More Donor Aid Nothing to Brag About

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OVER the last few weeks the Egyptian press has come alive with stories of breakthroughs in negotiations between the Egyptian government, the World Bank and the International Monetary Fund (IMF).

A number of government officials had a field day with what they described as Egypt's 'success' in becoming an IDA affiliated World Bank country. These officials expressed their pride as being the key negotiators responsible for moving Egypt out of IBRD status into IDA.

The World Bank has two main lending organizations that provide development assistance to less developed countries and least developed countries. These lending organizations are the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) respectively.

IBRD provides loans to less developed countries with grace periods of up to five years at interest rates of approximately 8 percent. Repayment under IBRD can be made over periods that extend up to 15 years.

On the other hand, IDA provides loans to the least developed countries of the world with grace periods of up to 10 years at interest rates of between 0 and 5.5 percent. Repayment under IDA can be made over periods that extend up to 30 years.

Egypt, as a new IDA member, now qualifies to receive loans from the World Bank at interest rates much lower than is received in the past. It will also be granted lengthier grace periods and better repayment terms. This is why a number of Egyptian government officials were celebrating after the bank announced Egypt's move from IBRD status to IDA.

One must wonder though, whether this shift in status is something all Egyptians should celebrate, or something we should all cry over. APter all, to attain IDA status we had to certify that our GNP per capita dropped in real terms by approximately 19 percent over the past half decade.

In essence, we had to admit that the real level of poverty in Egypt had risen and that our country's economy has reached the level of degradation of countries like Ethiopia, Angola, Liberia and Sierra Leone.

Egypt's move into IDA status also come at a time when Thailand no longer qualifies to receive bank assistance because its GNP per capita is now too high. In the 1950s Egypt's relative prosperity was not only higher than Thailand's, but it also surpassed the GNP per capita level of countries like Korea and Singapore. These countries have succeeded in their development effort and Egypt in a relative sense has failed to achieve comparable rates of growth and advances in prosperity.

Our move into IDA status is yet another clear confirmation of our continued economic degradation. This degradation cannot be blamed on the Iraq-Kuwait crisis and it would be naive to try to reflect our economic failures on an invasion that only took place three months ago.

We have failed in our export effort, our state industries are in financial chaos, the state budget has reached highs never achieved in Egypt's modern history, our balance of trade and payments positions are worse than ever, and all these problem areas reflect a kind of economic degradation that has very old historical roots.

3 Dec. 90

A Point of View

Our economic failure is not a product of a new crisis in the Middle East as many of our politicians are now claiming. They are the product of failed economic policies and our inability to accept structural adjustment.

We remain unwilling to address our public sector problem, we continue to seek out additional funds to support insupportable levels of subsidies and expenditures and all our efforts are aimed at maintaining the economic status quo rather than attempting to improve it.

So, should we celebrate our move into IDA status? Should the officials responsible for making us an IDA country make statements in the press that give an impression that they are the modern day Robin Hoods who managed to steal an extra few pennies from international donors to support our poor?

What these self-portrayed Robin Hoods are not telling the general public is that our ability to get international credits from private entities worldwide is now a thing of the past. We have admitted to the world that our economy is reaching new highs in dependency and poverty.

The issue now is to prevent any further deterioration in our standard of living. Does the government have a structural adjustment program to address this problem? Or does the government expect to get a free ride from international donors to pull it out of its existing financial crisis as happened so many times in the past?

Wasn't it only six months ago that virtually every major newspaper in Egypt was talking about the major department financing expected from the Kuwait Fund and the Arab Fund in Kuwait; where are these financial resources today? External assistance is like this, its availability is dependant on the winds of change in the political environment.

Even with additional financial credits coming in from the World Bank and other donors we must admit to ourselves that the economic situation in Egypt will only get worse unless structural adjustment is implemented quickly and correctly. The Iraqi invasion of Kuwait may have made things more difficult for Egypt, but that is because our economy is inherently weak and is dependent upon undependable sources of foreign exchange which are clearly affected by changing political environment in the Middle East.

This is not the first time that workers remittances have taken a turn for the worst. Are we forgetting that both Libya and Iraq froze transfers for Egyptians working in both those countries well before this most recent crisis. Also, tourism is affected by things the government cannot ever hope to control. For example, the hijacking of the Achille Lauro led to a one quarter decrease in foreign exchange revenues from tourism over the three consecutive months that followed.

This is why the export of domestically produced goods to a diversified group of international buyers is so important. Only this kind of activity can provide the state with a stable source of foreign exchange. Even oil exports have their problems, one day their prices are up and the next day they take a serious plunge. Manufactured exports and a variety of horticultural exports can provide Egypt with the kind of stable hard currency support it needs.

Yet, the government has not moved on the exchange rate front and it seems to be stalling reforms. Only real depreciation of the Egyptian pound will push exports up. Appreciation of exchange rates, on the other hand, is what has really happened if we compare recent devaluations to increases in the consumer price index.

The Iraqi-Kuwaiti crisis has underlined Egypt's need to develop a stronger foreign exchange earnings stream that is simply dependable. The latest crisis in the Gulf may have done us the favor of increasing our foreign exchange receipts from international donors and our allies.

But, the inherent weaknesses of the Egyptian economy continue to make us easy preys to our enemies.