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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

ARAB REPUBLIC OF EGYPT

FOR A

TEXTILE PROJECT

CURRENCY EQUIVALENTS

Official Rate

1 Egyptian Pound (LE)	=	US$2.56 or SDR 2.118
1 US Dollar	=	LE 0.391

Parallel Market Rate

Until February 1976:

1 Egyptian Pound (LE)	=	US$1.70
1 US Dollar	=	LE 0.59

From February to May 1976:

1 Egyptian Pound (LE)	=	US$1.56
1 US Dollar	=	LE 0.64

From May 21, 1976:

1 Egyptian Pound (LE)	=	US$1.47
1 US Dollar	=	LE 0.68

ABBREVIATIONS

KED - Misr Kafr El Dawar Spinning and Weaving Company

EB - Misr El Beida Dyers

EGOSW - Egyptian General Organization for Spinning and Weaving

Fiscal Year

January 1 - December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE ARAB REPUBLIC OF EGYPT FOR A TEXTILE PROJECT

1. I submit the following report and recommendation on a proposed loan to the Arab Republic of Egypt for the equivalent of US$52 million to help finance a part of the foreign exchange costs of a Textile Project. The loan would have a term of 15 years, including 4 years of grace, with interest of 8.85 percent per annum. Out of the proceeds of the proposed loan, $50.7 million would be onlent to the Misr Kafr El Dawar Spinning and Weaving (KED) and Misr El Beida Dyers (EB) Companies at an interest rate of 10 percent per annum for a term of 15 years including 4 years grace. The foreign exchange risk would be borne by the companies. The Arab Fund for Social and Economic Development is also expected to participate in the financing of the project.

PART I - THE ECONOMY 1/

2. An Economic Report on the Arab Republic of Egypt (No. 870a-EGT), dated January 5, 1976, has been distributed to the Executive Directors. An updating mission visited Egypt in January/February 1976, and its findings are incorporated in this report. Country data sheets are attached as Annex I.

Background

3. The 1974 "October Paper," presented by President Sadat to the people and the Parliament and approved in a national referendum, continues to provide the basic principles which guide Egyptian development. These envisage decentralization of decision-making of state-owned enterprises, liberalization of the private sector, incentives to stimulate and encourage private foreign investment and expanded economic cooperation with Arab countries. Accordingly, in 1974 and 1975, Egypt initiated a number of steps in furtherance of these principles, which are expected to lead to a significant restructuring of the economy. In particular, steps were taken to remove some of the heavy restrictions on private business activities, to encourage foreign private investment and to expand foreign exchange transactions outside the official rate. It should be noted, moreover, that this policy of economic liberalization was pursued in a generally unfavorable international political and economic environment.

4. The present Government, formed in April 1975 and reconstituted in March 1976, has reaffirmed its intention to maintain the momentum towards a more self-reliant, equitable and liberalized economy, and for that purpose to implement a wide-ranging economic management program. In particular, the Government has initiated or intends to take measures: (i) to improve coordination in economic policy making; (ii) to improve public sector efficiency

1/ Substantially identical with Part I of the President's Report for the Upper Egypt Drainage II Project.

through decentralization and rehabilitation; (iii) to rationalize consumption subsidies and to increase national savings, while protecting the real income of lower income groups, through appropriate price, fiscal and monetary policies; (iv) to promote efficiency in resource allocation through widening the parallel foreign exchange market and pursuing price policies that would better reflect economic scarcities; and (v) to rationalize its external debt situation and implement a debt-management program. The implementation of these policy objectives, in conjunction with the substantial inflow of foreign aid obtained in 1975 and expected in 1976 (paragraphs 16 and 17), revenues from the Suez Canal (opened on June 5, 1975), revitalized economic activity in the Canal Zone and rapidly rising oil income, should lead to a considerable strengthening of the Egyptian economy in the coming years.

Recent Economic Developments

5. Egypt's economy entered 1976 still bearing the marks of war and of a decade of under-investment requiring substantial rebuilding and rehabilitation. In 1974 and 1975 Egypt's economy was dominated by pressures that originated in the external sector but spilled over into the rest of the economy. On the external side, these included the slow progress towards peace in the Middle East; the steep rise in the prices of Egypt's main imports; the recession in the industrialized countries; and the slow disbursement of concessional assistance and private external capital. On the domestic side, the escalation in the world prices of food led to an almost threefold increase in the net budgetary subsidies on items of mass consumption, as the Government attempted to maintain domestic prices of imported foodstuffs. Pent-up demand led to a rise in the level of consumption and, combined with world inflation, led to a marked rise in the general level of prices.

6. The deficit in the balance of payments in 1974 was largely met by the use of short-term bank credit facilities, which reached a level of LE 1,055 million ($2.7 billion) 1/ at the end of 1974. The debt structure worsened and the short maturity period of the bank credit facilities created problems of liquidity. The heavy subsidization of items of mass consumption, together with the slow growth of tax revenues, squeezed public sector savings and increased the Government's borrowings from the banking system. This resulted in a 29 percent increase in money and quasi-money in a year when output in real terms is estimated to have increased only by about 4 percent. Almost inevitably, inflation continued at a high rate. Thus, the Egyptian economy entered 1975 in a very vulnerable state, with both external and domestic resources fully stretched.

7. In 1975, the Government made efforts to prevent a major expansion in the use of bank credit facilities. It also sought to obtain long-term loans from Arab countries in order to "refinance" the bank credit facilities. These efforts succeeded in raising LE 672 million ($1.72 billion) during 1975 on concessionary terms from Saudi Arabia, Kuwait, Iran, Abu Dhabi, and Qatar and a start was made towards reducing the level of outstanding bank credit

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1/ Including undisbursed amounts.

facilities (see paragraph 21 below). However, the net cost-of-living subsidies in 1975 were budgeted at LE 493 million ($1.26 billion) -- an increase of almost 50 percent above the actual figure for the previous year. Public sector savings -- and hence, because of its size, total domestic savings -- for 1975 remained low.

8. Production and Investment. Economic growth in 1974 is estimated at about 4 percent in real terms, with industry (largely because of greater utilization of capacity) and services (including construction and tourism) being the leading growth sectors. Investment expenditures increased from LE 470 million in 1973 (which was only marginally above the 1965/66 level) to LE 740 million in 1974 (in current prices), which is about 20 percent of GDP, and represents an increase of about 40 percent in real terms. The 1975 Plan envisaged gross fixed investment of LE 1154 million, of which LE 1056 million were in the public sector. The 1975 Plan had the following priorities: (i) reconstruction in the Suez Canal area (mainly in housing and related infrastructure); (ii) completion of ongoing projects; (iii) replacement, renewal, and better utilization of idle capacity; and (iv) new projects considered essential for economic development, such as for producing fertilizers and cement. The Plan also proposed tripling investment in the private sector to LE 98 million, almost all of which will be in service activities and commodities production. Preliminary estimates indicate that the real growth of GDP in 1975 is likely to have been around 4 percent, while investment may have reached about 70 percent of the target.

9. Prices. Despite subsidies and price controls over a wide range of commodities, inflation has continued at a high rate: the Consumer Price Index for urban population increased by 10 percent in 1974, with the food and beverages sub-index registering a rise of 15 percent. Price increases in 1975 are likely to be of the same order of magnitude. It is likely that these figures substantially understate the real level of inflation in the economy, as they are based on controlled prices.

10. The Domestic Budget. Preliminary budget figures for 1974 show a rise in the deficit to LE 653 million ($1.7 billion) compared with LE 386 million ($990 million) in 1973, largely because of a 270 percent increase in the cost of living subsidies (to LE 330 million-$845 million) 1/, while current revenues increased by about 12 percent to LE 1,143 million ($2.9 billion). The 1975 budget projected a deficit of LE 925 million ($2.4 billion), despite an estimated 35 percent increase in current revenues (arising principally from a doubling of revenues from customs duties, including collection of arrears). Direct bank financing of the budget deficit is projected at LE 125 million, but in fact total lending by the banking sector to the Government will greatly exceed this level. Preliminary figures for the first half of 1975 indicate that both current revenues and expenditures were in line with budgeted amounts, although, on the revenue side, continuing substantial arrears in import duties were offset by a higher-than-projected growth of other taxes.

1/ Almost entirely due to the increase in international prices of imported foodstuffs (largely flour, maize, sugar and edible oils).

11. Balance of Payments. Egypt's deficit on its trade and services account amounted to LE 619 million ($1,584 million) in 1974 (more than twice that experienced in 1973). Egypt's balance of payments difficulties were further compounded by a slow disbursement of medium- and long-term loans committed during 1973 and 1974 and a high level of debt repayments of LE 255 million ($654 million) in 1974; this resulted in a net outflow of LE 52 million ($132 million) on official medium- and long-term capital. Substantially increased Arab grants of LE 475 million ($1,217 million) in 1974 helped to reduce the current deficit but the overall deficit on the current and the medium- and long-term capital accounts nevertheless amounted to LE 199 million ($511 million), which was met by the use of bank credit facilities.

12. Estimates of Egypt's balance of trade and services in 1975 indicate a deficit of about LE 965 million ($2.5 billion). Repayments of about LE 270 million ($690 million) had to be made during the year on outstanding international obligations (excluding banking facilities). The resulting deficit (of about LE 1,235 million -- about $3.16 billion) was financed largely through Arab grants, commodity loans, project loans, suppliers' credits and "rolling over" of banking facilities (see paragraph 22).

13. Since September 1973 a feature of Egypt's trade and exchange rate regime has been a "parallel market" for certain transactions in foreign exchange (tourism, non-traditional exports, and private sector current imports), for which a devalued rate (originally about LE 1 = $1.70) of the Egyptian pound is applied. During 1974, this market was expanded by the introduction of the "own exchange imports scheme," whereby Egyptians holding foreign exchange abroad were permitted to use their balances to import commodities from a list of about 300 items. In November 1975, the own exchange imports scheme was expanded to cover almost all private imports. The scope of the parallel market was widened in January 1976 to cover ten percent of all official imports except supply commodities. The parallel market rate was adjusted in February 1976 to LE 1 = $1.56, and in May 1976 to LE = $1.47.

Development Prospects

14. Despite the current economic difficulties, Egypt's economic potential over the long run is promising. The reasons for this assessment are in brief: (i) the country has a large market, a skilled population, low wages, varied raw materials, and a key geographical location, which makes it a natural base for industries that wish to supply the domestic market and the growing regional market; (ii) Suez Canal revenues are estimated to rise to a level of around LE 300 million ($770 million) per year by 1980, and may increase further as a result of physical expansion and greater usage of the Canal; (iii) Egypt's improved prospects for oil production, which is put (by the oil companies) at one million barrels a day by 1980-82; (iv) considerably increased earnings from tourism which reached an estimated $225 million in 1975; (v) a more intensive utilization of agricultural land, with greater emphasis on high-value crops; and (vi) an increased flow of remittances (estimated at about $250 million in 1975) from Egyptians working in the richer Arab countries of the region.

15. However, the realization of the long-term potential hinges upon a number of complex factors, some of which are not within Egypt's control. The most important of these is a definite movement towards an equitable and permanent peace settlement in the Middle East. Moreover, the attainment of Egypt's prospects requires the transfer of large amounts of capital from abroad; this, in turn, must be preceded by a considerable amount of work on preparing a suitable portfolio of projects for the consideration of potential investors (whether private or official). And finally, it requires fundamental changes in economic policies and institutions. Hence, a realistic estimate of the time required to achieve a significant restructuring of the economy would be of the order of at least 5-10 years.

External Assistance

16. Egypt obtained substantial amounts of external aid until the mid-1960s. Thereafter, new commitments of Western assistance practically ceased: the gross inflow of medium- and long-term capital fell by nearly 50 percent immediately after the 1967 war. Although aid levels gradually rose again, net inflows from Western countries averaged only $10-12 million (LE 4-5 million) annually in medium- and long-term capital over the five-year period FY 1968-1972; amortization payments were some $7 million (LE 3 million) greater than disbursements in 1973. During the period 1968-1973, non-military aid from Eastern countries (estimated in excess of $1,200 million - LE 470 million) financed the bulk of Egypt's development. These inflows, however, declined significantly in 1974 and new commitments in that year dropped to a relatively low level of $76 million (LE 30 million). On the aggregate, slow disbursements of medium- and long-term aid resulted in a net outflow on this account (to both Eastern and Western bloc countries) increasing to about $132 milion (LE 52 million) in 1974. Drawings on suppliers' credits exceeded repayments by about $21 million (LE 8 million); disbursements on other medium- and long-term loans amounted to about $249 million (LE 97 million) while repayments of such loans amounted to $402 million (LE 157 million). In addition, interest payments (mainly on bank credit facilities) amounted to about $156 million (LE 61 million).

17. Substantial Arab aid was received in recent years. Aid received from Arab countries in 1974 amounted to $1,217 million (LE 475 million) and financed about 36 percent of Egypt's imports. Of this, $996 million (LE 389 million) was received in convertible foreign exchange while the rest was in the form of petroleum grants. A major development during the year was the renewal of substantial aid commitments, estimated at about $205 million (LE 80 million), from Western countries. In fact, following the approval of the Bank loan and IDA credit for the first Agricultural and Industrial Imports Project in December 1974, sizeable program assistance was obtained by Egypt from the US, Iran, Germany, and Japan, enabling these sectors further to increase their output and capacity utilization. In 1975 aid commitments totalled about $3.26 billion (see para 21 below). For FY76, the US Government has requested Congressional approval for economic assistance at a level of some $700 million, part of which is expected to be in the form of commodity aid. Grants from Arab countries which reached about $1 billion in 1973 and 1974 are expected to continue, perhaps at a somewhat lower level. Aid from the other OECD countries,

especially France, Germany, UK and Japan, is expected to remain at the increased level of 1974/75; the European Community is also supplying agricultural commodities (including one million tons of wheat) during 1975/76. The creation of a fund by four Arab oil producing countries to participate in financing Egypt's development program has been announced recently.

External Debt and Creditworthiness

18. Egypt's external debt profile worsened in 1974 almost entirely as a result of its borrowing short-term funds at high rates of interest (in the form of bank credit facilities). Bank credit facilities (including undisbursed) amounted to $2.7 billion (LE 1055 million) at the end of 1974, compared with about $1,127 million (LE 440 million) at the end of 1973. Outstanding debt to correspondent banks overseas (i.e., disbursed amounts or letters of credit encashed by these institutions) amounted to $1,082 million (LE 423 million) compared with $499 million (LE 195 million) at the end of 1973. The use of this type of financing created serious external liquidity problems for Egypt in 1975, during which $2,190 million (LE 855 million) of repayments (including interest payments of LE 75 million-$192 million) on these credits had to be made.

19. Egypt's non-military medium- and long-term public debt outstanding and disbursed at December 31, 1974, was estimated at $2,760 million 1/ (LE 1,078 million), i.e., roughly the same level as the previous year. The composition of this debt changed, however, with medium- and long-term government debt increasing slightly to $1,769 million (LE 691 million) and amounts owed as suppliers' credits and balance of bilateral accounts showing significant declines to $474 million and $417 million (LE 185 million and LE 163 million), respectively. In addition, $100 million (LE 39 million) of medium-term debt was contracted from financial institutions. At end 1974, the USSR was Egypt's principal creditor, followed in importance by Germany, Kuwait, the United States, Australia and Italy. IBRD/IDA debt comprised about 1 percent of the total. Of the reported external public debt at end 1974, about 31 percent was due to be repaid within two years, 40 percent within three years, and 46 percent within four years. Debt service on medium- and long-term debt was estimated to amount to about $710 million in 1974, indicating a debt-service ratio of 32 percent. No reliable estimates of military debt are available, but it is understood that Egypt is seeking a rescheduling of service payments on such debt.

20. During 1975, the Egyptian authorities embarked upon a four-pronged strategy to place the country's external accounts on a sound basis. The first step was to stop outstanding foreign bank credit to Egypt from spiralling even higher (and worsening the liquidity position) by placing a "one-to-one" limit on the use of banking facilities. Thus the amount of new letters of credit opened against bankers' facilities in any given period could not exceed the amount of cash repayments made on such facilities falling due in that period. Simultaneously, the Egyptian Government sought the aid of Arab and other states

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1/ Excluding about $600 million in long-term foreign exchange deposits.

for substantial medium- and long-term loans on concessionary terms which would constitute a "fund" to be held in the Central Bank to meet further payments due on bankers' facilities. Third, medium- and long-term aid was sought from Western countries and Japan in a quick-disbursing form (such as program loans and commodity assistance) in order to finance Egypt's essential imports. Finally, discussions were resumed with the Soviet Union for a rescheduling of debt service payments.

21. The Government's efforts to mobilize external assistance met with considerable success in 1975. Long-term loans, at concessionary terms, totalling $1,720 million (LE 672 million -- $600 million from Kuwait, $600 million from Saudi Arabia, $320 million from Iran, $150 million from Abu Dhabi and $50 million from Qatar) were received in 1975. In addition, Arab countries, Arab development funds, USA, Germany, Japan, France, Denmark and Iran have committed about $1,530 million as concessional aid. In February 1976 President Sadat visited a number of Arab countries, and commitments for an immediate transfer to Egypt of about $700 million in cash have been announced. It is expected that further funds will be sought, and imports will probably be reduced from the currently projected level. It has also been announced that, for the longer-term, a fund to assist Egyptian development is being set up by a group of Arab countries, although the amounts that will be available to it are still uncertain.

22. Egypt was, however, unsuccessful in its efforts to reduce its dependence on bank credit facilities. Although a large part of the loans received from Arab countries were in fact used to pay off bank credits falling due, because of the country's import requirements (estimated at $4.5 billion in 1975), a high level of fresh bank credits (LE 700 million or $1,792 million) was incurred. As a result, Egypt's external debt situation deteriorated further in 1975. Medium- and long-term debt outstanding at end 1975 is estimated to have increased to about $5.25 billion (including $2 billion of long term deposits), compared to about $3.4 billion at end 1974 (including about $600 million in long term deposits), short-term debt in the form of bank credit facilities outstanding (including unutilized credits) was only slightly reduced; on December 31, 1975, it was $2,620 million, compared with $2,700 million at end of 1974.

23. Accordingly, considerable further measures are required to assure a permanent improvement and the firm establishment of creditworthiness. To assure stable and sustained growth in the long-term, some fundamental policy decisions will be required. These include:

(i) improved coordination in economic policy-making;

(ii) improved public enterprise efficiency through decentralization and other measures;

(iii) rationalization of consumption subsidies and increased domestic savings, while protecting lower income groups through appropriate price, fiscal and monetary policies;

(iv) promotion of efficient resource allocation through widening the parallel foreign exchange market and pursuing price policies that would better reflect economic scarcities;

(v) reduction of the use of short-term lending facilities, rationalization of the external debt situation and implementation of a debt management program; and

(vi) The preparation of a medium-term plan covering the period 1976-80, to provide a framework for investment decisions and policies.

While some steps have been taken recently with respect to (ii), (iv), (v) and (vi) above, these measures will require continuing review and action. At the Government's request, the Bank has arranged to review developments in the economy by economic missions three or four times a year; the first of these took place in October 1975 and the second in January 1976. A basic economic mission visited Egypt in May/June 1976. In view of Egypt's promising medium-term prospects, and the efforts currently underway to prepare and implement policies that will enable the country better to exploit its development potential, Egypt may be considered creditworthy for Bank lending as well as IDA.

PART II - BANK GROUP OPERATIONS IN EGYPT

24. The proposed loan would be the Bank's and IDA's twenty first lending operation in Egypt. It would bring Bank and IDA commitments made since 1970 to $600.1 million. 1/ Annex II contains a Summary of Bank Loans and IDA Credits as of May 31, 1976, and notes on the execution of ongoing projects.

25. The principal objective of the Bank/IDA lending program in Egypt is to provide foreign exchange in support of its development program through lending (i) for increasing utilization of available productive capacity, (ii) for projects which would increase production and foreign exchange earnings or substitute for imports, particularly in the key industrial and agricultural sectors, (iii) for projects aimed at rehabilitation and expanding infrastructure necessary to facilitate development, and (iv) for selected social sectors, namely population and education. The impact of Bank/IDA participation in projects has been widened by attracting additional foreign exchange required for most of these projects from other donors. Besides the technical assistance included under the Bank/IDA projects, the Bank is acting as Executing Agency for a UNDP-financed National Power Sector Survey and has been asked to act as Executing Agency for a Master Plan for Water Resources and Uses. Work on the

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1/ Including a $50.0 million Third Window Loan for the Fruit and Vegetables Development project approved by the Executive Directors on May 28, 1976, and a $40 million Development Credit and a $10 million loan for a drainage project approved by the Executive Directors on June 8, 1976.

latter is expected to begin later this year. The Bank has also extended limited technical assistance in the preparation of a five-year development plan.

26. The projects financed in FY74 and FY75 were in support of this strategy. A second credit for the development finance operations of the Bank of Alexandria was approved in early FY76, and a loan for rehabilitation of the Port of Alexandria, to be cofinanced with USAID and the Japanese Overseas Economic Cooperation Fund, was approved in April 1976. In agriculture, a Bank loan on Third Window terms for a project for the production and marketing of fruit and vegetables was approved by the Executive Directors in May and a loan and a credit for a drainage project were approved in June 1976. Bank/IDA operations in the industrial sector are described in para 29 below. An education project and a project for the expansion and improvement of Alexandria's water system have been appraised. A pipeline of projects for possible future lending is also being developed, including projects in the power sector, drainage in the Nile Delta and industry.

27. Bank Group disbursements will continue in 1976 to represent less than 10 percent, of Egypt's overall capital inflow requirements. The Bank's and IDA's share of total external debt outstanding and disbursed was less than 1 percent at the end of 1975. For the future, the Bank/IDA share of total external debt outstanding and disbursed (excluding military debts) is estimated to reach about 10 percent in 1978, of which the Bank share would be about 7 percent. It is estimated that in 1978, debt service payments due to the Bank and IDA will represent about 1 percent of service payments due on Egypt's external debt.

28. IFC has in the past year also been discussing private sector and joint venture projects. IFC participation in a ceramics project was approved by the Executive Directors in April 1976.

Bank and IDA Strategy in the Industrial Sector

29. Since 1972, a significant part of the Bank's and IDA's program in Egypt has been in support of industrial development, six of the fourteen projects financed having been for industrial purposes. The Bank lending strategy in the sector is to help Egypt in improving capacity utilization, and in rehabilitating and modernizing selected industries, particularly those that would promote exports and yield additional foreign exchange, or those that would substitute for imports. The $70 million 1974 Bank/IDA Loan (No. 1062) and Credit (No. 524) for Agricultural and Industrial Imports together with other program assistance obtained by Egypt in 1974 and 1975 (see para. 17 above) contributed to raising utilization of capacity in the industrial sector from some 68 percent in 1974 to about 90 percent in 1975. Through DFC operations the Bank supports the Government's strategy of diversification and growth of private sector medium and small-scale industries. Industrial subsector studies financed under the Imports project should help in identifying the priority investment needs as well as the institutional and policy reforms that are needed. In the lending operations to individual public enterprises (e.g., Talkha Fertilizer, Tourah Cement) agreement has been reached on reviews

of key policies for the sub-sectors. Industry is likely to be the key growth sector in the 1976-80 Plan, and Bank involvement in the sector is expected to continue to be substantial.

PART III - THE INDUSTRIAL SECTOR

Background

30. Egypt has a long established and active industrial sector which in 1974 accounted for about 21 percent of GDP, about 40 percent of non-traditional exports, and about 13 percent of total employment (or about 1.2 million people), ranking second only to agriculture in its importance to the country's economy. The industrial sector is expected to play the leading role in future development, especially in view of constraints on expansion of agriculture due to limitations of arable land and water for irrigation. Egypt has a large domestic market, considerable human and natural resources, a favorable geographical situation, a reasonably well-developed industrial base, a tradition of industrial activity, and a relatively skilled labor force; it also has a demonstrated capability to produce and export a variety of manufactured goods. However, in recent years the main constraints operating to the growth of the industrial sector have been: (a) the shortage of foreign exchange, which led to restricted imports of investment goods and to a shortage of imported raw materials, and consequently to a considerable underutilization of capacity; (b) a high degree of protection in some industries and import controls, which prevented external competition and removed pressures to increase efficiency; (c) generally poor quality of production (partly due to imports of low-quality machinery) which has restricted industry's external markets; and (d) the threat of nationalization and heavy controls on private enterprise, which inhibited the sector from expanding and playing a more active role.

31. A further constraint has been that the control and management of public sector enterprises were highly centralized from 1961 until the end of 1975. During that time, the public enterprises in each of the six industrial subsectors operated under a General Organization which acted as a holding company and was responsible for the activities of the enterprises and execution of Government policy in the sub-sector. The Ministry of Industry together with the General Organizations exercised wide control over investment, production targets, pricing, employment and export policies of public enterprises, and in some cases intervened excessively even in production decisions of the enterprises.

Recent Developments

32. By Presidential Decree No. 111 of September 4, 1975, the Government dissolved all the General Organizations as of the beginning of 1976. The purpose was to give greater freedom and flexibility to enterprise management and hence to permit them to act more competitively. This is a further step by the Government towards liberalizing the economy and towards decentralization

of decision making, in line with Bank advice. Enterprises remain, however, largely dependent on the national budget for foreign exchange and for allocations of resources for investment; they will still also have responsibility for the retention of employees so as to relieve unemployment and their ability to determine prices independently of Government controls is uncertain. Nevertheless, the abolition of the general organizations and the expanded use of the parallel market exchange represent significant moves toward introducing the discipline of the market into industrial decisions.

Growth and Production

33. The real growth rate in the industrial sector during the period 1968/69-1970/71 was about 9 percent. Thereafter, it stagnated until 1974, when output grew by about 5 percent. Growth rates in 1975 are reported to be significantly higher. Egypt's principal industries, as measured by employment and output, remain in the traditional textile and food processing sub-sectors. Other sizeable sub-sectors now include engineering (including production of vehicles, tractors and certain consumer durables), chemicals (including fertilizers, paper and tires), metallurgical (mainly iron and steel), and building materials. Some 75 percent of the value of industrial output is accounted for by the public sector, which includes some 200 industrial enterprises employing in total over 500,000 workers, about 5.5 percent of the country's labor force. Private industry remains strong, especially in textiles, food and beverage processing, woodworking, and leather goods; the latter two sub-sectors being almost entirely in private hands. The private manufacturing sector has altogether about 450,000 employees in over 150,000 establishments, of which some 2 to 3 percent are considered to be factory-type operations, employing over 50 people.

Exports

34. Manufactured goods exports grew by about 26 percent (in current prices) between 1970 and 1973, and by 52 percent in 1974, largely due to the significantly higher prices of cotton textile exports. However, lower prices and volume of cotton textile exports and increasing domestic demand for manufactured goods, have probably resulted in a decline in the sector's export earnings in 1975. It is noteworthy that the exports of the private sector have grown much more rapidly than those of the public sector in recent years (from 13 percent of total exports of industrial goods in 1970/71 to 24 percent in 1974). While there is a substantial incentive for exports of non-traditional goods to convertible currency countries, since the receipts for those exports can be directed through the parallel market, a large proportion of manufactured exports (64 percent in 1973 and 71 percent in 1974 - including 90 percent of the private sectors' manufactured exports) went to Eastern European countries.

Public Sector Investment

35. Investment in public sector manufacturing industry increased by about 80 percent to $325 million in 1974. About half the 1974 investment was devoted to metallurgical industries, including the Helwan Steel Complex. The

balance was distributed among the remaining subsectors as follows: textiles 17 percent, chemicals 13 percent, food processing 9 percent, engineering industries 5 percent and building materials 4 percent. The 1975 planned investment in industry was marginally above the 1974 total; allocations to the metallurgical subsector were reduced to 37 percent, reflecting a shift of resources to the food processing and chemical subsectors. Investments for the period 1976-80 in the industrial sector are still under discussion in the context of the Five-Year Plan now being prepared.

Private Investment

36. The investment climate for entrepreneurs in the private sector has been improved in the past two years, helped by the new official recognition given to the role of the private sector in the economy. A new foreign investment law was enacted in 1974 to give additional incentives to foreign private investment in Egypt, particularly in the Suez Canal Zone. The Government envisages local private investment mainly in medium- and small-scale industries. A Presidential decree of May 15, 1975 allows private participation in new issues of stocks of public enterprises up to LE 10,000 per person.

The Textile Industry

37. Textiles is one of Egypt's major industries. It accounted in 1974 for about 50 percent of employment in the industrial sector, and 52 percent of the value of output in the sector as a whole. Besides providing for nearly all of the local needs, the industry accounted for 43 percent of exports of manufactured goods in 1974; cotton and cotton products combined represented about 70 percent of all Egyptian exports. However, the proportion of the country's exports in the world textile trade has been small having been only about 2 percent of the total trade and less than 5 percent of the cotton yarn and fabrics trade. About 60-70 percent of the Egyptian exports go to the Eastern European and Arab countries. Quotas for Egyptian textiles in the European Community and the US have not been filled by a wide margin for several years because of high domestic demand and also because, although Egypt's cotton is of high quality, the quality of Egyptian textiles lagged behind those of other competitors. Thus, a modest increase in the country's exports supported by the project should not present any significant marketing problems.

38. Egypt is a major producer of cotton; it specializes in the production of long and extra-long staple cotton. In 1970, it produced about 5 percent of total world output of cotton and about one-third of long staple and extra long staple. Recently, however, production of cotton decreased and exports, which had averaged about 290,000 tons per annum during 1967-1973, decreased to about 207,000 tons in 1975. This decline results from the fact that because of the limited amount of arable land available in Egypt, the cotton growing area had to be somewhat reduced to accommodate the increasing demand for food crops. Also, in the last five years domestic per capita consumption of textiles has been increasing by about 2 percent per annum. Assuming a further moderate growth in the domestic demand for textiles, considerable investments in the textile industry will be required to both satisfy local demand and improve Egypt's exports of cotton textiles. If

exports of cotton are not to fall much further, cheaper short staple cotton and/or synthetic fibers will have to be imported to meet the rising demand for textiles and plans will have to be pursued to establish plants for the domestic production of synthetic fibers.

Organization of the Textile Industry

39. In the process of nationalizing industrial enterprises in Egypt in 1961, most of the existing textile companies became state-owned and were, until the end of 1975, incorporated in the Egyptian General Organization for Spinning and Weaving (EGOSW). In 1974, the 30 textile companies in the public sector had combined sales of LE 401 million (US$1,027 million), employed 266,000 persons and accounted for 100 percent of the sector output of yarn and 70 percent output of fabrics. As explained earlier (see para 32), effective January 1, 1976 the General Organizations were dissolved by Presidential Decree and all shares of EGOSW's former subsidiary companies were transferred to the Government. The decree removed EGOSW as an intermediary and made the companies directly responsible to the Ministry of Industry.

40. The textile industry covers a wide range of activities such as spinning, weaving, converting, knitting and garment manufacturing. Since nationalization, all spinning and converting as well as 70 percent of weaving, 45 percent of knitting and 30 percent of garment manufacturing have been part of the public sector; the balance being carried out by several hundred small companies in the private sector. The public sector companies produce mostly cotton textiles but also manufacture synthetic fibers, jute products, spare parts for textile machinery and carpets.

41. Although the number of spindles and looms has increased during the last eight years, by about 40 percent and 30 percent respectively, investments during this period in new facilities and the rate of replacement of obsolete equipment--more than half of it is over 25 years old--have been inadequate. In addition all textile mills have been operating on four shifts 350 days per year, thus leaving practically no time for maintenance. Government policies whereby the mills are heavily overstaffed are constraining factors for the productivity of the mills. Despite these difficulties, the performance of management and supervising personnel for most of the companies is rated as highly satisfactory.

Demand and Supply

42. Comparing the demand and supply projections, it appears that, unless additional production facilities are provided, in 1980 domestic demand will exceed supply by about 120 to 190 million square meters and in 1985 by about 300 to 470 million square meters. In view of the increased demand for domestic cotton textiles, the potential for increased exports and the need to replace obsolete equipment, it has been estimated that investments of the order of about $2 billion will have to be made within the next 10 years. The total cost of the proposed project represents approximately 7 percent of the financing which might be required for investment in the sector until 1986.

Marketing and Pricing of Textiles

43. Domestically marketed fabrics from the textile factories are sold either to public sector wholesalers (80 percent), private wholesalers (15 percent), or private garment manufacturers (5 percent). About 35 percent of the domestic fabric consumption is of so-called "rationed" fabrics which are allocated to each individual at subsidized Government-controlled prices, which often do not cover production costs. The price of rationed fabrics has not been increased since 1968. Domestic ex-factory prices of non-rationed fabrics have been increased since 1968 by 25 percent but are still about 7 percent lower than world prices. Also, price controls for these fabrics result in proliferation of the number of fabrics beyond actual market requirements and do not provide any incentive to manufacturers to raise or even maintain a high quality of domestic fabrics.

44. The prices of yarn and fabrics exported to convertible currency markets are governed by competitive conditions in world markets. However, two factors have hampered the Egyptian textile companies: (i) their external sales are transacted at the official exchange rate rather than at the more competitive parallel market rate, and (ii) they are not free to decide the amount of textiles they could sell to convertible currency markets rather than to barter agreement countries for which prices are set by the Government. The Government is now reviewing the complex pricing policy in the sector with a view to its rationalization.

Export Promotion

45. One of the major requirements for a successful overall economic development program in Egypt will be the expansion of export markets and an improvement of the kinds of products that are competitive in these markets. The five-year plan framework tentatively projects almost a doubling of total exports during the period 1976-80 and exports of textile products are expected to provide much of the impetus. However, there are many obstacles to be overcome; of prime importance are improvements in quality control, and hence quality of products and increase in price competitiveness and marketing capabilities. An integrated program of export promotion of industrial products, including textiles, is needed (see para. 59 below).

Previous Bank and IDA Lending in the Textile Sector

46. Bank and IDA lending to the Egyptian textile sector commenced in 1973 when IDA made a credit of US$18.5 million to help finance a cotton ginning rehabilitation project (Credit 423-UAR). This project is now progressing satisfactorily (See Annex II). The financing of a study of the Egyptian textile subsector was included as part of the Bank/IDA Agricultural and Industrial Imports Loan and Credit. The study was completed in late May 1976 and its findings are being reviewed by the Government and the Bank.

PART IV - THE PROJECT

Project History

47. The project was prepared by staff of the Misr Fine Spinning and Weaving Company Kafr El Dawar (KED) and the Misr El Beida Dyers (EB) with occasional assistance from Bank staff; it was preappraised in October 1975 and appraised in January 1976. Negotiations were held in Washington in May 1976. The Government was represented by Mr. Samir Koraim and Eng. Ahmed El Baz. KED was represented by Eng. Mahmoud Ibrahim and EB by Eng. Omar Ismail. An appraisal report entitled "Appraisal of the Kafr El Dawar and El Beida textile project" (No. 1131-EGT), dated June 7, 1976, is being distributed separately. The main features of the loan and project are summarized in Annex III.

Project Objectives and Description

48. The project is designed to expand and rehabilitate the manufacturing capacity of two textile companies, KED and EB, to provide training and technical assistance to the textile sector, and thus to help improve Egypt's industrial export potential. The project would consist of the following:

(a) Expansion of KED's manufacturing capacity by 25 percent. It is expected that about 70 percent of the cotton fabrics output of the project, as well as all the cotton yarn not used in weaving would be exported;

(b) Expansion of EB's converting capacity by 32 percent. The EB subproject also includes expansion of the caustic soda recovery and fabric coating operations;

(c) training abroad of technical and supervisory personnel from the textile sector;

(d) technical assistance for the preparation of a feasibility study for a new textile project;

(e) technical assistance towards the establishment of an promotion program designed to revitalize exports of industrial goods.

Machinery and Buildings

49. The two companies' mills would be equipped with new but conventional equipment and machinery. The proposed machinery layout has been reviewed by the Bank and found satisfactory. As world textile machinery industry is still in a state of recession no problems are envisaged with equipment supplies. Consequently, timely execution of the project will primarily depend upon the

prompt completion of the civil works. The Government has therefore agreed that public sector contractors and building materials would be made available to the companies on a priority basis (Section 3.06(b) of the draft Loan Agreement).

Raw Materials and Utilities

50. The basic raw materials required by KED are cotton and polyester. In order to maximize foreign exchange revenues, Egypt will, however, have to import cheaper short staple cotton to release the more valuable long and extra-long staple cotton for exports. As for polyester, it will initially have to be imported, but eventually, the fiber is expected to be supplied by a new plant now being considered by the Government. For EB, input materials will be gray cotton fabrics for coating as well as dyestuffs and chemicals, of which about 75 percent will have to be imported. The Government has agreed to provide the foreign exchange necessary for future supplies of input materials required by the two companies (Section 3.06(c) of draft Loan Agreement). The Government has also agreed to ensure the adequate supply of power facilities for the new textile plants (Section 3.06(a) of draft Loan Agreement).

Ecological Considerations

51. As KED is a grey cloth mill producing woven or knitted fabrics which received no bleaching, dyeing or finishing treatment, it has no water or air pollution problems. The effluent from the EB plant is highly alkaline and is therefore discharged into a special drainage canal which empties into the sea. As the water in the canal is on the acid side due to effluent from a rayon plant, after the effluents from the two plants mix 200 meters downstream from EB, the water would become almost neutral. Consequently the project does not introduce any environmental dangers.

Project Costs

52. Capital costs of the project are estimated at US$106.4 million, equivalent, and working capital for raw materials, technical assistance and training at an additional US$34.1 million. Interest and other charges during construction are estimated at US$12.7 million. Of the total financing requirements of US$153.2 million, US$105.1 million, or 69 percent, would be in foreign exchange including $11.7 million for interest during construction on the foreign exchange portion of the capital costs. Cost estimates have been prepared on the basis of price quotations obtained by KED and EB from textile equipment suppliers and Egyptian construction firms. A 5 percent allowance has been added for physical contingencies; price contingencies of 9 percent for 1976 and 8 percent for 1977 and thereafter, have been included for foreign equipment, and 13 percent and 12 percent for civil works, respectively. As the type of equipment to be used is standard, and the project scope is well defined, the risk of cost increases is limited and the capital cost estimates are considered realistic. A more detailed description of the project costs is provided in Annex III.

Financing Plan

53. The proposed Bank loan would contribute US$52 million, equivalent, or 34 percent of the project's total financing requirements. The Arab Fund for Economic and Social Development (Arab Fund) has confirmed that it is considering a parallel loan in the amount of Kuwait Dinars 10 million (US$34.5 million equivalent) representing 23 percent of the financing requirements; the terms of the Arab Fund loan have not yet been determined. The procedures to be followed for coordinating the Arab Fund's and the Bank's activities during project execution and supervision will be agreed upon with the Arab Fund prior to effectiveness. The signing of the Arab Fund loan agreement will be a condition of effectiveness under the Bank loan agreement (Section 6.01 of the draft Loan Agreement). A letter of understanding regarding project administration arrangements will also be exchanged with the Arab Fund upon approval of its loan. The Government will provide the remaining foreign exchange of US$18.6 million.

54. The proposed Bank loan would be made to the Arab Republic of Egypt for a term of 15 years, including 4 years of grace, at an interest rate of 8.85 percent per annum. Except for about US$1.3 million to be used by the Ministry of Industry for financing of technical assistance, sectoral training and export promotion, US$25.8 million and US$24.9 million of the loan proceeds would be onlent to KED and EB, respectively, at 10 percent per annum (interest plus a Ministry of Finance charge as interest equalization fee) with the same repayment and grace period as the Bank loan. The two companies would bear the foreign exchange risk on their respective portions of the loan.

55. The Arab Fund and Bank loans would finance separate lists of goods and services. The proposed Bank loan would be used to finance the foreign exchange expenditures of the weaving equipment for KED, all the finishing equipment of EB, for incremental working capital (for part of the imported polyester fibers and yarn, and chemicals and dyestuffs), and for part of the foreign exchange expenditures of construction materials. It would also finance all foreign costs of consulting services and of technical assistance and training. The Arab Fund is expected to finance the foreign exchange expenditures of the spinning equipment of KED. The Government has agreed in a supplemental letter to provide the funds required to cover the local currency costs of the project, estimated at US$48.1 million, equivalent. Moreover, the Government has agreed to provide any additional resources which might be required to complete the project and bring it into operation.

Project Implementation

56. KED which was established in 1938 is a company concentrating on the spinning and weaving of very fine yarns and grey fabrics. With a work force of about 21,000, KED is the second largest employer in Egypt's textile industry. EB was established in 1938 and has, at present, a work force of about 7,000. Most of EB's business consists of converting yarn and fabrics on a

commission basis. It is converting all products of KED. KED and EB will be responsible for the execution of the project except for sectoral training, the preparation of a feasibility study for a future textiles project and the export promotion component, which will be administered by the Ministry of Industry. The managements of the two companies are considered competent in operating their plants. Expansion of plant facilities in the past was accomplished by the two companies in a satisfactory manner as was the preparation of the feasibility study for the proposed project. The two companies are, however, not adequately familiar with the different types of machinery which are likely to be offered to them as a result of international competitive bidding under the project. Also, operation of the new plants at higher productivity levels will require additional training as well as introduction of modern technical and cost control methods. The two companies have therefore agreed as a condition of effectiveness (Section 6.01 of the draft Loan Agreement) to employ a textile engineering and consulting firm, acceptable to the Bank, as Technical Advisor, on terms satisfactory to the Bank. The main responsibility of the Technical Advisor will be to assist KED's and EB's implementation units in drafting detailed engineering specifications, evaluating tenders and in providing management and technical assistance (Section 2.03 of the draft Project Agreements). Satisfactory project implementation units have already been established within KED and EB. Civil works will be carried out by local contractors who will work closely with the two companies' project units.

Training

57. Skilled workers will be selected from the companies' existing operations and trained to operate the new equipment. As the equipment will be of conventional design, training, customarily given by machinery suppliers, plus special training programs for supervisory and other personnel carried out with the assistance of the Technical Advisor are expected to ensure that the new plants will achieve full operating capacity within one year after start up.

58. Regarding the training and technical assistance to be provided to the textile sector as a whole in order to acquaint Egyptian textile engineers with modern production techniques and modern machinery, the Government undertook to present to the Bank by August 31, 1976 and December 31, 1976, respectively, specific proposals for the utilization of funds provided under the project (Section 3.07 of the draft Loan Agreement).

Export Promotion

59. An allocation of US$1 million (based on 600 manweeks of consulting time) is included under the proposed loan to defray the foreign exchange costs of expert services to help towards the establishment of an export promotion scheme for manufactured goods, including textiles products. The Government has agreed that within a year from the initiation of the work, the ministries concerned (see below) will jointly recommend to the Government, following

consultation with the Bank, (i) an action program to revitalize exports through measures aimed at specific product lines and markets and (ii) a set of policies that will include export incentives (Section 3.05 of the draft Loan Agreement). The work will be under the direction of an interministerial committee to include, inter alia, the Ministers of Commerce, Economy and Economic Cooperation, Planning, Industry and Agriculture or their representatives. A task force will be assembled with professional staff seconded from the ministries, and with help from foreign consultants. The work of the task force will build on the studies in the six industrial subsectors that are being financed under the Agricultural and Industrial Imports Project (see para. 29 above), but will emphasize programs and policies that will give an immediate as well as long-term stimulus to exports. Bank staff will assist the Government in the carrying out of the study.

Procurement

60. Goods and services to be financed under the proposed loan would be procured through international competitive bidding in accordance with the Bank's Guidelines for Procurement except for (i) miscellaneous small items costing less than US$100,000 equivalent but not exceeding the aggregate amount of US$1.0 million for each company, which may be purchased through international shopping on the basis of suitability, availability and price considerations following approval by the Bank of the list of items involved; (ii) proprietary items necessary for repair of the existing equipment and items in limited supply which are critical to the timely completion of the project and whose aggregate cost is estimated not to exceed US$2 million for KED and US$1 million for EB; and (iii) polyester fibers and yarn, dyestuffs, chemicals and construction materials; which may be procured through international shopping on the basis of at least 3 quotations from qualified foreign suppliers approved by the Bank. International shopping is considered acceptable because (i) it is the most economic manner for purchasing items readily available from suppliers' stocks, (ii) the administrative burden and time involved in purchasing items of this nature through international competitive bidding, and (iii) in the case of the specific raw materials required for the project, of the limited number of suppliers of the particular items needed. If KED and EB choose to procure construction materials on the basis of international competitive bidding, domestic suppliers would be allowed a preference of 15 percent or the actual customs duty, whichever is lower. Preparation of technical specifications are now in progress and it is expected that the first equipment orders could be placed in early 1977.

Disbursement

61. The proposed loan would be disbursed against 100 percent of the foreign expenditures for (a) imported equipment, spares, and related items; (b) imported construction materials or 100 percent of the expenditures (ex-factory costs) if locally manufactured; and (c) project and sector technical assistance and training. Retroactive financing for foreign expenditures incurred after May 1, 1976, in connection with bid advertisement in foreign newspapers and the employment of technical advisors, would be eligible in an amount not exceeding US$100,000.

Financial Projections

62. With the expansion, KED's sales revenue is forecast to increase by LE 18.0 (US$46.1) million by 1980, when the project reaches full production. Net profit after taxes is projected to increase as a result of the project from LE 3.1 (US$7.9) million in 1974 to LE 6.4 (US$16.3) million in 1980. This would result in an increase in the return on net worth from about 10 percent in 1976 to about 20 percent in 1982. The company's exports are expected to increase by LE 7.6 (US$19.4) million, or by about 68 percent of the companies' expected export earnings without the project. As for EB, by 1980 incremental sales revenue and net profit after tax are forecast at LE 11.5 (US$29.3) million and LE 2.4 (US$6.1) million, respectively. These incrementals constitute increases of 47 percent and 63 percent over the expected sales revenue and profit after tax of the company without the project. The return on net worth would increase from about 16.5 percent in 1976 to about 21 percent in 1982. As pointed out above, EB does not export any of its products. Liquidity and debt service coverage of both KED and EB are considered fully adequate. Overall, the financial outlook for the two companies is good. The financial statements of the companies are audited by the Central Agency for Auditing, a government agency. This arrangement is satisfactory to the Bank.

63. To safeguard the financial position of the two companies, the Government has agreed to:

(a) not take any action which would, assuming efficient operations, preclude the companies from meeting all their expenses and servicing their debt out of earnings and from earning a reasonable return on invested capital (Section 4.03 of the draft Loan Agreement); and

(b) not make any cash withdrawals from the companies which would prevent each of them from maintaining a ratio of current assets to current liabilities of at least 1.5 (Section 4.02 of the draft Loan Agreement).

64. The companies have agreed to the following:

(a) EB will submit to the Bank within six months after loan signing a detailed study of its present and future liquidity position (Section 4.03(a) of the EB draft Project Agreement).

(b) to ensure their liquidity, KED and EB will maintain a current ratio of current assets to current liabilities of 1:5 or above (Section 4.03(a) and Section 4.03(b) of the KED and EB draft Project Agreements, respectively).

(c) before completion of their subprojects, KED and EB will not undertake any new investments (other than the Project and normal maintenance and renewal of equipment)in excess of US$2.5 million equivalent each per year without prior agreement with the Bank (Section 4.04(a) of the KED and EB draft Project Agreements); and

(d) after completion of their subprojects the two companies will not undertake any further capital investment without prior agreement with the Bank if as a result of such investments their respective debt/equity ratio would exceed 60/40 (Section 4.04(b) of the KED and EB draft Project Agreements).

65. The financial rate of return of the KED component of the project is estimated at 12 percent. An increase in operating or capital costs by 10 percent would result in a decrease in the financial rate of return by 2.3 percent or 1.4 percent, respectively. As for the EB part of the project, the financial rate of return is estimated at 16 percent. An increase in operating or capital costs by 10 percent would result in a decrease in the financial rate of return by 3.5 percent or 2.0 percent, respectively. The overall financial return for the project is expected to be about 13 percent.

Risks

66. The project faces no more than normal technical, managerial and commercial risks involved in such industrial investments. In view of the Government assurances regarding the availability of public sector contractors and building materials (see para. 49 above) the likelihood for substantial delays in implementation is low. Major cost overruns during project implementation, unless caused by a sudden increase in the world demand for textile equipment are considered unlikely. Also, technical risks are limited because of (i) KED's and EB's experience in managing, constructing and operating textile projects; and (ii) participation of a Technical Advisor in project implementation. The commercial risks of the project are acceptable, mainly because of the large unsatisfied demand for the polyester-cotton fabrics in Egypt and since the additional exports from the project will represent a relatively small part of total textile exports. The financial performance of the two companies will depend in large measure on the Government's pricing policies. However, as noted above (para. 63 a) the Government has agreed not to take any action which would preclude the companies from earning a reasonable return on invested capital.

Economic Benefits and Justification

67. The economic rate of return for the KED component of the project is estimated to be 21 percent, for the EB component 22 percent; the overall economic rate of return of the project is estimated at 22 percent. This aggregate rate of return excludes the costs for sectoral training and technical assistance since the benefits deriving from this investment cannot be easily quantified. The export promotion assistance would be particularly beneficial in stabilizing and improving Egypt's foreign exchange earnings. International prices for the tradeable inputs and outputs were used in calculating the rate of return.

68. The project will provide new employment to about 2,850 people which represents an increase of about 10 percent of the present employment of the two companies. The foreign exchange savings from the project would be of importance to the Egyptian economy. The net annual foreign exchange savings from the project would amount to about US$52 million by 1980.

PART VI - LEGAL INSTRUMENTS AND AUTHORITY

69. The draft Loan Agreement between the Arab Republic of Egypt and the Bank, the draft Project Agreement between the Bank and Kafr El Dawar Spinning and Weaving Company, the draft Project Agreement between the Bank and El Beida Dyers Company, the Recommendation provided for in Article V, Section 1(d) of the Articles of Agreement, and the text of a draft Resolution approving the proposed loan, are being distributed to the Executive Directors separately.

70. Special features of this Project are referred to in paras. 49, 50, 56, 58, 59, 63, and 64 of this report.

71. The signing of a loan agreement between the Arab Republic of Egypt and the Arab Fund for Social and Economic Development (for the provision of additional foreign exchange required for the project), the appointment of technical advisors and the conclusion of satisfactory Subsidiary Loan Agreements between the Government and KED and EB, respectively, are additional conditions to the effectiveness of the Loan and Project Agreements (Section 6.01 of the draft Loan Agreement).

72. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

73. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments

June 9, 1976

EGYPT - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM2)
TOTAL 1001.4
ARABLE 35.6

	EGYPT 1960	EGYPT 1970	EGYPT MOST RECENT ESTIMATE	REFERENCE COUNTRIES (1970) PHILIPPINES	TURKEY	SPAIN **
GNP PER CAPITA (US$)	130.0	210.0	250.0	220.0	450.0	1260.0
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR, MILLION)	25.8	33.3	35.6	36.9	35.2	33.6
POPULATION DENSITY						
PER SQUARE KM.	26.0	33.0	36.0	123.0	45.0	66.0
PER SQUARE KM. ARABLE LAND	..	937.0	1001.0	..	140.0	..
VITAL STATISTICS						
CRUDE BIRTH RATE PER THOUSAND	43.0	35.0	35.0	45.0	38.0 /a	19.6
CRUDE DEATH RATE PER THOUSAND	17.0	15.0	13.0	12.0	13.0 /a	8.5
INFANT MORTALITY RATE (/THOU)	109.0	116.0	103.0	80.0	145.0	27.9
LIFE EXPECTANCY AT BIRTH (YRS)	51.0	50.0	53.0	58.0	55.0 /b	71.0
GROSS REPRODUCTION RATE	2.8 /a	3.0	3.0	3.3	2.6 /a,b	1.4
POPULATION GROWTH RATE (%)						
TOTAL	2.4	2.5	2.5	3.0	2.5	1.1
URBAN	6.0	3.6	3.5	4.0	4.5	2.0
URBAN POPULATION (% OF TOTAL)	38.0	42.0	43.0	32.0	39.0	49.0
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	43.0 /b	44.0	..	43.0	41.8	27.8
15 TO 64 YEARS	54.0 /b	52.0	..	53.0	53.9	62.5
65 YEARS AND OVER	3.0 /b	4.0	..	4.0	4.3	9.7
AGE DEPENDENCY RATIO	0.9	0.9	..	0.9	0.9	0.6
ECONOMIC DEPENDENCY RATIO	1.8	1.7	..	1.6	1.1 /c	1.1
FAMILY PLANNING-						
ACCEPTORS (CUMULATIVE, THOU)	..	200.0	..	409.0	484.0 /d	..
USERS (% OF MARRIED WOMEN)	..	..	9.0	8.0	8.2	..
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSANDS)	7800.0 /c	8300.0 /a,b	9500.0	12300.0	14500.0 /e	11900.0
LABOR FORCE IN AGRICULTURE (%)	57.0 /c	53.0 /a,b	47.0	51.0	67.0	24.8
UNEMPLOYED (% OF LABOR FORCE)	5.0	3.0	2.0 /a	7.0	4.0 /f	2.0 /a
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF POPULATION	19.2 /d	..	..	..	32.8 /g	..
HIGHEST 20% OF POPULATION	48.4 /d	..	..	..	60.6 /g	..
LOWEST 20% OF POPULATION	4.6 /d	..	..	..	2.9 /g	..
LOWEST 40% OF POPULATION	14.1 /d	..	..	..	9.4 /g	..
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	..	..	..	..	53.0	..
% OWNED BY SMALLEST 10% OWNERS	..	..	..	..	0.9	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	2500.0/e	1910.0/c	1820.0 /b	2710.0	2220.0	750.0 /b
POPULATION PER NURSING PERSON	2730.0/e,f	1640.0/c	1520.0 /b	1970.0	1880.0 /h	1430.0
POPULATION PER HOSPITAL BED	500.0/e	460.0	460.0	850.0	490.0	220.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)	95.0	94.0	100.0	85.0	110.0	107.0
PROTEIN (GRAMS PER DAY)	66.0	66.0	69.0	45.0	78.0	81.0
-OF WHICH ANIMAL AND PULSE	17.0/g	16.0	..	22.0	22.0 /i	40.0
DEATH RATE (/THOU) AGES 1-4	39.0	..	..	7.0	15.0 /b	0.9
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	66.0	70.0	..	119.0	111.0	83.0
SECONDARY SCHOOL	16.0	33.0	..	45.0	28.0	49.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	12.0	12.0	12.0	10.0	11.0	13.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	22.0	19.0	19.0	10.0/a,b	14.0	20.0
ADULT LITERACY RATE (%)	20.0	..	40.0	72.0	55.0 /i	94.0
HOUSING						
PERSONS PER ROOM (AVERAGE)	1.6	..	..	..	1.9	..
OCCUPIED DWELLINGS WITHOUT PIPED WATER	60.0/h	..	..	66.0 /b	64.0	..
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	38.0/h	..	..	23.0 /b	41.0	..
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	..	..	6.0 /b	18.0	..
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	58.0	132.0	143.0	45.0	89.0	214.0
PASSENGER CARS (PER THOU POP)	3.0	4.0	5.0	8.0	4.0	70.0
ELECTRICITY (KWH/YR PER CAP)	102.0	228.0	230.0	235.0	244.0	1627.0
NEWSPRINT (KG/YR PER CAP)	1.3	1.0	1.3	1.5 /c	0.7	5.8

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to 1959-61, for 1970 to 1968-70, and for Most Recent Estimate to 1971-73.

** Spain's successful diversification of its economic structure, degree of industrialization and development of tourism makes it an appropriate "objective" country.

EGYPT	1960	/a 1950-55; /b Excluding population of small agglomerations in the frontier districts; /c Figure relates to persons six years and over, excludes nomad population; /d 1964-65, households; /e 1962; /f Including assistant nurses and midwives; /g 1960-62; /h Urban only.
	1970	/a 1966, /b Relates to 12-64 years of age; /c Registered, not all practicing in the country.
	MOST RECENT ESTIMATE:	/a May 1972; /b Registered, not all practicing in the country.
PHILIPPINES	1970	/a Public education only; /b 1967; /c Imports only.
TURKEY	1970	/a Excludes 17 Eastern provinces; /b 1965-67; /c Ratio of population under 15 and 65 and over to labor force age 15 years and over; /d 1964 - June 1974, 86 percent being IUDs, /e 15 years and over, excludes unemployed; /f Registered only, /g Disposable income of households, /h Including assistant nurses and midwives; /i 1964-66; /j Persons six years old and over who tell the census takers that they can read and write.
SPAIN	1970	/a Registered unemployed; /b Registered, not all practicing in the country.

R5 February 18, 1976

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km^2)
Total - Total surface area comprising land area and inland waters.
Arable - Most recent estimate of land area used temporarily or permanently for cultivation, pastures, market and kitchen gardens or to lie fallow.

GNP per capita (US$) - GNP per capita estimates at market prices, calculated by same conversion method as World Bank Atlas (1972-74 basis).

Population and vital statistics
Population (mid-yr. million) - As of July first; if not available, average of two end-year estimates.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.
Population density - per square km of arable land - Computed as above for arable land only.

Vital statistics
Crude birth rate per thousand - Annual live births per thousand of mid-year population; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Crude death rate per thousand - Annual deaths per thousand of mid-year population; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.
Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.
Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70, and 1960 to most recent year.
Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.
Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.
Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.
Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.
Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.
Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.
Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment
Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.
Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.
Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of population.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition
Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.
Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.
Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein, these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.
Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education
Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.
Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.
Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.
Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.
Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing
Persons per room (average) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.
Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.
Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.
Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption
Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.
Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita; generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.
Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

COUNTRY DATA - EGYPT, ARAB REPUBLIC OF

GNP PER CAPITA IN 1974.[1/] US$280

GROSS NATIONAL PRODUCT IN 1974

	US $ Mln.	%
GNP at Market Prices	10,109	100.0
Gross Domestic Investment	1,894	18.7
Gross National Saving 2/	310	3.1
Current Account Balance 2/	-1,584	-15.6
Exports of Goods, NFS	2,196	21.7
Imports of Goods, NFS	3,823	37.8

ANNUAL RATE OF GROWTH (%, constant prices)

	1960-65	1965-70	1970-73	1974
GNP at Market Prices	6.6	3.8	3.0	3.8
Gross Domestic Investment	11.0	-1.1	8.8	26.4
Gross National Saving 2/	-	-	-	-
Current Account Balance 2/	-	-	-	-
Exports of Goods, NFS	5.0	1.9	(3/)	(3/)
Imports of Goods, NFS	8.0	1.0	(3/)	(3/)

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1974

	Value Added[4/]		Employment		V. A. Per Worker	
	US $ Mln.	%	Mln.	%	US $	%
Agriculture	3,187	34.2	4.21	46.6	757	73.4
Industry and Mining	1,933	20.7	1.15	12.7	1,681	162.9
Electricity	123	1.3	.04	0.4	3,075	298.0
Construction	345	3.7	.31	3.4	1,113	107.9
Distribution Sector	1,352	14.5	1.29	14.3	1,048	101.6
Services Sector	2,389	25.6	2.04	22.6	1,171	113.5
Total/Average	9,329	100.0	9.04	100.0	1,032	100.0

GOVERNMENT FINANCE

	Central/Federal Government ($ Mln.)	% of GDP	
	1974[5/]	1974	1969-71[6/]
Current Receipts	2,926	31.6	21.3
Current Expenditure	3,105	33.5	20.7
Current Surplus	-179	-1.9	0.6
Emergency Fund 7/	1,308	14.1	9.2
Capital Expenditures	1,492	16.1	11.7
External Financing (net)	202	2.2	-0.4

1/ The Per Capita GNP estimate is at market prices, calculated by the same conversion technique as the 1975 World Bank Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.
2/ Excluding unrequited transfer receipts.
3/ Accurate constant price growth rates are not available due to insufficient information concerning trade deflators.
4/ At current factor costs.
5/ Preliminary figures.
6/ 1969-71 current receipts and expenditures not comparable with 1974 data because of differences in methodology.
7/ A Government account for special defence facilities and reconstruction, funded by Arab grants and earmarked revenue receipts. The operations of the Fund are excluded from the national budget.

MONEY, CREDIT and PRICES	1971	1972	1973	1974
		(Million LE Outstanding End Period)		
Money and Quasi Money	1,166	1,345	1,633	2,114
Claims on Government	1,342	1,469	1,656	2,038
Claims on Non-Government Sector	549	553	531	788
		(Percentages or Index Numbers)		
Money and Quasi Money as % of GDP	36.0	39.7	44.9	53.2
Consumer Price Index (1966/67 = 100)	113.6 1/	117.4	122.4	135.7
Annual percentage changes in:				
Consumer Price Index	4.0 1/	2.8	4.3	10.9
Claims on Government	13.6	9.5	12.7	23.1
Claims on Non-Government Sector	5.0	0.7	-4.0	48.4

BALANCE OF PAYMENTS

	1972	1973	1974
	(Millions US $)		
Exports of Goods	813	1,003	1,674
Imports of Goods	1,286	1,660 2/	3,428 2/
Trade Balance (deficit = -)	-473	-657	-1,754
Services, Net	7	7	170
Net Transfers	295	727 2/	1,258 2/
Balance on Current Account	-171	77	-326
Net MLT Borrowing			
Disbursements	417	362	522
Amortization	294	420	654
Subtotal	123	-58	-132
Other Non-Monetary Capital (net)	21	-13	-53
Overall Balance (surplus +)	-27	6	-511
Gross reserves (end of year)			356

MERCHANDISE EXPORTS (AVERAGE 1973-74)

	US $ Mln	%
Raw Cotton	545	40.7
Yarns and textiles	218	16.3
Rice	73	5.5
All other commodities	502	37.5
Total	1,338	100.0

EXTERNAL DEBT, DECEMBER 31, 1974

	US $ Mln
Public Debt Outstanding & Disbursed	2,760 4/

DEBT SERVICE RATIO for 1974 3/

	%
Public Debt Outstanding & Disbursed	32.3

RATE OF EXCHANGE

Through January 1973
US $ 1.00 = LE 0.435
1.00 = US $2.30

Since February 1973
US $ 1.00 LE 0.390
1.00 = US $2.56

1/ Due to non-availability of data on calendar year basis, figure refers to "fiscal" year 1970/71.
2/ Includes the market value of petroleum grants.
3/ Ratio of Debt Service to Exports of Goods and Non-Factor Services.
4/ Excluding about $600 million in long-term deposits.

EMENA Region
June 9, 1976

THE STATUS OF BANK GROUP OPERATIONS IN EGYPT

A. STATEMENT OF BANK LOANS AND IDA CREDITS (As of May 31, 1976)

Loan/Credit Numbers	Year	Borrower	Purpose	Amount in million US dollars Bank	Less cancellations IDA	Undisbursed
Ln 243-UAR	1959	SCA	Suez Canal Expansion	56.5	--	--
Cr 181-UAR	1970	UAR	Nile Delta Drainage	--	26.0	10.0
Cr 284-UAR	1972	ARE	Railways	--	30.0	3.3
Cr S-13-UAR 1/	1972	ARE	Cotton Ginning Engr.	--	0.2	--
Cr 393-UAR	1973	ARE	Upper Egypt Drainage	--	36.0	23.9
Cr 412-UAR	1973	ARE	BOA	--	15.0	5.5
Cr 423-UAR	1973	ARE	Cotton Ginning	--	18.5	9.1
Cr 437-UAR	1973	ARE	Population	--	5.0	4.8
Cr S-15-UAR 2/	19	ARE	Talkha Engr.	--	0.4	--
Cr 484-UAR	1974	ARE	Talkha Fertilizer	--	20.0	13.7
Cr 524-EGT	1974	ARE	Ag/Ind Imports I	--	35.0	5.1
Ln 1062-EGT	1974	ARE	" " "	35.0	--	18.5
Ln 1064-EGT	1974	SCA	Suez Canal Rehabilitation	50.0	--	50.0
Ln 1085-EGT	1975	ARE	Tourah Cement	40.0	--	36.9
Ln 1098-EGT	1975	ERO	Railways	37.0	--	36.5
Cr 548-EGT	1975	ARE	Telecommunications	--	30.0	30.0
Cr 576-EGT	1975	ARE	BOA II	--	25.0	24.9
Ln 1239-EGT 3/	1976	APA	Alexandria Port	45.0	--	45.0
Totals				263.5	241.1	317.2
Of which has been repaid				56.5	0.6	
Total now outstanding				297.0	240.5	
Amount sold			7.4			
Of which has been repaid			6.0	1.4		
Total now held by Bank and IDA 4/				205.6	240.5	317.2

B. STATEMENT OF IFC INVESTMENTS (As of May 31, 1976)

Year	Obligor	Type of Business	Amount in US$ million Loan	Equity	Total
1976	Arab Ceramic Company 5/	Ceramic Industry	4.25	.75 (plus .635 contingency commitment)	5.0 (5.635)

1/ Refinanced under Credit 423-UAR.
2/ Refinanced under Credit 484-UAR.
3/ Not yet effective.
4/ Excluding exchange adjustments.

C. PROJECTS IN EXECUTION 1/

Cr. No. 181-UAR - Nile Delta Drainage Project; US$26 million Credit of April 17, 1970; Effective Date: December 22, 1970; Closing Date: December 31, 1976.

In 1973 a revised implementation program was prepared, extending this project until 1978, and the Government agreed to take a number of actions recommended by IDA to improve project performance and to provide effective management. The major problem facing this project up to the end of 1974--of lack of local funds--was resolved by allocation under the 1975 national budget. Adequate local currency has been made available for 1976. Although project implementation has improved, it will not be possible to recoup all the time lost and project completion will not now be possible before December 1979. Procurement is almost completed.

Cr. No. 284-UAR - Egyptian Railway Project; US$30 million Credit of February 9, 1972; Effective Date: July 17, 1972; Closing Date: (i) September 30, 1976, for track materials, locomotives and spare parts; and (ii) September 30, 1976, for signalling and telecommunications equipment and installation.

The project is being implemented satisfactorily. Most of the procurement contracts have been awarded, and the bulk of the credit has been committed. To allow the small balance of some $600,000 to be utilized for purchase of spare parts for the existing locomotive fleet, the Closing Date for the first part of the project, originally December 31, 1973, was extended for a third time to September 30, 1976.

Cr. No. S-13-UAR - Cotton Ginning Rehabilitation Engineering Project; US$175,000 Credit of November 17, 1972; Effective Date: June 15, 1973; Closing Date: November 30, 1973.

This credit was fully disbursed and subsequently refinanced under Cr. 423 below.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 393-UAR - Upper Egypt Drainage Project; US$36 million Credit of June 8, 1973; Effective Date: November 28, 1973; Closing Date: December 31, 1979.

Progress on both the drainage and the bilharzia control components of this project was initially slow, but is now satisfactory. However, project cost estimates have increased by about 20%, as a result of price increases. Foreign exchange costs have risen by about 14% almost entirely due to price increases of materials for bilharzia control. (The foreign cost overrun of the bilharzia control program is to be financed under the Upper Egypt Drainage II Loan and Credit approved on June 8, 1976.)

Cr. No. 412-UAR - Bank of Alexandria Project; US$15 million Credit of June 29, 1973; Effective Date: November 29, 1973; Closing Date: September 30, 1977.

The entire amount of the credit has been committed to subprojects. Disbursements which were only $2.3 million as of May 31, 1975, have accelerated and stood at $9.5 million as of April 30, 1976.

Cr. No. 423-UAR - Cotton Ginning Rehabilitation Project; US$18.5 million Credit of July 30, 1973; Effective Date: February 15, 1974; Closing Date: June 30, 1978.

Prices of bids received in May 1974 for major equipment packages were much higher than expected, and the total estimated foreign exchange cost is now estimated to be about $41.5 million. In January 1976, the Saudi Fund for Development concluded an agreement to provide $25.6 million to finance the cost overrun thus enabling implementation of the project as appraised. Awards for most of the major contracts have been made and equipment delivery has begun. However, due to the deteriorated condition of the buildings in one of the nine ginneries to be rehabilitated and the unavailability of additional power for another ginnery, two other ginneries have been substituted and the project description was amended accordingly in November 1975.

Cr. No. 437-UAR - Population Project; US$5.0 million Credit of November 6, 1973; Effective Date: March 25, 1974; Closing Date: December 31, 1977.

There were initial delays but following appointment in November 1974 of a new Coordinator and Executive Director, progress on the construction of clinics has been reasonably satisfactory. The Consultant Architects have produced a procedures guide, and design guidelines; executive architects have been appointed for detailed design of the health clinics, and the family planning activities are underway. Sites have been selected and acquired; construction contracts are being awarded, and construction on some sites has started. Progress on the program components of the project, which was slow, is now expected to improve, and some are underway.

Cr. No. S-15-UAR - Talkha Urea Fertilizer Engineering Project; US$400,000 Credit of November 20, 1973; Effective Date: April 24, 1974; Closing Date: March 31, 1975.

The credit was refinanced under Cr. 484 below.

Cr. No. 484-UAR - Talkha II Fertilizer Project; US$20 million Credit of June 24, 1974; Effective Date: January 22, 1975; Closing Date: April 1, 1979.

The general contractor has been appointed and work on implementation is proceeding satisfactorily. The fertilizer sector study began in November 1975. The revised estimates of the cost of equipment and civil works showed a cost overrun of some $30 million including $23 million in foreign exchange costs. The other lenders indicated that they would make available the necessary additional foreign exchange funds.

Cr. No. 524-EGT and Ln. No. 1062-EGT - Agricultural and Industrial Imports Project; US$35 million Credit and US$35 million Loan of December 20, 1974; Effective Date: March 19, 1975; Closing Date: June 21, 1976 (Credit) and December 21, 1976 (Loan).

The bulk of the procurement actions have been completed and disbursements are proceeding. One of the six surveys of industrial subsectors has been completed and contract awards have been approved for three others.

Ln. No. 1064-EGT - Suez Canal Rehabilitation Project; US$50 million Loan of December 20, 1974; Effective Date: April 21, 1975; Closing Date: June 30, 1978.

No Bank funds have yet been disbursed, since the Canal Authority wished first to use lower interest funds from other sources. Progress to date on project implementation has been good. Bid documents for items to be financed by the Bank are now being prepared, and consultants have been selected to carry out a study of the enlargement of the canal.

Ln. No. 1085-EGT - Tourah Cement Expansion Project; US$40 million Loan of February 10, 1975; Effective Date: June 9, 1975; Closing Date: June 30, 1979.

Bids for cement manufacturing equipment were opened according to schedule on February 1, 1975. Consultants assisted in bid evaluation, and the contract for the Bank-financed cement manufacturing equipment was awarded in August 1975 some three months behind schedule. Bids for the electrical equipment to be financed by the Arab Fund have been awarded.

Ln. No. 1098-EGT - Railways II Project; US$37 million Loan of April 2, 1975; Effective Date: August 20, 1975; Closing Date: December 31, 1978.

About half of the contracts for equipment have been placed, bids for a further 40 percent have been received, and procurement arrangements are underway for the remainder. Consultants began work on the national transport sector survey in April 1976.

Cr. No. 548-EGT - Telecommunications Project; US$30 million Credit of May 16, 1975; Effective Date: August 14, 1975; Closing Date: September 30, 1978.

Contract awards are being made for cables and bids for telex equipment have been invited, both several months behind schedule.

Cr. No. 576-EGT - Second Bank of Alexandria Project; US$25 million Credit of July 30, 1975; Effective Date: February 19, 1976; Closing Date: October 31, 1979.

The first sub-projects have been approved for financing under the project and disbursements have begun.

Ln. No. 1239-EGT - Alexandria Port Project; US$45 million Loan of April 19, 1976; Effective Date: August 17, 1976; Closing Date: December 31, 1980.

Steps are being taken to commence project implementation.

June 9, 1976

ARAB REPUBLIC OF EGYPT - TEXTILES PROJECT

Loan and Project Summary

Borrower: Arab Republic of Egypt

Beneficiaries: Misr Fine Spinning and Weaving Company Kafr El Dawar (KED) and Misr El Beida Dyers (EB)

Purpose: To assist in financing the foreign exchange costs of replacing obsolete equipment and expanding production of KED and EB.

Amount: US$52.0 million

Terms: 15 years, including 4 years of grace, at 8.85 percent per annum.

Onlending Terms: US$25.8 million and US$24.9 of the loan proceeds will be onlent to KED and to EB, respectively, at 10 percent per annum and for the same repayment terms as those of the loan. KED and EB will bear the foreign exchange risks.

Project Description: The proposed project consists of the following:

1. The KED subproject would add about 78,000 spindles and 900 looms which would help to increase the company's manufacturing capacity of fine cotton and polyester cotton fabrics by 16.5 and 10.1 million linear meters respectively. About 70 percent of the cotton fabrics output resulting from the project, as well as all the cotton yarn not used in weaving will be exported. At maximum projected efficiency (90 percent) of the new facilities, KED's annual manufacturing capacity for yarn would be about 27,000 tons and for fabrics about 134 million linear meters, as against 21,000 tons and 107 million linear meters, respectively, at present.

2. The EB subproject would expand the company's converting capacity by 43 million meters of fabric and 1,550 tons of yarn and, in addition, replace obsolete equipment for converting 30 million meters of fabric and 500 tons of yarn. The EB subproject also includes expansion

of the caustic soda recovery and fabric coating operations. At maximum projected efficiency (90 percent) of the new facilities, EB's capacity for fabric converting would be increased to about 178 linear million meters and for yarn converting to about 2,800 tons per annum, respectively, as against 135 linear meters and 1,250 tons at present;

3. Provision of technical assistance and training to KED's and EB's personnel;

4. Provision of training abroad of technicians and supervisors from the Egyptian textile sector;

5. Provision of technical assistance for the preparation of a follow-up textile project; and

6. Establishment of policies, an action program and institutional measures designed to revitalize exports to convertible currency areas.

Estimated Project Cost:

	Local	Foreign	Total	Bank Financing of Foreign Costs
	(in US$ million)			
Equipment and Spares				
KED Spinning	-	27.5	27.5	-
KED Weaving	-	16.6	16.6	16.6
EB Finishing	-	16.4	16.4	16.4
Sub-Total	-	60.5	60.5	33.0
Freight, insurance	-	6.0	6.0	4.6
Local transport	1.6	-	1.6	-
Civil works and erection	15.2	5.7	20.9	4.0
Technical assistance & training	0.1	0.3	0.4	0.3
Total Base Cost	16.9	72.5	89.4	41.9
Contingencies				
Physical and Price Escalation	3.9	13.1	17.0	6.1
Sub-Total	20.8	85.6	106.4	48.0
Working Capital	26.3	6.5	32.8	2.7
Sectoral Technical Assistance and Training	-	1.3	1.3	1.3
Total Costs	47.1	93.4	140.5	52.0
Interest during construction	1.0	11.7	12.7	-
Total Financing Required	48.1	105.1	153.2	52.0

Financing Plan:

	Local	Foreign	Total	% of Total
IBRD	-	52.0	52.0	34.0
Arab Fund	-	34.5	34.5	22.0
Government, KED and EB	48.1	18.6	66.7	44.0
Total	48.1	105.1	153.2	100

Estimated Disbursements:

Calendar Years	Amount in US Dollar Annual	Cumulative
1977	31.0	31.0
1978	16.0	47.0
1979	5.0	52.0

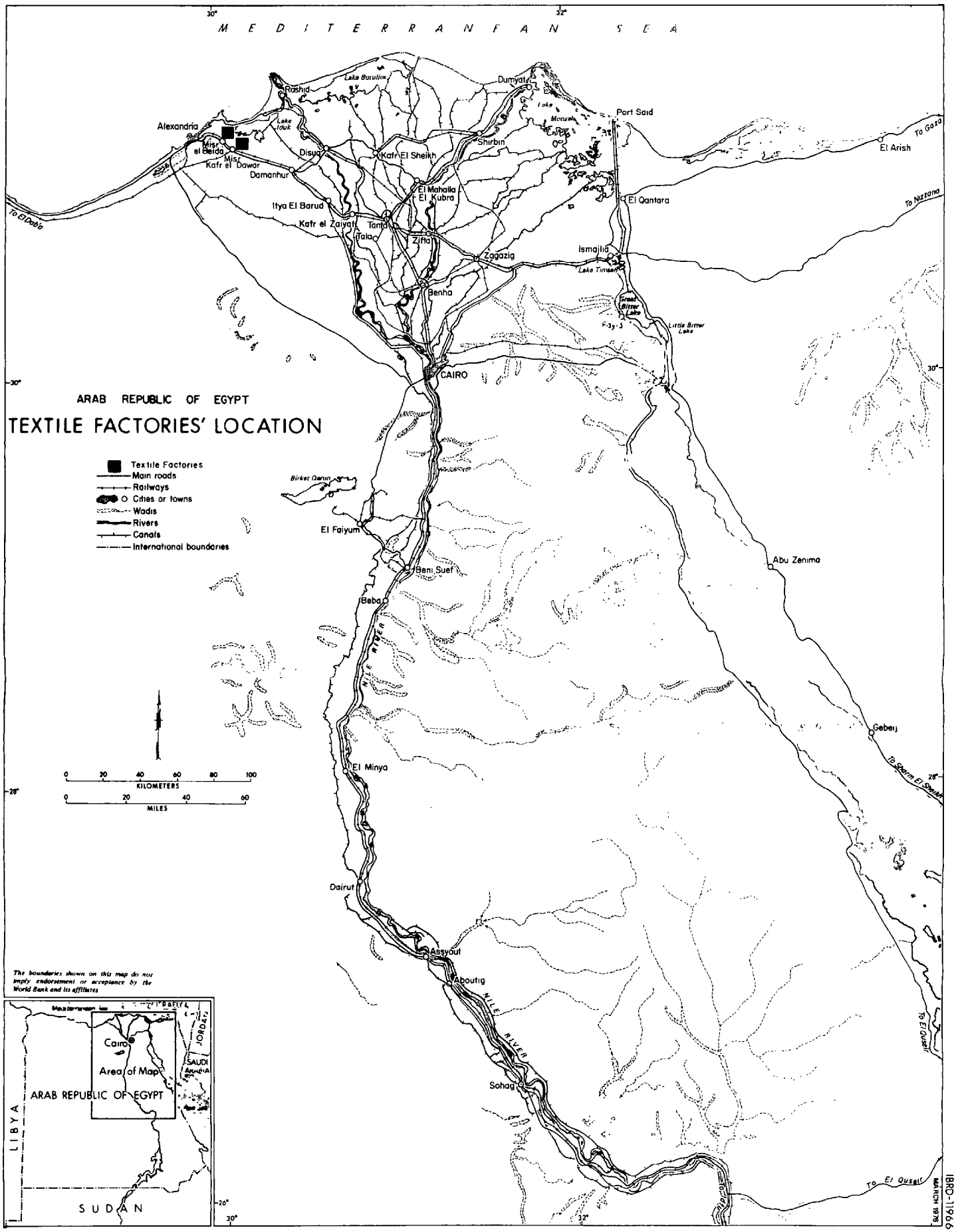
Project Execution: KED and EB, with the assistance of a consulting firm as Technical Advisor will be responsible for the project execution. Machinery suppliers will provide technical assistance during project implementation. Civil engineering construction and plant erection will be carried out by KED and EB and/or other Egyptian firms.

Procurement: Goods and services to be financed under the proposed loan would be procured through international competitive bidding in accordance with the Bank's guidelines, except for (i) miscellaneous small items costing less than US$100,000 equivalent but not exceeding the aggregate amount of US$1.0 million for each company; these items may be purchased through international shopping on the basis of suitability, availability and price considerations following approval by the Bank of the list of items involved; (ii) proprietary items necessary for repair of the existing equipment and items in limited supply which are critical to the timely completion of the project and whose aggregate cost is estimated not to exceed US$2 million for KED and US$1 million for EB; and (iii) polyester fibers and yarn, dyestuffs, chemicals and construction materials; these items may be procured through international shopping on the basis of at least 3 quotations from qualified foreign suppliers approved by the Bank. If KED and EB choose to procure construction materials on the basis of international competivive bidding, domestic suppliers would be allowed a preference of 15 percent, or the actual customs duty, whichever is lower.

Consultants: To be appointed, in accordance with the Bank's Guidelines for Selection of Consultants, for assistance in project implementation, training, and assistance in export promotion.

Estimated Economic Rate of Return: 22 percent.

Appraisal Report: Report No. 1131-EGT



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MARCH 1976