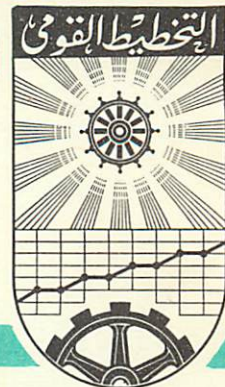


UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No. 383

The Appraisal of Investment
Projects

by

Prof. J. Tinbergen

29th December 1963.

THE APPRAISAL OF INVESTMENT PROJECTS

Contents

1. Introductory	1
2. Description of Projects	1
3. Technological Scrutiny	2
4. The Complementarity Method	3
5. The Complementary Bunches: the Semi Input-Output Method	4
6. The Main Criterion of Appraisal	6
7. Shadow Prices for Scarce Factors	7
8. The Use of Additional Criteria	9

THE APPRAISAL OF INVESTMENT PROJECTS

1. Introductory.

Among the information on which a development plan for an economy must be based the information about a considerable number of individual projects ranks high. From it we must learn in which activities the country considered possesses comparative advantages, that is, will be most successful in international competition and hence in enlarging its national income. This information on single projects can only be obtained at the cost of much work of many different experts and hence requires much time. This alone may be the reason why the collection of this information should be the work to be undertaken first of all. After the information has been collected the projects must be selected; priorities must be apportioned and this requires an appraisal. This paper mainly deals with the methods of appraisal available and the necessary information.

2. Description of Projects.

As a project we will usually consider a set of activities carried out in an organized way by an institution immediately responsible for it. Most frequently projects will be the construction and operation of a factory, a mine, a road, a railway, a school or a hospital. We may also consider as a project a well-defined measure of government policy (say, the institution of a consulting service for farmers in a certain district or the whole country) or a scheme (say, a marketing scheme). As a rule the description of such projects must be given in considerable detail: all the information necessary to carry it out. This implies a large number of technical details and specifications, time tables for the various activities to be undertaken and so on. While it is a matter of the technicians involved to determine how this type of information has to look, the economist in charge of the appraisal of the project also needs a certain minimum of information not always necessarily included in the usual description. We will deal, in this section, with the principles involved in this part of the information needed.

Basically information must be provided on two categories of phenomena to be represented by variables x_j and y_j . The former will be called the contributions the project is expected to make to the aims of development policy and the latter will be called the quantities of scarce factors to be used in the project's execution. As a rule the former category represents the "advantages" of the project and the latter the "sacrifices" to be made. By the special terms we have chosen we want to stress that there should be a correspondence, in setting out these advantages, with the general aims of the government's development policy; and, in estimating the sacrifices, with the concept of scarce factors. In other words, the use to be made of factors of production in abundance should not influence our choice.

Both concepts can best be illustrated by summing up the most frequent examples of them. Among the aims of development policy an increase in national

product is the most important one. Further aims may be increases in employment, more generally improvements in the distribution of income, among individuals, classes and regions. There may be further aims such as the improvement of health conditions or various cultural aims. The information needed is as much as possible to indicate the quantities of the contributions expected. Thus \bar{x}_1 may represent the increase in national product, \bar{x}_2 the increase in employment - say, in man-years - ; \bar{x}_3 may be some measure of the improvement in income distribution. In this latter case the units in which to measure the phenomenon at stake are more open to debate, or at least to choice, than in the former two cases. Here we must make this choice before knowing what to do. One possible measure is the percentage of national income going to, say, the peasants, or the workers, or both. With changes to be expected in relative numbers of the various classes of the population the ratio between the average per capita income of peasants or workers and the population at large may be a better figure to choose. Similar considerations may be applied in order to represent the distribution between regions. As a final example, \bar{x}_4 may be the decrease in the frequency of some diseases.

As for scarce factors frequently the most important examples are capital, foreign exchange and various types of qualified labour. Thus, \bar{y}_1 may be the capital to be invested, \bar{y}_2 the amount of foreign exchange needed and \bar{y}_3 may be the number of engineers needed. Many more examples, especially of other kinds of qualified labour, may be added.

For both the contributions to aims \bar{x}_i and the quantities of scarce factors needed \bar{y}_j it will be necessary to specify the quantities in the various future years.

It would lead us too far to discuss in detail how the various variables mentioned must be estimated. Suffice it to say that a considerable number of methodological traps have to be avoided. The estimation of the contribution to national product, for instance, must be based on sound concepts as to how to deal with depreciation, debt repayment and so on. We must refer to economic handbooks for this sort of question.

3. Technological Scrutiny.

Before the figures of the technological description of any project are accepted as the basis for estimating the variables \bar{x}_i and \bar{y}_j just discussed, technicians must scrutinize the description and judge its degree of realism. Thus, if a project for an industrial plan is considered and the figures have been based on an experience in some highly developed country, these figures must be corrected for the difference in circumstances between that country and the country in which the project will be carried out. There may be differences in labour productivity, in water supply, in climate, in maintenance of capital goods and so on and so forth. Sometimes some broad statistical studies may be available as a clue for this sort of correction; more often the personal experience of entrepreneurs or experts must be called on.

Next, market studies may have to be made in order to scrutinize the assumptions made with regard to sales. Similarly, inputs needed may be a subject for market studies as well: will the goods needed be available at the prices assumed in the description of the project. A number of legal and tax assumptions made may have to be scrutinized as well.

An important aspect, somewhat related with the preceding ones but worth mentioning separately, is the one of the optimum plant size under the conditions prevailing in the country concerned. Sometimes precise studies will be available to find out which production volume represents the optimum, that is, leads to lowest per unit cost. Sometimes crude statistical indications from production statistics or censuses of production may be helpful. As a rule, no units should be established clearly below the optimum size.

Most of the checks briefly described under the present heading will have to be carried out in narrow co-operation between technicians and social experts. They are not described in detail here since they are not typically part of the economic appraisal, but rather constitute a preliminary stage of the work. The volume of work involved will be considerable, however.

4. The Complementarity Method.

Before embarking upon the treatment of the most desirable method of appraisal we must briefly deal with a "second-best" method which, for lack of sufficient data, must often be applied. Whenever the information described in section 2 is not available, or highly incomplete, we are compelled to use a simpler and cruder type of appraisal to be called the complementarity method. In principle this method is based on the phenomenon that, very broadly speaking, there is a parallelism between a country's general level of well-being and the level of its activities in various fields. This parallelism, which is not necessarily a proportionality, is brought out by the so-called Engel curves, indicating the relation between family income and family expenditure on consumer good items. It applies also to a number of non-consumer activities or activities not paid for by the consumer, including the development of the road system, energy production or education. It applies more particularly to what will be called national - in contradistinction to international - activities. These are activities whose products cannot be imported or exported, since their transportation costs are prohibitive. Examples of national activities are

- (i) building,
- (ii) the operation of buildings,
- (iii) energy (except when electricity nets are interconnected),
- (iv) personal services,
- (v) retail and a considerable portion of wholesale trade,
- (vi) inland transportation and communications,
- (vii) government services.

The method consists of accepting projects to a total volume corresponding with the "normal" relation between income per head and the activity's production per head, provided the project is efficient. The "normal relation may be read off from international comparisons. Examples may be the volume of education of various types, the volume of health facilities, several other "social" activities and the production electricity.

The complementarity method may also be applied whenever a project of minor importance has to be appraised which is technically complementary to some big project already accepted. An example may be a minor extension of the road system in order to connect a factor.

5. Complementary Bunches: the Semi Input-Output Method.

We are now going to discuss the main method of appraisal based on information on the contributions made to the aims of development policy and the use of scarce factors. The first question we must answer is to what complex as a unit or building block in national development we must apply our method. Contrary to what is often done we cannot take single projects as our subject matter. The reason is to be found in another type of complementarity characteristic of the structure of economies, due to the existence of national activities as defined in section 4. Because of the impossibility to import the products of these sectors, each extension of an international sector must be accompanied by an extension of the national sectors. This would not be necessary only if there were considerable overcapacity in the national sectors, but it is in the nature of a development plan to assume no overcapacities : in most cases they are a waste.

Let us take an example. Let the extension of the spinning capacity of the country be considered; this is an international project, since yarns can be imported and exported. The spinning industry needs inputs from a number of national sectors, however; and these themselves will need further, indirect, inputs from national sectors. Of course there will also be needed inputs from international sectors, but these can be imported and there is no necessity of an increase in production. What has to be combined with the execution of our spinning project is an expansion of the capacities of all national sectors, covering the direct as well as all the indirect inputs of all "rounds". These expansions can be estimated with the aid of the so-called semi-input-output method. We will set out this method presently.

Let v_h be the increase in production of sector h and let c_h be the increase in consumption, e_h the increase in export surplus (which may be negative and then represents an import surplus). The equations of an input-output model for the increases in production, consumption and export surplus - assuming no changes in investment - may then be written:

$$v_h = c_h + e_h + \sum_{h'} p_{hh'} v_{h'} \quad (5.1)$$

We may assume that $c_h = \gamma_h y$, where y is the increase in national income.

$$y = \sum_h (1 - \sum_{h' \neq h} \phi_{h'h}) v_h = \sum_h \phi_{oh} v_h \quad (5.2)$$

The problem we want to solve is the following. We are given the increases in production of the international sectors; if the spinning industry is $h = 1$, then v_1 is equal to the planned increase in spinning production and all other v_h for international industries are $= 0$. We are also given that for the \underline{h} national industries $e_h = 0$. The unknowns of our problem are the production increases in the national sectors and the changes in export surpluses of the international sectors.

By writing down the equations for the national sectors we will find that these equations contain as unknowns only the v_h for these sectors. That means that the problem can be solved by using only a portion - and probably the smaller portion - of the total set of equations of the input-output method. This is why the method has been coined the semi input-output method. An example may illustrate the situation more easily than a completely general notation. Let us assume that we have 6 international and 3 national sectors and let the latter be indicated by $h = 7, 8, 9$. We then have v_1 given and $v_2 = v_3 = v_4 = v_5 = v_6 = 0$; also $e_7 = e_8 = e_9 = 0$. As a consequence (5.2) becomes;

$$y = \phi_{01} v_1 + \phi_{07} v_7 + \phi_{08} v_8 + \phi_{09} v_9 \quad (5.3)$$

The relationships between consumption increase \underline{c}_h and income may be written.

$$c_h = \gamma_h y \quad (5.4)$$

from which we deduce;

$$c_7 = \gamma_7 (\phi_{01} v_1 + \phi_{07} v_7 + \phi_{08} v_8 + \phi_{09} v_9) \quad (5.5)$$

and similar expressions for \underline{c}_8 and \underline{c}_9

Equations (5.1) for the national sectors will become:

$$v_7 = \gamma_7 (\phi_{01} v_1 + \phi_{07} v_7 + \phi_{08} v_8 + \phi_{09} v_9) + \phi_{77} v_7 + \phi_{78} v_8 + \phi_{79} v_9 \quad (5.6)$$

and similar equations for \underline{v}_8 and \underline{v}_9 .

These in fact only contain the unknowns \underline{v}_7 , \underline{v}_8 and \underline{v}_9 and their solution is much simpler than the solution of a complete traditional input-output system. The remaining unknowns \underline{e}_1 \underline{e}_6 each of them can be found from one single equation, namely the one for the sector concerned.

We now know the increases in production v_7 , v_8 and v_9 which are complementary to the planned increase v_1 in spinning. We will call the joint investments needed in order to attain this increase in v_1 and the complementary v_7, v_8 and v_9 the complementary "bunch" of investments needed and our method of appraisal will be applied to such a bunch instead of to a single project such as the increase in spinning capacity.

It should be kept in mind that international projects are always independent of each other. We can carry out a project in the weaving industry without increasing the capacity of the spinning industry, because yarns can always be imported. In fact the Netherlands, for instance, have always had a larger weaving capacity than corresponded to their spinning capacity, since they regularly imported yarns.

Since the traditional problem of the input-output method always assumed that the input structure would not be changed we cannot apply the method in its traditional form.

6. The Main Criterion of Appraisal.

In order to choose between a large number of "bunches" of projects those which are the most attractive ones we will construct a criterion to be called the main criterion of appraisal. By this phrase we remind the planner of the necessity to apply additional criteria in some circumstances which we will discuss later (section 8). The main criterion as we conceive it compares, in a ratio r , the "advantages" with the "disadvantages" of the bunch, or, in our terminology of section 2, the contributions to the aims of development policy with the sacrifices in terms of scarce factors to be used. If there is only one aim, say to contribute to national product, and only one scarce factor, say capital, the criterion will take the simple form

$$r = \frac{x_1}{y_1} \quad (6.1)$$

where x_1 is the addition to national product and y_1 is the quantity of capital invested. If x_1 is calculated on an annual basis, this criterion coincides with the output-capital ratio and $1/r$ represents the capital-output ratio or the recoupment period as used in communist countries.

As a rule there will be more than one aim of development policy and more than one scarce factor. The problem then arises how the combined effect of such contributions or uses can be expressed. In principle we must know the relative importance of the various aims and the relative scarcity of the various scarce factors; both may be given the form of prices and only relative prices matter. That is, we can attach a price 1 to the first aim and a price 1 to the first scarce factor; then our criterion runs

$$r = \frac{x_1 + p_2 x_2 + p_3 x_3 + \dots}{y_1 + q_2 y_2 + q_3 y_3 + \dots} \quad (6.2)$$

where p_i represents the price of aim i in terms of aim 1 and q_j the price of factor j in terms of factor 1. It will be understood that there is a difference in the nature of prices p and q . The former can be autonomously determined by the policy makers but the latter must reflect the relative scarcities of the scarce factors. Their estimation will be discussed in section 7.

It is deemed desirable to make a distinction between the contributions to aims made in successive years, the x_i will be relatively numerous and among them may be the contribution to national income made in years 1, 2, 3 and so on; the prices to be attached to the later contributions will then reflect the discount applied to later contributions.

If x_1 represents, as before, the contribution to national income and x_2 , for instance, the one to employment, then p_2 stands for the importance attached by the policy maker, of a unit of employment, say a man-year, in terms of a unit of income, say a pound. It may be ascertained by interviewing policy makers. Of course it may be different for different policy makers and the fundamental problem arises which "average" to take of the different quotations obtained. Since this is again a policy decision the economist as such has no answer.

The use of the criterion consists of selecting the project bunches showing the highest r first and descending to lower values until the total amount of capital available has been used up. If the prices q are chosen in the correct way the other scarce factors will be exhausted at the same moment (cf. section 7). The quantities of scarce factors available are the ones derived from a previous stage of the planning process, the macro-stage; but they may have to be revised during later stages. A portion of these quantities may already be earmarked, however, because of the execution of projects already started before.

Finally we must be aware of the fact that the estimate of the contribution to national product to be expected from any project requires the application of some prices; especially of the goods produced and the necessary inputs. These prices have in common with the prices to be applied to the use of scarce factors that they should reflect the relative scarcity of the commodities concerned (see also section 7 below).

7. Shadow Prices for Scarce Factors.

As already observed, the prices q_j in our main criterion must reflect the scarcity of the scarce factors j used by the project bunches. The difficulty one encounters in developing countries is that so often the market or official prices do not do so. They are often fixed without regard to scarcity conditions, as a number often called accounting or shadow prices. In principle these should be equilibrium prices, that is, prices at which demand for and supply of the scarce factor concerned are equal.

It will not often be possible to make very precise estimates of shadow prices, but even crude guesses may be better than the market prices. We will discuss a number of possibilities to arrive at such guesses.

A relatively simple case is the one of a protected commodity, that is a commodity on which an import duty is levied. Although such commodities are not usually considered as factors of production, they may occasionally be among the inputs of other commodities and then be treated as a factor. Moreover, it may be necessary to know their "true" prices in estimating the contribution to national product, whenever they are themselves outputs of any project. For such protected commodities not the internal (national) price, but the import prices (c.i.f.) should be considered the better estimate of the shadow price. Exception may be made only when there are clear indications that the world market is in disequilibrium as a consequence of overproduction.

Less simpler is the next case, the one of foreign exchange rates. Often currencies of underdeveloped countries are overvalued meaning that foreign exchange is undervalued at the official rates. An estimate must then be made of the rate at which the balance of payments would be in equilibrium. The ideal method to do so is to construct an economic model, of which some well-known examples have been given by Professor H.B. Chenery *). This may not always be possible; the planning agency may lack the staff needed for such an exercise. A substitute may then be an intelligent guess of an expert in monetary policy. The error should be avoided, however, to consider "black" or "free" rates a good estimate. These often refer to relatively small portions of the market. If, say, the official rate is 100 and the black rate is 200, but the amounts traded at the black rate are supposed to be some 10% of total turnover in foreign exchange, then a better estimate may be a weighted average of the two rates using as weights 90% for the official and 10% for the black rate, hence:

$$0.9 \times 100 + 0.1 \times 200 = 110.$$

Still more difficult are estimates of shadow prices for capital and qualified labour. If they are serious bottle necks - and they often are - shadow prices should be taken higher than market rates; but the guesses may be crude indeed. The same applies to the time discount to be applied to future goods. One may think of the interest rate as a substitute, but since the interest rate itself, as the price of the use of capital, may have to be corrected in an unknown way, there remains a considerable range of doubt. Sometimes simply a few alternative guesses may be tried in order to get information on the consequences. X

Ideally the complete set of shadow prices may be obtained by an exercise in programming, provided that we have information on the quantities of the scarce factors of all sorts available and on all project bunches which will be carried out, including the ones in sectors not under the control of government, such as small-scale business and agriculture. In essence this exercise consists of assuming a set of shadow prices and computing the main criterion for each conceivable bunch of projects. Taking then, in a tentative program, all bunches, starting from the "best", until one factor is exhausted, we will find what happens to the other factors. If they are all exhausted at the same time we had the correct set of shadow prices. If some factor is not yet exhausted, we must lower its price and repeat the exercise. If some other

*) H.B. Chenery and P.G. Clark, *Interindustry Economics*, New York 1959, Chap. 11.

factor was exhausted already before the others were, its price must be raised. Thus, by trial and error, we may arrive at the correct set. There are a number of exceptions to this procedure which have been the subject of a highly sophisticated literature; we will disregard them. They refer to the complications due to indivisibilities. For small countries such cases may be important enough. We may hope that for small countries the exercise may be feasible even with such complications; some more trial and error will be needed in order to find out what choice leads to the highest contribution to the aims of development possible with the scarce factors available.

One of the outcomes of the exercise which need not bother us is the possibility that one or more factors cannot be exhausted, while some other will be. Then the former factors are not actually scarce and their shadow price can be taken equal to zero.

Finally it should be emphasized that if shadow prices cannot be ascertained for each single future year, they should reflect the average scarcity to be expected for the life time of the project. That implies that they may have to be built on a careful analysis of future conditions and should be based on conditions some five or ten years ahead.

If shadow prices are applied by government planners in their appraisal of project bunches, a divergence with the appraisal by private investors will be the consequence. A project bunch may be attractive on the basis of shadow prices but not on the basis of market prices or the other way round. An important policy question then arises. Can private investors be induced to make the same choice as the public planners? The well-known answer is that a system of taxes and subsidies may create that inducement: the use of factors whose shadow prices are below their market prices may be subsidized while the use of factors in the opposite condition may be taxed. Such subsidies and taxes need not be the subject of separate schemes but can be built in into existing tax schemes or social insurance schemes. Thus, investment tax facilities may be different for projects of a labour-intensive character and for projects of a capital-intensive character. Or social insurance premiums may be transferred from enterprises to public authorities, partly or wholly.

8. The Use of Additional Criteria.

We already mentioned that no practical choice will ever be based on a mechanically applied criterion only, even if it is a sophisticated one, as our main criterion. This is so because the assumptions underlying the theories on which such a criterion must be based cannot be correct under all circumstances. In practical terms the last word must always be spoken by "wise men" who intuitively take into account the neglected factors. Policy-makers must be wise men and we can only hope that this is so. In theoretical terms we may try to indicate which type of deviations between theory and reality may interfere. There are too many to sum them up all, since almost every portion of an analysis contains approximations, certainly in economic matters.

One general type of deviations only will be mentioned. It may be indicated as the existence of external effects; in the present context this means that the execution of any particular project bunch A may influence the attractiveness of another bunch B; this means that one cannot independently decide on A and B. By the very introduction of the concept of bunches we have of course eliminated this possibility in its most obvious forms; but there may be cases where some external effects remain. X

Finally there may be some particular aims which it is difficult to express in quantitative terms and which only play a role in a few projects; decisions concerning such projects may have to be taken in an ad hoc way.

J. Tinbergen.

use in the assistance of needy persons outside the United States.

d - Aid under Title IV of PL 480 which provides for long-term supply contracts. "The purpose of this title is to utilize surplus agricultural commodities and the products thereof produced in U.S. to assist the economic development of friendly nations by providing long-term credit for purchases of surplus agricultural commodities for domestic consumption during periods of economic development so that the resources and manpower of such nations may be utilized more effectively for industrial and other domestic economic development without jeopardizing meanwhile adequate supplies of Agricultural commodities for domestic use". (1)

9. To recapitulate, the American system of aid includes an extensive variety of operations each one of which is subject to specific conditions designed to attain given objectives. Aid may be effected on a grant basis or loan basis repayable in dollars or local currency as the case may be. It may be given in money or in kind, and may be committed to certain projects in the recipient country or granted generally without such commitment.

The major aid legislation is the Mutual Security Act of 1954 as amended (Public Law 665, 830 Congress) which provides for the following types of aid :

1 - Military Assistance.

2 - Economic assistance :

- a) Defense support.
- b) Development loan fund.
- c) Technical cooperation.
- d) Special assistance.

This is supplemented by the Act for International Development of 1961 which provides for the following types of aid :

- a) Development grants.
- b) Investment guarantees.
- c) Surveys of Investment opportunities.
- d) Development research.

(1) Section 401, PL 480

In the educational and cultural field American aid is subject to the United States Information and Educational Exchange Act of 1948 as amended (Public Law 402 80 th Congress) and the Fulbright Amendment to the surplus property Act of 1944. The former provides for assistance in the form of interchange of persons, books and materials, and aid to educational and cultural institutions. The latter provides for the use of local currency to finance studies research, education and transport incident to scholastic activities.

The Agricultural Trade Development and Assistance Act of 1954 as amended (Public Law 480, 83 Congress) provides for aid in the form of surplus agricultural commodities.

Such are the major operations carried out by the United States Government under foreign aid programmes. In addition account must be taken of aid operations undertaken by private organizations such as Ford Foundation, Rockefeller Foundation, and scores of other private, secular and denominational, organizations. Their programmes consist of grants, in money or in kind, for charitable as well as developmental purposes.

10. Soviet aid, on the other hand, is much more simple. The usual form is to accord long-term credit facilities, at generous terms of repayment and low rates of interest.

The beneficiary is entitled to use these facilities within a specified period to pay for services, commodities and experts from the Soviet Union. In the majority of cases credit agreements provide for the establishment by the Soviet Union of industrial enterprises as running concerns; so that economic and technical aid are wrapped up in one package deal. The main point is that credit, not grants, is the dominant form of aid. For various considerations to be enunciated later on grants play a minor role in the Soviet System of aid. This goes for all Soviet Block countries with the notable exception of China. (1)

Other countries of the Western Block as well as Japan engage in practically all types of aid operations whether in the form of grants - although on a modest scale compared with U.S. - or credit facilities; technical as well as financial. In the case of Egypt, however, aid from these sources was mainly in the form of credit facilities. As

(1) Klaus Billerbeck : " Soviet Block Foreign Aid to the Underdeveloped Countries ", Hamburg Archives of World Economy, pp. 40-44

will be shown later the rates of interest and periods of repayment are generally less favourable than those accorded by the Soviet Union.

11. So much for bilateral aid to underdeveloped countries. In the field of multilateral aid the United Nations and its specialized agencies represent of course the most important source of aid. Technical assistance is carried out by the United Nations under its regular budget in such fields as overall economic surveys, fiscal policy, public administration, industrial development, geology, statistics and the broad field of social welfare. Within their respective fields of interests the specialized agencies of the United Nations undertake their own programmes of technical assistance. However, the most significant programme within the framework of the United Nations is represented by the United Nations Expanded Programme of Technical Assistance (UNEPTA) in which seven of its specialized agencies participate. More recently the United Nations Special Fund (UNSF) was set up with a view to undertake surveys to reveal natural resources and development potential as a prelude to sound investment in less developed countries. The special Fund is also authorized to sponsor projects aiming at fuller utilization of Human resources, and the promotion of applied research, notably in finding new commercial uses for local materials.

In the field of financial aid the operations of the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (IBRD) and its affiliate the International Finance Corporation (IFC) account for the bulk of United Nations activities. Owing, however, to the fact that loans provided by these organizations are subject to strict requirements as to the nature of projects eligible for financing or rates of interest and conditions of repayment, the International Development Association was established in 1960 to supplement the work of IBRD. The new organization is authorized to provide finance to meet important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans.

Along with the United Nations and its specialized agencies, the multilateral field of aid comprises a number of regional organisations and arrangements. Notable among them are the European Development Fund, the European Investment Bank, the Inter-American Development Bank, the Organization of American States, the Colombo Plan, and the Arab League.

12. Such a wide range of operations and organizations raises the question of definition. In speaking of aid we undoubtedly have in mind something that contributes towards the economic development of the recipient countries. Moreover, aid should be somewhat different from a conventional trade or lending operations. Such considerations throw some doubt on the appropriateness of including military assistance,

defense support, trade and payment agreements, conventional loans and credit facilities within the category of aid to less developed countries.

According to United Nations " International Economic Aid is measured by the flow of grants and long-term loans between countries. The concept covers grants and loans in cash and in kind, including within the latter category the provision of services as well as commodities (1). The United Nations excludes from the definition of economic aid:

a - Short or medium term loans whether public or private (2), i.e. loans for which the schedule of repayment does not extend beyond a period of five years from the date on which the loans become effective.

b - Private loans even when guaranteed by the government of the lending country.

c - Grants by private institutions or persons.

d - Military assistance and defense support as far as they are identifiable.

It is clear that the United Nations stresses the official or governmental aspect of aid to the exclusion of private loans and grants. This is not without justification since private loans are commercially conditioned, and private grants largely philanthropic. However, it should be noted that :

a - Certain official loans are subject to the same, or practically the same, conditions as private loans, whether as regards the rates of interest or conditions of repayment. The loans of the World Bank or the International Finance Corporation are cases in point.

b - Private direct investment may involve a lighter burden on the balance of payments of the recipient country than fixed - interest - bearing official loans.

c - The same applies to public and private grants. Thus Relief Programme administered by the United Nations High Commissioner for Refugees is less obviously related to economic development than a major portion of Ford or Rockefeller Foundation programme. Under U.N. definition the former is included in economic aid whereas the latter is excluded.

(1) U.N. : International Economic Assistance to the Less Developed Countries¹¹ Document E/3395 July 1960

(2) Loans and grants are classified into public or private according to the creditor or donor irrespective of whether the beneficiary is a public or private organization or person.

d - The exclusion of military assistance and defense support is equally problematic. This is particularly so as regards defense support which, in the American system of aid, consists of all types of commodities and services not necessarily of a military character. Exclusion in this case would be based more on motivation rather than on nature of the transaction. A given operation would be regarded as aid if the recipient is a neutral, would not be so regarded if the recipient is eligible for military assistance from the United States. A distinction based on whether the recipient is or is not committed to the donor is obviously irrelevant from the viewpoint of impact on economic development.

Military assistance, consisting as it does of military equipment, materials and services, appears to be unrelated to the economic development of the recipient. The issue, however, is not clear-cut. Military assistance may have the effect of inducing the recipient to maintain a military establishment which is much bigger than would otherwise have been possible or desirable. In such a case it is certainly irrelevant in so far as economic aid is concerned. It may even prove to be a serious drain on the economic resources of the country. Not infrequently the recipient is required to shoulder a heavy burden as a condition of aid. But it is quite conceivable that military assistance relieves the country of expenditure which would have taken place anyway. Under this condition it serves to release foreign currency which may be used for developmental purposes. As such military assistance is on equal footing with any other type of economic aid.

Strictly defined economic aid should be limited to the transfer of funds, commodities, and services for which no quid pro quo is required. Given this condition it is of no consequence whether the transfer involves military goods or otherwise, producers' or consumers', public or private bodies. The character of the donor or commodities, as well as motivation should be irrelevant to the definition of aid. Evidently, however, this definition is unduly restrictive in other respects. It would exclude not only private investments but also credit facilities and long-term loans by public organisations which undoubtedly contain a certain element of aid.

If we relax our concept of aid we are faced with a continuum of operations which range from pure aid at one extreme to pure trade at the other; the element of aid declining as we pass from one shade to the next. Any line of demarcation somewhere in the middle is bound to be arbitrary. On the other hand, to separate the aid element from the trade element in each operation would be somewhat unrealistic and pedantic.

For the purpose of this study foreign aid will be so defined as to include the transfer of funds, commodities and services in the form of grants or long-term loans, i.e. loans extending for three years or more. The focus of attention will be operations performed by public bodies. On certain occasions, however, we shall take note of loans and grants by private or semi-public organisations whenever they assume significant proportions. We have only to bear in mind that operations encompassed by this study are not all aid, but comprise on aid component in varying degrees.

AMERICAN AID

13. American aid to U.A.R. started in 1952 following the conclusion of an agreement in 1951. Between 1952 and 1954 aid consisted largely of technical assistance under point IV programme together with some modest quantities of surplus commodities delivered under Title III of Public Law 480. In 1955 Special Assistance loans began to figure prominently in American aid covering such fields as transportation, health and sanitation, and commodity imports. In that year special Assistance amounted to 31.7 million dollars. It was coupled with surplus commodities under Title III of PL 480 amounting to 23.5 million dollars and an Export-Import Bank loan of 7.5 millions. Between 1956 and 1958 the volume of aid suffered a sharp decline owing to strained political relations between the two countries. After 1958 aid was resumed on a fairly large scale rising steadily year after year to reach 264.4 million dollars in fiscal year 1962 alone. It is to be observed, however, that after 1958 American aid programme underwent a significant change. Since that year there has been a pronounced shift from special and technical Assistance to sales of surplus agricultural commodities under Title I of PL 480. Thus aid in kind can be said to have superseded financial and technical aid. By and large it is possible to discern three phases in American aid to Egypt :

- a - The technical assistance phase from 1952 to 1954.
- b - The financial-technical assistance phase from 1955 to 1957.
- c - The surplus commodities phase from 1958 onward.

14. The estimation of total American aid to Egypt from 1952 to 1962 is not free from certain difficulties. In fact there are significant discrepancies not only between different sources but also in one and the same source. This is due to the following considerations:

a - Discrepancy in the definition of aid . It was pointed out before that there is no consensus of opinion as to what constitutes aid. There is a spectrum of operations ranging from pure grants to loans repayable in dollars at almost commercial terms. Thus a restrictive definition would exclude certain types of operations which otherwise would figure in the estimation of aid.

b - Aid passes through a succession of stages from the signing of an agreement to the actual delivery. Thus; estimation based on commitment may be significantly greater than that based on delivery.

c - A certain proportion of local currencies generated against delivery of surplus commodities under Title I of PL 480 is devoted to payment of U.S. obligations in U.A.R. As will be shown later such a proportion partakes of normal commercial transaction rather than aid. Nevertheless; it is included in the estimation of surplus commodities delivered to U.A.R.

15. According to a statement issued by the American aid Mission in Cairo, official American aid to Egypt between 1952 amounted to 704.9 million dollars. Year by year the flow was as shown in Table (1).

TABLE I
Flow of American Aid

Year	Million Dollars
1952	1.599
1953	12.986
1954	3.415
1955	65.066
1956	38.894
1957	1.179
1958	2.237
1959	73.493
1960	112.134
1961	129.542
1962	264.438
Total	704.983

This includes all types of operations undertaken by U.S. government and Export-Import Bank whether in the form of loans or grants, technical as well as financial assistance. It also includes surplus agricultural commodities delivered under all Titles of PL 480.

From this table it is clear that the greatest portion of American aid came during the period from 1959 to 1962. Not only does it show a much higher level of aid as compared with pre-1957 period, but it indicates a steady increase throughout. Thus between 1959 and 1962 Egypt was a recipient of 578 million dollars worth of aid or about 82% of total American aid since its inception. This important increase in the volume of aid coincided with the shift in its composition from technical-financial to surplus commodities as can be seen from Table 2.

TABLE II
Distribution of American Aid
Between Major Types (Million Dollars)

Year	Technical	Financial	Commodity	Total
1952	.791	-	.808	1.599
1953	12.986	-	-	12.986
1954	2.671	-	.744	3.415
1955	2.274	29.248	23.544	65.066
1956	1.780	-	37.114	38.894
1957	.724	-	.455	1.179
1958	.157	-	2.080	2.237
1959	.638	14.968	57.887	73.493
1960	1.754	29.381	80.999	112.134
1961	1.852	24.340	103.350	129.542
1962	2.198	40.000	222.240	264.438
Total	27.825	147.937	529.221	704.983
Percentage	4%	21%	75%	100%

In this table technical assistance includes aid delivered under Point IV programme as well as Fulbright and Exchange of persons programmes. Financial aid includes loans extended under Special Assistance or by Export-Import Bank and Development Loan Fund. Commodity aid includes aid delivered under PL 480. Evidently the distinction between financial and commodity aid is not clear-cut since the former reduces ultimately to imports of commodities and equipment. The difference, however, is between aid the first step of which takes the form of a loan (or grant) and that which directly takes the form of certain commodities. Moreover; financial aid, at least in theory, permits greater latitude to the recipient since the proceeds could be expended on a broader commodity mix or, in some cases, used to pay off previously contracted debts.

Table 2 - shows the great preponderance of commodity aid accounting as it does for 75% of total aid over the whole period under consideration. The emphasis on commodity aid is more pronounced during the period 1959-62 where it accounts for 80% of total aid.

Table 3 shows that technical assistance programme accounts for the greater part of technical aid, whereas financial aid is just about evenly distributed between special assistance, Export-Import Bank and Development Loan Fund. Commodity aid consists largely of sales of surplus agricultural commodities against local currency (Title I PL 480).

17. To avoid double counting in assessing the volume of American aid certain operations were not included in Table 3, namely ;

a - Loans and grants of U.S. owned local currency generated under Title I of Public Law 480. The most important are :

Million Egyptian Pounds

8.0	Loan in support of Egyptian Production Budget (1961)
7.0	Loan in Support of Egyptian Production Budget of (1960)
4.5	Loan for the establishment of Television Network (1960)
0.4	Grant for Fulbright Programme.
0.15	Grant for Translation and Publication of Textbooks (1960-1961).

20.05

This sum of 20 million Egyptian pounds is disregarded for the obvious reason that it is already included in the value of surplus agricultural commodities delivered under Title I of PL 480. The way local currency generated under this Title is used is relevant not in the determination of the magnitude of aid but in its impact on the economy. We shall have the occasion later on to study more carefully the nature and effects of PL 480.

b - The same consideration applies to operations undertaken by " Care " (Co-operative for American Relief Everywhere). Care began its operations in Egypt under a Basic Agreement signed on October 1954. Since then the value of " Care " aid to Egypt in the form of school lunches, food and special supplies exceeded 50 million dollars. However; this is accounted for in the value of surplus commodities delivered under Title III of PL 480.

18. The preceding figures refer to aid operations undertaken by the Government of the United States or voluntary Agencies whose resources are largely financed by U.S. Government. They do not take account of aid operations carried out by private organizations with independent resources. In the case of Egypt the most notable example is provided by Ford Foundation. According to the agreement signed with U.A.R. government in November 1959 the Foundation may furnish technical assistance in such matters as those pertaining to educational, administration, social

health, scientific and technical fields of national development. Assistance may be furnished to government or private organizations after consultation with the Ministry of National Planning. During the two year period ending June 1961 aid by the Ford Foundation amounted to 1,734 million dollars distributed as follows⁹⁹.

Dollars

432,880	Help establish and support Management Development Institute.
28,600	Fellowships for Advanced Management Training.
236,200	Support Institute of Public Administration.
225,000	Help establish and support Institute of Land Reclamation.
438,000	Help establish and support Institute of National Planning.
192,280	Development of an Arabic Encyclopedia.
124,000	Ethnological study of Nubians having to be relocated because of High Dam.
17,000	Support of Rural Development workers from all Arab States.
40,500	Provide two consultants on education.

1,734,460

19. It is pertinent to know the distribution of American aid between loans and grants. No difficulty is involved as far as outright grants and loans repayable in foreign currency are concerned. But loans repayable in Egyptian pounds as well as sales of commodities against Egyptian pounds present a special problem of classification. Are they to be regarded as loans or grants? This is rather important in the case of Egypt since over two thirds of American aid fall under this category.

Repayment in local currencies generate what came to be known as counterpart funds. These funds, it is evident, represent purchasing power held by the donor country in the receiving country. As such they represent a potential claim over local resources. But this is not sufficient to determine the nature of such operation. We have to find out the way they are disposed of.

In this respect it is possible to distinguish between three ways of disposal :

a - counterpart funds may be used to finance purchases of local goods and services by the donor country. In this event the operation is fundamentally a normal commercial transaction. It partakes of the nature of trade rather than aid. In some cases, it is true, a certain period elapses between the delivery of aid commodities (or loan proceeds) and the use of counterpart funds in local purchases. Such a period constitutes an element of credit, and the operation would be akin to that which takes place under trade trade and payment agreement.

b - counterpart funds may be used to finance loans equally repayable in local currencies which are in turn used for further loans and so on ad infinitum. In such a case neither the initial nor the subsequent repayments involve a transfer of resources abroad. The successive settlements of the loans would be no more than book-keeping operations with no direct demand on the resources of the receiving country. As such the operation should be regarded as a grant. Yet it is not purely so since the donor country enjoys the power attached to the ownership of the funds. Moreover: the utilization of counterpart funds in this manner may under certain circumstances, generate inflationary pressure with farreaching effects on external and internal balance. For these considerations such operations cannot be regarded as pure grants in the conventional sense of the word. The nearest approximation would be to designate this portion of counterpart funds as conditional grants. It should be remembered, however, that the basic assumption is that counterpart funds are used indefinitely to finance loans repayable in local currency. Should there be a change in the allocation of the proceeds the operation would cease to be a conditional grant. It may become a normal commercial transaction or pure grant depending on the nature of the new allocation.

c - counterpart funds may be used to finance grants to local persons or bodies. In this case the initial operation should be regarded as pure grant although the beneficiary would not be the recipient of the aid commodities but the recipient of the grant proceeds.

20. In the case of Egypt we shall see that counterpart funds are used to purchase local goods and services, or to finance local loans and grants according to the terms of each agreement. Shortly we shall look more closely into these agreements whether with the United States or with the Soviet Union and other countries. For the present purposes we shall be content with the conventional classification of American aid into grants, soft loans, and hard loans keeping in mind that the term soft loans (i.e. loans repayable in local currency) is deceptive and may turn out to be just as hard as any loan repayable in hard currency.

a - Grants where no quid pro quo of any description is involved. These include :

	m. dollars
Technical Assistance	24.837
Fulbright Programme	1.482
Exchange of Persons	1.506
Ford Foundation	1.734
PL 480 Title II	29.100
PL 480 Title III	113.881
Total Grants	172.540

b - Soft loans which include loans repayable in Egyptian pounds as well as sales of commodities against Egyptian pounds :

m. dollars

Special Assistance	45.737
Development Loan Fund (before 1961)	55.200
PL 480 Title I	386.240

Total Soft Loans	487.177
------------------	---------

c - Hard loans which include loans repayable in dollars or convertible currencies

m. dollars

Export-Import Bank Loans	47.000
--------------------------	--------

The picture that emerges from this analysis is shown in the following table

Table IV
Distribution of American Aid
between Grants and Loans.

Type	Million Dollars	% of Total
Grants	172.540	24.4
Soft Loans	487.177	68.9
Hard loans	47.000	6.7
Total	706.717	100.0

As to be expected more than two thirds of American aid is accounted for by soft loans. This is due to the major role played by sales of surplus agricultural commodities against Egyptian pounds. Grants account for about one fourth of total American Aid. Hard loans are limited to Export-Import Bank operations accounting for 6.7% of total aid. It is probable that hard loans are more than indicated by table 4. The Egyptian government, for instance, is bound by some surplus commodities agreement to pay a certain portion of counterpart funds in convertible currencies. But this is a tiny fraction which by no means alters the fundamental picture.

21. The distribution of American aid between different sectors throws some light on its impact on the Egyptian economy. Here we are confronted with the fact that the bulk of American aid consists of consumers' goods in the form of surplus agricultural commodities. This cannot be assigned to a given sector but should be regarded as aid to the economy in general. To what extent such aid is relevant to the economic development of the country will be seen when aid in the form of surplus commodities is analysed. Presently it will be designated as consumption aid.

Table V
Sectoral Distribution
of American Aid

Sector	Million Dollars	% of Total
Consumption aid	566.278	80.1
Agricultural and Natural Resources	16.322	2.2
Transport & Communications	57.192	8.1
Industry & Mining	48.052	6.8
Other services	18.873	2.8
Total	706.717	100.0

It must be pointed out that consumption aid as shown in table 5 is greater than aid delivered under PL 480. This is due to the fact that a certain proportion of Special Assistance and Development Loan Fund was devoted to commodity imports over and above what was received under PL 480. This form of Aid accounts for 80% of total aid.

Agriculture and natural resources account for the modest sum of 16.3 million dollars or 2.2% of total aid. The most important component of this figure is 11 million dollars allocated for EARIS project (Egyptian-American Rural Improvement Service) for land improvement and community development.

Industry and Mining account for 48 million dollars or 6.8% of total American aid. The main projects covered by this programme consist of the following :

	m. Dollars
Suez Fertilizer Plant	12.5
Edfina Food Processing and Packing	.2
Bagasse Plant for the processing of Sugar cane	
-By-Products	6.7
Industrial Bank	7.0
Misrayon	3.0
Grain Handling	17.0
	<hr/>
Total	46.4

Other services account for 18.8 million dollars or 2.8% of total American aid. They consist mainly of technical assistance aid in the fields of health and sanitation education, scholarships, exchange of persons, and public administration.

The sectoral distribution of American aid as shown in Table 5 confirms the strong bias in favour of commodity aid. In consequence little is left for the development of specific sectors. In the field of agriculture and natural resources, which should have played a major role considering its vital importance in the Egyptian economy, American aid is focused more or less on a single project; namely, the Egyptian-American Rural Improvement Service. American aid to Industry is characterized by the selection of few projects in the field of consumers' light industry especially those related to agriculture and utilizing local materials.

CASE STUDIESA - Surplus Agricultural
Commodities

22. It has been pointed out before that surplus agricultural commodities form the major part of American aid to U.A.R. Over the last four years the trend has been towards more of this type of aid to the detriment of other types. There is every reason to believe that such a trend will continue in the future. In the first place Egypt, owing to rapid population growth and relatively limited cultivable area, has emerged from the second world war as a heavy importer of foodstuffs. Secondly; the implementation of an ambitious development plan has given rise to a sizable and chronic deficit in the balance of payments. Under such circumstances Egypt is prone to welcome a kind of aid that would meet an important part of consumption requirements and save on precious foreign currency that could be used for development purposes. From the point of view of the United States aid in the form of surplus agricultural commodities may well be the least costly and the most feasible politically. In spite of determined efforts on the part of successive Administrations no solution to the farm problem seems to be in sight. Surplus agricultural commodities continue to accumulate calling upon the American taxpayer to shoulder a heavy bill in farm subsidies and cost of storage facilities. The rapid pace of technical progress in American agriculture may well contribute towards the aggravation of a long-standing problem. It is little surprising that the United States Government should not be unfavourably inclined towards an aid programme that would help unload part of embarrassing surplus. In fact this is a perfect aid situation where a real need on the part of the recipient is matched by oversupply on the part of the donor. In economic jargon the marginal utility of agricultural commodities in America is almost zero or even negative. In countries such as Egypt or India with rapid population growth and heavy food requirements, the marginal utility of those commodities is great. Under the circumstances such aid programme should operate to the mutual satisfaction of both donor and recipient.

23. In view of these considerations it is important to analyse carefully the provisions of the Agricultural Trade Development and Assistance Act of 1954 known as PL 480. As has been stated before Egypt is one of the major beneficiaries of the Act. Since its implementation it has received surplus agricultural commodities to the value of 529.2 million dollars distributed as follows

	m. dollars
Title I	386.240
Title II	29.100
Title III	113.881
Total	529.221

It must be recalled that Title I refers to sales of surplus commodities against local currency. Title II provides for famine relief and emergency assistance. Title III provides for the donation of food commodities through American non-profit voluntary agencies. Commodities provided under Titles II and III are usually on grant basis. Sales under Title I generate local currencies held by the United States in the recipient countries. In the terms of the law "such currencies as accrue to the U.S. under this act are to be used to expand international trade, to encourage economic development, to purchase strategic materials, to pay U.S. obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of U.S." Section 104 of the same act spells out in greater details the uses for which those currencies will be put. In implementation of Title I the United States Government concludes agreements with recipient countries specifying the kind and value of commodities to be delivered, amount of local currency to be deposited to the account of U.S. Government, and, most important, the allocation of counterpart funds among different uses. This allocation is made up of three parts: the first part is reserved for expenditure by U.S. government, the second for loans to be made by the Export-Import Bank acting as agent for U.S. government, the third for loans to the government of the country concerned. The percentage distribution among the three parts varies somewhat from one agreement to another. In the case of U.A.R. several agreements were concluded under Title I dealing mainly in wheat and wheat flour but also corn, tobacco, vegetable and animal fats, rice, and poultry. The allocation was as follows

	m. dollars	%
a) For expenditure by U.S. Government	131.3	34
b) For loans by Export-Import Bank	81.1	21
c) For loans to Egyptian Government	173.8	45
	<hr/> 386.2	<hr/> 100

In round figures, the allocation was one third for U.S. government, one fifth for Export-Import Bank, less than one half for U.A.R. government. (1)

24. It is important to realize that the allocation of counterpart funds between the three major types does not mean that they will be actually used. The U.S. government is free to spend its portion for purposes defined by PL 480; subject to Congressional approval in certain cases. It may or may not spend it as deemed fit. The Export-Import Bank is empowered to make loans to United States business firms and

(1) Appendix 1 gives the text of one such agreement as illustration.

branches, subsidiaries, or affiliates of such firms in the country concerned, and to local firms. The loans, however, have to be mutually agreeable to the Export-Import Bank, and the government of the country concerned. In the event loans are not advanced within a specified period for lack of agreement, the U.S. government may use the funds for any purpose authorized by section 104 of the Act. In other words funds initially allocated for use by Export-Import Bank will revert for expenditure by U.S. government.

The third part, allocated for loans to the government of the recipient country, is only used to finance such projects to promote economic development as may be mutually agreed. In the event that agreement is not reached within a specified period the funds will also revert for expenditure by U.S. government.

Under these conditions it is quite possible that counterpart funds accumulate without being expended. This is precisely what happened. In 1959 it was estimated that, for total operations in less developed countries, "only about one fifth has been put to use, the balance remaining on deposit to U.S. account." (1)

25. Having expounded the provisions of the agricultural surplus programme as laid down by PL 480, we are now in a position to appraise it as an instrument for economic development. To do that we better start by taking a perfect case, namely; a case in which all counterpart funds are being expended by U.S. government, Export-Import Bank, and in loans to government of recipient country in the same year as surplus commodities are delivered. In other words the rate of expenditure of local currency by the three parties is exactly equal to the rate of delivery of surplus commodities so that no counterpart funds accumulate.

The first part, that of U.S. government, is obviously spent in payment for local goods and services, most of which the U.S. would have bought anyway. Such is the case with the payment for the American diplomatic mission, the purchase of local strategic materials, the construction of American-owned buildings, the cost of American research or publications programmes in the area, etc..... In so far as these operations are concerned Public Law 480 makes no contribution to the economic development of the recipient country. It is a normal exchange of American goods (the surplus commodities) for local goods and services; no different from the sale of American automobiles for Egyptian cotton. Thus we find that U.S. government departments which make use of counter-

(1) John Davis : " Agricultural Surpluses and Foreign Aid", American Economic Review, Papers and Proceedings, 1959, P. 232.

part funds are required by PL 480 to reimburse the Comodity Credit Corporation managing the farm surplus programme. This means that dollars which would have been spent by these departments in the recipient country are replaced by wheat supplied by C.C.C. under PL 480.

However; not all expenditures by U.S. government are of this type. In some cases grants are made for the support or establishment of local institutions closely or remotely related to economic development. These are grants alright. But they are "tied grants". Had there been no PL 480, the U.S. government would have made available dollars, not wheat, to the amount of the grant. The recipient could have bought wheat if it so desired, but it could well have bought machinery, fuel or chemicals from U.S. or any other country as long as the dollar is convertible. It is thus a triply tied grant; tied as to the country from which one buys, as to the commodity which one prefers, and, finally, as to the project to be financed.

26. The second and third part, those used in loans to American or local firms by the Export-Import Bank, or to government of recipient country, are fundamentally similar in that they are loans locally advanced. They may differ as to rates of interest or period of repayment; but loans they are. The relevant distinction is not between the second and third part, but between:

- (a) loans to American firms in the receiving country.
- (b) loans to local firms or government.

Under both cases a further distinction should be made between:

- (a) loans are made to finance investment which would have taken place anyway.
- (b) loans are made to finance investment which would not have taken place but for the existence of counterpart funds.

We have thus four cases:

First Case: LOANS TO AMERICAN FIRMS TO FINANCE INVESTMENT WHICH WOULD HAVE TAKEN PLACE ANWAY:

It is assumed that the investment involved is direct, i.e. the establishment or expansion of American enterprises in the country. In this case PL 480 has the effect of costing the receiving country precious dollars which it would have earned through the investment in question. True it is in receipt of wheat for instance. But of course

there is a world of difference between being in possession of wheat and in possessions of dollars. Might not the recipient have been, it could be asked, in need of the surplus commodity delivered? It might; but considering the severe dollar shortage experienced by most less developed countries it is most unlikely that needed agricultural commodities would be sought in the U.S. unless it be the only source of supply which, clearly, is not the usual case. Except for PL 480, it is most probable that the country in question would have (a) earned dollars through investment carried out by American firms (b) used the said dollars to buy machinery or spare parts or materials from U.S.; unobtainable, or not so favourably obtainable from alternative sources of supply (c) got needed agricultural commodities from soft-currency countries. Under Public Law 480 the country spends, as it were, dollars duly earned on agricultural commodities from U.S. which could have been got somewhere else, and strains its dollar resources, if there are any, to buy machinery which could only be got from U.S. In the event dollars are in severe shortage it will probably go without them or, when it is possible, get them from less favourable sources of supply. Either way the receiving country is a net loser, and economic development is hardly advanced.

Second Case : LOANS TO AMERICAN FIRMS TO FINANCE INVESTMENT WHICH OTHERWISE WOULD NOT HAVE TAKEN PLACE :

Realistically; this possibility should be ruled out. It is based on the assumption that the holding of counterpart funds by Export-Import Bank would be in itself an inducement to American firms to invest in the receiving country. This is very much open to question. Since the process of economic development is attended by chronic deficit in the balance of payments of less developed countries, there would always be excess supply of local currency at "official" exchange rates. Any American firm anytime can readily get in possession of local currency balances. It is even probable that they can get them on more favourable exchange rates through premiums of differential rates or what not. The Export-Import Bank would be hard put to it to lure American firms by dangling before their eyes some currency balances somewhere. The fact is that real bait lies in totally different considerations.

Third Case : LOANS TO GOVERNMENT OR LOCAL FIRMS TO FINANCE INVESTMENT WHICH WOULD HAVE TAKEN PLACE ANYWAY :

Let us suppose that the economic development plan of U.A.R. envisages the construction of a given road. The cost of the project is, say, three million Egyptian pounds provided for in the national development budget. In the same year that the project is supposed to be carried out, wheat under PL 480 is delivered to U.A.R. to the value of three million pounds which the Egyptian government promptly deposits in U.S. account.

Then U.S. Government takes fancy to the road project, and decides to finance it through a loan to U.A.R. government. The latter draws back what it previously deposited. What do those operations add up to?. The fact that the three million pounds were transferred from the budget accounts to U.S. account and back to budget accounts has, of course, nothing to do with financing the project. It is merely a book-keeping operation. The net result in effect is: (a) The U.S. delivers wheat to U.A.R. government. (b) The U.A.R. government owes three million pounds to the U.S. payable, say, in equal instalments over twenty years at 4% interest.

The deal is simply the export of a surplus commodity from U.S. against I.O.U. on the part of the U.A.R. government. As to intermediate operations they are no more than a book keeping process which has no bearing on either economic development or rate of investment. The same is true of loans advanced to private firms which would have undertaken the investment in question anyway.

Fourth Case : LOANS TO GOVERNMENT OR LOCAL FIRMS TO FINANCE INVESTMENT WHICH OTHERWISE WOULD NOT HAVE TAKEN PLACE :

The assumption is that the U.S. government or the Export-Import Bank, as the case may be persuades the U.A.R. government or some local firm that a certain project, not included in the development plan, is investment-worthy. The project is thereupon financed out of counterpart funds deposited against the importation in the same year of a surplus commodity. The case looks as if the counterpart funds have finally contributed towards stepping up the rate of investment. On scrutiny, however, we find that this is illusory. Clearly; the importation of wheat under PL 480, not the counterpart funds, makes possible an increase in current consumption at a given rate of investment, or, an increase in the rate of investment at a given level of consumption. Let us suppose that planning authorities are over anxious to maintain the highest possible level of investment. Taking into account wheat available under PL 480, they fix a rate of investment higher than would have been otherwise possible; given the level of consumption. But the U.S. government succeeds in persuading the planning authorities to finance an extra project not incorporated in the planned rate of investment. The main point here is that it makes no difference whether the extra project is financed out of counterpart funds, or, for example, the outright issue of new currency by the central bank of the recipient country. In either case the increased rate of investment can only take place at the expense of current consumption. To argue differently would imply a sort of double counting; namely, that the rate of investment could be increased one time through the importation of wheat, a second time through currency arising from that importation.

It can be thus concluded that loans out of counterpart funds, even if used to finance projects not included in the plan, do not in themselves make possible a higher rate of investment. Additional investment financed by the counterpart funds will have its full impact on the economy in the form of reduced consumption and inflationary pressure.

"In Greece and later in Turkey", says Harlan Cleveland, "we imported a made-in-America inflation by acquiescing in a volume of welfare projects (Greece), industrial development (Turkey), and military spending (both) which was quite out of line with what those underdeveloped economies can support. In Britain and Norway, which were pursuing a socialist policy of over full employment with a high level of investment, the question of using the counterpart for additional expenditures never seriously arose. Those sophisticated governments would simply inquire solicitously which of the items in their already approved budgets we would most like to tell Congress had been financed with the counterpart of American aid." (1)

27. To recall, we have concentrated so far on a model of "perfect disposal" where rates of expenditure of counterpart funds is equal to, and simultaneous with, the rate of delivery of surplus commodities. Let us take now a model of "perfect accumulation". It is assumed that surplus commodities are delivered and consumed, and local currency is deposited in U.S. account; all in a given year. In subsequent years no delivery of commodities takes place but only use of counterpart funds. On these assumptions the effect of the programme in the initial year would be deflationary or rather, in a country with a high rate of investment, anti-inflationary. As has just been pointed out, the programme would make possible a higher rate of investment or a higher rate of consumption than would otherwise have obtained. In subsequent years, however, the use of counterpart funds would be inflationary no matter for what use they would be put. Whether they are used by U.S. government to pay its obligations or buy strategic materials or as grants to local persons or institutions, or used in loans by the Export-Import Bank to American or local firms, or in loans to government of the recipient country; in all cases the use of counterpart funds will be inflationary. Evidently; this effect will be mitigated or offset in as much as :

(a) The recipient country reduces the rate of investment pari passu the release of counterpart funds.

(b) The recipient country stockpiles the surplus commodities or part of them in the initial year, and unloads in subsequent years at a rate commensurate with rate of use in counterpart funds.

(1) "The Convalescence of Foreign Aid", American Economic Review (Papers and Proceedings), May 1959, p 225.

(c) The U.S. government, and the Export-Import Bank abstain from using the funds or use them at such moderate rate as not to have any appreciable effects.

It must be remembered, however, that agreements concluded on the use of funds stipulate that they will not be used in loans by Export-Import Bank or to the government of the recipient country unless conditions are mutually agreeable. But this provision, as was pointed out before, does not apply to the part allocated for use by U.S. government. Nor does it apply to other parts after expiry of a specified period. Moreover; there is always the real danger that both parties act as if counterpart funds were real resources which could be freely used in any subsequent year irrespective of whether or not they are matched by current deliveries of surplus commodities.

The model of perfect accumulation is highly relevant in assessing the impact of counterpart funds. Not that it is applicable in toto to any situation. But in most cases counterpart funds tend to accumulate. This takes place on account of successive deliveries of surplus commodities coupled with a slack rate of fund disposal. Beyond a certain point the U.S. government will realise that the unleading of surplus commodities in America is offset by a mountingload of local currencies in less developed countries. This will generate a pressure to slacken the rate of delivery of surplus commodities, and step up the rate of using the counterpart funds. Under the illusion that grants and loans will promote economic development, the U.S. government may have no compunction in using the funds. The recipient country, on the other hand, lured by seemingly god-sent money, may acquiesce in the process. The consequence may be inflationary tendencies which jeopardise the very cause both parties wish to serve. It is therefore necessary that, as a general rule and with due regard to current level of investment, the use of funds in any year should be geared to current deliveries of surplus commodities irrespective of the size of previous accumulation.

28. The preceding analysis has endeavoured to outline the nature and effects of programmes carried out under PL 480 (Title II). As to the nature the findings of this study can be summed up as follows:

(a) The part used by U.S. government to pay American obligations abroad, buy strategic materials or finance operations of various American departments and organisations, is quid pro quo operation in which American surplus commodities are exchanged for local goods and services. This portion of counterpart implies no aid and makes no contribution to economic development.

(b) The part used by U.S. government as grants to local institutions or persons is aid; but it is inferior to dollar donations since it is tied as to country, type of commodity, and project financed.

(c) The part used in loans by Export-Import Bank to American firms results in loss of dollars which would have accrued to less developed country. Alternatively; it is unlikely that it would induce American firms to invest in those countries.

(d) The part used in loans to local firms or government is fundamentally an export of American surplus commodities to less developed countries on long-term credit. Alternatively it may generate inflationary pressure.

It can be thus concluded that the aid component of the programme consists of tied grants referred to in (b), which certainly account for a tiny fraction of counterpart funds. Moreover, there is an element of aid in export of surplus commodities on longterm credit. It makes possible an increase in current consumption or current investment. This aspect may well be the essence of Public Law 480.

As to the effects attending the use of counterpart funds the real danger lies in the inflationary pressure they may generate if used without due regard to the rate of delivery of surplus agricultural commodities. In any given year the stream of out-going counterpart funds should be matched by a stream of incoming surplus commodities. Otherwise the use of funds will be inflationary, subject to reservations previously mentioned. The main point is that counterpart funds are not real resources which could be mobilised to step up the rate of investment. Real resources consist of commodities delivered, not of funds accumulated.

The government of the United States is faced with the thorny problem of farm surplus. Public Law 480 was designed as a measure to make the maximum efficient use of that surplus for its own benefit and for the benefit of less developed countries. The result was a curious combination of aid and trade. But the trade element seems to be preponderant.

There can be no doubt that a reconsideration of Public Law 480 is called for if it is to serve the purpose of promoting economic development. The real aid elements will have to be given greater weight whether in the provisions or in the administration of the Law. Furthermore; the law should not have the effect of reducing the dollar earnings of the less developed countries, such as might have accrued to them on account of U.S. government purchases of local materials and services, or payment of obligations. The same is true of dollars which might have been earned on account of direct investment by American firms.

Last, but not least, the use of counterpart funds in local loans should not be deemed as aid, nor should they be regarded as a substitute for other forms of aid.

B - Egyptian - American Rural
Improvement Service
(EARIS)

29. In March 1953 the Egyptian and American governments entered into a programme agreement for land reclamation, community development, and rural rehabilitation in two provinces; Behera near Alexandria, and Fayoum some 100 Kilometers from Cairo. To carry out this programme a special organisation, jointly managed and financed by the two governments, was set up with the name "Egyptian American Rural Improvement Service". The main objectives of this programme as states in the agreement are :

- a - The reclamation of approximately 80,000 feddans of new land.
- b - The construction and development of improved housing and community facilities.
- c - The resettlement of approximately 16,000 landless farm families on reclaimed land.
- d - Financial and other assistance to farm co-operatives.
- e - Demonstration of improved water conservation and management practices and the extension of irrigation, drainage and transportation means to new lands and lands now under cultivation.
- f - The establishment of vocational schools and environment training of farm youth in the fundamentals of scientific agriculture and irrigation practices.
- g - The provision of agricultural extension and demonstration services.
- h - The improvement of the marketing and processing of farm produce.
- i - Improvement of the standard of public health through the environment; sanitation services, training and health education.
- j - Aid in the development of small industries and handicrafts.
- k - The improvement and development of farms to market road system.
- l - Such other related activities as the Co-Directors may agree upon as being essential for the success of this demonstration in community development and rural rehabilitation.

The Egyptian American Rural Improvement Service is an agency of the Egyptian Government, and directed by two Co-Directors, the Egyptian, who at the beginning was the General Minister of Agriculture and Agrarian Reform and one American.

In the project agreement, it was agreed upon that the Government of Egypt deposits, in the credit of EARIS, the sum of L.E. 5,450,000 and that the United State Government makes available for EARIS, the sum of 10 m. dollars. These two deposits are to be made in such installments and at such times as the two Co-Directors deem appropriate.

30. This program embraced the forthcoming 16 project agreements which were duly signed by the two Governments.

EARIS ADMINISTRATION

The object of this project is to establish an administrative organization that will provide essential direction and support in the implementation of various projects undertaken by EARIS for the attainment of the objectives of the agreement for a co-operative program of Community Development and rural rehabilitation in the Egyptian Provinces of Behera and Fayoum. Funds allocated for the execution of this project amounted to L.E. 233,990 of which L.E. 198,020 were paid by the Egyptian Government and L.E. 35,970 were deposited by the United States Government.

SOIL AND LAND CLASSIFICATION SURVEY

This project was initiated to provide an evaluation inventory of the land resources of about 60,000 feddans for which irrigation and drainage works are being constructed. Thus it would be possible to furnish basis for estimating the length of time required for land reclamation and development. For this purpose L.E. 2800 were allocated from which the share of the Government of Egypt was L.E. 1,680, and the United States was L.E. 1,120 (3,225 dollars).

MAJOR WORKS FOR EARIS ABIS AREA.

This project provides for the design, construction, operation and maintenance of all the main canals, drains and pumping stations required for the reclamation of Abis area. From the funds made available by the two Governments for EARIS, L.E. 707,500 were allocated for the execution of this project. Of this sum, L.E. 428,500 were paid by the Egyptian Government and L.E. 279,000 (800,970 dollars) by the American Government.

LAND RECLAMATION, DEVELOPMENT OF EARIS ABIS AREA

This project provides for all reclamation activities in Abis area including uprooting and removal of Bamboo grass rhizomes, coarse levelling, excavation of first, second & third grade canals and drains, pumping stations and related facilities required to make feasible the irrigation of the area, and cultivation of the land until it is ready to receive the settlers. For this purpose L.E. 2028396 were allocated, of which L.E. 1,217,037 were paid by the Egyptian Government and L.E. 811,359 (\$2,337,068) were deposited by the United States Government.

VILLAGE NO. 1 OF EARIS.

This project provides for the construction of buildings and community facilities and public utilities for the first village. For this purpose, L.E. 240,000 were allotted of which 144,000 were paid by the Egyptian Government and L.E. 96,000 (\$ 276,825) by the United States Government.

MAJOR WORKS FOR EARIS QUOTA AREA.

This project was made to provide for the construction of drains and canals needed to bring Quota area under cultivation. For this purpose the two Governments allocated L.E. 300,000, of which the Egyptian Government paid L.E. 180,000 and the American Government L.E. 120,000(\$354,6662).

HEAVY EQUIPMENT AGREEMENT.

This project provides for the purpose of heavy EQUIPMENT, needed, in EARIS area, for coarse and fine levelling. The money allocated for this project amounts to L.E. 134,5000 of which L.E. 80,700 were paid by the Egyptian Government and L.E. 53,800 (\$ 154,940) were deposited by the United States Government.

CONSTRUCTION OF ROADS.

This project provides for the construction of roads needed for Abis area. The fund allocated by the two Governments for the execution of this project amounts to L.E. 220, of which 132,000 were paid by the Egyptian Government and L.E. 88,000 (\$ 253,440) by the United States Government.

LAND RECLAMATION AND DEVELOPMENT FOR EARIS QUOTA AREA.

This project provides for all reclamation processes that bring Quota area under cultivation, covering coarse and fine levelling, canal lining flooding and cropping for two years. The fund allocated for this project amounts to L.E. 840,000 of which L.E. 504,084 are paid by the Egyptian Government and L.E. 335,916 (\$ 967,842) by the United States Government.

GRANTS TO THE SETTLERS.

This project provides a means of subsistence to the families settled in Abis first village in the Behera province by means of a grant of L.E. 5 per month to each settler family for a period of six consecutive months following their settlement. For this purpose L.E. 8160 pounds were provided of which L.E. 4,896 were allocated by the Egyptian Government and L.E. 3264 (\$ 9422) by the United States Government.

LAND RECLAMATION AND DEVELOPMENT OF KOM OSHIM AREA.

This projects provides for all steps necessary for reclamation of Kom Oshim area including levelling and lining of main canal & flooding. For this project L.E. 444,723 were allocated of which L.E. 266,833 were paid by the Egyptian Government and L.E. 177,890 (\$ 512,412) by the United States Government.

MAJOR WORKS FOR EARIS KOM OSHIM AREA.

This project provides for the design, construction operation and maintenance of the canals and drains needed in reclamation processes in Kom Oshim area. For this purpose L.E. 180,000 were allocated of which L.E. 108,000 were paid by the Egyptian Government and L.E. 72,000 (\$ 207,397) by the United States Government.

ROADS FOR KOM OSHIM.

This project provides for the design, construction, operation and maintenance of a roads net-work for Kom Oshim area. The two Governments agreed to deposit L.E. 25,000 of which L.E. 15,000 by the Egyptian Government and L.E. 10,000 (\$ 28,807) by the American Government.

VILLAGES IN EARIS AREA IN FAYOUM.

This project provides for the construction of two villages in Quota area and one in Kom Oshim area. The fund allocated for this purpose amounts to L.E. 960,000, of which 576,000 were paid by the Egyptian Government and L.E. 384,000 (1,106,117) by the United States Government.

ROADS FOR EARIS QUOTA AREA.

This project provides for the design, construction, operation and maintenance of roads net-work in Quota area. The total amount allocated for this project is L.E. 100,000 of which L.E. 60,000 were paid by the Egyptian Government and L.E. 40,000 (\$ 115,221) by the American Government.

VILLAGES FOR EARIS ABIS AREA.

This project provides for the construction of buildings, community facilities and public utilities in 8 villages in Abis area. The total allocation of the two Governments amounts to L.E. 2,124,000, of which L.E. 1,274,400 were paid by the Egyptian Government and L.E. 849,600 (\$ 2,447,286) by the United States Government.

31. The funds allocated by the two Governments for the execution of the program amounted to L.E. 8,850,000 of which L.E. 5,400,000 were the contribution of the Government of Egypt. And \$ 10,000,000 were that of the U.S. Government. Of Behera province, Abis Area was selected for the reclamation processes to take place. Acreage thereof is about 24000 feddans, almost marshy land of Fayoum province, Quota and Kom Oshim areas of desert soil. Acreage thereof is 6000 feddans and 3500 feddans selected for the same purpose.

These two areas, together with Abis make a total acreage of 33500 feddans. In conformity with the original agreement, eight modern villages were to be constructed in Abis, two in Quota and one in Kom Oshim. Further to land reclamation, village construction and community development, road paving and potable water supply were taken care of.

Four years later, upon reclamation and development having been in full swing and production reaching about 70% according to " EARIS " experts pre-estimation, the land was to be distributed at five feddan plots among the settlers selected, from other villages. In addition to the five feddans, there goes a house comprising two rooms, a bathroom, a yard, and a stable with separate entrance. Each village holds about 500 farmer houses, a modern school, a hospital, a social centre with club and a mosque.

Reclamation in Abis covered the entire area, of which about 13,000 fedds. were cropped. Two villages, comprising 910 farmer houses have been completed and about 600 families, settled. They were given the title deeds, and adapted themselves to the new environment. They were professional farmers brought in from Menofia province, which is some 40 kilometers north of Cairo, from neighboring five villages.

Prior to final selection, the settlers economic status was studied as well as health state which was examined with great care, and those unfit were excluded.

About 3000 feddans in Quota area are ready to receive new settlers. Village construction in this area is in progress. As soon as the Village is completed, procedures for selecting settlers from the neighboring provinces will be duly taken. In Kom Oshim, the major works have started

V

SOVIET AND OTHER SOURCES
OF AID

32. Soviet economic assistance to U.A.R. came into being in January 1958 after the conclusion of an agreement on economic and technical co-operation. In virtue of this agreement the Soviet Union extended to U.A.R. credit facilities to the amount of 700 million roubles for the purpose of covering part of the cost of, and furnishing technical assistance required for, the Industrialization Plan of U.A.R.

The Second major aid operation undertaken by the Soviet Union was the financing of the first stage in the construction of the High Dam. According to an agreement signed in December 1958 the Soviet Union extended credit facilities to the tune of 400 million roubles.

The third basic agreement on economic and technical aid was signed in August 1960 for the purpose of financing the second stage in the construction of High Dam. Under this agreement the Soviet Union undertook to provide credit facilities to the amount of 900 million roubles.

Thus, apart from military aid, total credit facilities accorded by the Soviet Union to U.A.R. amounted to 2000 million roubles or 500 million dollars at the rate of exchange of four roubles to the dollar. (1) Table 6 sums up the Soviet programme of aid

TABLE VI
Soviet Credit Facilities to U.A.R.

Type of Agreement	Value in Million Roubles	Value in Million LE	Value in Million d.
a) Industrialization	700	60.9	175
b) First stage of High Dam	400	34.8	100
c) Second stage of High Dam	900	78.3	225
Total	2000	174.0	500

33. It is important to realize that these figures refer to credit

- (1) The rate of conversion between the rouble and the dollar gives rise to some problems if one wants to arrive at a more realistic estimation of Soviet aid in terms of the dollar. The rate of four roubles

facilities. They merely indicate the amount of aid committed but not the amount of aid delivered. In this case, as indeed in all cases of credit facilities, it is essential to keep in mind the distinction between commitment, contracting, and actual delivery. The three basic agreements provide a framework within which individual contracts for specific projects could be concluded. Actual delivery is dependent upon the number and value of contracts under each agreement.

The industrialization agreement (1) stipulates in article six that credit shall be utilized during the period of four years from the date of entry into force i.e. from January 29th, 1956. The rate of utilization up to 11/3/1961 was as follows

million L.E.

26.5	value of contracts actually concluded
8.0	value of contracts under negotiation
20.8	value of contracts proposed for negotiation
5.6	value unutilized.
<hr/> 60.9	Total

According to the first agreement on the High Dam the utilization of credit facilities should not be later than January 1964. On 11/3/1961 the value of contracts actually concluded amounted to L.E. 7.5 millions.

The second stage of the High Dam is scheduled to start after 1965. In consequence credit facilities provided by the second High Dam agreement have not yet been utilized. (2)

The over all position is shown in the following table:

to the dollars is based upon the gold parities of the two currencies before the recent revaluation of the rouble. According to Billerbeck a more realistic rate of exchange would be six or seven roubles to the dollar (See K. Billerbeck: Soviet Block Foreign Aid to underdeveloped countries, Hamburg Archives of World Economy, 1960 p.50). However; we shall adopt the official rates of exchange since they were explicitly stated in the agreement which, moreover, provided in article six that "Should the gold parity of the rouble change before the full utilization of the credit., the balance of the credit will be adjusted accordingly so as to assure that the Gold value of the balance will remain the same."

(1) Appendix 2

(2) Report of the Minister of Finance on 1961-1962 budget.

Table VII
Rate of Utilization of
Soviet Credit Facilities
(11/3/1961)

Type of Agreement	Value of Credit Faci- lities (m. dollars)	Value of Credit Uti- lized (m. dollars)	Rate of Utilization %
a) Industrialization	175	76.0	43.4
b) First Stage of High Dam	100	21.5	21.4
c) Second Stage of High Dam	225	-	00.0
Total	500	97.5	19.5

According to this table about one fifth of total credit facilities were actually utilized up to 11/3/1961. This is not to say that there is tardiness in the implementation of aid agreements on either side. In the nature of things the second High Dam agreement will have to remain as a simple commitment until the second stage in the construction of the High Dam commences after 1965. It is also to be expected that the rate of utilization of credit facilities under the other two basic agreements should be slow in the early stages. The preparation and finalization of contracts for industrial enterprises as well as preparatory work and research for a huge enterprise such as the High Dam are understandably time-consuming processes. Once this initial stage is left behind the rate of utilization could be stepped up to compensate for previous delays.

A - The Industrialization Programme

34. Under the industrialization agreement the Soviet Union Undertook to co-operate with the Egyptian government in carrying out plans for national economic development in geological work, mining, oil exploration and oil products, metallurgical, engineering, electric, chemical, textile, food, pharmaceutical and light industries. Co-operation may take the form of establishing new industrial enterprises as well as extending the productive capacities of already established ones or adapting them to manufacture new products. In carrying out this task the

Soviet Union undertook to :

1) Fulfil projecting work to the extent agreed upon by the two parties.

2) Deliver machinery and equipment with standard set of spare parts for industrial enterprises as well as some materials which are not available in U.A.R. and are needed for establishing the said enterprises.

3) Render technical assistance in :

- a - Selecting the construction sites.
- b - Collecting the initial data necessary for projecting work.
- c - Establishing the industrial enterprises by author's inspection and advice.
- d - Mounting of machinery and equipment.
- e - Adjustment of equipment and putting these enterprises into operation.
- f - Reaching projected capacities of the industrial enterprises.
- g - Carrying out geological and exploration work.
- h - The proper training, (practical and theoretical) of the Egyptian specialists for the said enterprises whether in Egypt or in U.S.S.R. This includes training on processes and operations of machinery and equipment.

4) Render technical assistance in organizing the training of skilled personnel for Egyptian industry and, for this purpose, work out and hand over to the Egyptian nationals, as well as detail to Egypt instructors for assistance in training.

The number of Soviet specialists to be sent to Egypt, their specialities, periods, and conditions of their assignment as well as the number of Egyptian personnel to be received in the U.S.S.R. for training, their training periods and other terms and conditions to be mutually agreed upon in each case.

At the same time the Egyptian government undertook to hand over, on dates to be mutually agreed upon, to Soviet organizations all initial data necessary for designing the industrial enterprise, to design and execute all building work and auxiliary services, to install the machines and equipment, and to provide all the necessary public utilities.

35. In two annexes attached to the agreement the industrial enterprises to be established or extended were specified. They cover a wide range of industries as can be seen from the following table indicating the type of enterprise, the value of contracts and the rate of delivery on 30/9/1961.

Table VIII
Distribution of Soviet Aid Between Industrial Sectors (thousand Dollars)
30/9/1961

Type	Value of Contracts		Total Value of Contracts	Delivery		Total Delivery	Rate of Delivery as % of Total contract
	Technical Assistance	Equipments		Technical Assistance	Equipments		
Petroleum	1,955	23,452	25,407	1,090	14,653	15,743	61.8
Mining	134	3,443	3,577	99	3,359	3,458	96.7
Food	48	1,681	1,729	18	1,125	1,143	66.1
Textiles	-	2,753	2,753	-	2,748	2,748	99.8
Chemicals	1,378	11,088	12,466	872	4,105	4,977	39.9
Engineering	2,952	20,774	23,726	722	2,904	3,626	15.3
Metallurgy	1,004	7,274	8,278	768	2,208	2,976	36.0
Training	33	1,621	1,654	33	1,621	1,654	100.0
TOTAL	7,504	72,086	72,590	3,602	32,723	36,325	45.6

Source : Organisation for the Implementation
of Industrial Five Year Plan.

According to this table the value of equipment delivered and technical assistance furnished was 36.3 m. dollars out of 79.5 million dollars or 45.6% of total value of contracts concluded under the industrialization agreement. It is to be recalled that this agreement provided credit facilities to the amount of 175 million dollars. In other words actual delivery up to 30/9/1961 was only about one fifth of credit facilities. However, it is clear from table 8 that the rate of delivery varied a great deal from one industry to another. It was over 90% of the value of contracts in textiles, mining, and training. It was poorest in the engineering, metallurgy, and chemicals ranging as it was between 15% and 39%. On the other hand Soviet aid to industry is characterised by coverage of a broad front with special emphasis on heavy capital goods industries. Arranged in descending order according to the value of contracts the picture would be as follows:

	value of contract in m. dollars	% of total
Petroleum	25.4	32.1
Engineering	23.7	30.0
Chemicals	12.4	15.6
Metallurgy	8.2	10.3
Mining	3.5	4.4
Textiles	2.7	3.4
Food	1.7	2.2
Training	1.6	2.0
Total	79.2	100.0

Thus the top four industries are petroleum, engineering, chemicals, and metallurgy accounting for 88% of total value of contracts. The light consumers' goods industries are represented by food and textiles accounting for a mere 5.6%. This distribution stands out in stark contrast with American aid to industry. Of course one should keep in mind the efficiency aspect of the various industries. Unfortunately, no data are available to indicate the level of efficiency in capital goods industries as compared with others. Neither is there any reference in the industrialization agreement as to the prospective cost-price relationships. The obligation of the Soviet Union is limited to the establishment and technical operation of industrial enterprises. It is left to the Egyptian side to worry about the economic operation.

In the Soviet system of aid technical assistance is furnished as an integral part of financial aid in connection with the establishment and operation of a given enterprise.

Table 8 indicates that in the contract stage as well as in the delivery stage technical assistance accounts for roughly 10% of the total amount of aid.

B - The High Dam.

36. However, the most important single aid operation undertaken by the Soviet Union is the financing of the High Dam. For contemporary Egypt the High Dam is not merely a project. It is almost a symbol. Herodotus rightly observed that Egypt is the gift of the Nile. It is a "hydraulic civilization" in the full sense of the word. Being a narrow strip of green squeezed in by the merciless desert on both sides, Egypt has looked upon the Nile as the artery of its lifeblood. Year in and year out the land is nourished and nurtured by the Nile. Thanks to its water it was literally snatched from the desert and made to sustain life and civilization for thousands of years. No wonder the Egyptian dream, if ever was one, has always been to loosen the iron grip of the desert and push outward the frontier of living space. But this is only feasible with the co-operation of the Majestic Nile. If only, so the dream runs, we can make use of every single drop of the precious water. To see the water of the Nile running into the Mediterranean is to see life running into waste.

With the advent of the age of science the dream entered the realm of practicability. Since the early part of the 19th century Egyptian policy has revolved around the gradual and progressive control of the Nile. This period witnessed the rise of a chain of dams and barrages throughout the length and breadth of the Valley. Nevertheless; the Nile is too great to be brought to complete submission. Out of a total yearly flow of 84 billion cubic meters, Egypt and the Sudan, whose problems are not unlike those of Egypt, were able to make use of 52 billion meters, leaving unutilized 32 billions or about 38% of total flow.

It was only through a project such as the High Dam designed on a scale so grand as to dwarf previous endeavours that almost complete control came within reach.

37. According to official reports the High Dam will have far-reaching effects on the Egyptian economy :

a - Irrigation water supply.

The age-old problem of Egyptian agriculture is not only a limited supply of irrigation water, but no less important, is the sharp fluctuation in the Nile flow during the critical off-flood period extending from February to July. Requirements of irrigation water during this period are about 22 billion cubic meters. The Nile flow, however, fluctuates between 36 billions in the highest flood year and 7 billions in the lowest with a possible deficit of 15 billions or two thirds of basic requirements. Such a deficit is much more than can be coped with through existent dams. The High Dam marks a shift in the technique of water

storage from a system based on annual storage and, therefore, dependent upon the level of annual flow to a system of permanent storage which can be drawn upon to compensate the ups and downs in Nile flow. This will be effected through the creation of a vast lake behind the High Dam with a holding capacity of 130 billion meters.

Moreover, the High Dam will make possible the full utilization of flood water. As has already been mentioned 32 billion meters are presently running to waste. These will be held by the Dam. Allowing for 10 billion meters in seepage and evaporation the net additional yield will be 22 billions. According to the agreement signed in 1959 between Egypt and Sudan the additional supply will be shared on the basis of 14.5 billion to Sudan and 7.5 billions to Egypt. The original pre-High Dam Water supply was distributed between the two countries according to the 1929 agreement on the basis of 4 billion meters to Sudan, and 48 billions to Egypt. Thus the overall water distribution will be as follows:

	billion meters
Egypt	55.5
Sudan	18.5
	<hr/>
Total	84.0

The net increase in water supply will be 15.6% for Egypt, and 337.5% for the Sudan. (1)

b - Agricultural Resources.

The High Dam will make possible an increase in the cultivated area by 1.3 million acres i.e. 23% of total cultivated area. Moreover, about three quarters of a million acres in Upper Egypt are presently under a system of basin irrigation which does not permit raising more than one crop a year. After the High Dam this area will be converted from basin to perennial irrigation doubling thereby the productivity of land. The increase in water supply will, furthermore, appreciably increase the area under rice and will make possible the diversification of Egyptian agriculture by giving more room for fruits and vegetables.

-
- (1) It is to be noted that the Sudan does not share in the cost of building High Dam. Yet it was given the lion's share in the additional water supply. Moreover; it was awarded an indemnity of L.E. 15 millions for the flooding of 150 kilometers along the Nile banks in Sudanese territory.

c - Electricity Supply.

In view of the fact that Egypt does not seem to be well endowed with coal or oil resources, electric power is vital to the economic development of the country; all the more so when the country is embarking upon a policy of large-scale industrialization. In spite of sustained efforts to increase the supply of electric power Egyptian industry is seriously handicapped by the dearth of this major source. Between 1952 and 1960 the output of electric power increased from 992 to 2940 million kilowatt-hour i.e. about threefold increase. But this is far from meeting the growing needs of rapid industrialization. The High Dam will give teeth to Egyptian industry by the generation of ample electric power at cheap rates. It is estimated that the electric power station to be established in conjunction with the High Dam will yield 10,000 million kilowatt-hour or more than triple total generating capacity in 1960. As a by-product of this project it will be possible to electrify the countryside with far-reaching economic and social consequences.

d - The National Income.

In 1960/1961 the National income of Egypt stood at about L.E. 1364 millions (3.9 billion dollars). It is expected that the High Dam will make a contribution of L.E. 255 millions or 18.7% of the national income in 1960/61.

This figure is based on the following estimates:

million L. E.

84	due to increase in cultivated area and introduction of perennial irrigation.
56	due to increase in rice cultivation and to ensuring regular water supply.
10	due to flood control.
5	due to improved river navigability.
100	due to increased electricity supply.

255

Total increase.

At the same time government revenue is expected to increase by L.E. 23 millions distributed as follows:

million L. E.

10	increase in tax yield
2.5	increase in revenue from improved river navigation and reduced expenditure on precautions against floods.
10.5	increase in revenue from electricity consumption.

23

Total Increase.

38. From the viewpoint of the relationship between the aid-giving and aid-receiving countries the story of financing the High Dam is highly relevant. It is an excellent illustration of the interplay between power politics and foreign assistance. Since the later part of 1952 the Egyptian government began to study in earnest the technical feasibility and economic desirability of the High Dam project. For this purpose the government enlisted the services of the best known international engineering houses which, in co-operation with Egyptian irrigation and construction experts, prepared the final blueprints of the project. Over one million Egyptian pounds went into aerial surveys, soil analysis, topographic, geological and hydraulic studies on the site. This preliminary stage took close to three years.

In the middle of 1955 the Egyptian government, having prepared the project as a practical proposition, began looking around for financing the foreign currency requirements. Negotiations were opened with the American and the British governments. It may be recalled that at that time the neutralist policy of Egypt began to take definite shape. The Czech arms deal was an accomplished fact and so was Egypt's determined opposition to Baghdad Pact. That was also the hey day of Dullesian policy of "brinkmanship", defense pacts, and antineutralism. Thus negotiations for financing the High Dam were conducted when Egyptian-Western relations were at a low ebb. However, The American and British governments came out with a declaration expressing their willingness to finance the project. The total cost was estimated at 1200 million dollars including about 400 million dollars foreign currency requirements. It was reported that the World Bank would extend a loan of 200 million dollars, while the American and British governments would cover the remaining 200 million dollars in the proportion of 70% and 30% respectively. As a first instalment the two governments offered 70 million dollars pointing out that owing to budget rules they were not in a position to commit themselves except on a year-to-year basis. This was not accepted by the Egyptian government. It was pointed out that such contribution is insubstantial considering total requirements. Moreover, the Egyptian government was not prepared to go ahead with such a costly project without firm commitments as to future contributions. Otherwise it would be left vulnerable to undue political pressures.

The fears of the Egyptian government that it was about to be tricked into a corner found justification in the debates that took place in Congress and the House of Commons, not to mention the campaign of insinuation that roared in Western press. Nor was the situation made any easier by the tirade of vague and exasperating pronouncements on the part of the Foreign Secretary of U.S. The capacity of the Egyptian economy to honour its foreign debts was called into question. It was mentioned that cotton, the principal export article, was pawned for years to come to pay for the Czech arms deals. Southern Congressmen expressed their fear that the construction of the High Dam would appreciably increase

cotton acreage with dire consequences to their economy. Last, but not least, the Israeli-Arab conflict was invoked as an argument against American participation in a project that might upset the precarious balance of powers in the area. In a presidential election year this argument was not lost on the Administration. Officially the American and British governments took the position that the High Dam involves vital interests to all African countries in the Nile Basin. Accordingly, the Egyptian government was expected to secure the consent not only of the Sudan, whose interest was recognised, but also of Abyssinia and Uganda who heretofore were never concerned with the Nile Water. Under these circumstances the Egyptian government became convinced that the American-British offer was not serious. As she saw it the two governments kept raising difficulties in the way. She was made to understand that such difficulties would vanish overnight if she was willing to reconsider its neutralist policy and attitude towards the Baghdad Pact; which she was not. Thus the stage was set for the withdrawal of America from financing the project. That was officially announced on July 19th, 1956.

To make matters still more obscure the World Bank pronounced itself in favour of the project few days before the American withdrawal. According to Egyptian sources the Bank was willing to extend a loan of 200 million dollars spread over five years. However, this participation was subject to the following conditions.

a - That Egypt's foreign currency resources from American-British sources would continue.

b - That the Egyptian government would maintain periodic consultation with the Bank on its investment programme.

c - That the Egyptian government would recognise the need for a more stringent control over public expenditure.

d - That the Egyptian government would not contract foreign debts in the future nor sign trade and payment agreements except after consultation with the Bank.

e - That the Egyptian government would come to an agreement with the Sudan on the water question.

The Egyptian government was not in a position to accept such terms. Neither was she constrained to do so in view of the offer made by the Soviet Union to lend its financial support to the High Dam with no strings attached. Accordingly negotiations with the Soviet Union started in 1957 which led to the signing of the first High Dam Agreement on December 27th, 1958.

It is common knowledge that the withdrawal of the West from financing

the High Dam provoked the nationalization of Suez Canal. This act released a chain of events culminating in the British-French attack on Egypt in October 1956.

39. As has been mentioned the total cost of the High Dam is estimated at L.E. 406 millions (about 1200 m. Dollars). The first stage is expected to Cost L.E. 214 millions distributed as follows:

L.E. Millions

31	Construction works
5	Preparatory work
15	Indemnities to Sudan
25	Conversion of 700,000 acres from basin to perennial irrigation.
33	Agricultural expansion
70	Land reclamation of one million acres
10	Public utilities
25	Housing
<hr/>	
214	Total

The second stage is expected to cost L.E. 192 millions distributed as follows :

L.E. Millions

62	Construction works
2	Preparatory work
16	Turbines
24.5	Six Basic Electric transmission lines to Cairo
17	Subsidiary electric transmission lines
27	Land reclamation of 300,000 acres
27	Agricultural expansion
9	Public utilities
7.5	Housing
<hr/>	
192	Total

This distribution shows that the total cost of L.E. 406 millions covers not only the construction of the Dam itself with its electric generating station but also the works connected with it including land reclamation, public utilities and the like. The cost of the works on the site is estimated at L.E. 204 millions.

The contribution of the Soviet Union in both stages would be as follows :

Table IX
Soviet Contribution to the
Cost of the High Dam

	Total Cost £. millions	Soviet Contrib. £. millions	Soviet Contrib. as % of total cost
First stage	214	34.8	16.2
Second stage	192	78.3	40.8
Total	406	113.1	27.8

Soviet contribution amounts thus to 27.8% of total cost of the High Dam and connected works, in the first stage it is 16.2% of total cost rising to 40.8% in the second stage. Related to the cost of works on the site Soviet Contribution would be 55.4%.

According to the first High Dam agreement the Soviet Union undertook to :

a - Prepare the work schedule as well as the necessary studies and projecting work to the extent agreed upon by the two parties. Alterations in the details of designs in accordance with hydraulic and other basic data provided by U.A.R. may be introduced with mutual agreement.

b - Deliver machinery and equipment with standard set of spare parts as well as materials necessary for the construction and operation of the first stage if they are not available in U.A.R.

c - Render technical assistance necessary and for that purpose will detail Soviet specialist as agreed upon by the two parties.

Article 4 provided that Soviet organizations will be responsible for the technical management of works involved in the construction and operation of the first stage as well as for the mounting and operation of machines and equipment. For that purpose Soviet organizations will detail a highly qualified technical expert together with the necessary number of staff of engineers, experts and skilled workers as agreed upon by the two parties.

The Egyptian party undertook to set up a special organization in charge of administrative, technical, and financial aspects. This organization will, moreover, supervise the work of subcontractors and provide

the necessary facilities and services.

In implementation of this provision the Egyptian government created the supreme commission for the High Dam vested with extensive powers to discharge its responsibilities. Later on the commission was transformed into the Ministry of the High Dam.

The second High Dam agreement specified in a similar fashion the obligations of both parties with special emphasis on the technical operations, equipments, materials and expert advice involved in constructing the electric power station and the transmission lines to Cairo.

The first stage of the High Dam is scheduled to be finished in 1964/1965, the second stage in 1969/1970.

40. Soviet aid to U.A.R., in conformity with the general Soviet policy of aid, is on a loan basis. The conditions under which credit facilities are used as well as rates of interest and duration and method of repayment are identical in the three basic agreements. The industrialization agreement of January 1958 may serve as a model in this respect.

It is laid down that a credit of seven hundred million roubles at the rate of $2\frac{1}{2}$ per cent per annum shall be utilized during the period of four years from the date of entry into force of the agreement to pay for :

a - Cost of equipment, and machinery as well as some materials not available in Egypt on the basis of F.O.B. prices Soviet ports.

b - Cost of projecting and geological and exploration work, as well as cost of preparation of plans and schemes for training of skilled personnel.

c - Actual expenses involved in the reproduction and handing over of technical documentation.

Prices of equipment, machinery, and materials delivered shall be based on world market prices.

As regards repayment it is stipulated that the Egyptian government shall repay parts of credit used for each industrial enterprise in 12 equal annual instalments one year from the date of completion of delivery from U.S.S.R. of complete equipment specified in corresponding contracts for each industrial enterprise. Repayment of principal and interest is effected by means of transferring of corresponding sums in Egyptian pounds to an account opened by the central Bank of Egypt in favour of the the State Bank of U.S.S.R.

Amounts transferred to this account will all be utilized by Soviet Organizations for purchase of Goods in Egypt in accordance with Trade and Payment Agreement in force between the two countries and/or may be freely converted into pounds sterling or any freely convertible currency which will be agreed upon between the two countries.

41. We are now in a position to compare Soviet with American aid to U.A.R. It is easy to see some basic differences between the two systems of aid :

a - Soviet aid is characterized by concentration on few basic projects whereas American aid is characterized by scatteration over a very wide range of projects. It is true that Soviet aid to the industrial development of Egypt is carried out in the form of contracts involving a large number of individual enterprises. As such it could be regarded as scattered. But the fact that these contracts stem from a single act, namely, the industrialization agreement, justifies the claim of concentration. The content, timing, and purpose of the Soviet aid agreements are calculated to have an impact and create an image in Egyptian mind. This is not attainable under a system spread over a wide area.

b - Soviet aid consists exclusively of producers' goods and services whereas American aid includes a large component of consumers' goods in the form of surplus agricultural commodities.

c - Soviet technical assistance is furnished as part and parcel of financial aid in connection with the establishment of a given enterprise whereas American technical assistance is offered in isolation. The only exception in the case of U.A.R. is the Egyptian - American Rural Improvement Service where financial and technical assistance are combined. Otherwise American technical assistance does not permit the supply of equipments or commodities except by way of teaching or demonstration.

d - In Soviet aid heavy industry is just as eligible for aid as, or even more eligible than, light industry. In American aid the cost-benefit calculation is more prominent with the consequence that it is highly selective and biased in favour of light and labour - intensive industries. When a decision is made to support the establishment of a given enterprise American aid is likely to be limited to the supply of necessary funds leaving the responsibility for actual construction and operation to the aid - receiving country. The standard practice in Soviet aid is to hand over the enterprise as a going concern.

e - Soviet aid is given on a loan basis whereas American aid includes a large component of grants and semi-grants. No doubt Soviet loans compare favourably with commercial loans or loans by " Export-Import Bank whether as regards rates of interest or terms of repayment. Compared,

however, with other types of American loans they are decidedly less favourable. Let us scrutinize somewhat closely the terms of Soviet loans.

The 2½ rate of interest is a definite advantage as compared with the standard 5½ or 6% charged by the Export - Import Bank of Washington or even the World Bank.

Obviously, however, such comparison is valid under the proviso that other things are being equal. The most important element in the ceteris paribus clause is the price at which Soviet equipments and materials are supplied to the aid-receiving country. Should Soviet prices be somewhat higher than elsewhere price differentials may be sufficient to offset the advantage in interest rates. In fact an edge of 10% difference in price is ample to cover Soviet suppliers. The aid-receiving country is supposedly protected against this possibility by the provision that Soviet equipments and materials will be supplied at prices ruling in world markets. This is right in the case of standardized materials such as staple commodities or metal ores. But there is no such a thing as a world market for machines and equipments. Instead we have a bewildering variety of brands and trade marks each one of which has a price of its own.

It is of course possible to reduce a certain machine to a common denominator in terms of horse-power or performance ratios. Even though; an important residual remains which cannot be covered by such calculations. Evidently; there is no reason to assume that Soviet prices are higher than prices elsewhere. But the possibility remains.

As regards repayment Soviet loans will be repaid in Egyptian commodities and/or pound sterling or freely convertible currency. According to the wording of this crucial provision it seems that the Soviet Union reserves the option to decide whether repayment will be made in Egyptian goods or in convertible currency. Article 8 of the industrialization agreement seems to confirm this interpretation by stating that

" Amounts transferred to this account will be utilized by Soviet Organizations for purchase of Goods in Egypt.... and/or may be freely converted into pounds sterling or any freely convertible currency which will be agreed upon between the two Governments."

The operative clause in this article is " and/or may be freely converted " which places no restraint on the right of Soviet organizations to choose between either method of repayment. The agreement of the two governments mentioned at the end of the above quotation seems to refer to the kind of convertible currency to be chosen whether it will be sterling or dollars or what not.

Should Soviet organizations favour repayment in convertible currency the loan would be, in this respect, as hard as any commercial loan. The

situation would be different if the option is exercised in favour of Egyptian commodities. However, a distinction should be drawn between two cases:

a - When goods taken in repayment are over and above current Soviet demand for Egyptian exports. In this case repayment would be trade creating; Egyptian exports to the Soviet Union would expand proportionately. No burden on the Egyptian economy would be involved in servicing Soviet debts.

b - When goods taken in repayment are part of current Soviet demand for Egyptian exports. In this case repayment would be trade displacing. The volume of Egyptian exports to the Soviet Union would remain at the pre-repayment level. To maintain its earnings of foreign currency Egypt would have in this assumption to expand exports to alternative markets to the extent of instalments falling due. The burden involved in servicing Soviet debts would be exactly similar to that attending debts repayable in hard currency. This possibility is enhanced by the provision that goods to be purchased will be in accordance with Trade and Payment Agreements in force between U.S.S.R. and Egypt. Such a provision in itself will tend to make repayment a subtraction from, rather than addition, to the current Egyptian exports to the Soviet Union. Repayment would have been definitely trade creating had it been stipulated that goods to be purchased would be totally or partly from the output of industrial enterprises established by the Soviet Union in Egypt. In this case Soviet credits would have been nicely self-liquidating; the aid element in them more substantial. As it is the Soviet system of aid is very much of the nature of a long-term trade and payment agreement. A normal trade and payment agreement involves simultaneous purchases on both parties within two or three years at the end of which the balance is settled. Soviet aid agreements work out in practice along more or less similar lines. The difference is that they are phased out. In the first phase Egypt calls upon the Soviet Union to get machines and equipments. The duration of this phase is four years specified for the utilization of credit facilities. In the second phase the Soviet Union calls upon Egypt to get cotton and the like against previously procured Soviet machines and equipments. The duration of this phase is twelve years specified for repayment. Evidently; this is a trade and payment agreement spread over sixteen years. The interest rates make up, at least partly, for the fact that Soviet purchases are made over twelve years whereas Egyptian purchases are made within four year. The aid element is, therefore, akin to whatever aid elements are to be found in normal commercial transactions.

C - Other Sources of Aid.

42. In addition to aid from U.S.A. and the Soviet Union Egypt received aid from several other countries. The major part was contracted

after 1956 when economic relations with the United Kingdom and France following the Suez crisis shrank to insignificant proportions.

From private enterprise economies other than U.S.A. Egypt procured loans and credit facilities to the amount of L.E. 132 millions or 378 million dollars. According to the Minister of Finance report on 1961-62 budget about 68.4 million pounds (196 million dollars) were utilized up to 11/3/1961. This is shown in the following table

Table X

Loans and credit facilities
from Private Enterprise Economies
(Other than U.S.A.)
(L.E. millions.)

Country	Total Value	Utilized	Unutilized on 11.3.61
Fed Republic of Germany	53.1	30.0	23.1
Switzerland	4.0	1.9	2.1
Italy	34.3	15.9	18.4
France	10.0	-	10.0
United Kingdom	5.4	5.4	-
Netherlands	5.0	.5	4.5
Japan	17.0	11.4	5.6
Sweden	3.3	3.3	-
Total	132.1	68.4	63.7

Most of these loans and credit facilities are on a commercial basis as regards rates of interest and conditions of repayment. The average rate of interest is about 5½%, the duration of repayment ranges between five and ten years. Repayment is to be made in the creditor's currency or any convertible currency to be agreed upon. A substantial proportion of these credit facilities is devoted to financing the industrialization plan in U.A.R. The remainder is used to procure essential producers' goods from the creditor country. It goes without saying that the aid component in such operations is on equal footing with aid, if any, in the flow of private capital.

Credit facilities from centrally planned economies other than the Soviet Union amounted to L.E. 37.9 millions (109 million dollars) out of which L.E. 21.1 millions (60 million dollars) were utilized up to 11/3/1961. This is shown in the following table.

Table XI
Credit Facilities from Centrally Planned
Economies (Other than the Soviet Union)
(L.E. Millions)

Country	Total Value	Utilized	Unutilized (11.3.1961)
Eastern Germany	9.5	3.4	6.1
Czechoslovakia (1)	9.2	7.1	-
Hungary	5.9	-	5.9
Yugoslavia	7.0	4.3	2.7
Others	6.3	6.3	-
Total	37.9	21.1	14.7

Credit facilities from centrally planned economies are more or less modelled after the Soviet agreements on technical and economic co-operation. Accordingly; they are to be utilized within a period of four years at 2½ rate of interest and repayable over a period of twelve years in equal annual instalments commencing one year after delivery of machines, equipments, and materials. Repayment is to be effected in Egyptian commodities and/or convertible currencies.

As to international agencies Egypt received from the world Bank a loan of 56.7 million dollars repayable in dollars at 6% rate of interest over a period of 13 years. It was used for projects connected with Suez Canal.

Under the U.N. Expanded Programme of Technical Assistance Egypt received a total of 11.6 million dollars during the ten year period

(1) The balance of Csech facilities lapsed for expiry of utilization period.

1953-62. The U.N. Special Fund approved a number of projects with contribution from the Fund totalling 6.2 million dollars, against contributions from U.A.R. to the amount of 5.2 million dollars distributed as follows :

	<u>Thousand Dollars</u>	
	Fund Contribution	U.A.R. Contrib.
Pilot project for drainage	379	1 000
Soil Survey from aerial photo	301	500
Civil Aviation School	1,063	797
Desert Locust Survey	2,492	1,266
Near East Animal Health Inst.	581	337
Cotton Research Laboratory	639	778
Technical Training Inst.	790	559
	<hr/> 6,245	<hr/> 5,237

Accordingly, total aid from international agencies amounted to 74.5 million dollars distributed as follows:

	m. Dollars
World Bank	56.7
EPTA	11.6
UNSF	6.2
	<hr/>
Total	74.5

D - Aid from all Sources.

43. Taking all sources of aid, American as well as Soviet and others, Egypt over a period of eleven years(1952 - 62) has been a recipient of 1769 million dollars distributed as follows:

Table XII
Total Aid Committed by Country

Country	Million Dollar	% of total
<u>A: Bilateral</u>		
U.S.A.	706.7	40.0
U.S.S.R.	500.0	28.2
Western Germany	152.5	8.6
Italy	98.4	5.6
Japan	48.4	2.7
France	28.7	1.6
Eastern Germany	27.2	1.5
Czechoslovakia	26.4	1.4
Yugoslavia	20.0	1.2
Hungary	16.9	1.0
U.K.	15.5	0.9
Netherlands	14.3	0.8
Switzerland	11.5	0.7
Sweden	9.4	0.5
Other countries	18.6	1.1
Total Bilateral	1694.5	95.8
<u>B: Multilateral</u>		
World Bank	56.7	3.2
EPTA	11.6	0.7
UNSF	6.2	0.3
Total Multilateral	74.5	4.2
Grand Total	1769.0	100.0

It is clear that the overwhelming portion of aid committed came from bilateral sources accounting for 95.8% of total aid. Among bilateral sources the U.S.A. was responsible for 40% of total, followed by U.S.S.R. (28.2%), Western Germany (8.6%), and Italy (5.6%). Between them these four countries accounted for 82.4% of the total volume of aid.

Taken by groups of countries it is found that private enterprise economies contributed 1085.4 million dollars or 61.4% of total, while centrally planned economies contributed 609.1 million dollars or 34.4% of total.

Table XIII
Total Aid Committed by
Groups of Countries

Group	Million Dollars	% of Total
Private enterprise economies	1085.4	61.4
Centrally-planned economies	609.1	34.4
International Agencies	74.5	4.2
Total	1769.0	100.0

By types of aid we find that grants accounted for 10.4% of total, hard loans for 27.3%, whereas soft loans made up 61.9%.

Table XIV
Total Aid Committed
by Type

Type	Million Dollars	% of Total
Grants	190.4	10.8
Hard Loans	482.4	27.3
Soft Loans	1096.2	61.9
Total	1769.0	100.0

It is important to recall that hard loans in this context signify loans repayable in convertible currencies, soft loans are those repayable in Egyptian pounds. As has been pointed out this distinction may be deceptive implying as it does that soft loans involve no burden on the economy. It was mentioned before that this is not true in all cases.

It must be mentioned also that all credit facilities accorded by centrally planned economies were included in our definition of soft loans. Here again we must remember that, according to most credit agreements, the lending country reserves the right to demand repayment in Egyptian commodities or in convertible currencies. Thus, a certain proportion of credit facilities of centrally planned economies may turn out to be hard loans after all.

The U.S.A. accounted for the overwhelming portion of grants. Its contribution amounted to 172.6 million dollars out of 190.4 millions. The remainder was contributed by the international agencies.

Hard loans in table 14 are made up of 47.0 million dollars lent by the Export-Import Bank of Washington, 56.7 million dollars by the World Bank, and 378.7 millions in credit facilities by private enterprise economies.

Soft loans consist of all credit facilities extended by the centrally planned economies amounting to 609.1 million dollars. The rest (487.1 million dollars) is accounted for by sales under title I of PL 480 and other American loans repayable in Egyptian pounds.

The Distribution of Aid by sectors raises some problems. In the first place certain aid operations cannot be assigned to a given sectors. The High Dam, for instance, involves the agricultural as well as the industrial sector. The same applies to all investments of the infrastructure type. Secondly, technical assistance is often inseparable from financial assistance as the case with most of aid operations undertaken by the centrally planned economies. However, an attempt is made to get the order of magnitude.

Table XV
Total Aid Committed
By Sector

Sector	Million Dollars	% of total
Consumption Aid	566.3	32.0
Technical Assistance	108.2	6.1
Financial Aid to Agriculture	241.3	13.6
Financial Aid to Industry	671.2	38.0
Transport and Other Services	182.0	10.3
Total	1769.0	100.0

According to this table industrial development was the top beneficiary from all aid operations accounting for 38% of total. This is due to the fact that most of credit facilities whether from the centrally planned or private enterprise economies were devoted to the industrialization plan. It is followed by consumption aid which accounted for 32% owing to the preponderant share of surplus commodities in American aid.

The agricultural sector in this table was assigned half of credit facilities for the High Dam. The rest is mainly accounted for by American aid. On this rather arbitrary calculation agriculture accounted for 13.6% of total aid. However; let us not forget that a sizable proportion of technical assistance goes to the agricultural sector.

From the point of view of aid actually delivered or in the process of delivery, the U.A.R. received a total of 1137.2 million dollars.

Table XVI
Total Aid delivered or in Process
of Delivery

	Million Dollars	% of total
U.S.A.	706.7	62.0
U.S.S.R.	100.0	9.0
Private enterprise economies	196.0	17.2
Centrally planned economies	60.0	5.2
International Agencies	74.5	6.6
Total	1137.2	100.0

Compared with aid committed we find that the share of U.S.A. rose from 40% to 62%, whereas the share of the Soviet Union fell from 28.2% to 9%. The reason is clear. All of American aid until 1962 was actually delivered or in the process of delivery. Soviet aid, on the other hand, includes credit facilities for the second stage of the High Dam which is not yet begun. The overall picture indicates that aid delivered was about two thirds of total aid committed.

VI

Impact and Problems of Aid

44. In evaluating the impact of aid one is faced with a difficult problem indeed. Aid is but one element in a total situation, and of secondary importance at that. To claim to be able to isolate its effect, let alone to measure it, is somewhat presumptuous to say the least. Supposedly; aid is given for the economic and social development of the recipient. We claim to know what is meant by economic development. Increase in output per head is taken as a rough and ready index of increase in economic welfare. For this consideration economic development is regarded as desirable. (1) But what is social development. Here one is caught between the devil and the blue sea. Either we say that it is the adoption of attitudes, values and social institutions conducive to economic development in which case the social and the economic would be synonymous ; or we give it a separate meaning to our own liking in which case we mistake our own values for the universal. Let us, however, gloss over this technicality and assume that social development is a kind of change vaguely related to economic development and " modernization ".

However aid-conscious one might be it is obvious that aid is marginal. A country may be well provided with aid, and yet shows extreme sluggishness in its progress towards the pre-determined goals. Are we to blame aid for laxity in administration, apathy, economic fixations and what not, all of which may combine to offset whatever good came from aid? In the words of Professor Galbraith " neither technical assistance nor trained technicians do well, or are even much needed, where administration is indifferent or bad. The best agricultural scientist cannot make much headway as adviser to non-existent ministry. The finest tax authority goes to waste if the minister does not believe in collecting taxes, does not want to do so, or has an overly developed feeling for his friends;" - 2 -

The opposite case is just as relevant. A country may be meagerly provided with aid and yet advances by leaps and bounds on account of abundant resources or energetic population. It would be worse than naive to attribute success to aid.

(1) W. Arthur Lewis : The Theory of Economic Growth, p. 420

In some programmes, especially the American, technical assistance occupies a key position, not necessarily quantitatively, but from the viewpoint of expectations. Much is expected from the transmission of technology and know-how to developing countries. Under given conditions this may be justified. Technical assistance may actually have its full impact on the recipient. Yet, such impact, more often than not, is neither measurable nor visible. New attitudes may have been introduced, new values inculcated, but the lesson may sink to appear much later than expected. In this case one is likely to be deceived by the apparent immutability of social phenomenon.

In the Egyptian experience the situation is made more complicated by the fact that aid began to flow in volume only since 1958. Between 1952 and 1958 aid consisted almost exclusively of the American programme. During this period aid in surplus commodities as well as in other forms was still in modest proportions; total aid received did not amount to more than 122 million dollars spread over six years i.e. an average of little more than 20 dollars per annum. Between 1958 and 1962, on the other hand, aid committed from all sources amounted to 1647 million dollars whereas aid delivered was 1015 million dollars. Accordingly; the overwhelming bulk of aid to U.A.R. can be said to have been concentrated in the last four years. From the point of view of evaluation, the impact of aid could not possibly have been significant between 1952 and 1958. For the later period it may be somewhat too early to gauge the full impact of aid.

In view of these difficulties the only way open seems to be to relate aid to some selected indicators such as population, investment, value and composition of national income, and external balance. Such approach which is, incidentally, adopted by the United Nations, serves to shed some light on the relative importance of aid.

45. During the period 1952/62 the population of Egypt increased from 21.5 millions to 27.5. Considering that the flow of aid in the first six years was on a very modest scale, it is natural to find aid per head of population almost negligible. It began to pick up perceptibly since 1958 to reach 12.80 dollars per head in 1962. This is shown in the following table.

Table XVII

Foreign Aid Related to Total Population

Year	Population (millions)	Aid Delivered (million dollars)	Aid per Head (dollars)
1952	21.5	1.6	0.08
1953	22.1	13.0	0.60
1954	22.6	3.4	0.15
1955	23.1	65.1	2.80
1956	23.1	38.5	1.60
1957	24.2	1.2	0.05
1958	24.7	88.8	3.60
1959	25.4	160.0	6.30
1960	26.0	198.0	7.30
1961	26.8	216.0	8.06
1962	27.5	351.0	12.80

The average rate of flow over the whole period was slightly more than 4 dollars per head of population. Egypt is better on that score than India, and Indonesia, but falls far behind Israel, Jordan, Libya, Morocco, Iraq and Turkey. (1)

Table XVIII

Foreign Aid Related To Gross Investment

Year	Gross Investment (million dollars)	Aid Delivered (million dollars)	Aid as % of Gross Investment
1952/53	340.3	1.6	0.47
1953/54	380.0	13.0	3.4
1954/55	419.5	3.4	0.81
1955/56	493.9	65.1	13.2
1956/57	433.3	38.5	8.9
1957/58	474.7	1.2	0.25
1958/59	520.6	88.8	17.0
1959/60	491.9	160.0	32.5
1960/61	645.1	198.6	31.0
1961/62	1018.5	216.0	21.2
1962/63	1143.7	531.0	30.7

(1) U.N. International Flow of Long term capital and Official Donations 1951-1959, pp. 13-15.

Related to gross investment it is found that during the first six years the annual flow of aid was substantially less than 5% of gross investment falling to less than 1% in three years. The only exception was in 1955/56 when aid accounted for 13.2%. In the later period, on the other hand, aid ranged between one fifth and nearly one third of gross investment. The overall ratio during the whole period was in the neighbourhood of 18%.

Table XIX
Investment and the National Income⁽¹⁾

Year	National Income (m. L. E.)	Annual Rate of Growth %	Gross Invest. (m. L. E.)	Gross Invest. as % of N.I.
1952/53	806		118.6	14.7
1953/54	847	5.0	132.4	15.6
1954/55	920	8.6	146.2	15.9
1955/56	965	5.0	172.1	17.8
1956/57	1067	10.5	151.0	14.1
1957/58	1126	5.5	165.4	14.7
1958/59	1157	2.8	181.4	15.7
1959/60	1289	11.4	171.4	13.3
1960/61	1364	5.8	224.8	16.5
1961/62	1556	14.0	354.9	22.8
1962/63	1634	5.0	398.5	24.4 planned

It is to be noted that Egypt was able during the first six years to maintain a rate of gross investment around 16% of the national income. According to development plan this rate is to be stepped up to 24%. Such a very high rate would not have been possible without counting on a substantial inflow of aid. In fact the difference between the previous and the planned rates of investment corresponds almost exactly to the current rates of inflow. Aid is to form one third of planned investment. The same applies to the planned rates of growth in national income. For the period 1960/70 the rate of growth is planned to be around 7.5% annually. This is to be compared with an average of 5% during the period 1952-58. Thus, it could be said that foreign aid will make possible higher rate of investment and growth than has been hitherto recorded.

(1) Source : Department of Statistics : " The Revolution in Ten Years".

The most direct and significant contribution of foreign aid is to be found in the external balance of U.A.R. Owing to high rates of investment and heavy demand for foreign capital goods as well as essential materials, it is natural to expect a sizable deficit in the balance of trade.

Table XX

Foreign Aid Related To Balance of
Trade (million dollars)

Year	Imports	Exports	Deficit	Aid delivered
1952	651.4	430.5	220.9	1.6
1953	516.6	410.4	106.2	13.0
1954	472.1	413.3	58.8	3.4
1955	536.7	419.0	117.7	65.1
1956	533.8	407.5	126.3	38.5
1957	545.3	493.6	51.7	1.2
1958	665.8	476.4	189.4	88.8
1959	637.1	459.2	177.9	160.0
1960	665.8	568.2	97.6	198.6
1960	700.2	485.0	215.2	216.0
1961	774.9	556.7	218.2	351.0

Source : Dept. of Statistics : " The Revolution in Ten Years".

According to table 20 the balance of trade shows persistent and sizable deficit. This is partly offset, it must be mentioned, by a consistent surplus in the balance of invisible trade. Nevertheless; it is clear that foreign aid during the last four years, was a potent factor in keeping the overall deficit in the balance of payments within manageable proportions. It is doubtful indeed that Egypt could have carried out her import programme, as dictated by the development plan and essential consumers' needs, without foreign aid on the scale indicated. Had there been no aid available she would have faced the bitter choice between cutting down current consumption to intolerable levels or slowed down the pace of development. This is true as much of consumption aid in surplus agricultural commodities as of production aid.

As has been mentioned before the industrialization plan was the main beneficiary from the foreign aid programme. Since 1958 the U.A.R. has embarked upon a policy of extensive industrialization. For this purpose the first plan was prepared and brought to application at an

estimated cost of L.E. 350 millions. However; it was only partly implemented to the amount of L.E. 83 millions; the rest was incorporated in the second industrialization plan extending from 1960 to 1965. The total cost of the second plan is estimated at L.E. 434 millions distributed among the following sectors:

	L.E. millions
Petroleum	82.5
Mining	36.7
Chemicals & Pharmaceuticals	83.2
Food	30.1
Metallurgy	46.8
Textiles	43.8
Engineering industries	57.5
Rural industries	1.9
Vocational Training	3.5
Replacements	46.0
Laboratory of Industrial Standards & Materials	2.0
Total	434.0

In both the first and the second industrialization plans foreign aid has played, and is expected to play, a major role. About one third of the total cost of industrialization is covered by credit facilities from centrally planned as well as private enterprise economies. The U.A.R. was thus able to enter the field of heavy and capital goods' industries, and meet the bulk of domestic demand for a wide range of industrial commodities. Between 1958 and 1962 the share of industry in the national income increased from 19.3% to 23%.

46. So much for the bright side of the picture. Let us now turn to some problems and issues involved in aid receiving. It must be mentioned at the outset that these are not peculiar to the Egyptian situation. Rather they are to be encountered under almost all programmes of aid:

Problem of Repayment.

The recent expansion in the volume of aid raises the vital question of the capacity to repay. In the case of U.A.R. it is fortunate that soft loans account for 61.9% of total aid committed so far. Loans repayable in convertible currencies account for somewhat more than one fourth. As has been pointed out before a certain proportion of the so-called soft loans may have to be paid in convertible currencies.

It is clear that a heavy burden of debt service may inflict undue hardships on the repay in country, cause serious deterioration in her terms of trade, induce sudden and anomalous shifts in export markets,

and finally, may well defeat the very cause of development.

Such contingencies are real but they do not amount to a case against maintaining an expanded volume of aid. Rather they call for a measure of discipline on the part of the recipient; namely;

a - Investment funds should be used most economically in the sense that projects should be selected on the basis of their contribution to national output. In other words development plans are expected to avoid prestige and white elephant projects which, as Professor Milton Friedman put it, "are simply a modern equivalent of the pyramids except that maintenance expenses are higher." It is equally necessary to gear welfare policies to actual advances in output. Admittedly; economic puritanism is not always feasible, and certain welfare policies are politically and humanly almost inescapable. But this is a question of the right mix in development plans, not one of principle.

b - A country that consistently adheres to the dictates of economics and thus succeeds in raising national output pari passu the increased volume of aid may yet fail in effecting the transfer of debt charges abroad. In other words the capacity to repay is not simply dependent on sound economic policies at home, important as this may be, but also on the position of her balance of payments.

In so far as the recipient of aid is concerned, development plans should give the highest priority to export-expanding activities, followed by the import-substituting ones. This may mean greater attention to raising productivity in agriculture that hitherto envisaged.

Granted that the recipient will go into great pains to formulate sound and well balanced economic plans, the capacity to repay remains an open question. Development at a high pace generates persistent pressures on the balance of payments. The life span of these pressures is likely to exceed the repayment span of debts successively contracted. It is, therefore, necessary that the conditions of aid should be less onerous than those of the fifties. This means:

a - Grants should continue to form a basic component of foreign aid. Unfortunately, this type of aid has come recently under heavy attack. In the aid-giving countries the point is made that grants to less developed countries may undermine their sense of responsibility and tend to make them less self-reliant. In fact opponents to grants are fundamentally against all forms of aid to less developed countries. No one ever argued that the advanced countries should bear the major burden of economic development. The responsibility for that falls first and foremost on the country concerned.

While it is conceivable that some projects will be 100% financed by foreign donations, this is neither the normal nor the most desirable pattern. In fact most of the agencies working in the field of aid stipulate that for every dollar they spend on a given project home authorities will put up one dollar or more. This is more or less the case with the Egyptian-American Rural Improvement Service. The same is true of many operations of the Ford Foundation. The United Nations Special Fund follows the same principle. Thus, self-reliance is by no means impaired by this form of aid.

However, in developing countries there are some who express their preference for long-term loans rather than grants. It is argued that grants give rise to friction on account of the donor's desire to control the use of funds. Not infrequently such a desire is stretched to become an open or clandestine interference in the political and economic affairs of the recipient. Loans, on the other hand are no excuse for interference as long as the creditor will be paid in full.

This contradistinction between grants and loans is not altogether valid. In fact loans, no less than grants, may give rise to interference. This is particularly so when loans are committed to specific projects. Moreover; what is called interference is, more often than not, some difference of opinion as to the best way to establish or run a given project. Such frictions can be smoothly overcome if special machinery is devised beforehand to cope with them. If there is still a residual of genuine interference it can be minimized by substituting multilateral for bilateral forms of aid.

b - The burden of debt service will become more manageable if conditions of long-term loans are made more favourable. In the field of multilateral aid the World Bank is not, in virtue of its constitution, in a position to give significant concessions. As long as the Bank relies on bond issues to get part of its financial resources, lending operations will be governed by the conditions of borrowing operations in the capital markets of, say, New York or Hamburg. The same applies with greater force to IFC. For these considerations the establishment of IDA (International Development Association) early in 1961 was a welcome development in the field of investment aid. The purposes of the new agency are defined in the Articles of Agreement as : " ... to promote economic development ... in the less developed areas ... by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans ". In the report of the Executive Directors it was pointed out that IDA is to be authorized to finance " any project ... or areas concerned, whether or not the project is revenue producing or directly productive ". In this way IDA will render services which are not possible for IBRD : to provide soft loans and to finance projects not necessarily revenue producing or directly productive as long as they are

deemed to promote economic development. The only snag about IDA is that its capital is a mere one billion dollars which falls far short of the demands certain to be made on the nascent organisation.

In the field of bilateral long term credit the U.S.S.R. has, despite certain drawbacks already alluded to, set the pace by accepting 2½ % interest and repayment of interest and principal in equal instalments over 12 years to be effective one year after delivery of materials and equipment contracted. The Soviet long-term credit agreements have become the prototype for others to follow, although they are still far from being the normal or ideal pattern. Most of long-term credits accorded by Western Germany, Japan and Italy stipulate shorter periods for repayment and higher rates of interest. In some cases the conditions are as stiff as any to be met with in commercial transactions. One cannot fail to get the impression that the contracting parties on behalf of the lending governments are acting as representatives of a big corporation, and clever ones at that. Evidently, this is a misplaced cleverness. A less developed country may find itself in a desperate need of long-term credit. To take advantage of such eventuality is far from politic to say the least. The benefits that can be secured by hard driving delegates are in the ultimate analysis small if not trivial, whether in terms of the national income or the national budget of the lending country. A drastic reconsideration of approach and concept is called for. If official capital is to have any significance at all, the rate of interest should not exceed 2 or 2½ %. As to the period of repayment it should be geared to the average depreciation period of fixed capital. That would make it something like 20 years.

c -- The capacity for repayment will be for a long time to come a function of the stability in foreign exchange earnings. The violent fluctuation in the prices of primary commodities militates against an even pace of development, and imposes intolerable strain on the balance of payments of the less developed countries. This is particularly true when the flow of foreign aid includes an important element of debts at fixed rates of interest and instalments. " Over the period 1901 to 1950 the year to year fluctuations of export proceeds for eighteen primary products exported by certain underdeveloped countries averaged nearly 23 per cent. During 1950 to 1957, also, a high degree of instability in export earnings was commonly experienced by most countries exporting primary products (other than oil) ; although the extent of annual fluctuations was smaller than before the war, ranging from 10 to 15 per cent. for most countries (but reaching 21 per cent, for Malaya). (1) This goes for

(1) F. Benham; " Economic Aid to Underdeveloped Countries, p. 44., U.N., World Economic Survey 1958, p. 59.

cotton, the principal article of export in U.A.R.

If the less developed countries are left exposed to such severe fluctuations, one cannot see how development will pay its way without undue hardships. It is therefore incumbent to earnestly explore and apply workable stabilization schemes with the participation of the advanced countries.

Since, however, absolute stability is neither possible nor desirable, the less developed countries should endeavour to diversify their exports. When development plans envisage industrialisation, efficiency should be of paramount importance. On the part of the advanced countries it is not unreasonable to ask for a certain measure of favourable treatment to be accorded to the industrial exports of the less developed countries.

Absorptive Capacity

The concept of absorptive capacity is sometimes invoked against a high level of aid.

It is not known what is exactly meant by the absorptive capacity. However, we can discern three different meanings:

a - That if the rate of investment is pushed beyond a certain level the less developed economies will soon run into inflation. Such an argument is sometimes fortified by pointing out that developing countries, on account of structural rigidities and low supply elasticities, are particularly prone to inflationary tendencies. Evidently, however, the argument is only valid if the planned rate of investment exceeds appreciably the rate of voluntary domestic saving, and if the gap is to be met by forced saving or deficit financing. This is not the case when the excess of planned investment over voluntary domestic saving is to be financed by the inflow of foreign capital. As a supplement to domestic saving the inflow of foreign capital will be anti-inflationary or even deflationary.

b - That in many underdeveloped countries there are very few investment opportunities which offer rates of return high enough to justify the investment. This is perhaps true if the rate of return is interpreted to mean private benefit to the investor. If it is broadly interpreted, as it should, to mean social benefit investment opportunities will multiply as to absorb any conceivable amount of capital. Progressively; the more social overhead is created the greater the opportunities for private benefit. Quite apart from this consideration it is commonly agreed now that very little is known about the nature and extent of resources in most developing countries. For this reason greater emphasis is being placed on the pre-investment studies to reveal the natural wealth and endowment of these countries. This is the main task of the United Nations

Special Fund. There can be little doubt that the operations of the Fund will greatly expand the opportunities for profitable investment.

c - That, empirically, a number of countries were unable to utilize all the investment aid available to them. This is true, but it has nothing to do with "the myth of absorptive capacity". (1) On closer examination we find that inability to utilize aid was due to lack of proper planning, lack of phasing of interdependent projects, or finally, lack of competent personnel and vital equipment. Why not, it may be argued, call these types of lacuna the absorptive capacity? This cannot be, since inability in this case is not due to a too great volume of aid, but to its composition. Thus it can be met with at any level of aid, high or low. In fact to equate absorptive capacity with lack of this or that requirement is to equate it with bottlenecks. On this interpretation the concept is emptied of any particular significance.

Motivation and Distribution of Aid.

The experience of the last ten years points unmistakably to the major role played by political motivation in programmes of aid. This was made abundantly clear on the occasion of seeking foreign finance for the High Dam. It was also responsible for reducing drastically American aid to U.A.R. in 1957 and 1958. Last but not least political motivation goes a long way towards explaining the stark disparity in the distribution of aid resources among developing countries. Aid was conceived as a weapon of the cold war. It was thus geared not to the real needs of the recipient but to political eligibility. As it worked out in practice this policy led a situation characterized by the principle "to him that hath shall be given." The effect on international goodwill was devastating. It is a fact that the United States of America has given aid to the world as no other country ever did in the history of mankind. Yet the results in terms of international understanding are much less than should have been. Some in the aid-giving countries take it, rather indignantly, as a sign of ingratitude on the part of aid-receiving countries. But if gratitude is ever the proper quid pro quo for development aid, one can hardly ignore the fact that the relative share of aid is just as irrelevant as the absolute share. One's own weight is measured not only by what he gets but also, in no small measure, by what the others get. This is only human.

There can be no doubt that the same volume of aid that flowed to less developed countries between 1951-1959 would have produced far more tangible results had there been a more equitable distribution of aid. The development of some objective criteria for the distribution of aid seems to be of crucial importance. The first requirement is to rule out

(1) Benham : Ibid p. 117.

political eligibility. It is now abundantly clear that political loyalty cannot be bought for dollars or roubles. It goes far deeper than that and transcends any pecuniary advantage. It is equally erroneous to think of aid as an instrument to promote trade. Such a consideration undermines the confidence of the recipient in the ultimate aims of aid. The only relevant consideration should be simply and exclusively the economic development of the recipient. Speaking for the Western countries, Sir William Hayter has put it succinctly:

"The political end we should now be aiming at is not the earning of gratitude, or the establishing of political influence in the recipient country or defeating opposing ideologies. We should have learnt by now, and the Russians should learn soon, that these ends are not achieved by economic aid. Our political end should be the actual raising of living standards of Asia and Africa, in the interests of the people of those countries, but also in the interests of a stable and peaceful world." (1).

Ruling out political loyalty, gratitude, or trade advantage, the question may be asked what is the objective measure of the need for aid? It must be stated that the need for aid is not just a desire for economic development. It is this desire plus the will to develop. This is manifested by the degree to which domestic resources are mobilised for the purpose of economic development. The major burden should fall, as was pointed out before, on the country concerned and not on anybody else. The existence of a development plan will mirror the degree of preparedness for the exacting task of economic development. Above all it will show the proposed direction and pace of economic growth, the required rate of investment, the possibilities of domestic financing, and the types of projects. In this way the donor will have a proper perspective of the upper limit of aid, namely; the excess of planned rate of investment over domestic rate of saving including whatever could be tapped as deficit financing or forced savings without undue inflationary pressure.

But the aggregate of the upper limits in all underdeveloped countries may be far in excess of available aid resources. In this case aid requirements will inevitably come for scaling down. It is important, however, that such a reduction should be based on some objective, easily ascertainable indicators. For the purpose it is not impossible to develop a composite aid index based on such factors as:

- (a) the size and rate of population growth.
- (b) the level of per capita income.
- (c) the state of foreign exchange earnings.

(1) Quoted by F. Benham; Ibid, p. 106

On this basis foreign aid could be channeled in accordance with the real need and endeavour of each country. The mistakes of the past could be avoided and maximum benefits could be secured whether in terms of international goodwill or economic development.

Bilateralism Vs. Multilateralism

However, it is evident that the bilateral system of aid is inconsistent with the equitable distribution of aid among the less developed countries. By necessity bilateralism implies the existence of numerous channels for aid each one of which is independent of the other. Under this system coordination is out of the question. Bilateralism and political motivation of aid are almost inseparable. If aid is to be distributed in accordance with real needs, a minimum of friction, and a maximum of effectiveness, bilateral aid will have to give way to multilateral arrangements. The United Nations agencies are the best under the circumstances. True they are not totally free from the pull and push of politics. In fact the major aid-giving countries can, and do, bring pressure to bear upon international organisations so that we may have bilateralism behind a façade of multi-lateralism. Nonetheless; the specialized agencies of the United Nations as well as its technical organs have, so to speak, a life of their own. They have their own ethics and traditions which are not exactly the sum total of the constituent members'. To forestall the possibility of power politics the less developed countries should be given more voice in the affairs and policies of developmental agencies and organs of U.N., especially IBRD, IFC, IDA, UNEPTA, UNSF, and the proposed SUNFED.

On the assumption that the aid-giving countries will gradually bring themselves to accept multilateralism, the capital and resources of U.N. agencies will greatly expand. This is, however, a big assumption. So far the aid-giving countries do not seem to see their way to relinquishing their cherished control over aid funds. This is quite understandable as long as they envisage aid as a convenient means to influence the politics and policies of the less developed countries. Once convinced of the futility of this approach, there is no reason why they should not act through the United Nations.

Concept of Economic Development

A great deal of friction has occurred on account of basic differences of view between the aid-giving and the aid-receiving countries as to the optimum road to economic development. Is it the industrial or the agricultural sector that should be the spearhead in the struggle for economic progress? Is it advisable to establish heavy industries before the light industries are well on their way? What is the proper balance between production and distributive justice, between production and welfare services? If there is no clear-cut answer to such questions, only

a kind of proper mix, what is the right recipe?

Questions such as these involve basic issues in the theory and practice of economic development. Difference of view leads to different evaluation of projects and policies. A given project may be considered of top priority by the aid-receiving country. At the same time the aid-giving may regard it as a drag on the economy. In consequence, aid may be withheld or reduced with inevitable recriminations; the one resenting interference, the other feeling self-righteous.

It is important to realize that there is always room for honest difference of opinion about such basic questions. The attitude of the aid-giving countries does not always stem from dark, satanic motives. There is no reason for that. It is true, however, that, in some cases at least, the attitude is influenced by vested interests back home. The reluctance to support industrial projects is sometimes explainable in terms of pressure groups opposed to what is regarded, rightly or wrongly, as potential competition. The answer to that is a little more understanding on both sides. The aid-receiving countries have to realise the political mechanism at the giving end of the operation. The fact that the Congress in the United States of America has the upper hand on the Executive Branch in matters of fiscal appropriations, and that it is after all a political body subject to popular pressure, should convince the aid-receiving countries that constitutional necessity rather than selfish desire is sometimes behind the agnostic attitude. Failing to see that could well be interference in the affairs of the aid-giving country; odd as this may sound.

On the part of the aid-giving countries they should realize that the ultimate responsibility resides in the nationals of the country concerned. This is a fundamental principle jealously guarded by the aid-receiving countries. It is only natural that projects to be financed, partly or totally, out of aid funds, should be thoroughly discussed. But once this is done the final decision as to the desirability or undesirability of the project should belong to the nationals of the aid-receiving countries. The trouble is that the aider tends to assume the role of the teacher or preacher. In the context of giving and receiving aid this is hardly well taken.

Continuity of Aid.

Economic development is in the nature of things a long-range policy. It takes many years to influence the economic structure of the country, raise productivity, train people, establish new industries, and shift a portion of the labour force between sectors. To know beforehand the nature and extent of available resources is vital in the formulation of effective development plans. Failing that development is likely to follow the line

of least resistance and to lean heavily on a string of ineffectual projects. During the fifties, the flow of aid was characterised by lack of continuity. Aid commitments were usually limited to a period of one or two years. This was due partly to budget procedure in the aidgiving country, partly to reluctance to enter into long-term commitments, and partly to the desire to hold a trump card when renewal becomes due. The effect of such from-hand-to-mouth policy was highly unsatisfactory. One can point to dozens of projects whose only qualification for implementation is that they can be financed out of a single commitment. A crop of bizarre projects became the folklore of the "aid culture", dramatized in "The Ugly American". If foreign aid is to be effective commitments extending for five years or more should be the normal pattern. In the words of Richard S. Eckaus" We must face up to the fact that economic aid to underdeveloped areas cannot be a short-term program Aid which we do provide can be used more imaginatively and effectively by underdeveloped areas if it can be fitted into their own time horizons of efforts. In the underdeveloped areas these time horizons go on for many years". (1)

Recently, there have been some encouraging developments in the U.S.A. The President is given more power to enter into commitments extending beyond the fiscal year of appropriations. But the real hope lies in the expansion of multilateral aid through the international organisations.

Tied loans.

In the context of foreign aid this term is used in two different meanings:

The first refers to loans tied to specific projects in the aid-receiving countries. In this sense the IBRD loans are always tied or committed to self-liquidating projects. The same applies to IDA although the new agency enjoys more latitude than the World Bank in the choice of projects. To qualify for a loan from IDA the project does not have to be revenue producing or directly productive. "Thus projects such as water supply, sanitation, pilot housing and the like are eligible for financing. Moreover, "specific projects" for IDA are understood to include such proposals as a railway program, an agricultural credit program, or a group of related projects which form a part of a development program". -2-

The view is sometimes expressed that loans and grants should be freed from commitment to specific projects. This is neither possible nor desi-

(1) "American Economic Review", Papers and Proceedings, May, 1959, page 250.

nable. With the exception of the International Monetary Fund, which is not, strictly speaking, a lending agency, United Nations financing agencies are barred, by virtue of their constitutions, from giving general loans. More important perhaps is that such development, if possible, serves no useful purpose. It is not unlikely that such loans will be used to finance deficits in the balance of payments with no significant impact on economic development. But it should be made clear that there is vast scope for expansion in the resources and operations of IMF. Moreover nothing in this argument can be invoked against general loans under bilateral arrangements.

The second and more common meaning of tied loans refers to the provision that the proceeds of the loans are to be used in purchases from the lending country. Typical of this arrangement are the lending operations of the Export-Import Bank in U.S.A. But it is also true of practically all Soviet Block loans since they are generally framed to finance the establishment of industrial enterprises in the aid-receiving country. The Soviet Union undertakes to supply the materials and equipments involved and, not infrequently, to set up the enterprise as a going concern. The loans are thus doubly tied-up whether as regards the country to buy from or the kind of commodity to buy.

As a general rule tied loans should be limited within the narrowest possible limits. They tend to encourage bilateral trade and may have the effect of forcing international trade along uneconomical lines. But if the lending country is experiencing balance of payments problems a tied loan is perhaps better than no loan. The same is generally true of a lending country whose currency is not freely convertible such as the Soviet Union. What is objectionable, however, is the insistence on tied loans on the part of a lending country which is neither suffering balance of payments problems nor subject to foreign exchange restrictions. In this case tied loans stem from the trade motives of aid; that is the desire to capture the opportunity of lending to promote the exports of this or that industry. It has been pointed out before that the trade motive is damaging to the cause of foreign aid.

APPENDIX I
AGRICULTURAL COMMODITIES
AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED
ARAB REPUBLIC AND THE GOVERNMENT OF THE UNITED
STATES OF AMERICA UNDER TITLE I OF
THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT, AS
AMENDED

The Government of the United Arab Republic and the Government of the United States of America:

Recognising the desirability of expanding trade in agricultural commodities between their two countries and with other friendly nations in a manner which would not displace usual marketing channels of the United States in these commodities or normal patterns of commercial trade with friendly countries.

Considering that the purchase in the United States of America will assist in achieving such an expansion of trade.

Considering that the Egyptian pounds accruing from such purchase will be utilized in a manner beneficial to both countries.

Desiring to set forth the understanding which will govern the sales, as specified below, of surplus agricultural commodities to the United Arab Republic (Southern Region) pursuant to Title I of the Agricultural Trade Development and Assistance as amended, (hereinafter referred to as the Act) and the measures which the two Governments will take individually and collectively in furthering the Expansion of trade in such commodities.

Have agreed as follows:

Article I

SALES FOR EGYPTIAN POUNDS

Subject to the issuance by the Government of the United States of America and acceptance by the Government of the United Arab Republic of purchase authorizations, the Government of the United States of America undertakes to finance the sale to purchasers authorized by the Government of the United Arab Republic, for Egyptian pounds, of the following Agricultural commodities determined to be surplus pursuant to the Act, in the amounts indicated:

<u>Commodity</u>	<u>Export Market Value</u> (Million Dollars)
Wheat and wheat flour	52.5
Ocean transportation (estimated)	5.2
Total	<hr/> 57.7

Purchase authorizations will be issued not later than December 31, 1959. They will include provisions relating to the sale and delivery of commodities, the time and circumstances of deposit of the Egyptian pounds accruing from such sale, and other relevant matters.

Article II

USES OF EGYPTIAN POUNDS

1) The two Governments agree that the Egyptian pounds accruing to the Government of the United States of America as a consequence of sales made pursuant to this Agreement, will be used by the Government of the United States of America, in such manner and order of priority, as the Government of the United States of America shall determine, for the following purposes, in the amounts shown:

- A - For United States expenditures under sub-section (f) Section 104, the Egyptian pound equivalent of not more than \$ 5,770 million.
- B - For United States expenditures under sub-sections (a), (b), (h), (i), (j), (k), 1(l), (m), (n), and (o) of Section 104 of the Act or under any of such sub-sections, the Egyptian pound equivalent of \$ 8.655 m. Uses under sub-sections (k), (l), (m), (n), and (o) are subject to legislative action by the Congress of the United States.

For loans to be made by the Export-Import Bank of Washington under Section 104 (e) of the Act and for Administrative expenses of the Export-Import Bank of Washington in the United Arab Republic incident there to, the Egyptian pound equivalent of \$ 14.425 million, but not more than 25 percent of the currencies received under the Agreement. It is understood that:

- a) Such loans under Section 104 (c) of the Act will be made to United States business firms and branches, subsidiaries, or affiliates of such firms in the United Arab Republic for business development and trade expansion in the United Arab Republic, and to United States firms and United Arab Republic firms for the establishment of facilities for aiding in the utilization, distribution, or otherwise increasing the consumption of the markets for United States agricultural products.
- b) Loans will be mutually agreeable to the Export-Import Bank of Washington and the Government of the United Arab Republic acting through the National Bank of Egypt. The Governor of the National Bank of Egypt, or his designate, will act for the Government of the United Arab Republic, and the President of the Export-Import Bank of Washington, or his designate, will

act for the Export-Import Bank of Washington.

- c) Upon receipt of an application which the Export-Import Bank is prepared to consider, The Export-Import Bank will inform the National Bank of Egypt of the identity of the applicant, the nature of the proposed business, the proposed loan, and the general purposes for which the loan proceeds would be expended.
 - d) When the Export-Import Bank is prepared to act favorably upon an application, it will so notify the National Bank of Egypt and will indicate the interest rate and the repayment period which would be used under the proposed loan. The interest rate will be similar to that prevailing in the United Arab Republic on comparable loans, and the maturities will be consistent with the purposes of the financing.
 - e) Within sixty days after the receipt of the notice that the Export-Import Bank is prepared to act favorably upon an application, the National Bank of Egypt will indicate to the Export-Import Bank whether or not the National Bank of Egypt has any objection to the proposed loan. Unless within the sixty-day period the Export-Import Bank has received such a communication from the National Bank of Egypt, it shall be understood that the National Bank of Egypt has no objection to the proposed loan. When the Export-Import Bank approves or declines the proposed loan, it will notify the National Bank of Egypt.
 - f) In the event the Egyptian pounds set aside for loans under Section 104 (s) of the Act are not advanced within three years from the date of this Agreement because the Export-Import Bank of Washington has not approved loans or because proposed loans have not been mutually agreeable to the Export-Import Bank of Washington and the National Bank of Egypt, the Government of the United States of America may use the Egyptian pounds for any purpose authorized by Section 104 of the Act.
- D - For a loan to the Government of the United Arab Republic under sub-section (g) of Section 104 of the Act, the Egyptian pound equivalent of not more than \$ 28.850 million, for financing such projects to promote economic development, including projects not heretofore included in plans of the Government of the United Arab Republic as may be mutually agreed. In the event that agreement is not reached on the use of the Egyptian pounds for loan purposes within three years from the date of this agreement the United States of America may use Egyptian pounds for any purpose authorized by Section 104 of the Act.

- 2) In the event the total of Egyptian pound accruing to the Government of the United States of America as a consequence of sales made pursuant to this agreement is less than the pound equivalent of \$ 57.7 million, the amount available for a loan to the Government of the United Arab Republic under 104 (g) will be reduced by the amount of such difference, in the event the total Egyptian pound deposit exceeds the equivalent of \$ 57.7 million, 50 percent of the excess will be available for a loan under Section 104 (g), 25 percent for loans under Section 104 (a), and 25 percent for any use or uses authorized by Section 104 as the Government of the United States of America may determine.

Article III

DEPOSIT OF EGYPTIAN POUNDS

Egyptian pounds shall be deposited to the account of the Government of the United States of America in payment for the commodities and for ocean transportation costs financed by the Government of the United States of America (except excess costs resulting from the requirement that United States flag vessels be used) at the rate of exchange for United States dollars generally applicable to import transactions (excluding imports granted a preferential rate) in effect on the dates of dollar disbursement by United States Banks, or by the Government of the United States of America, as provided in the purchase authorizations.

Article IV

GENERAL UNDERTAKINGS

- 1) The Government of the United Arab Republic agrees that it will take all possible measures to prevent the resale or transshipment to other countries, or the use for other than domestic purposes (except where such resale, transshipment or use is specifically approved by the Government of the United States of America), of the surplus agricultural commodities purchased pursuant to the provisions of this Agreement, and to assure that the purchase of such commodities does not result in increased availability of these or like commodities to nations unfriendly to the United States of America.
- 2) The two Governments agree that they will take reasonable precautions to assure that all sales or purchases of a surplus agricultural commodities, pursuant to the Agreement, will not unduly disrupt world prices of agricultural commodities, displace usual marketings of the United States of America in these commodities, or disrupt normal patterns of commercial trade with friendly countries.
- 3) In carrying out this Agreement, the two Governments will seek to assure condition of commerce permitting private traders to function

effectively and will use their best endeavors to develop and expand continuous market demand for agricultural commodities.

- 4) The Government of the United Arab Republic agrees to furnish, upon request of the Government of the United States of America, information on the progress of the program, particularly with respect to arrivals and conditions of commodities, and information relating to exports of the same or like commodities.

Article V

CONSULTATION

The two Government will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to the operation of arrangements carried out pursuant to this Agreement.

Article VI

ENTRY INTO FORCE

The Agreement shall enter into force upon signature. IN WITNESS WHEREOF, the respective representative, duly to the purpose, have signed the present Agreement.

DONE at Cairo in duplicate this twenty-ninth day of July 1959.

FOR THE GOVERNMENT OF THE UNITED ARAB REPUBLIC:

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

APPENXIX II

A G R E E M E N T

on Economic and Technical Co-operation between the Union of Soviet Socialist Republics and the Republic of Egypt

The Government of the Union of Soviet Socialist Republics and the Government of the Republic of Egypt mutually desiring to further consolidate friendly relations and develop economic and technical co-operation between the two countries have agreed to the following :-

1

The Government of the Union of Soviet Socialist Republics, meeting the wishes of the Government of the Republic of Egypt, expresses its consent to co-operate with the Government of Egypt in carrying out plans for national economic development of Egypt in geological work, mining, oil exploration and production of oil products, metallurgical, engineering, electric, chemical, textile, food, pharmaceutical and light industries.

This co-operation shall be carried out in establishing new industrial enterprises as well as in extending the productive capacities or by adapting them to manufacture new products.

Annex 1 to this Agreement enumerates the Industrial Enterprises which will be established or extended by the Egyptian Party with the co-operation of the Soviet Party and indicates the manner in which this co-operation will be carried out in each Industrial Enterprise.

Annex 2 to this Agreement enumerates the Industrial Enterprises which all or some of them will be established or extended by the Egyptian Party with the co-operation of the Soviet Party. The two Parties will agree upon the industrial enterprises of this list which will be established or extended with the co-operation of the Soviet Party and upon the scope of this co-operation.

Industrial enterprises and other projects, which are to be established by the Egyptian Party in co-operation with the Soviet Party under this Agreement shall be here in after referred to as " Industrial Enterprises ".

In order to carry out the co-operation in establishing and extending the industrial enterprises, as stipulated in Annex 1 of this Agreement the Soviet Organizations shall:

1. Fulfil projecting work to the extent which will be agreed upon by the two parties.

2. Deliver machinery and equipment with standard set of spare parts for industrial enterprises as well as some materials which are not available in Egypt and are needed for establishing the said enterprises.

3. Render technical assistance in:

- a) Selecting the construction sites.
- b) Collecting the initial data necessary for projecting work in connection with Industrial Enterprises.
- c) Establishing the Industrial Enterprises by author's inspection and advice.
- d) Mounting of machinery and equipment (supervision of mounting).
- e) Adjustment of equipment and putting these enterprises into operation.
- f) Reaching projected capacities of the Industrial Enterprises;
- g) Carrying out geological and exploration work.
- h) The proper training, (practical and theoretical), of the Egyptian specialists for the said Industrial Enterprises whether in Egypt or in the U.S.S.R. This includes training on processes and operations of machinery and equipment of said Industrial Enterprises.

In order to render technical assistance stipulated in this item, Soviet Organizations shall depute to Egypt their specialists.

4. Render technical assistance in organizing the training of skilled personnel for Egyptian industry and for these purposes, work out and hand over to the Egyptian authorities schemes and plants for vocational training of Egyptian nationals, as well as depute to Egypt Soviet specialists and instructors for the purpose of rendering assistance to Egyptian authorities in training.

Number of Soviet specialists, to be sent to Egypt in accordance with this article, their specialities, periods and conditions of their deputing as well as numbers of Egyptian personnel to be received in the U.S.S.R. for training, periods of training and other terms and conditions shall be mutually agreed upon, in each case, by corresponding Soviet Organizations and Egyptian authorities.

3

The Government of the U.S.S.R. shall hand over through Soviet Organizations to the Government of the Republic of Egypt drawings and documents of technological processes required for the production of the industrial enterprises as stipulated in the project reports prepared by the Soviet Organizations.

The said documentation shall be handed over free of charge but for actual expenses involved in their re-production and handing over. It is understood that this documentation shall be used only for the said production within the territory of the Republic of Egypt and shall not be transferred to any foreign judicial or private persons.

Deviations from this provision may only be allowed with the approval of the corresponding Soviet Organization in each case.

4

The Government of the U.S.S.R. and the Government of the Republic of Egypt agree that for the execution of this Agreement the Soviet party may cooperate with the corresponding Organizations of People's Democratic countries in projecting work, deliveries of equipment, machinery and materials as well as in rendering other kinds of technical assistance stipulated under this Agreement.

5

In pursuance of co-operation, provided for in Article 1 of this Agreement the Egyptian authorities shall, on dates to be mutually agreed upon, hand over to Soviet organizations all initial data necessary for designing the industrial enterprises, design and execute all building work and auxiliary services on the basis of the project reports agreed upon, install the machines and equipment of the Industrial Enterprises and provide all the necessary public utilities inside and outside the premises of the Industrial Enterprises.

6

The Government of the Union of Soviet Socialist Republics shall extend credit to the Government of the Republic of Egypt to the amount of Seven hundred million Roubles (0.222168 grammes of fine gold in one rouble), interest accruing at the rate of 2½ per cent per annum. This

credit shall be utilized during the period of four years from the date of entry into force of this Agreement to pay for:

- a) Cost of equipment, and machinery, as well as some materials necessary for establishment of Industrial Enterprises which are not available in Egypt on the basis of F.O.B. prices soviet ports.
- b) Cost of projecting and geological and exploration work, as well as cost of preparation of plans and schemes for training of skilled personnel, carried out by Soviet Organizations.
- c) Actual expenses involved in the reproduction and handing over of technical documentation in accordance with Article 3 of this agreement.

Should the gold parity of the rouble change before the full utilization of the credit mentioned above, the balance of the credit will be adjusted accordingly so as to assure that the Gold value of the balance will remain the same.

In case the cost of above services provided by the Soviet party exceeds the sum of the credit of 700,000,000 roubles, the excess shall be paid by the Egyptian party by deliveries to the U.S.S.R. of Egyptian goods in accordance with Trade and Payments Agreement in force between the U.S.S.R. and Egypt.

7

The Government of the Republic of Egypt shall repay parts of credit used under Article 6 of this Agreement for each industrial enterprise in 12 equal annual instalments one year from the date of completion of delivery from U.S.S.R. of complete equipment stipulated in corresponding contracts, for each Industrial Enterprise.

The date of use of credit for delivery of machines, equipment and materials shall be considered the date of the Bill of Lading; for designing and geological, and exploration work as well as for other kinds of technical assistance the date of the Invoice.

Interest shall accrue from the date on which each particular part of credit is used, and shall be paid within the first three months of the year, following the year for which it is accrued.

8

Repayment of credit and payment of interest accrued thereof shall be made by the Government of the Republic of Egypt by means of transferr-

ing of corresponding sums in Egyptian Pounds, to a separate account opened by the National Bank of Egypt in favour of the State Bank of the U. S. S. R.

Roubles shall be recalculated into Egyptian pounds basing on the gold parity of the rouble and the Egyptian pound on the day of such re-payment.

Amounts transferred to this account will all be utilized by Soviet Organizations for purchase of Goods in Egypt in accordance with Trade and Payment Agreements in force between U.S.S.R. and Egypt; and/or may be freely converted into pounds sterling or any freely convertible currency which will be agreed upon between the two Governments.

In case of any change in the parity of the Egyptian pound, the balance of the account of the State Bank of the U.S.S.R. with the National Bank of Egypt on the date of this change shall be revalued proportionally to the change of the gold value of Egyptian pound.

9

In order to keep record of the utilization and repayment of the credit provided by this Agreement and payment of interest thereof the State Bank of the U.S.S.R. and the National Bank of Egypt shall mutually open special credit accounts and shall work out financial technical arrangements necessary for the implementation of this Agreement.

10

The Government of the Republic of Egypt shall pay to Soviet party all expenses of the Soviet Organizations in connection with deputing Soviet specialists to Egypt for rendering technical assistance provided for under this Agreement, as well as all expenses of Soviet Organizations connected with training of the Egyptian specialists in the U.S.S.R.

The payment in question shall be made by transferring corresponding sums in Egyptian pounds to the credit of "the collector account" opened with the National Bank of Egypt in favour of the State Bank of the U.S.S.R. in accordance with Payment's Agreement in force between the Government of the U.S.S.R. and the Government of the Republic of Egypt.

11

Fulfilment of projecting work, delivery of machinery, equipment and materials from the U.S.S.R. geological and exploration work, training of

Egyptian nationals, deputing of Soviet specialists to Egypt and rendering other kinds of technical assistance provided under this Agreement shall be effected according to contracts to be concluded between appropriate Soviet Organizations and Egyptian authorities.

Volume of deliveries, dates prices and guarantees for quality of equipment and machinery and their conformity with respective projected capacities, liabilities of the parties in circumstances beyond control of either party, infringement of patents as well as any other details concerning fulfilment by the parties of obligations under this Agreement are to be determined in the contracts mentioned above. Prices of equipment, machinery and materials delivered to Egypt under this agreement shall be based on world market prices.

12

Without prejudice to Article 6 stipulating the utilization of the credit to cover cost of machinery, equipment, and materials at the price F.O.B. Soviet Ports, delivery of machinery, equipments and materials to be supplied by the U.S.S.R. shall be C.I.F. Egyptian Ports. Insurance and freight shall be paid by the Egyptian authorities separately as actual rate in accordance with the Soviet Egyptian Trade & Payment's Agreements in Force.

13

The Government of the U.S.S.R. express its willingness to fulfil the requirements of the Government of the Republic of Egypt concerning the purchase in the U.S.S.R. of spare parts (in addition to standard sets delivered with the equipments) and some kinds of raw materials necessary for normal operation of Industrial Enterprises to be established with the help of the U.S.S.R. Deliveries of spare parts and raw materials shall be effected in accordance with Soviet-Egyptian Trade and Payment's Agreement in force.

14

The Government of the U.S.S.R. and the Government of the Republic of Egypt, in the shortest possible time after entry into force of this Agreement, shall mutually inform each other as to the Soviet organizations and respectively the Egyptian authorities which will be authorized for signing contracts pursuant to this Agreement.

In case any dispute or difference may arise between the Soviet Organization and the Egyptian authorities relating to any matter connected with this Agreement or its execution the representatives of the Government of the U.S.S.R. and the Government of the Republic of Egypt shall consult each other and take possible steps to arrive at a solution of the said dispute or difference.

The present Agreement is subject to ratification in the shortest possible time and shall come into force on the date of exchange or ratifications that will take place in Cairo.

Done on the 29th day of January, 1958, at Moscow in two original copies in Russian and Arabic, both texts being equally authentic.

On behalf of
The Government of the
Union of Soviet Socialist
Republics

On behalf of
The Government of the
Republic of Egypt

BAHGAT/M/M.