domestic	1181	776	806	1371	2278	1619	3864	3429	3598	5289	3895	3713
As % of GDP	28.6	18.8	16.9	23.0	26.9	15.7	25.4	20.6	18.3	21.9	12.2	NA

<sup>1/</sup> 1975-1982 data are from IBRD, Egypt - Current Economic Situation and Growth Prospects, #4498-EGT, October 5, 1983 Table 5.1, p. 135; 1983-1985 data are from IBRD, Current Economic Situation (draft), May 5, 1986, Table 5.1. 1975-1985 data are actuals.

<sup>2/</sup> 1985/86 and 1986/87 data are budget appropriations: Cairo 21792 of August 21, 1985, and Cairo 19038 of August 20, 1986.

Table A-10  
 Egypt - Wheat Prices  
 (Egyptian pounds/metric ton)

	Procurement <sup>1/</sup>	Farmgate <sup>1/</sup>	International <sup>2/</sup>	
			Official Rate	Market Rate
1974 <sup>3/</sup>	47-53	47	99	NA
1975	47-53	52	78	NA
1976	47-53	48	61	NA
1977	47-53	55	46	NA
1978	47-53	62	52	NA
1979	63-70	65	125	NA
1980	77-83	88	147	NA
1981	77-83	92	141	NA
1982	77-83	83	145	238
1983	80-97	108	128	214
1984	107-120	134	131	237
1985	148-165 <sup>4/</sup>	172 <sup>5/</sup>	120	263

<sup>1/</sup> IBRD, Report #4498 of 10/5/83, Current Economic Situation, Table 7.4, p.153, and Draft of same report for May 5, 1986, p.30. The low-high range applies to local and high-yielding varieties, respectively. Procurement prices are those paid by the government; the farmgate price relates to sales in the domestic free market, and generally applies to local varieties.

<sup>2/</sup> IBRD Draft of 5/5/86, Table 5.8. World market prices were converted by the IBRD at official rate of \$1 equals 0.70 LE. Free market rates are from Cairo 04302 of 2/23/87. These are FOB prices, at source of major suppliers.

<sup>3/</sup> Agriculture year ending October 31.

<sup>4/</sup> Cairo 20714 of 8/6/85 and Cairo 10304 of 4/17/85.

<sup>5/</sup> GOE White Paper, Egypt's FY1988 Assistance Request: A Solid Testimony of Friendship, September 1986, p. IV-13.

Table A-11

Egypt - Farm Management Options In 1984 <sup>1/</sup>

	Farm Prices (LE/MT) (1)	Average Yield (MT/feddan) (2)	Gross Earnings (LE/feddan) (3)	Cost of Production (LE/feddan) (4)	Profit (LE/feddan) (5)	Labor Required (persondays) (6)	Profit Per Personday (LE/day) (7)
Wheat	120	1.54	324 (w/straw) <sup>2/</sup> 185 (w/o straw)	265	59 -80	27	2.19 -2.96
Cotton	529	0.91	481	472	9	100	0.09
Rice	105	2.27	238	324	-86	48	-1.79
Maize	74	1.08	117	280	-7	37	-0.19
Long Berseem	250 <sup>3/</sup>	1.50	312	155	282	16	14.84
Short Berseem	150 <sup>3/</sup>	1.00	151	89	126	17	7.41
Sorghum	71	1.54	113	269	-17	37	-0.46
Tomatoes	300	1.50	450	487	250	66	3.79
Broad Beans	258	1.00	131	228	41	60 <sup>3/</sup>	0.68

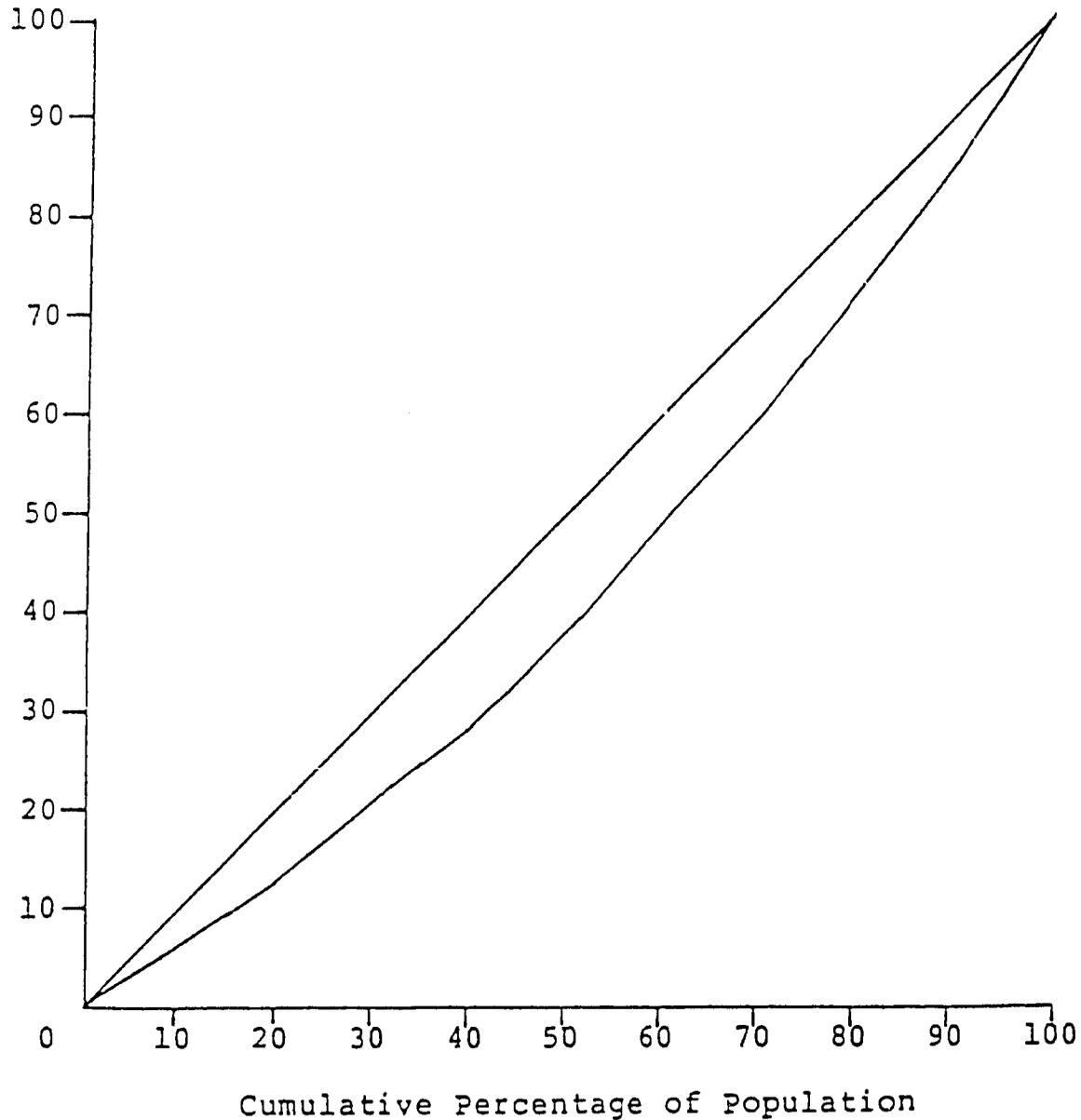
<sup>1/</sup> Source: Table G-1 in A.I.D. Impact Evaluation #45, p. G-5. Updated with prices, costs and yields from IBRD, Current Economic Situation and Economic Reform Program, Report #6195-EGT, October 22, 1986, and conversations with John Parker, USDA/ERS/IED/AME.

<sup>2/</sup> Straw had a market price of about \$90/MT in 1984.

<sup>3/</sup> Estimate.

Lorenz Curve Analysis of Wheat Distribution  
in Egypt, 1980/1981

Cumulative  
% of Wheat  
Supply



Source: A.I.D. Project Impact Evaluation Report No. 45, PL-480  
Title I: The Egyptian Case, June 1983, p. I-9, based on  
data in H. Alderman et. al., Egypt's Food Subsidy and  
Rationing System: A Description, IFPRI Report #34,  
October 1982, Chapter 6.

EGYPT - SELF HELP MEASURES, FY 1987

A. The Government of Egypt, in its continuing program to reform the economy and reduce the food deficit, will continue to undertake self-help measures to increase per capita production and improve the means for storage, and distribution of agricultural commodities and to contribute directly to development progress in low income rural areas and to enable the lower income farmers to participate actively in increasing agricultural production. In implementing the above, it will continue to provide adequate financial, technical, and managerial resources for their implementation as follows:

1. To improve the structure of prices and farm production incentives by increasing producer prices for export crops which have a comparative advantage in international markets. Procurement prices for these crops and for wheat grain are intended to be brought gradually toward world market levels.
2. To continue to rationalize subsidies for maize and beef that are marketed through public sector outlets and to encourage expanded private importation of non-subsidized maize, beef, and other agricultural products that have no international comparative advantage.
3. To rationalize prices for nitrogen and phosphate fertilizer sold by the Ministry of Agriculture to farmers and cooperatives, moving them gradually toward world market levels. In order to maintain appropriate incentives for Egyptian farmers, the increase in fertilizer prices is intended to parallel the increase in Government of Egypt procurement prices for the crops indicated in Section 1 above.
4. To encourage an increased percentage share for the private sector in the domestic marketing and distribution of fertilizer and other chemical inputs. The objective of this activity is that all fertilizer and other chemical inputs recommended by agricultural research, and approved by appropriate regulatory authorities for safety, health, and environment, should be freely available to farmers from public and private sources.

5. To continue studies by the Government of Egypt of the budgetary, nutritional, and other effects of possible steps to limit eligibility for subsidized commodities and to adjust their prices. In addition, the Government of Egypt intends to channel even more benefits toward the low income population (the lowest income bracket) while at the same time adjusting the total burden of food subsidies.
  6. To continue efforts already well advanced to introduce improved production technologies through intensified research and expanded agricultural credit, utilizing a technology transfer-oriented extension service.
  7. To contribute directly to development progress in low income rural areas and to enable the lowest income small farmers to participate actively in increasing agricultural production.
- B. For the purpose of improving the structure of prices for farm outputs and inputs, particularly as described in A.1 and A.3 above, the Government of Egypt will undertake the objective of bringing domestic prices into alignment with world market prices.

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Source: Agreement Between The U.S. Government and The Government of Egypt For The Sale of Agricultural Commodities, Part II, Item V.; Signed January 8, 1987 and forwarded via Cairo Airgram A-4 of February 23, 1987.