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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

18p

LOAN PAPER

SYRIA: AGRICULTURAL INPUTS AND PRODUCTION LOAN
\$20.0 Million

Proposal and Recommendations
for the Review of the
NESA Bureau Advisory Committee
Bureau for Near East and South Asia

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AID 1120-1 (8-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO.
		2. COUNTRY Syrian Arab Republic
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	3. CATEGORY Commodity Financing Standard Procedures
		4. DATE
5. TO:		6. OYB CHANGE NO. Not applicable
7. FROM: Mr. Daniel Parker Administrator, AID		8. OYB INCREASE Not applicable
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 20,000,000		10. APPROPRIATION - ALLOTMENT Middle East Requirements Fund
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 3/1/75 - 9/30/76
14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date		

Agricultural machinery, equipment, spare parts and other commodities to be specified in Implementation Letters/Commodity Procurement Instruction (CPI)

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: 000	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION
This loan is part of a broader U.S. assistance program to Syria being made available to encourage further development of U.S.-Syrian bilateral relations and to help bridge the wide political gap which has separated the U.S. and Syria in the last several years. U.S. participation in Syrian economic development is one of the most effective ways of achieving improved relations and contributing to a peaceful settlement in the Middle East.

The proposed loan will finance essential agricultural machinery, equipment, spare parts and other commodities and related services. The loan will assist the SARG in its program to increase agricultural production, including food production.

It is recommended that you authorize a loan to the Syrian Arab Republic in the amount of \$20 million (\$20,000,000) for financing essential agricultural equipment and commodities on the following terms and conditions:

19. CLEARANCES	DATE	20. ACTION
NESA/DP:G.Patterson		<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
GC/NESA:M.Kitay		
AA/PPC:P. Birnbaum		
SER/FM:C.C.Christian		
SER/COM:W. Schmeisser		
PPC/DPR:A. Handly		
NESA/CD:S.A.Taubenblatt		
GC: A. Gardiner		
NESA/ME:D. Chandler		
CLASSIFICATION:		AUTHORIZED SIGNATURE
		DATE
		TITLE

1. Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to AID in United States dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and unpaid interest.

2. Other Terms and Conditions

- (a) Unless AID otherwise agrees in writing, commodities and related services financed under the Loan shall have their source and origin in the United States of America.
- (b) The Loan shall be subject to such other terms and conditions as AID may deem advisable.

LOAN COMMITTEE:

Chairman: NESACD, S. A. Taubenblatt
 Loan Officer: NESACD, T.A. Pearson
 Country Desk: NESAME, D. Chandler
 Legal: GC/NESA, M. Kitay
 Program: NESADP, S. Levine
 Procurement: SER/COM, R. Elliott
 SER/COM, C. Jenkins

SYRIA
AGRICULTURAL INPUTS AND PRODUCTION LOAN

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I. SYRIA: ECONOMIC BACKGROUND ^{1/}

Syria is a predominantly agricultural economy heavily influenced by the public sector. Two-thirds of its 7 million people live in rural areas and make their livelihood directly or indirectly from agriculture. Approximately 22% of Syrian production is generated in the agricultural sector, although this percentage is declining due to relative successful economic diversification programs. Mining and manufacturing, wholesale and retail trade account for about 20% each of total production. Almost all of industry, banking and commerce, including foreign trade, as well as about one-third of the agricultural land, have been nationalized. However, the private sector still accounts for one-half of the GDP and should make an even greater contribution to the Syrian economy as the post-1970 liberalization policies take hold. Per capita GDP was estimated at \$330 in 1973.

The country covers an area of 185,000 sq.km. The cultivable area is estimated at about 8.8 million hectares, or about 47 percent of the total. About 5.9 million hectares are actually cultivated with only about 3 million hectares under continuous cultivation with the rest under fallow. Out of some 2 million hectares of irrigable land, a little over half a million hectares are irrigated. It is estimated that the irrigated area could be doubled with the presently known water resources. The Euphrates river and its tributaries account for about 93 percent of the surface water flows. Because of the dominant role of agriculture and the problems associated with water, Syria's economic growth has been affected by minor variations in rainfall. Weather conditions are expected to be of declining importance in Syria's economic outlook as the Euphrates Basin project brings some 600,000 new hectares under irrigation over the next 2-3 years. This will more than double Syria's irrigated land base. Coupled with Syria's efforts over the past decade to modernize its agriculture and diversify production, the expansion in irrigable land should make a substantial contribution to Syria's economic development.

Except for oil and phosphates, Syria's mineral resources are limited. Recently discovered phosphate deposits, although of low grade, are estimated at over 200 million tons. Production of crude oil has been growing rapidly. Potential yield of proven reserves is estimated at about 300 million tons. New oil fields have been discovered along the Iraqi border; however, proven reserves are yet to be estimated. In 1974, exports of oil and phosphates were estimated at \$350 million.

^{1/} Current economic data on the Syrian economy is limited and the economic data contained herein are based on 1973/1974 IBRD and IMF Reports.

During the mid-1960's Syria went through a period of nationalization which extended government control over most non-agricultural production. Government fiscal and monetary policies were expansionary and attempts were made to off-set the resulting price increases through subsidies and controls. Having assumed ownership or control of the manufacturing sector, the Syrian government attempted to negate market forces by fiat pricing. Rising input costs, annual price fluctuations, increasing defense outlays and a low tax base caused large, growing public sector deficits. The resulting growth in aggregate demand was not reflected in domestic prices because of government intervention and the balance of payments thus came under pressure. Exchange reforms enacted in 1971 included devaluation and import liberalization, and have caused an improvement in export performance, but these reforms were not sufficient to solve structural problems in the nation's balance of payments. The damage Syria sustained from the 1973 war with Israel was concentrated in the petroleum and power industries. Rapid reconstruction efforts financed mostly by unrequited transfers aided by what appears to have been a good crop year in 1974 apparently have offset these losses.

The policy of gradual economic liberalization, unrequited transfers from other Arab states, rising world prices for commodities Syria exports and declining reliance on food imports have caused the Syrian balance of payments outlook to improve considerably over the very poor 1969-1971 levels. Barring unforeseen weather conditions or the outbreak of warfare, Syria's balance of payments should continue to improve, assuming the transfers continue. (See discussion on Balance of Payments below.)

The Syrian government's third Five-Year Plan ends in 1975. A successor plan is now under preparation. The plan for 1971-1975 gives top priority to the integrated Euphrates Basin development project, second priority to irrigation and reclamation, third priority to agriculture and fourth to industry and mining. Virtually all expenditures in the first three categories were related to the Euphrates project.

The Syrian economy appears to have relatively good potential for a developing country, and seems so far to have made good developmental use of the resources available. It requires additional financial inputs to continue increasing production and improving income distribution. Assuming the Syrian agricultural and industrial sectors continue to have access to necessary levels of production-related imports, real growth levels for Syria in the range of 7 - 10 percent throughout the remainder of the decade would appear reasonable.

II. U.S. ASSISTANCE OBJECTIVES

A. Political and Economic Considerations

The U.S. is planning to provide assistance to the Syrian Arab Republic in order to encourage the further development of U.S.-Syrian bilateral relations, including economic aid, and to assist Syria's development programs. The assistance will be used to aid Syria in its economic development efforts and thereby help bridge the wide gap which has separated the U.S. and Syria the last several years. U.S. willingness to participate in Syrian development is one of the most effective ways of achieving improved relations.

In a broader context, the U.S. objective in the Middle East is to help Syria and other nations in that area follow a peaceful course toward working out their problems. A just and lasting peace will benefit all the peoples of the region as well as the interests of the United States. Conversely, the absence of progress toward peace could lead to a deterioration of the situation in the Middle East with serious consequences for our overall national interest in building a stable structure of global peace and economic stability.

A crucial part of our effort is the U.S. diplomatic role in promoting negotiations for a just and lasting peace. Syria has been a key factor in this negotiated effort, and the relations between the U.S. and Syria constitute a significant and necessary support for it. The planned aid to Syria is intended to show the Syrians that the U.S. is serious about strengthening and sustaining our cooperation in all areas of mutual concern.

The Syrians are genuinely interested in accelerating the pace of economic development in order to meet the expectations of their people, and are searching for ways to accelerate their economic growth. Syria's needs for social and economic development are extensive. However, Syria is not an oil-rich country. The nation's development requirements are beyond the capacity of Syria itself or any one foreign donor. The Syrians are seriously interested in U.S. technical cooperation and would welcome U.S. participation in capital projects related to development. We also believe they are prepared to open the door to at least some degree of private sector participation as well. Based on our findings so far, we know that the Syrians have an interest in technical exchanges in agriculture, geology, industrial development, participant training of Syrians in the U.S., feasibility studies and the import from the U.S. of essential commodities primarily in support of agricultural production. U.S. assistance can also help to re-establish U.S.-Syrian commercial relationships, which had been severed to a great extent the last several years, and can assist in the promotion of U.S. exports.

B. Proposed FY 1975 U.S. Assistance Program

In view of the above-described background, AID has proposed to use most of the \$100 million Middle East Special Requirements Fund for Syria in FY 1975. So far, \$25 million of this total has been earmarked for an Agricultural Inputs and Production Loan (\$20 million) to supply from the U.S. essential commodities needed primarily to assist the nation's agricultural sector (see below); a General Participant Training Project (\$1 million) to finance training in the U.S. for up to 100 Syrian graduate students in such fields as agricultural credit, engineering, medicine, geology, irrigation management and related subjects; and a Technical Services and Feasibility Studies Project (\$4 million) to provide technical advice, feasibility and preinvestment studies and related assistance in priority development areas, such as agricultural production, arid land technology, irrigation, use of fertilizers and pesticides, rural roads, plant disease control, industrial processing of agricultural products, mechanization of agriculture, mineral survey techniques and animal husbandry.

The remaining funds available for Syria in FY 1975 will be used to finance additional technical assistance and capital projects which prove to be economically viable. The Syrians have expressed an initial interest in AID financing of the following general types of activities: earth station for communications satellite, irrigation, electric power generation and/or distribution, highway improvement, grain storage facilities, water and sewerage treatment facilities, agricultural credit and school and health facilities. There is now an AID team in Syria reviewing these and other project possibilities for later loan and grant financing.

The U.S. has also provided PL-480 assistance in the amount of \$22.5 million for 75,000 MT of wheat and 25,000 MT of rice.

III. LOAN JUSTIFICATION

A. The Proposed Loan

The proposed \$20 million loan will be used primarily to finance imports of agricultural machinery, raw materials and spare parts to support agricultural development. From time to time, if requested, AID would also be prepared to finance selected industrial machinery to increase industrial capacity.

Emphasis in Syria's agricultural development program has been placed on increasing irrigation and the use of machinery and fertilizers. The highest priority irrigation project is the development of the Euphrates Basin. In addition to the Euphrates irrigation projects, other agricultural projects related to increased food production will require machinery and commodities. Some or all of the following

activities are expected to require selected machinery, equipment and materials, and are likely to benefit from imports under the loan. Cost of these requirements amount to considerably more than the \$20 million loan.

- A new livestock project for the production of both meat and dairy animals supported by the development of 100,000 hectares of new Euphrates Valley land which will be planted to fodder crops, primarily oat and hay.
- Specific equipment needed in support of fodder production includes various types of plows, fertilizer distributors, grain drills, rollers, harrows, mowers, rakes, trailers, trucks, fuel and water tankers, and trucks.
- Trucks are needed in connection with the operation of Syria's modern network of grain storage silos. These trucks would transport barley and hard wheat between production areas and silos, and between silos and consumption areas or export points.
- Equipment is needed for the maintenance of irrigation networks. Requirements include drag lines, excavators, back-hoes and bull-dozers.
- The Euphrates Dam Ministry is in need of equipment (e.g., earth-moving machinery, concrete mixers, and concrete-laying equipment) for the construction, extension and maintenance of roads and canals.
- A wide variety of earth-moving equipment is needed for use in the construction of feeder roads to service the agricultural areas opened up or being more intensively farmed as a result of irrigation projects.
- Supporting equipment will be needed in connection with proposed expanded goals for the production of maize and soybeans.
- A need has been reported for light planes, portable hangers and portable landing mats for use in insect control and aerial fertilizing.
- With Syria's increasing acreage of land under irrigation, there are growing requirements for imports of fertilizer, including phosphatic fertilizers.

B. Balance of Payments and Debt Service

1. Balance of Payments. Like other economic data on Syria, balance-of-payments data are incomplete. Military imports and major portions of foreign financing appear to be omitted or disguised. The data that are available, however, show that Syria's balance-of-payments position is sound and likely to improve greatly over the next few years. Syria ran heavy balance-of-payments deficits during the 1968-1971 period, primarily due to a large, widening trade deficit. Exports rose only marginally but imports rose at an annual rate of 9%. Reserves fell almost \$80 million over the period as a result of the deficits. In 1971, import restrictions were relaxed and exchange reforms enacted while income from oil pipeline transit fees, unrequited transfers and capital inflows grew. The deficit was cut to \$11.6 million even though imports had increased nearly 20%.

Since 1971, the balance of payments has improved considerably due primarily to unrequited transfers and improved agricultural weather conditions. Preliminary estimates of 1973 data indicate a large surplus due primarily to war-related transfers. Estimates for 1974, which assume unrequited transfers at \$400 million, indicate Syria will have a surplus of about \$280 million.

Syria benefitted from greatly increased OPEC aid in 1974 and was pledged even more at the Rabat Conference. Its own earnings, from oil pipeline royalties and from oil fields and phosphate deposits only now being exploited, have grown and are expected to increase greatly between now and 1980. In 1980, exports of oil and phosphates are expected to reach a level of \$1.1 billion.

The following table shows Syria's balance of payments in 1971-1974.

SYRIA BALANCE-OF-PAYMENTS SUMMARY ^{1/}
(End of Period) (US \$ Millions)

	<u>1971</u>	<u>1972</u>	<u>1973</u> ^{2/}	<u>1974</u> ^{3/}
Goods & Services	<u>-83.0</u>	<u>-78.0</u>	<u>-73.3</u>	<u>-120</u>
Exports (f.o.b.)	<u>218.2</u>	<u>281.7</u>	<u>368.4</u>	<u>700</u>
Imports (c.i.f.)	<u>-447.0</u>	<u>-485.9</u>	<u>-631.6</u>	<u>1000</u>
Trade Balance	<u>-228.8</u>	<u>-204.2</u>	<u>-263.2</u>	<u>300</u>
Receipts from Services	196.3	177.4	n.a.	225
Payments for Services	<u>-50.5</u>	<u>-51.2</u>	n.a.	<u>- 45</u>
Net Services	<u>145.8</u>	<u>126.2</u>	<u>189.5</u>	<u>180</u>
Transfer Payments (net)	54.4	82.7	421.1 ^{4/}	400 ^{4/}
Non-monetary Capital (net)	34.0	14.4	-	-
Net Errors & Omissions	<u>-22.9</u>	<u>-18.6</u>	<u>-79.0</u>	-
TOTAL	<u>-17.5</u>	<u>.5</u>	<u>268.4</u>	<u>280</u>
SDR Allocation	<u>5.9</u>	<u>5.8</u>	-	-
Surplus or Deficit (-)	<u>-11.6</u>	<u>6.3</u>	<u>268.4</u>	<u>280</u>

^{1/} Source: IMF Report of 3/13/74, "Syrian Arab Republic - Recent Economic Developments" and IBRD.

^{2/} IBRD Preliminary Data.

^{3/} Estimated.

^{4/} Combines Transfers and Capital Account.

Syria's foreign reserve position was weak until 1973 when war related transfers were very large. As a result of trade deficits during the 1968-1971 period, Syria's gross reserves declined, and by the end of 1970 only totaled \$55 million and represented 1.5 months of imports. As a result of other donor assistance and improving agricultural production, Syria's September 30, 1974, reserves were estimated at \$755 million representing about 16 months of imports.

Destruction of sulphur reducing facilities at the Homs refinery during the October 1973 war made it temporarily impossible for Syria to use its own high-sulphur oil with the result that it had to purchase low-sulphur crude from Iraq while exporting its own. This caused a temporary leap in imports of about \$300 million and a lesser amount--perhaps \$250 million--in exports. The Homs facility is now repaired and imports should return to their normal growth path. Exports, however, should increase due to increased oil and phosphate production. We estimate the current account deficit in 1975 at about \$100 million, with OPEC and other aid increasing to well over \$500 million. Syria should, therefore, experience a further substantial foreign exchange reserve increase in 1975.

2. Debt Service. Syria's gross external non-military debt situation at the beginning of 1974 was estimated at \$232 million by the IBRD with over one-half owed to the USSR and Eastern Europe. Of this, about \$17.4 million was in short-term suppliers credits, \$8.5 million in I.D.A. loans and \$206.6 million in government loans. Debt servicing costs in 1974 were estimated at \$44.3 million, \$24.7 million is projected for 1975, \$30.4 million for 1976, \$22.3 million for 1977, \$19.2 million for 1978 and \$18.4 million for 1979. The debt service ratio at present is about 5% and is likely to remain under 10 percent over the next few years. However, in view of Syria's low per capita GNP, its continuing efforts to spur growth and U.S. interest in having a stable, prospering Syria, AID's normal concessional loan terms are proposed--40 year maturity including a 10 year grace period with interest at 2% during the grace period and 3% thereafter. With these terms, the repayment prospects for this \$20 million loan appear reasonable.

C. Other Donor Assistance

Syria's largest receipts of foreign aid come from the wealthy Arab oil exporters and Iran. Other donor aid, the USSR \$120 million through 1972, East Germany \$50 million, other Eastern European countries \$26 million, China \$18 million, is minor in comparison.

The amounts and status of Arab OPEC countries' assistance are unclear; however, the commitment amounts and transfers, according to reports, are substantial. According to reports received, Rabat Conference commitments from Arab OPEC countries are now estimated

at about \$500 million a year for three years, including commitments from Saudi Arabia, the UAE and Iraq. In addition, it was just reported that Saudi Arabia is providing an additional \$250 million in loans and grants for unspecified purchases. Iran reportedly committed \$150 million in early 1974. Details on the composition and disbursement timetable of the above assistance are limited. However, it is reported that substantial transfers were made following the Rabat Conference and such transfers are continuing.

Between 1965 and 1973, Syria received \$37 million in loans from IDA. In FY 1974, the first regular IBRD loans were furnished and the IBRD/IDA loan total grew to \$98 million, a level expected to continue through the next five years. Of the total FY 1974 commitment, \$88 million was IBRD and \$10 million IDA.

IV LOAN ADMINISTRATION

A. Syrian Government Import Procedures

Administrative arrangements under this loan will inevitably be influenced by the major role played by the Syrian Government in the country's economy. All important industries are owned by the Government and are organized into three "unions of industries": the Union of Engineering and Chemical Industries, the Union of Textile Industries, and the Union of Food Industries. Annual production and investment plans are coordinated by the unions and then reviewed by the Ministries of Industry, Planning and Finance.

The private sector is composed mainly of small-scale enterprises producing or selling consumer goods and services.

While import licenses are issued to private firms and individuals for certain types of imports, a large part of Syria's foreign trade is conducted by public sector trading agencies. In addition, Government departments or the unions of industries may also have authority to make imports. Of the half dozen or so public trading companies, the ones most likely to be importing under this loan are the Foreign Trade Organization for Chemicals and Foodstuffs ("Tafco"), which imports such commodities as fertilizers, pesticides and other agricultural chemicals, and the Foreign Trade Organizations for Machinery and Equipment ("Aftomachine"), which handles most machinery other than agricultural machinery. The Ministry of Agriculture has its own purchasing group and authority to import agricultural machinery. Tractors, however, are imported by the Union of Engineering and Chemical Industries, which also produces and distributes tractors under a joint-venture arrangement with a Spanish organization.

The public trading companies in the usual situation do not themselves determine import requirements, but are, in effect, purchasing agents acting on behalf of Government departments or unions of industries, which have consolidated the requirements of their constituencies under approved plans. Commodities imported by public sector agencies are distributed to end-users (cooperatives, for instance) by the unions or by such organizations as the Agricultural Bank, which may also provide credit to finance the sales.

One effect of this structure of importing responsibilities, in terms of the administration of the loan, is that a relatively small number of importers will be directly involved, and these importers presumably are experienced in coping with special governmental requirements of one kind or another. This suggests that the introduction of necessary AID rules and procedures can be accomplished rather readily.

B. Allocation of Foreign Exchange and Import Authority

The Ministry of Economy and Foreign Trade is the Syrian Government agency responsible for budgeting foreign exchange and allocating it among the various claimants. The Ministry approves import licenses for private sector imports, and accomplishes the same result where public sector imports are involved by having authority to review import proposals prior to approving use of foreign exchange.

This Ministry will have the coordinating responsibility for implementation of the loan--determining the allocation of loan funds for each of the types of eligible commodities, and passing AID's procedural requirements on to the purchasing organizations. Because of its authority to determine the source or sources of foreign exchange available to the public sector importers, there will be no problem of the loan funds being in competition with other foreign exchange which an importer might find more attractive. Neither will there be a problem of competing exchange rates. Since July 1973, Syria has had a single exchange rate applicable to all transactions (official and commercial). The current rate is 3.65 Syrian pounds to the dollar.

C. Eligible Commodity List

Items eligible for financing under this loan will consist of agricultural commodities and equipment of U.S. source and origin as defined in AID's Commodity Eligibility List dated January 1, 1972. This list, identifying specific agricultural commodity and equipment categories, will be provided as an attachment to the Commodity Procurement Instruction which will be transmitted with the first implementation letter.

In discussions, Syrian Government officials have shown considerable interest in purchasing in the United States a variety of agricultural machinery and commodities, including plows, fertilizer distributors,

grain drills, rollers, harrows, rakes, fuel and water tankers, trucks, drag lines, excavators, back-hoes, bulldozers, earth moving equipment, concrete mixers, tractors and phosphatic fertilizers. Further discussions with the Syrian Government will continue to further refine the SARG priority import interests. Outside of agriculture, AID would be prepared to consider on a case-by-case basis priority machinery and equipment requirements in other sectors, e.g. industrial machinery and transportation equipment.

D. Implementation Procedures

Since there has been no previous AID commodity import program in Syria, SARG officials will, of course, have to become familiar with AID's established rules and requirements. As suggested above, this should pose no great problem because of the relatively small number of importers involved, and the fact that they have had considerable experience in complying with governmental procurement procedures--not only those of the Syrian Government, but also those of other assistance donors.

AID's standard commodity financing procedures, as set forth in AID Regulation 1, shall be applicable. The public sector buyers will normally be required to procure through formal invitation-for-bids procedures. This requirement may be waived in favor of negotiated procurement when procurement of a proprietary item is involved, when procurement on an emergency basis is necessary, or when it would be impractical or inconsistent with the purposes of the loan to require formal procurement procedures. The Syrian public sector organizations likely to be importers under the loan are already using formal procurement procedures as a matter of routine, or at least have established formal procedures which are available for use. There may, however, be some need to reconcile customary Syrian procedures with AID's approved standards for conducting formal procurement.

In view of the volume of work contemplated, it will be desirable that the AID staff in Damascus include a supply adviser experienced in the types of commodities to be financed under the loan. Such an adviser can help the buying organizations in determining requirements, establishing specifications, developing invitations for bids, communicating with potential U.S. suppliers, assuring that procurement is conducted in accordance with accepted U.S. procedures and standards, and following through to ascertain that there is proper end-use of commodities and equipment financed under the loan.

Individual transactions financed shall not be financed for less than \$10,000 in amount, but individual items less than \$10,000 may be combined and treated as one transaction if they involve procurement from the same supplier.

Responsibility for shipping arrangements, in the case of procurement by Syrian public agencies, lies with the Syrian Maritime Authority. Marine insurance is normally placed with the state-owned insurance company, which is under the jurisdiction of the Ministry of Economy. When informed of the provision of the Foreign Assistance Act dealing with discrimination against U.S. marine insurance companies, the Deputy Minister of Economy and Foreign Trade indicated that there would be no problem for purposes of the AID loan in making an exception to the usual Syrian practice of local placement of marine insurance. Buying would be permitted on a CI or CIF basis, with choice of insurer left to the supplier.

Because of the role of the Syrian Maritime Authority, no problem is foreseen in the administration of cargo preference requirements. Whether it will be feasible to apply AID's policy against financing local port charges will be determined after further discussions with the Syrian Government. It is anticipated that funds not chargeable to this loan agreement will be used to finance the differential, if any, between U.S. flag and foreign flag shipping rates in accordance with AID's policy in implementing Section 640 (C) of the Foreign Assistance Act.

E. Disbursement

In Syria there is a Central Bank and a Commercial Bank (with numerous branches), both government owned. The letter of credit system is the most usual method of financing imports, and there appears to be no problem in disbursing loan funds through use of AID's regular bank Letter of Commitment procedure. Either the Central Bank or the Commercial Bank would be designated Approved Applicant. Bulk shipments might be financed through direct letters of commitment to suppliers.

The proceeds of this loan are expected to be fully disbursed within 18 months after the date of the loan agreement signing. However, because of possible delays in delivery of equipment involving long lead times, the terminal disbursement date will be set 24 months after the date of loan signing.

V. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The long-term impact on U.S. Balance of Payments will be favorable because this loan will be spent on U.S. goods and services. This loan will permit U.S. suppliers/exporters to re-establish old trade relationships and create new ones for agricultural machinery and commodities essential for increased agricultural production, and

will greatly enhance the expansion of the U.S. export market in Syria. Furthermore, future follow-up orders for machinery and spare parts will result in additional U.S. exports on a commercial basis.

B. Use of U.S. Government Excess Property

Because of the nature of the assistance being provided--raw materials, machinery and spares to assist the agricultural production, it is unlikely the U.S. Government excess property would be appropriate for this loan. However, given the large amounts of U.S. Government excess property available, SER/COM is being asked to look at possibilities for using such excess property.

VI. RECOMMENDATIONS

It is recommended that you authorize a loan to the Syrian Arab Republic of \$20 million for financing imports of selected agricultural machinery on the following terms:

- A. Repayment in United States dollars in no more than forty (40) years after the first disbursement, including a grace period of not to exceed ten (10) years.
- B. Interest in U.S. dollars of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.
- C. Procurement with loan funds shall be of United States source and origin.
- D. Such other terms and conditions as AID may deem advisable.

ANNEX: STATUTORY CHECKLIST

Will be distributed separately