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

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

EGYPT - Industrial Development Bank

AID-DLC/P-2188

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

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June 22, 1976

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: EGYPT - Industrial Development Bank

Attached for your review is the recommendation for authorization of a loan to the Government of Egypt ("Borrower") of not to exceed Thirty-two Million United States Dollars ($32,000,000) to assist in financing the foreign exchange costs of sub-loans made by the Industrial Development Bank for productive investments in Egypt and for goods and services required to strengthen the Bank itself.

No meeting has been scheduled for this project. Please note that your views are requested by close of business on Tuesday, June 29, 1976. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review
and Evaluation

Attachment:
- Summary and REcommendations
- Project Analysis
- Annexes

INDUSTRIAL DEVELOPMENT BANK OF EGYPT

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LIST OF ABBREVIATIONS

A.I.D.	Agency for International Development
BOA	Bank of Alexandria
CBE	Central Bank of Egypt
c.p.	condition precedent to disbursement
FAA	Foreign Assistance Act
GDP	Gross Domestic Product
GOE	Government of the Arab Republic of Egypt
GOFI	General Organization for Industry
IDA	International Development Association
IDBE	Industrial Development Bank of Egypt
LE	Egyptian pounds
OECD	Organization for European Cooperation and Development
SSPIS	Special Services to the Private Industrial Sector
U.S.	United States
USAID	United States Agency for International Development

CURRENCY CONVERSIONS

Official Rate

1 Egyptian pound (LE)	= U.S. $2.56
1 U.S. dollar	= LE 0.391

Parallel Market Rate

1 Egyptian pound (LE)	= U.S. $1.70
1 U.S. dollar	= LE 0.587

INDUSTRIAL DEVELOPMENT BANK OF EGYPT

I. SUMMARY AND RECOMMENDATION

Borrower: Government of the Arab Republic of Egypt (GOE)

Beneficiary: Industrial Development Bank of Egypt (IDBE)

Loan Amount: U.S. $32.0 million

Terms to the GOE: Repayment in 40 years, including ten years of grace; 2 percent annual interest during the grace period; 3 percent thereafter.

Terms to the IDBE: Repayment in 20 years, including three years of grace; 8 percent annual interest.

Purpose: The loan to the new Industrial Development Bank of Egypt will provide foreign exchange through sub-loans to the Egyptian industrial sector to finance the importation of U.S. capital goods and related services.

Loan Application: The GOE has requested the proposed loan.

Mission Views: The A.I.D. Mission Director in Cairo has recommended authorization of this loan. See Annex B, 611(e) FAA Certification.

Statutory Criteria: All statutory criteria have been met. See Annex D.

Source of Funds: Fiscal Year 1976 Supporting Assistance

Recommendation: Authorize the proposed loan in accordance with the terms and conditions described in the draft loan authorization attached at Annex G.

Project Committee

USAID/Cairo
Chairman Robert N. Bakley
Loan Officer Domenick J. Scarfo
Economist Robert J. Maushammer
Legal Advisor James R. Phippard

AID/Washington
Chairman Justin Williams, NE/CD
Desk Officer James R. Roberts, NE/ME
Legal Advisor Robert B. Meighan, GC/NE

II. BACKGROUND

A. The Manufacturing Sector

2.01 Egypt has a long-established and active industrial sector which in 1973 accounted for about 22 percent of GDP, about 37 percent of total exports, and about 13 percent of total employment (or about 1.2 million), ranking second after agriculture in its importance to the economy. It 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 and tradition of industrial activity, and a relatively skilled labor force; it also has a demonstrated capability to produce and to export a variety of manufactured goods. However, in recent years capacity utilization has been low, mainly due to shortage of foreign exchange, so that industrial output has been depressed. Government policy accords a high priority to industrial expansion, in view of the importance of its potential contribution to Egypt's development through increases in income, employment and foreign exchange earnings.

2.02 Industrial enterprises in Egypt, both in the public and private sectors, operate generally under the guidance and supervision of the Ministry of Industry. Public sector industrial enterprises are owned by one of six "General Organizations," (Food Processing, Spinning and Weaving, Chemicals, Building Materials, Metallurgical, and Engineering, Electrical and Electronics). In addition, the General Organization for Industrialization (GOFI), the planning arm of the Ministry of Industry, is responsible for planning and coordinating expansion and development programs in the whole industrial sector. All public sector industrial investments, and private sector investments of over LE 8,000, require its approval. While for public sector projects GOFI conducts a detailed appraisal, its examination of private projects is largely to assess the appropriateness of the proposal in relation to government policy and development objectives. For private sector proposals, GOFI acts on the advice of a licensing committee for granting industrial approval, which includes representatives of the above-mentioned General Organizations, the Industrial Control Board of the Ministry of Industry, the Federation of Egyptian Industries, and BOA. GOFI's appraisals and recommendations for private sector projects are reviewed by the Industrial Control Board of the Ministry of Industry, prior to final approval by GOFI, to assess their suitability in the light of resource availability, market and other relevant consideration.

2.03 Egypt's principal industries, as measured by employment and output, remain in the traditional textile and food processing sub-sectors. However, during the past twenty years other sub-sectors have increased in importance as the scope of manufacturing industry has widened. Other sizeable sub-sectors now include engineering (including production of vehicles, tractors and certain consumer durables), (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; the share of the public sector in the output of industrial sub-sectors ranges from about 90 percent in the metallurgical industries to about 75 percent in the textile and chemicals sub-sectors. Most large- and medium-scale enterprises are in the public sector, which includes some 200 industrial enterprises employing in total over 500,000 workers. Private industry remains strong, especially in textiles, food and beverage processing, wood-working and leather goods (the latter two sub-sectors being almost entirely in private hands), where there are numbers of private firms employing 200-300 workers. 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.

2.04 The growth rate in the industrial sector during the period 1968/69-1970/71 was about 9 percent in real terms. Thereafter it stagnated until 1974, when output grew by about 5 percent. A dominant constraint on capacity utilization and output growth in the sector in recent years has been foreign exchange shortage.

2.05 Manufactured goods exports grew by about 26 percent (in current prices) between 1970 and 1973, and by 53 percent in 1974. One major reason for the sharp increase in the sector's export earnings in 1974 was the significantly higher prices obtained for cotton textile exports, which have not been sustained in 1975. Lower cotton textile export earnings combined with the increasing domestic demand for manufactured goods are likely to result in a substantial decline in the sector's export earnings in 1975 over 1974. It is noteworthy that the exports of the private sector have grown much more rapidly than those of the public sector in recent years. The share of the private sector in total exports of industrial goods increased from 13 percent in 1970/71 to 24 percent in 1974. While there is a substantial incentive for exports to be directed to convertible currency markets, in that the receipts for non-traditional exports can be directed through the parallel market, a large proportion of manufactured exports (64% in 1973 and 71% in 1974) went to East European countries.

2.06 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: food processing 9 percent, textiles 17 percent, chemicals 13 percent, building materials 4 percent and engineering industries 5 percent. The 1975 planned investment in industry is marginally above the 1974 total; allocations to the metallurgical subsector have been 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. A number of joint venture investments is contemplated for public sector enterprises.

2.07 The investment climate for entrepreneurs in the private sector has been improved in the past two years by the new official recognition given to the role of the private sector in the economy. The previous environment of uncertainty regarding nationalization and sequestration has given way to a new and increasing confidence and optimism among private businessmen. Also a new foreign investment law was enacted in 1974 to give additional incentives to foreign private investment in Egypt, and as of March 31, 1975, 121 industrial projects with proposed investments of about $140 million had been approved under the new law. Furthermore, the Government is continuing to expand free zones to stimulate foreign investment, particularly in the Suez Canal Zone.

2.08 The Government envisages local private investment mainly in medium-and small-scale industries. It is generally considered that local entrepreneurs lack funds sufficient to undertake large-scale industrial projects, while some major industries (including military industries, fertilizer production and other key industries) have remained in the domain of the public sector. Private industry has, however, a large potential for growth. The number of licenses issued for private investment by GOFI increased from an annual average of approximately 300 in 1969-72 to 447 in 1973 and 514 in 1974. The total cost of projects licensed in 1973 and 1974 was estimated at about $50 million, in each year. Planned investment in private sector manufacturing industry in 1975 is shown at $80 million in the 1975 interim plan. Moreover, a Presidential decree was issued in May to allow workers and private citizens to purchase new issues of stocks of public sector enterprises up to a maximum of LE 10,000 ($25,000) per individual. The principal objective of this decree is to encourage private savings and to channel them towards increased investment requirements of industry. Shortage of foreign exchange has however been a bottleneck to investment in public and private sectors alike.

B. The Cost of Credit In Egypt

2.09 The cost of credit in Egypt is a function of controlled interest rates, bank charges and Ministry of Finance charges. Depending upon the combination of factors in a particular case, the cost of credit for medium- or long-term funds ranges from about 6% where only local currency is involved, to about 10% for FY. For purchases involving foreign exchange, the rate of exchange used is a further cost factor, since approximately 50% is added to the cost of the foreign currency if the parallel market rate is applicable.

2.10 Egyptian interest rates have remained unchanged over a long period and individuals and institutions are prohibited by law from charging interest in excess of 7% per annum (excluding banking charges of between 0.5 and 1% per annum) for all credits except cotton financing, for which there is a preferential rate of 5-3/4%. Interest rates are 2 to 4% on time deposits and 3-1/2% on regular savings accounts. Other savings instruments, e.g., various governmental savings certificates, yield returns of 5% and are exempt from income tax. Considering that in Egypt's controlled economy resources are allocated without regard to interest rates, increasing the rate of interest without revising the entire pricing system and improving the investment criteria might dampen enthusiasm for investment by the private sector.

2.11 From 1973 to 1975 the private sector was expected to obtain its foreign exchange resources from the parallel market particularly for recurring imports. From that date, also, there has been no allocation for the private sector in the Government's foreign exchange budget. Aside from the occasional purchase of small items, funds available through this system have not generally been used for the import of capital equipment. However, to the extent that it is done, the cost in Egyptian pounds is 50% higher than purchases made at the official rate of exchange, which is the rate used for projects financed with IDA credit funds available to BOA, and implies a cost of credit for long-term funds of approximately 15% compared to 10% for funds available under the proposed loan. Whether to further extend the parallel foreign exchange market to include virtually all transactions in convertible currencies has been the subject of lengthy discussions between the Government and the IMF and the decision has been deferred pending the results of a more comprehensive study of the effects on the Egyptian economy.

C. The Financial Community

2.12 The Egyptian banking community consists basically of five state-owned commercial banks: Bank Misr, Banque du Caire, National Bank of Egypt, Bank of Alexandria, and the Industrial Development Bank of Egypt. Other government-owned, specialized banks handle mortgages, cooperative credit, etc. Two other commercial banking institutions, the

Arab International Bank and the Arab African Bank, are treated legally as non-resident banks, and cannot conduct direct operations with residents. The Misr-Iran Bank, set up jointly by Egypt and Iran, will identify, implement and manage large development projects in Egypt and Iran. Its transactions will be carried out in convertible currencies. Jointly-owned commercial banks are also being established by other Egyptian banks in partnership with private foreign banks (BOA, for example, has entered into a joint venture with American Express), but for the present these banks are not expected to be involved in operations which would conflict with the project.

2. 13 Under the laws governing the Egyptian banking system, each of the state-owned banks is assigned a specific role in providing services to sectors of the economy. BOA was assigned the role of servicing the industrial sector, and was the private industrial sector's sole institutional source of investment funds on a term basis. For local currency loans, BOA has access to the funds generated by its extensive commercial operations; so far the only foreign exchange it has had was from IDA credits.

2. 14 BOA was formed in 1957, and its share capital is fully owned by the Central Bank of Egypt (CBE). It is the largest commercial bank in Egypt with assets of about LE 440 million in 1974. From 1971 to 1976 the BOA was the vehicle selected by the Government for financing development in the private industrial sector. It provided substantial financial services to public sector enterprises. BOA's organizational structure included a term-lending department, Special Services to the Private Industrial Sector. All term-lending operations involving foreign currency, local currency term-lending operations for the private sector and direct term-lending operations for public sector industry, were handled by SSPIS. SSPIS followed policy guidelines and procedures for term-lending formulated in consultation with IDA. No change in these guidelines could be made without IDA approval. Lending and supervision activities for sub-projects using IDA funds were carried out by SSPIS. It was not, however, a financially autonomous unit with adequate separate cost accounts for that purpose. banking and financial operations of SSPIS, as well as bookeeping and other service functions, have been carried out by the other departments of BOA.

D. <u>The Industrial Development Bank of Egypt</u>

2. 15 The Government of Egypt in June 1976 formed an Industrial Development Bank of Egypt as a separate legal entity for term lending and as such will take over the facilities and functions of the Special Services to Private Industrial Sector (SSPIS) branch of the BOA. The IDBE will operate as a full service commercial bank. Capitalization

is LE$10 million ($25.6 million), owned by the Central Bank. Both the former general manager of SSPIS and his deputy are able and experienced BOA staff members. However, although the former SSPIS staff is diligent, it remains in need of further training and exposure to development banking practices. The IDBE is now an established legal entity with full authority to carry out all the banking functions performed by the former SSPIS. IDBE Chairman Kabodan and General Manager Shenoudo informed A.I.D. on June 15, 1976 that all necessary legal actions have been taken as follows:

- Ministerial Decree No. 76-1976 on April 19, 1976 established a Temporary Committee to perform all necessary actions to establish the IDBE;
- the IDBE was registered in the Commercial Register of Cairo, registry no. 176459 dated May 8, 1976;
- on May 27, 1976 the IDBE was registered with the Central Bank of Egypt as a non-commercial bank;
- on June 7, 1976 Presidential Decree No. 582-1976 was signed by the Prime Minister formally establishing the IDBE, creating a Board of Directors, abolishing the temporary Committee and forming a Permanent Committee to undertake administrative and management actions necessary for the IDBE to begin operations.

E. Pipeline and Resource Requirements

2. 16 In addition to its longer term lending operations, the major part of SSPIS' activities consisted of financing installment purchases of industrial equipment and the provision of working capital for terms generally not exceeding three years. From January 1974 to March 1975 these activities accounted for some LE 30.3 million out of SSPIS's LE 39.5 million total operations. Its term-lending operations during that period included 49 loans of longer than 5-year terms, totalling LE 7.8 million, of which 44 had a foreign exchange component totalling LE 5.9 million. SSPIS financed in total about 79 percent of total private industrial investment approved by GOFI during that period.

2. 17 SSPIS had a pipeline of projects at the close of 1974 requiring foreign exchange totalling approximately $50 million. It was expected that approvals of sub-projects would grow at some 5

percent in 1975 over the 1974 figure of $17 million in foreign exchange, and then at an average rate of 11 percent annually to 1978. The IDA provided a $15 million credit for industrial sub-lending to the BOA in 1973 that has been fully disbursed. This initial IDA credit was the sole institutional source of foreign exchange for long-term investment by the private sector during 1974. It was primarily used for relatively small public sector projects. Allowing for projects in 1975 financed under this first IDA credit, and for the fact that only a proportion of pipe-line projects normally materializes, SSPIS' foreign exchange requirements were estimated at a minimum of $40 million for the period January 1975-June 1977.

2. 18 The BOA did not in 1974 and 1975 make a determined effort to seek resources arguing that (i) the Government controls the allocation of resources which might be available on concessional terms, (ii) BOA/SSPIS could not point to a history of meaningful operations since in effect they had been in business for only about a year and most of their projects are under construction, and (iii) many sources which outsiders believe to be open to BOA are in fact profit oriented and the rate of interest and terms are the same as other sources in the international market. Nevertheless, BOA's financial requirements in 1976 and 1977 exceeded the- funds that could be made available by IDA, and BOA management needed to close the resource gap to enable it to assist in meeting the Government's investment targets. Discussions were held with A.I.D., the Arab Fund for Economic and Social Development, and the African Development Bank to provide funds to fill the gap.

2. 19 Part of this projected resource gap was picked up by the IDA in mid-1975 when it provided a second loan to BOA for $25 million. This left a projected unfunded foreign exchange requirement of about $15 million for the first half of 1977. An estimated additional $35 million foreign exchange sub-lending availability was anticipated to be required for 1977 and 1978 ($10 million in 1977 and $25 million in 1978). The foreign exchange component of unprocessed project proposals in the SSPIS pipeline in May 1976 totalled about $100 million (See Annex.) The proposed $32 million A.I.D. loan would thus be applied to a portion of the approximately $50 million unfunded 1977 and 1978 estimated foreign exchange requirements to finance approved sub-loans.

2.20 As far as local currency lending operations are concerned, BOA has had considerable resources at its disposal. During the period January 1975 to December 1977, BOA's total local currency loan portfolio is estimated to increase by LE 130 million. This will be financed by LE 135 million in deposits, LE 4 million in retained earnings and LE 4.4 million from other internal cash generation. It is understood that the local currency portfolio of SSPIS will also be transferred to the new Industrial Development Bank of Egypt. However, the IDBE will require new local currency availability to support foreign exchange loans over and above what is available and uncommitted. During loan negotiations, A.I.D. will seek appropriate

GOE assurances in the loan agreement that adequate local currency will be available to support the industrial sub-projects for which this loan will be the source of foreign exchange financing.

III. THE PROPOSED A.I.D. LOAN

A. Purpose

3. 01 The proposed $32 million A.I.D. loan to the GOE will be relent to the IDBE to complement the current $25 million IDA loan as a source of foreign exchange for industrial production relending. Evidence is substantial that changes in policies have favorably altered the investment climate in Egypt and that the private sector is responding with guarded enthusiasm. Requirements for foreign exchange for term investment exceed foreseeable resources. If the Government's targets are to be met, the private sector in particular will be dependent on the IDBE for financial support. The proposed A.I.D. loan will fill a part of this resource requirement. It will help sustain the investment momentum in which the BOA formerly played a substantial role.

3. 02 The loan will assist the GOE to move toward achievement of its new economic development goals and programs. It will support the evolution of a modern and efficient private industrial sector. Existing financial institutions will be strengthened. Policies designed to foster domestic resource mobilization and orientation toward a more dominant role for the private sector should indirectly result.

B. Terms

3. 03 The proposed A.I.D. loan to the GOE will be for repayment in 40 years with 2 percent annual interest during the grace period and 3 percent thereafter. Repayment will be in U.S. dollars.

3.04 Relending by the GOE to the IDBE will call for repayment in 20 years with three years of grace and 8 percent annual interest throughout the 20-year period.

3.05 The BOA will relend the proceeds at an effective cost to sub-borrowers of 10 percent with amortization over periods up to 15 years depending on the nature of the sub-projects, including appropriate grace periods of up to three years. This will give the IDBE a spread of 2 percent. Because the proposed loan is for investment purchases rather than recurrent imports, and because this loan and the current IDA credit will be the sole sources of foreign exchange for investment purposes available to the private industrial sector, the Government wishes the proceeds of the loan to be made available to IDBE's sub-borrowers at the official rate of exchange. The private sector will thus be able to obtain foreign exchange as cheaply as the public sector. The foreign exchange risk on funds provided to sub-borrowers will, however, be assumed by the sub-borrowers. The current

IDA credit also contains the same exchange rate and exchange risk provision as proposed in the A.I.D. loan.

C. Sub-Lending Policies

3.06 To assure that IDBE relending based upon the A.I.D. loan will be for quality industrial projects with maximum economic benefit, such sub-loans will be required to indicate a minimum 15 percent financial rate of return.

3.07 In addition to the normal security for foreign exchange sub-loans consisting of the imported equipment, chattels on other, prior-owned equipment, mortgages on land and buildings, and personal guaranties, the SSPIS has required private sub-borrowers to make an Egyptian pound deposit equivalent to 20 percent of the amount of the foreign exchange loan. As this places a burden on private sector borrowers and has the practical effect of increasing their cost of borrowing, A.I.D. will seek elimination of the practice in the loan agreement negotiations.

3.08 Sub-loans will be made only to investment enterprises to carry out specific development projects that require the importation of productive capital equipment. Sub-loans will not be made to finance the importation of commercial commodities for resale or recurring materials requirements.

3.09 It is anticipated that the project activities of from 75 to 100 private companies will be financed from this A.I.D. loan based upon the number and size of loan applications in the SSPIS pipeline. Such pending private applications are predominantly from chemicals, textile, metallics, food, and engineering and electrical companies. Public sector applications are for much larger loans because they are from major, established industrial activities that are engaged in expansion and modernization and have access to substantial financial resources. As a covenant, A.I.D. will require at least 65 percent of A.I.D.-financed sub-loans to be used to finance private sector enterprises. A.I.D. will also require that the IBDE covenant to submit its term lending guidelines for A.I.D. approval.

D. Technical Assistance

3.10 Unless A.I.D. agrees otherwise, up to $300,000 of the proposed A.I.D. loan may be used to finance a technical assistance and training program for the IDBE, including the services of U.S. development banking advisors, training of senior bank officers, and related books, calculators and office equipment. The training program will be jointly developed and executed by the IDBE and USAID/Cairo.

IV. PROJECT APPRAISAL

A. Financial Appraisal of the IDBE

4.01 The capitalization of the IDBE has been established at LE 10 million ($25.6 million). IDBE can borrow five (5) times its capital or LE 50 million ($128 million). To date, known loans include LE 15.6 million ($40 million)from IDA and the proposed $32 million A.I.D. loan (LE 12.5 million). It is estimated, therefore, that the IDBE will have additional borrowing capacity of LE 22 million (about $55 million).

4.02 Since the IDBE has just been established, we have little basis to assess the new entity as an on-going financial institution; nor did we see any merit to assessing the Bank of Alexandria as a financial entity because the bank has no further responsibility for term lending. As a condition precedent to disbursement, A.I.D. will require evidence that the portfolio of the BOA (SSPIS) has been transferred to the IDBE and that the prospects for repayment of the portfolio transferred are such as to permit repayment of the reloan to the GOE.

B. Economic Impact

4. 03 Financing under the first IDA credit was approximately equally divided between public and private enterprises. The average size of the 39 private sector loans involving IDA funds was LE 89,000, compared with LE 831,000 for the 5 public sector loans. It is estimated that SSPIS loans under the first credit generated about 687 jobs; the financial return on a sample of major projects ranges approximately from 15 to 33 percent and the economic return from 9 to 23 percent. Export earnings generated by 15 major sub-projects analyzed by IDA were forecast at LE 5.7 million ($14.3 million) annually. Projects were well diversified between five major industrial sub-sectors: food, building materials, clothing and textiles, metal working and chemicals. SSPIS' pipeline continued to be diversified, with a few tourist and other service sector projects in addition to industrial ones. A substantial number of projects is for export-earning investments.

4. 04 The pattern of investment is expected to develop along the lines indicated by the use made of previous IDA credits; therefore, the quantifiable economic benefits to be expected are likely to be similar to those set out in para. 4.02 above. However, there are other contributions of the project to the Egyptian economy which are difficult to quantify. The loan will make a major contribution to implementation of the Government's policy of expansion and diversification of private industry, which in turn supports its liberalization policy. The loan will continue the institution-building effort begun under previous IDA credits, and provides an opportunity for the U.S. to participate in the development of Egypt's industrial financing system.

C. Social Effects

4.05 The expansion and creation of productive enterprises to be financed by the proposed loan will directly expand private and public sector industrial employment. Some of the new jobs will undoubtedly go to women. Acceleration of the pace of private industrial development is also expected to stimulate a qualitative shift that will emphasize individual capability and accelerate the pace of social change in this predominantly Islamic culture.

D. Debt Service Capacity

4.06 Egypt's outstanding medium - and long-term debt as of December 31, 1975 was $5.1 billion. An additional $2,620 million of debt was owed in the form of bank credit facilities outstanding (including unutilized credits). About two-thirds of the medium - and long-term debt were repayable in convertible currency. Egypt's repayment burden on medium - and long-term debt and on suppliers credits is estimated at $720 million in 1974 and $753 million in 1975. This represents a debt service ratio of 32.3 percent and 35.5 percent in 1974 and 1975, respectively. In 1976 the debt service ratio is not expected to change appreciably. In view of Egypt's heavy debt service burden, A.I.D.'s normal concessional loan terms are proposed -- 40 years, including a 10-year grace period, with an interest rate of 2 percent per annum during the grace period and 3 percent per annum thereafter. With these terms, particularly the 10-year grace period, the repayment prospects for this $32 million loan appear favorable.

V. PROJECT IMPLEMENTATION

A. Sub-Loan Approval Process

5.01 Investment proposals requiring importation of capital goods must be approved by the General Organization for Industry, Ministry of Industry (GOFI). After GOFI has completed a relatively detailed evaluation of an investment proposal, the SSPIS undertakes its project appraisal. A.I.D. review of an IDBE sub-loan proposal will be based upon the IDBE's project appraisal report.

5.02 A.I.D. will review and approve proposed loans that are larger than $250,000. Proposed sub-loans for a new project that exceed $500,000 will require IDBE consultation with A.I.D. prior to IDBE appraisal. Sub-loans for any project that exceeds $1 million will require IDBE consultation with A.I.D. prior to IDBE appraisal. Determination of elgibility of items for .A.I.D. financing will be made by A.I.D. upon its review of IDBE sub-loan proposals. Loans below $250,000 will be reviewed periodically by A.I.D. on the basis of reports received from the IDBE.

5.03 After a company has obtained foreign exchange financing from the IDBE for an investment project, it must obtain an import license from Determination Committees appointed by the Government for the various industrial sectors. The Determination Committees review the proposed procurement for competitiveness, suitability and reasonable price.

B. Procurement and Disbursement

5.04 The source and origin of goods and services financed by the proposed A.I.D. loan will be the United States. The Borrower and the IDBE will undertake to insure: (1) that such goods and services will be purchased at a reasonable price, account being taken of relevant factors such as time of delivery, efficiency and reliability of the goods, and availability of maintenance facilities and spare parts for them, and, (2) in the case of services, of their quality and the competence of the parties rendering them, and (3) that such goods and services are used exclusively in the carrying out of the approved investment project.

5.05 Funds will be disbursed by the U.S. Treasury to a U.S. bank designated by the GOE to receive an A.I.D. letter of commitment. Alternatively, A.I.D. will directly reimburse the GOE upon presentation of requisite documentation to support IDBE's prior payments for goods and services made in accordance with the terms and conditions of the Loan Agreement. Documentation requirements for letter of commitment and direct reimbursement financing will be provided in implementation letters.

5.06 A.I.D. will include as an attachment to the Implementation Letter a "negative list" of projects and commodities for which A.I.D. financing will not be eligible.

C. Implementation Schedule

5.07 Although loan funds are expected to be substantially disbursed during 1977 and 1978, a three-year disbursement period has been provided for to allow for unforeseen implementation delays. The terminal disbursement date will be December 30, 1979.

Implementation Plan

Activity	Date
Authorization	June 1976
Agreement, A.I.D.-GOE	June 1976
Agreement, GOE-IDBE	Sept. 1976
C.P.'s fulfilled	Oct. 1976
Sub-lending begins (IDBE/A.I.D. project approval)	Oct. 1976
Initial disbursement	Dec. 1976
Final disbursement	Dec. 1979

D. Monitoring and Evaluation

5.08 A.I.D. will monitor the progress of loan implementation and disbursement by reviewing periodic progress reports from the IDBE and by frequent informal consultations between all the parties in Cairo. A.I.D. will monitor the rate of loan disbursement by reference to A.I.D.'s internal financial reports. The IDBE and USAID/Cairo will conduct quarterly meetings to review the progress of loan implementation.

5.09 USAID/Cairo and the IDBE will meet annually to evaluate the success of approved investment projects, training administration, and technical assistance effectiveness, and to address major implementation problems. Evaluation of the overall loan will provide for a review of the projects financed and will seek to measure their impact on economic development, industrial employment, evolution of the banking system, and the degree of stimulation of private capital enterprise. Such end-of-project evaluation will be undertaken three (3) months after final disbursement.

VI. COVENANTS AND CONDITIONS PRECEDENT

A. Conditions Precedent

6.01 Prior to any disbursement or to the issuance of a letter of commitment under the loan, the GOE shall be required to furnish to A.I.D.:

- an opinion of the Egyptian Minister of Justice, or other legal counsel satisfactory to A.I.D., that the A.I.D. - GOE loan agreement has been duly authorized or ratified by, and executed on behalf of the GOE and is a valid and legally binding obligation in accordance with all its terms;

- a relending agreement between the Borrower and the IDBE containing terms and conditions satisfactory to A.I.D.;

- an opinion of the principal legal officer of the IDBE, or other legal counsel satisfactory to A.I.D., that its second-step loan agreement with the GOE has been duly authorized or ratified by, and executed on behalf of the IDBE, and is a valid and legally binding obligation in accordance with its terms;

- the names of the persons who will act as the representatives of the GOE and the IDBE together with evidence of their authority and the specimen signature of each;

- evidence that the staff of the former SSPIS has been transferred to the IDBE, and that the senior staff is committed to remain at the IDBE for not less than two years;

- evidence that the IDBE has all the managerial, staff, and physical resources and facilities required to carry out the project, including supporting banking, financial operations, accounting, and other support services formerly provided to the SSPIS by the BOA;

- evidence that the BOA's portfolio of industrial term loans has been transferred to the IDBE and that the prospects for portfolio repayments to the IDBE are adequate to permit repayment of the GOE's reloan to the IDBE from them;

- evidence that the IDBE will have adequate Egyptian pounds available to it for relending to carry out the project;

- copies of all statutes, articles of association, term lending guidelines, statements of policy, and all other documents affecting the management, administration and policies of the IDBE.

The above Conditions Precedent (a - i) will be included in both the loan authorization and loan agreement.

B. Covenants

6.02 The GOE will be required to covenant:

- to relend to the IDBE the proceeds of the A.I.D. loan for use by the IDBE to carry out the project, pursuant to a reloan agreement satisfactory to and approved by A.I.D., specifically including terms calling for repayments in 20 years, three years of grace, annual interest not less than 8 percent and maintenance of value tied to the U.S. dollar;

- to exercise its rights under the second step loan agreement with the IDBE in such manner as to protect the interests of the IDBE and A.I.D. and to accomplish the purposes of the loan;

- not to assign, amend, abrogate or waive the second-step loan agreement with the IDBE or any provision thereof, except as A.I.D. may otherwise agree in writing;

- not to take, or permit any of its political subdivisions, or any of its agencies or instrumentalities, or any agency or instrumentality of any of its political subdivisions, to take any action which would prevent or materially interfere with the performance by IDBE of any of its obligations under the Loan Agreement or the second-step loan agreement, and to take or cause to be taken all reasonable action which shall be required on its part to enable the IDBE to perform such obligations;

- to issue or cause to be issued, promptly as needed, all permits, import licenses, and all other authorizations required for the carrying out of the project.

6.03 The IDBE will be required to covenant in its second-step loan agreement with the GOE:

- to carry out the project and to conduct its operations and affairs with due diliger.e and efficiency and in conformity with appropriate economic, financial and investment standards and practices under the supervision of qualified management assisted by qualified personnel in adequate number;

- to make available on a timely basis ar· Egyptian currency necessary for the execution of the project;

- to submit proposed sub-loans with a foreign exchange component greater than $250,000, including a summary description of sub-borrowers and proposed investment enterprises and including descriptions of the goods and services proposed to be financed, and the terms, conditions, and amortization schedule of sub-loans, to A.I.D. for approval;

- to require sub-borrowers to carry out and operate investment projects financed with Loan proceeds in accordance with sound technical, financial, and managerial standards;

- to require that the goods and services to be financed out of loan proceeds shall be purchased in the United States, at a reasonable price, account being taken also of other relevant factors such as time of delivery, efficiency and reliability of the goods, and availability of maintenance facilities and spare parts for them, and, in the case of services, of their quality and the competence of the parties rendering them;

- to require and to insure that the goods and services to be financed out of Loan proceeds shall be used exclusively in the carrying out of the applicable approved investment project;

- to exchange views with A.I.D., at the request of A.I.D., concerning the progress of the project, and promptly to inform A.I.D. of any condition which interferes or threatens to interfere with the satisfactory progress of the project;

- to maintain records adequate to record the progress of the project and of each sub-project thereunder;

- to furnish to A.I.D. not later than six months after the end of each fiscal year certified copies of its financial statements for the pervious year prepared by auditors acceptable to A.I.D., and the report of such auditors;

- not to make any repayment in advance of maturity in respect of any outstanding debt of IDBE that would materially affect the ability of IDBE to meet its financial obligations;

- to consult with A.I.D. concerning the measures to be taken by IDBE to expand its equity base should loans disbursed by IDBE and outstanding, which shall have maturities exceeding one year, at any time, equal or exceed six times the amount of IDBE's unimpaired paid-up capital, surplus and free reserves of IDBE and subsidiaries after excluding therefrom such amounts as shall represent equity interests of IDBE in any subsidiary or of any subsidiary in IDBE or other subsidiary;

- to submit its term lending guidelines to A.I.D. for approval and thereafter not to make any amendment to them without the prior approval of A.I.D.;

- to consult with A.I.D. prior to undertaking the appraisal of any proposed sub-loan with a foreign exchange component greater than $1.0 million, and consult with A.I.D. before undertaking the appraisal of any new project in excess of $500,000;

- to relend the Loan proceeds on terms calling for repayment in not more than 15 years, up to three years of grace, annual interest not less than 10 percent, maintenance of value tied to the U.S. dollar, and to refrain from requiring interest free local currency deposits as a condition of securing such sub-loan;

- to insure that at least 65 percent of Loan proceeds are used to finance the sub-loans of private industrial sub-borrowers;

- to make sub-loans only for productive enterprises having a projected internal rate of return of not less than 15 percent;

- to protect its assets, maintain its corporate existence and right to carry on operations, and to obtain the prior approval of A.I.D. for any proposed extension of its equity base;

- to carry out a staff training program acceptable to A.I.D.

The covenants under Sections 6.02 and 6.03 will be subject to negotiation and are to be included in the loan agreement. However, these covenants will not be included in the loan authorization.

ANNEXES

A - Loan Application

B - 611(e) FAA Certification

C - Draft Loan Authorization

D - Statutory Checklist

E - Balance of Payments Summary

F - Industrial Investment Decision Making Process

G - The Parallel Foreign Exchange Market

H - SSPIS Term Lending Forecast

I - SSPIS Pending Projects

Department of State TELEGRAM

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EO 11652: NA
SUBJECT: DBA- LOAN APPLICATION

1. USAID RECEIVED SUBJECT $32 MILLION APPLICATION FROM MINECON AND POUCHED COPY TO NE/CD.

2. UPON RETURN GAMAL EL-NAZER FROM IRAN, USAID SHOULD RECEIVE REVISED APPLICATION FOR INDUSTRIAL DEVELOPMENT BANK INSTEAD OF DBA AND AMENDED AMOUNT FOR TO $42 MILLION (ALTHOUGH GOE AWARE MOST LIKELY LEVEL IS $30-32 MILLION).

3. WHEN SIGNED APPLICATION RECEIVED, TEXT OF LETTER WILL BE CABLED AND COPY FORWARDED IMMEDIATELY.
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ANNEX B

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE FOREIGN ASSISTANCE ACT OF 1961 AS AMENDED

Certification being pouched.

ANNEX C

LOAN AUTHORIZATION

Provided from: Foreign Assistance Act Section 532
("Security Supporting Assistance Funds")

EGYPT: Industrial Development Bank

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, ("the Act") and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("the Loan") pursuant to Part 2 Chapter 2 Section 532, Security Supporting Assistance, of said Act to the Government of Egypt ("Borrower") of not to exceed Thirty-two Million United States Dollars ($32,000,000) to assist in financing the foreign exchange costs of sub-loans made by the Industrial Development Bank for productive investments in Egypt and for goods and services required to strengthen the Bank itself. The Loan will be subject to the following terms and conditions.

1. Terms of Repayment and Interest Rate

The Borrower shall repay the Loan to A.I.D. 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 from said date. The Borrower shall pay to A.I.D. interest in United States Dollars at the rate of two percent (2%) per annum during the grace period and three percent (3%) thereafter on the outstanding balance of the Loan and any due and unpaid interest. Unless A.I.D. shall otherwise agree in writing, the Borrower shall make the Loan funds available to the Industrial Development Bank for the project at an interest rate of eight percent (8%) for a period of twenty (20) years with a three (3) year grace period.

2. Source and Origin

Unless A.I.D. otherwise agrees in writing, equipment, materials and services financed under the Loan shall have their source and origin in the United States.

3. Conditions Precedent to Disbursement

Prior to the first disbursement, or to the opening of a Letter of Commitment, under the Loan Agreement, the Borrower shall furnish, in form and in substance satisfactory to A.I.D.:

(a) an opinion of the Egyptian Minister of Justice, or other legal counsel satisfactory to A.I.D., that the A.I.D.-GOE loan agreement has been duly authorized or ratified by, and executed on behalf of the GOE and is a valid and legally binding obligation in accordance with all its terms;

(b) a relending agreement between the Borrower and the IDBE containing terms and conditions satisfactory to A.I.D.;

(c) an opinion of the principal legal officer of the IDBE, or other legal counsel satisfactory to A.I.D., that its second-step loan agreement with the GOE has been duly authorized or ratified by, and executed on behalf of the IDBE, and is a valid and legally binding obligation in accordance with its terms;

(d) the names of the persons who will act as the representatives of the GOE and the IDBE together with evidence of their authority and the specimen signature of each;

(e) evidence that the staff of the former SSPIS has been transferred to the IDBE, and that the senior staff is committed to remain at the IDBE for not less than two years;

(f) evidence that the IDBE has all the managerial, staff, and physical resources and facilities required to carry out the project, including supporting banking, financial operations, accounting, and other support services formerly provided to the SSPIS by the BOA;

(g) evidence that the BOA's portfolio of industrial term loans has been transferred to the IDBE and that the prospects for portfolio repayments to the IDBE are adequate to permit repayment of the GOE's reloan to the IDBE from them;

(h) evidence that the IDBE will have adequate Egyptian pounds available to it for relending to carry out the project;

(i) copies of all statutes, articles of association, term lending guidelines, statements of policy, and all other documents affecting the management, administration and policies of the IDBE.

4. Sub-loans Approvals

Unless A.I.D. shall otherwise agree in writing, the Industrial Development Bank shall submit to A.I.D. for prior approval, all proposed sub-loans of more than $250,000.

5. The Loan shall be subject to such other terms and conditions as A.I.D. shall deem appropriate.

Administrator

Date

GC/NE:RMeighan:ck:6/21/76

ANNEX D

CHECKLIST OF STATUTORY CRITERIA

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Treatment of U.S. Citizens and firms.

1.	FAA § 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) a such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	None of the known claims of any U.S. citizen asserted against the GOE meets the criteria of this section. In any event, Egypt has agreed to participate in a Joint Commission to consider debts of Egypt to U.S. citizens and will seek to negotiate settlement of such debts.
2.	FAA § 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect or nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities benefically owned by them without taking steps to discharge its obligations toward such citizens or entities?	The Secretary of State has determined that Egypt's agreement to establish a Joint Commission to discuss compensation of American nationals constitutes taking appropriate steps for the purpose of this section.
3.	FAA § 620(o). Fisherman's Protective Act § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,	No instance of any such seizure or imposition of such penalty or sanction is now known.

a. has any deduction required by Fishermen's Protective Act been made?

a. Not Applicable.

b. has complete denial of assistance been considered by A.I.D. Administrator?

b. Not Applicable.

Relations with U.S. Government and Other Nations

4. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba.

No instance of any such present course of conduct is known.

5. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

The Secretary of State has determined that Egypt is not controlled by the international communist movement.

6. FAA § 620(f). Is recipient country a Communist country?

No.

7. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

The President has not determined that the recipient country is involved in such conduct.

8. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

The President, in accordance with the requirement of section 620(j) has considered terminating assistance to Egypt and has determined that no sufficient reason exists not to furnish the assistance.

9. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

Egypt has reactivated its Investment Guaranty Agreement with the U.S.

10. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?	The recipient country is not konwn to be engaged in such a course of conduct.
11. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?	No such default exists. Reconciliation is taking place between the books of AID and the Government of Egypt in regard to several very minor amounts.
12. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	Egypt severed diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.
13. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?	Egypt has paid all of its outstanding U.N. obligations.
14. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.

15. FAA § 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

There is no military base in Egypt within the definition of this section.

Military Expenditures

16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

The President has taken into account each of the listed considerations as to current military expenditures by the GAO and has determined that these do not inhibit economic aid to Egypt but rather that the projected program contributes to the underlying intent of the FAA which seeks to reduce arms costs and to stimulate economic development.

CONDITIONS OF THE LOAN

General Soundness

17. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

The necessary plans and cost estimates are completed.

18. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the loan.

No further legislative action is required to implement the program than confirmation action pertaining to the signed loan agreement.

19. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

The A.I.D. Representative in Egypt has so certified.

Loan's Relationship to Achievement of Country and Regional Goals

20. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agricylture, and commerce; and (f) strengthen free labor unions.

The Loan will, in part, make industrial credits available to the private sector in Egypt. It will increase the flow of international trade and improve the technical efficiency of industry.

21. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Egypt is not a newly independent country.

Loan's Effect on U.S. and A.I.D. Program

22. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The great majority of funds expended are for goods and services from private U.S. concerns.

23. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

Yes.

24. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

Goods and services will be imported from the United States and U.S. small business will have the opportunity to participate in the supply thereof.

25. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

26. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Technical assistance will be to the greatest practical extent from private enterprise on a contract basis.

Loan's Compliance with Specific Requirements

27. FAA § 660. Will loan be used to finance police training or related program in recipient country?

No.

28. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?	No.
29 FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?	Yes.
30. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?	Commodity procurement in bulk is not to be financed.
31. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will the loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?	Yes.
32. FAA § 604(e). If offshore procurement of agricyltural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	There will be no such procurement.
33. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.	Consideration will be given to the use of excess property when practical.
34. FAA § 611(b), App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?	Mp water-related land resource is to be financed.

35. FAA § 611(e). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?	The Loan will be used to finance U.S. equipment, and not for local construction contracts.
36. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	The agreement will so provide.
37. Section 30 and 31 of PL 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign rorces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand?	No.
38. Section 37 of PL 93-189 (FAA of 1973); App. § 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam?	No.
39. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	Endeavor is being made for negotiation of an agreement for the reliease of U.S.-owned non-P.L. 480 pounds.
40. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?	The agreement will not permit such use.
41. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million?	No.

42. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction? — No.

43. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? — No.

44. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? — Yes.

45. App. § 107. Will any loan funds be used to pay UN assessments? — No.

46. App. § 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). — Yes.

47. App. § 110. Will any of loan funds be used to carry out provisions of FAA § 209(d)? — No.

48. App. § 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prision construction and administration in South Vietnam or for support of police training of South Vietnamese? — No.

49. App. § 113. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan. — The committees have been notified 15 days in advance of obligation.

50.	App. § 601. Will any loan funds be usef for publicity or propaganda purposes within the United States not authorized by Congress?	No.
51.	App. § 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals?	No.
52.	MMA § 901.b; FAA § 640C. (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes.

ANNEX E

EGYPT

BALANCE OF PAYMENTS PROJECTIONS 1974-76 1/

(In millions of U.S. dollars)

	1974	1975 (Est.)	1976 (Proj)
1. EXPORTS	1,674	1,570	1,830
a. Cotton	663	403	420
b. Petroleum	104	117	400
Crude Oil	(86)	(95)	(350)
Petroleum Products	(18)	(22)	(50)
c. Others	907	1,050	1,010
2. IMPORTS	3,428	4,590	4,900
a. Primary Commodities	869	920	960
Wheat (Cereals ...	(758)	(505)	(520)
Other	(111)	(415)	(440)
b. Fuels 2/	218	385	350
Crude Oil	(102)	(177)	(161)
Petroleum Products	(74)	(130)	(119)
Coal	(42)	(78)	(70)
c. Intermediate Commodities	1,436	1,895	2,204
d. Capital Goods	489	700	676
e. Consumer Goods	416	690	710
3. TRADE BALANCE (1-2)	-1,754	-3,020	-3,070
4. NET SERVICES	170	280	555
Receipts	712	905	1,225
Worker Remittances	(189)	(300)	(320)
Tourism 3/	(414)	(485)	(490)
Suez Canal	(-)	(85)	(400)
Other	(109)	(35)	(15)
Payments	542	625	670
Interest, etc.	(156)	(190)	(234)
Other	(386)	(435)	(436)
5. NET GOODS AND SERVICES (3+4)	-1,584	-2,740	-2,515
6. UNREQUITED TRANSFERS (ARAB GRANTS)	1,258	1,080	750
7. CURRENT ACCOUNT BALANCE (5+6)	- 326	-1,660	-1,765
8. IDENTIFIED M & LT CAPITAL (NET)	- 132	1,960	1,585
a. Drawings on Signed Agreements (as of 3/31/76)	249	2,000	2,290
b. Drawings on Suppliers Credit	273	650	
c. Repayments of Existing M & LT Debt	- 654	- 690	- 705
Long-Term Loans	(- 402)	(- 340)	(- 355)
Suppliers Credits	(- 252)	(- 350)	(- 350)
Financing Institutions	(-)	(-)	(-)

		1974	1975 (Est.)	1976 (Proj)
9.	BALANCE ON CURRENT AND IDENTIFIED M & LT CAPITAL	- 458	300	-180
10.	OTHER NON-MONETARY CAPITAL	- 53	20	50
11.	OVERALL BALANCE	- 511	320	-130

1/ Estimates based on balance of payments data for 1972-76 based on Egyptian Central Bank and Ministry of Finance, IBRD, IMF and AID estimates.

2/ Subcategory fuels breakdown based upon IMF predictions.

3/ Includes aviation company receipts and shipping services.

March 24, 1976

ANNEX F

ARAB REPUBLIC OF EGYPT

Decision-making Process for Industrial Investment

1. General. Decision-making for industrial investment in Egypt's public sector takes place at three different levels: (i) by the President and the Cabinet, (ii) by the respective Ministries, and (iii) by the General Economic Organizations and, to some extent, by the public firms themselves. Egypt has some 50 General Economic Organizations dealing with the economy as a whole, of which ten are concerned with industry. These holding-type organizations are under the overall supervision of their respective Ministries. Public firms (industrial and otherwise) are, in turn, under the guidance of their respective General Organizations. In other words, these General Organizations act as links between public firms and the Ministries.

2. General Organization for Industrialization (GOFI). GOFI is an agency of the Ministry of Industry. GOFI has advisory functions in industrial development and is in charge of coordinating the action of the ten different General Organizations mentioned above within the framework of Egypt's economic plans and of the yearly budget. The GOFI is responsible for carrying out appraisal studies of all industrial sector projects, and plays an active role in identifying and preparing new projects. GOFI has a Board of Directors representing the related ministries. The Minister of Industry is the Chairman and day-to-day management is handled by the Vice-Chairman. GOFI is divided into nine departments, corresponding to the different branches of industry. Each department includes specialists in their respective technical fields. GOFI has a total staff of about 1,000 of which over 200 are involved in the identification, preparation and appraisal of projects; its yearly budget for research in the field identification of new projects is about LE 1.0 million.

3. Public Sector Investments. All public sector industrial investments require approval by the GOFI. A fairly detailed appraisal of the proposed investment is carried out on the basis of a detailed report submitted by the public sector enterprise including the appropriateness of the project in the framework of government policy and plans. GOFI's recommendations are then submitted together with the source of foreign exchange to the Industrial Control Board of the Ministry of Industry which checks out the investment including budget allocations in terms of the foreign exchange quota, supply and sources of raw materials, availability of utilities fuel and power, market considerations and other control features. GOFI then approves the investment. A Special Determination Committee considers the basis of procurement of the imports such as competitive suitability and prices. No imports are possible without the import license granted by this Determination Committee.

4. For its own initiated projects, GOFI is also in charge of following up the particular project throughout the construction period and during three months of initial operation.

5. A matter of special interest is the degree of freedom enjoyed by the public industrial firms in using their own cash-generated funds for investment purposes. Normally, depreciation allowances, provisions and allocations to reserves (the latter are predetermined by the Government) are left to the firms. But profits accrue, by law, to the State (75%) and the firm's employees (25%). The 75% of the surpluses accruing to the State reportedly enter into an Investment Fund. The Investment Fund is apparently used as a balancing item in the budget, meaning that other sectors can, and often do, benefit from the surpluses received by the Investment Fund.

6. Private Sector Investments. Private sector investments over LE 8,000 must first obtain approval from GOFI. The approval is based to a greater or lesser extent on the general suitability and appropriateness of what is being proposed in relation to government plans, policies and development objectives. The entrepreneur's submission (based on a questionnaire) is reviewed by one of the specialized technical groups within GOFI and a report submitted to the Committee for Granting Industrial Approval which is headed by a senior GOFI official nominated by the Chairman of GOFI and includes senior members from the various General Organizations such as for Textiles, Chemical, Machinery, etc., as well as an official from the Federation of Industries and Mr. Kabodan (General Manager of SSPIS). The members of this Committee are appointed by official decree. This committee is the critical entity in determining whether an investment proposal in the private sector is to be approved on the basis of GOFI's recommendations and justifications. If an entrepreneur is dissatisfied with the Committee's decision, he can appeal to a higher committee headed by the Vice Chairman of GOFI and it appears that this has rarely occurred. The proposal (amended and modified, if necessary) is then reviewed and checked by the Industrial Control Board as in the case of public sector projects. The GOFI then approves the project indicating the source of foreign exchange. The procurement is approved and the import license is granted by the appropriate Determination Committee--these Committees are set up by the Ministry of Industry or other ministries depending on the nature of the import involved. For most industrial capital equipment, the relevant committee is the Engineering and Electronics Determination Committee of which Mr. Kabodan is a member. Mr. Shenouda, Deputy General Manager of SSPIS is on the Artisans Determination Committee. There are technical sub-committees for each Determination Committee, composed of experienced staff from public sector enterprises, which review technically the merits, price, timing, competitive character, suitability, alternatives, etc., of the imported capital equipment. Based on this review and the foreign exchange allocation for the industry or sub-sector, the Determination Committee approves the procurement and grants the license. In the case of approval by GOI against foreign exchange available from the parallel market, the Parallel Market Determination committee is the entity that grants the import license.

ANNEX C

THE PARALLEL FOREIGN EXCHANGE MARKET

Background

1. In September 1973, the Government of Egypt announced the creation of a parallel foreign exchange market where a premium of 50 percent for buying and 55 percent for selling free currencies is paid over the prevailing "official" rate in the parallel market. The parallel market replaced the restricted system of multiple exchange rates, including a 50 percent premium rate for some transactions, which had existed since 1969 and were modified in May 1972.

Main Objectives

2. The two primary objectives for its creation were to: (i) increase the inflow of free foreign currency resources, particularly by tapping assets held by Egyptians overseas, and by encouraging exports to free currency areas; and (ii) make these resources available primarily to industry and selected services sectors for increasing production, tourism and exports. The Government's policy is designed to use parallel market resources primarily for meeting import needs of the tourism industry and the private sector. Since the creation of the parallel market, the availability of free foreign exchange to the private sector has substantially increased. So far, the authorities have discouraged the public sector industrial enterprises from using the parallel market on a large-scale; some enterprises are, however, allowed to import part of their import needs through the parallel market after a special case-by-case review.

3. The major sources of the parallel market, are: (i) remittances by Egyptians working abroad (expected to be around 50 percent of total in 1974); (ii) receipts from foreign tourists (about 35 percent of total); (iii) exports of non-traditional items (i.e. excluding cotton, yarn, textiles, rice, fresh onions, garlic, potatoes, cement, and re-exports) both from public and private sector; (iv) 50 percent of yarn and textile exports in excess of official export targets; (v) transfers by Arabs and other foreigners except for those related to investments.

4. The major usages will involve primarily: (i) imports of industrial raw materials and intermediary goods, essentially for the private sector at least in 1974 (forecast to total 70 percent of all uses); (ii) import of tourism-related goods and materials; (iii) other invisibles, including commercial and financial expenses, patent fees, royalties, etc. but excluding shipping, insurance and government account transactions.

5. In 1973, receipts in the parallel market totalled LE 102.2 million, out of which LE 64.6 million were used leaving a "surplus" of LE 37.6 in 1973 operations of the parallel market. However, these figures include transactions under the "old" system between January-August 1973. Receipts under the new parallel market between September-December 1973 period were LE 29.5 while usage totalled LE 12.0 indicating that only 40 percent of

available funds were used. Estimates indicate that during 1974 receipts will total LE 143.4 and payments LE 104 million leaving a "surplus" of LE 39 million. While some surplus resources are necessary as a "working" capital of the market (float), it is felt that the surplus is excessive and at least partly due to the complex import procedures. (See para. 14)

Organization Set-Up and Procedures

6. The primary responsibility for policy-decisions, recommending changes, and reviewing the operations of the parallel market lies with the Parallel Market Committee, which works under the general direction of the Higher Committee for Planning of Foreign Trade.

7. The day-to-day banking operations concerning the parallel market are supervised by the Central Bank, as in the case of all foreign exchange transactions. The Central Bank has designated four commercial banks for handling all banking transactions in this field: Bank Misr, Bank of Alexandria, Banque du Caire and National Bank.

8. The Government has nominated the Misr Import and Export Company for handling all applications, whether private or public, concerning imports through the parallel market. A special cell, the Commercial Agency for Parallel Market Operations (CAPMO), was created to perform this function in the Misr Company. The cell works under general directives given by the Parallel Market Committee through the Parallel Market Determination Committee.

Import Procedures

9. Private Sector. The procedures applicable to the private sector have recently been streamlined to expedite the processing of applications. It is hoped that the time between the submission of application and opening of letter of credit will be reduced from 2-3 months to 15 days. These measures are also designed to increase the demand on parallel market resources and reduce the "surplus" mentioned earlier.

10. Although until recently the procedures took 2 to 3 months to complete from application to approval, they have been simplified to reduce time taken for the approval process to about two weeks. The major reform concerns the role of the Industrial Control Board. Now the Board prepares a list of authorized imports for each private sector enterprise at the beginning of the year. This list is sent to the Misr Company. As a result, the Misr Company no longer refers individual import applications to the Ministry of Industry. Instead, it directly approves the applications by referring to the lists of approved imports. Other steps in the procedure remain the same.

11. So far, private enterprises submit their import requests twice a year. To simplify the procedures, it is planned that in future enterprises submit their applications for annual import needs at one time. This will reduce the red tape and permit the enterprises to plan their production more effectively.

12. **Public Sector**. Public sector applications are approved as a special case by a special determination committee and only when the allocations under the Foreign Exchange Budget are considered inadequate and the imports of inputs through the parallel market are not expected to adversely affect the end product prices to the consumer. Thus the Determination Committee not only studies the prices (as in the case of the private sector) but also determines the desirability of the import.

Recent Changes in the Parallel Market

13. On June 1, 1974, the effective rate in the parallel market became subject to change by a committee established for this purpose. However, the Egyptian authorities have indicated that the rate will not be reduced from its present level in the near future. In addition a substantially larger list of commodities was established which could be imported through the parallel market. The commodities are mainly for "productive" purposes but include items like frozen and canned meat and television sets of sizes not produced in Egypt.

14. As of September 1974, the closing balance in the parallel market account amounted to LE 75.8 million (US$ 128.9 million equivalent). Available data for the period July-September 1974 show that receipts totalled LE 50.3 million (US$85.5 million) while usage amounted to LE 37.3 million (US$ 63.4 million) indicating that 74% of newly available funds were used; in comparison receipts under the newly created parallel market during the September-December 1973 period were LE 29.5 million (US$ 50.1 million) while usage totalled LE 12.0 million or 40% of available funds. Data were not available to analyze the reason(s) for the higher rate of usage during the July-September 1974 period. It is speculated, however, that the June 1974 expansion of the list of authorized imports and the streamlining of the procedures for using the parallel market resources were the principal contributing factors. In spite of the higher rate of usage, however, the "surplus" of the parallel market has doubled in nine months reaching LE 75.8 million on September 30,

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Sources: Bank Report: The Egyptian Economy in 1974 (September 25, 1974) and Ministry of Finance General Administration of Exchange Operations Cairo - Nov. 1974.

EMENA/IC&DFC
January 1975

BANK OF ALEXANDRIA

Forecast of Term-lending Operations by SSPIS 1974-1978
(LE'000)

	Actual		Projected			
	1973	1974	1975	1976	1977	1978
Net Approvals:						
--local currency 1/	32.0	1,683.0	1,775.0	1,950.0	2,200.0	2,500.
--foreign currency	97.0	6,767.0	7,100.0	7,800.0	8,800.0	10,000.
Total Approvals:	129.0	8,450.0	8,875.0	9,750.0	11,000.0	12,500.
Commitments						
--local currency	--	1,407.0	1,164.0	1,863.0	2,075.0	2,350.
--foreign currency	--	4,864.0	5,550.0	7,450.0	8,300.0	9,400.
Total commitment		6,271.0	6,714.0	9,313.0	10,375.0	11,750.
Disbursements:						
--local currency	--	420.0	1,050.0	1,429.0	1,785.0	2,115.
--foreign currency	--	394.0	5,537.0	5,588.0	7,325.0	8,460.
Total disbursements:		814.0	6,587.0	7,017.0	9,110.0	10,575.

1/ Local cost component only of projects appraised by foreign currency department of SSPIS estimated at 20% of approvals.

EMENA/IC&DFC
May, 1975

ANNEX I

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SSPIS Pending Projects to be Financed
(as of May 19[illegible])

Size of $ Loan	Number of Applications: Public	Number of Applications: Private
Up to $ 25,000	3	26
$ 26,000 to $ [illegible],000	2	[illegible]
$ 51,000 to $ 100,000	6	43
$101,000 to $ 250,000	4	[illegible]
$251,000 to $ 500,000	10	15
$501,000 to $1,000,000	9	9
Over $1,000,000	11	[illegible]
Total Number	45	206

Total 45 public sector applications - $ 50.7 million
Total 206 private sector applications - $ 50.4 million

Total $101.1 million

By Industry	Public	Private
Chemicals	11	54
Engineering and Electrical	11	17
Refractories, Building Materials	1	13
Tourism	1	11
Metallics	10	22
Food	7	17
Wood Products	1	11
Textiles	2	51
Carpets	1	-
Leather Products	-	10
Total	45	206