

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20521

Proposal and Recommendations
For the Review of the
Development Loan Committee

SYRIA: Basic Inputs and Production Loan

AID-DLC/P-2197

UNCLASSIFIED

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

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AID-DLC/P-2197
September 8, 1976

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: SYRIA: Basic Inputs and Production Loan

Attached for your review is the recommendation for a loan to the Syrian Arab Republic for Fifteen Million Dollars (\$15,000,000) for financing essential equipment and commodities.

No meeting has been scheduled for this project; however, if any member wishes to have a meeting, please advise us immediately and one will be scheduled.

Please note that your views are requested by close of business on Friday, September 17, 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

period of not to exceed ten (10) years such date. 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 on due 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:

Chairmen: USAID/Damascus, J. Svoboda
NE/CD, T. J. Brown
Country Desk: NE/ME, K. Teil
Legal: GC/NE, C. E. Costello
Commodity
Management: SER/COM, M. Harway
Engineering: SER/ENGR, R. Henrickson

SYRIA

BASIC INPUTS AND PRODUCTION LOAN

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BASIC INPUTS AND PRODUCTION LOAN

I. SYRIA: ECONOMIC BACKGROUND

Syria is a predominantly agricultural economy heavily influenced by the public sector. More than half of its about 7.8 million people live in rural areas and many more make their livelihood directly or indirectly from agriculture. In 1975, approximately 16% of Syrian production was generated in the agricultural sector, although this percentage is declining due to a relatively successful economic diversification program. The mining and manufacturing sector yields another 20%, while services (communications and transportations, trade and finance, public administration) produce nearly 60%. Almost all of industry, banking and wholesale trade, 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 post-1970 liberalization policies become increasingly effective. Per capita GDP is estimated at approximately \$400 in 1973 prices.

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 and the remaining hectareage alternately fallow. Out of some 2 million hectares of irrigable land, a little over half a million hectares are now 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 variations in the quantity and timing of rainfall. Weather conditions are expected to be of declining importance in Syria's economic outlook as Euphrates Basin development brings some 640,000 new hectares under irrigation over the next 15 years. This will 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. Yield of proven reserves is estimated at about 300 million tons. In 1974, oil exports were about 6.4 million tons, and in 1975 about 9.5 million tons.

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 offset 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, 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, which included devaluation and import liberalization, 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 good crop years in 1974 and 1975 ; apparently have offset these losses.

The policy of gradual economic liberalization, unrequited transfers from other Arab states, and rising world prices for commodities Syria exports 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 war, Syria's balance of payments should continue to improve if the transfers continue. (See discussion of Balance of Payments below.)

The SARG's Third Five-Year Plan expired in December, 1975. The Fourth Five-Year Plan has not yet been issued, although it is expected to appear very soon. The delay in its appearance is caused mainly by adjustments necessitated by a fall in transfers from the Arab oil producing states, thereby forcing a revision of the Plan as it was originally formulated in late 1975. The new Plan is understood to continue the Third Five-Year Plan's emphasis on developing a diversified agricultural and industrial economy, with particular attention directed at the rural sector and full employment. In addition, it is expected to consider more specifically than its predecessor plan improvement of public administration, including taxation, and nutrition.

II. U.S. ASSISTANCE OBJECTIVES

A. Political and Economic Considerations

The U.S. is providing assistance to the Syrian Arab Republic in order to encourage the further development of U.S.-Syrian bilateral relations, and to assist Syria's economic and social development programs. U.S. willingness to participate in Syrian development is one of the most effective ways of achieving improved relations, while also assisting in the nation's economic growth. In the broader context, the U.S. objective in the Middle East is to help Syria and other nations in that area.

follow a peaceful course in working out their differences. 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 the U.S. interest in building a 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 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 cooperations in all areas of mutual concern.

The Syrians are searching for ways to accelerate the pace of economic development in order to meet the expectations of their people. While some progress has been made in recent years, Syria's needs for social and economic development are extensive. 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 welcome U.S. participation in capital projects related to development. The Syrian Government is also prepared to open the door to some degree to private sector participation. U.S. assistance also helps to re-establish U.S.-Syrian commercial contacts which were severed to a great extent during the break in diplomatic relations (1967-1974).

B. U.S. Assistance Program, FY 75-78

The purpose of the A.I.D. program in Syria is to assist Syria in pursuing its economic development program and to help in the further improvement of U.S. relations and the cause of peace in the Middle East area.

In FY 1975, the A.I.D. program totalled \$83 million, consisting of \$48 million loan for the improvement and expansion of the Damascus water supply system; a \$30 million loan for import from the U.S. of agricultural and construction equipment; a \$4 million grant to finance technical services and feasibility studies; and a \$1 million grant to fund technical training in the U.S. for Syrian Government officials.

The FY 1976 program totals \$80 million. It will be used to finance a loan for the construction of the Damascus-Dera'a highway (\$45.9 million); a second loan for the further improvement of the Damascus water supply system (\$14.5 million); a loan for contract services and commodities for a Euphrates Basin Maintenance Project (\$17.6 million); a grant of \$1.25 million to finance training in the U.S. for SARG officials; a grant of \$0.4 million for the development of health services and a grant of \$0.35 million to establish an English language training program.

The Transition Quarter funding, totalling \$15 million, is proposed in this loan paper to be used for importing of essential commodities, primarily heavy construction equipment.

Plans for FY 77 and FY 78 - now in the planning stage - include loans for rural electrification, Euphrates-Balikh Basin Section 2 and Akkar Plain irrigation projects; proposed grant projects include continuation of Technical Services and Feasibility Studies, General Participant Training, English Language Training and Development of Health Services; a new grant project is Agricultural Research and Production. Projects under consideration that may be implemented (shelf-projects) during FY 1978 include (loans) Poultry Development and Lattakia-Tartous Road and (grant) Nutrition.

III. LOAN JUSTIFICATION

A. The Proposed Loan

The proposed \$15.0 million loan will be used to enable Syria to buy from the United States equipment and other commodities essential for the nation's continued development. The loan will be utilized to finance imports of heavy construction, leveling and excavating machinery to improve the suitability of land for mechanized agricultural production, build roads, dams, irrigation facilities or otherwise improve the quality of the country's infrastructure as well as agricultural machinery and spare parts. The loan funds may also be used for various industrial machinery required to process the agricultural products. In addition, the loan may finance various types of transportation equipment to move crops from production areas to storage silos and from silos to consumption areas or export points. Finally, the loan funds may be drawn upon to finance a broad range of general industrial machinery and required raw materials, and perhaps some professional and scientific equipment.

The heavy construction machinery will form the bulk of imports financed under this loan. Construction of the following is scheduled and are expected to benefit from the use of this machinery: various dam projects and general water distribution and irrigation systems; land reclamation projects; cross-country (east-west) highway; connecting roads and tourist roads; water plants; water purification stations; pumping stations and reservoirs; drilling of wells; power plants; power lines and sub-stations; port and municipal warehouses; low-income housing units; hospitals; cattle and poultry stations; various industrial buildings; railroads and railway stations; and bridges.

There will also be a need for equipment to support or complement the heavy construction machinery such as generators, compressors, heavy

duty trailers, maintenance and servicing equipment, water and fuel tanks, laboratory and seismic equipment.

The road construction part of the country's infrastructure will require highly specialized machinery and equipment such as asphalt and cement batch plants; asphalt spreaders; transporters and finishing machines, crushers; rollers and compactors; hydraulically operated pavement brushes; pavement drying and highway line painting machines; and dump trucks.

The competent government foreign trade organizations may use the funds available under this loan to finance imports of fertilizers, pesticides and other agricultural chemicals and raw materials for industrial entities, primarily chemicals.

B. Balance of Payments and Debt Service

Balance of payments data for Syria are incomplete. Military imports and major items of foreign financing are omitted or disguised. For example, cotton bartered for military equipment may not appear in the accounts. The most recent data that are available, cautiously interpreted, show that Syria's balance of payments position continues to be relatively strong. Foreign exchange reserves have increased dramatically since 1970, and in 1974 and 1975 equalled approximately 50% and 42% of a year's imports, respectively. 1975 figures show a trade deficit of 1,725 million Syrian pounds.^{1/} Oil transit fees and exports (387 and 227 million pounds, respectively) have also contributed significantly to the payments surplus, while tourism, which is increasing, contributed 307 million pounds in 1974. The payments surplus, however, conceals a chronic and increasing balance of trade deficit, as well as its principal source of financing, foreign public transfers.

The risks of this structure of a trade deficit financed by foreign transfers have been demonstrated in 1976. The transfers have slowed to a trickle, while foreign exchange expenditures have been very difficult to curtail. Disagreement with Iraq over oil transit fees and crude oil prices as well as political issues have caused Syria to lose the oil transit revenues while requiring Syria to buy more expensive crude. Although no precise estimates are available, these factors and the costs of Syria's involvement in Lebanon, most certainly have caused a serious payments deficit and, consequently, a drawdown of Syria's substantial foreign exchange reserves.

Current and recent investments in the petroleum, agricultural and industrial sectors should alleviate the balance of trade problems both by increasing exports and decreasing imports. Syria's crude production increased from 6.4 million tons in 1974 to 9.5 million tons in 1975. Production is expected to reach 10 million tons in 1976, and to continue at roughly that level. A new oil field yielding higher

^{1/} 3.9 Syrian pounds = 1 U.S. dollar.

quality crude has been discovered, and refining capacity is being expanded. Increased agricultural production, resulting from the Euphrates River Dam and expanded irrigation works, should decrease agricultural imports, and expand cotton exports. Past investment in textiles and industry is reflected in consistently increasing exports in these categories.

The following table summarizes the balance of payments position:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
		(million Syrian pounds)				(prelim)
Balance of trade	-642.7	-906.5	-877.9	-981.5	-1656.9	-2256.0
Exports	844	864.7	1211.4	1363.1	1914.0	3441.0
Imports	-1487.5	-1771.2	-2089.3	-2344.6	-4570.9	5697.0
Foreign Public Transfers	13.4	103.6	187.8	1387.2	1539.0	2417.0
Balance on Current Acct.	127.6	-131.8	6.7	1279.1	841.7	775.0
Net Foreign Assets (\$ millions)	-28.0	-43.0	-36.0	285.0	455.0	728.0

SARG Ministry of Finance records of external public debt, excluding that related to national defense, show a rapid increase between 1970 and 1975, from \$258.4 million to \$453.0 million (75%). Debt repayments have increased from \$33.0 million in 1970 to \$59.6 million in 1974, and \$104.0 million in 1975. An even larger total, \$246.8 million, is anticipated for 1976. External debt is expected to remain close to the 1975 level rising to \$271.1 million by 1981. Since Syrian exports are not expected to rise significantly during this period, the debt service ratio will probably remain at the 1975 level through 1981. Given the sharp increase in external debt and the continued low per capital GNP, as well as AID's interest in supporting Syria's development efforts, AID's normal concessional loan terms are proposed: 40 years maturity including a 10 year grace period and 3 percent thereafter.

As indicated above, long-term growth prospects are good, however, and with concessional terms, the repayment prospects for the loan appear reasonable.

C. Other Donor Assistance

In recent years, Syrian receipts of other donor assistance have been principally from the Arab oil exporters. The composition of the donors has changed substantially between 1968 and 1975. In the first phase (1968-1970) the East European governments and the U.S.S.R. in particular were the main donors, providing 70-90 percent of Syria's external financing, or a total of about \$200 million excluding military

loans. During the second phase (1971-1973) the socialist bloc share declined to between 50 and 70 percent with an increased contribution from international organizations, DAC governments and Arab oil countries. In the third phase (1974 onward) socialist bloc loans declined further in percentage terms, and there has been a significant increase from the Arab oil countries due to commitments made at the 1973 Rabat Conference, estimated to be about \$500 million in grants every year for three years, of which Saudi Arabia, Kuwait and Abu Dhabi provide the largest part. The SARG received about \$1,000 million in loans in 1975 compared to \$435 million and \$702 million in 1973 and 1974, respectively. Grants and loans from the oil rich Arab countries are continuing in 1976, but much below the 1974-1975 levels. (See Balance of Payments discussion.) So far in 1976, however, assistance from the oil rich Arab countries has slowed to a trickle because of political disagreements in the Middle East region.

Assistance to Syria
(\$ million - Estimates)

A. Assistance from International Agencies:

	<u>FY 1974</u>	<u>FY 1975</u>
<u>Total</u>	<u>99.8</u>	<u>81.3</u>
IBRD-World Bank	88.0	80.6
IDA	10.0	-
UNDP	1.8	0.7

B. Assistance from OPEC Arab Countries:

	<u>CY 1975</u>	
<u>Total</u>	Loan	<u>586.4</u>
	Grant	<u>610.6</u>
Abu Dhabi		
Loan		50.4
Grant		201.6
Kuwait		
Loan		223.0
Grant		207.0
Saudi Arabia		
Loan		285.0*
Grant		150.0
Libya		
Loan		28.0
Grant		52.0

*The loans from Saudi Arabia are interest-free, and no amortization schedule has been agreed on.

C. DAC countries (ex. U.S.) official Bilateral gross expenditure:

	<u>CY 1974</u>	<u>CY 1975</u>
<u>Total</u>	<u>1.8</u>	<u>139.5</u>
Italy	0.1	0.4
Germany	0.8	74.4
France	-	32.9
Japan	0.3	30.8
Others	0.6	1.0

D. Assistance from communist countries:

<u>Total</u>	<u>196.0</u>	<u>431.0</u>
USSR	100.0	186.0
Czechoslovakia	NA	100.0
East Germany	NA	72.0
Bulgaria	NA	72.0
Romania	96.0	NA

E. U.S. assistance:

	<u>FY 1975</u>	<u>FY 1976</u>	<u>TQ</u>
<u>Total</u>	<u>104.6</u>	<u>99.4</u>	<u>15.0</u>
AID Grants	5.0	2.0	-
AID Loans	78.0	78.0	15.0
PL 480	21.6	19.4	

IV. LOAN ADMINISTRATION

A. Syrian Government Import Procedures

While import licenses are issued to private firms and individuals for certain types of imports, including construction, agricultural and industrial machinery, a large part of Syria's foreign trade is conducted by public sector trading agencies. In addition, individual Ministries or the Unions of industries may also have authority to make imports. The ones most likely to be importing under this loan are AFTOMACHINE, which is responsible for importing construction machinery, vehicles, and a broad range of industrial machinery and spare parts; the Foreign Trade Organization for Chemicals and Food stuffs (TAFCO), which imports such commodities as fertilizers, pesticides and other agricultural chemicals; Foreign Trade Organization for Machinery and Equipment, which imports vehicles, tires, industrial machinery and spare parts; the Agricultural Machines Distribution Company (AMDC), which is responsible for imports of agricultural equipment ranging from large size grain harvesters, combines, sugar beet and potato harvesters to agricultural tractors and matching implements; the Ministry of Euphrates Dam, which handles imports of their own needs for heavy construction machinery for road and canal building and maintenance, as well as agricultural machinery for its experimental farm.

Although some of these public sector agencies import commodities for resale to farmers or for use by the various public construction companies it is not anticipated that significant amounts of local currency will be generated. For that reason and the unnecessary complications which would arise to develop a system of formal or informal AID involvement in the use of local currency proceeds, it has been determined that a local currency control mechanism is inappropriate for this program.

B. Allocation of Foreign Exchange and Import Authority

The State Planning Commission (the Ministry of Planning) will have the coordinating responsibility for implementation of the loan, assuring the allocation of loan funds for each of the types of eligible commodities and passing AID's procedural requirements onto the purchasing organizations.

C. Eligibility of Commodities

Items eligible for financing under this loan are road building and heavy construction equipment, transport equipment, agricultural equipment, industrial machinery required to process agricultural products, as well as a broad range of other industrial machinery needed for Syria's economy. All imports must be of U.S. source and origin as defined in AID's Commodity Eligibility List dated December 16, 1974, as amended. This list, identifying the specific categories of equipment

will be provided as an attachment to the Commodity Procurement Instruction (CPI) which will be attached to the first Implementation Letter.

In addition, Implementation Letter No. 1 shall specify that all agricultural and industrial chemicals to be procured under the program will require specific AID approval on a case-by-case basis taking into account environmental considerations.

D. Agricultural Inputs and Production Loan (276-J-007)

The \$20.0 million Agricultural Inputs and Production loan was signed by AID and the Syrian government on February 27, 1975. The loan was to finance the importation of agricultural machinery, raw materials, and spare parts of U.S. source and origin to support Syria's agricultural development. The loan was amended on June 30, 1975, to increase the amount of the loan by \$10.0 million to a total of \$30.0 million.

Although the loan is fully committed, only three letters of credit have been issued to date and no disbursements have occurred. It was anticipated that the initial three bid packages issued in late 1975 would obligate the total loan. However, after lengthy deliberations, SARG awarded only nine items for a total C&F value of \$3.2 million. Contracts were signed in June, 1976 and two letters of credit issued in July, 1976.

To utilize the remaining loan funds, two additional IFB's were published in June and July, 1976. If SARG awards all items contained in the IFB's, the total would exceed that available under the loan (see Section F below). To allow delivery of the items under these IFB's, the terminal disbursement date has been extended to August 31, 1977.

The principal reasons for the lengthy delays in project implementation have been the difficulties encountered in reaching mutual agreement on procurement procedures and documentation and the lack of familiarity of SARG with U.S. commercial practices. Given the experience gained to date, it is anticipated that the loan will be fully obligated by December, 1976 and disbursed within the terminal disbursement date.

E. Implementation Procedures

As discussed above, experience with the FY 1975 Agricultural Inputs and Production Loan (276-J-007) has shown that the Syrians, after many years of not dealing with U.S. businesses or Government, have now sufficiently familiarized themselves with AID's established rules and procedures required to effect procurement under an AID commodity import program in a satisfactory manner. The fact that only one public sector entity was involved helped in this regard. The matter was further simplified by the Syrian Government's accepting the standard AID Invitation for Bids (IFB) document to administer procurement under the FY 1975 loan. USAID/Damascus

is confident that the same or equivalent document will be used under this new loan. AID's standard commodity financing procedures, as set forth in AID Regulation I, shall be again applicable. In overall compliance with Regulation I provisions, USAID would be willing to recommend waiver of formal IFB procedures 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 purpose of the loan to require formal procurement procedures.

Assistance of an AID Supply Advisor has been available to the Syrian Government since the inception of the commodity import program in FY 1975 and the USAID Mission will continue to provide assistance during the implementation of this new loan. Such assistance will help the buying organization determine requirements, establish specifications, develop IFB's, communicate with potential U.S. suppliers and generally assure that procurement is conducted in accordance with accepted U.S. procedures, standards and practices.

F. 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 common method of financing imports, and there appears to be no problem in disbursing loan funds through use of AID's regular Letter of Commitment procedure. As with the FY 1975 loan, the Commercial Bank will be designated as the Approved Applicant. Bulk shipments might be financed through direct Letters of Commitment to suppliers.

It is anticipated that part of this loan may be utilized to finance equipment tendered under Loan 276-J-007, if funds are available on a timely basis. Although this and the experience gained during the implementation of loan 276-J-007 will greatly facilitate loan draw-down, the involvement of SARG entities not included in that loan and possible delays in equipment deliveries indicate that at least a two year disbursement period will be necessary.

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 help U.S. supplier/exporters to re-establish old trade relationships and create new ones for construction, industrial and agricultural machinery 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. In 1974, it is estimated that the U.S. exported slightly less

than \$40 million in goods and services to Syria. This trade figure increased dramatically in 1975 to \$128 million.

B. Use of U.S. Government Excess Property

Because of the nature of the assistance being provided (heavy construction machinery and equipment and spares) it is unlikely that 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 asked to continue 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 \$15.0 million for financing imports of selected machinery equipment and other commodities 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.

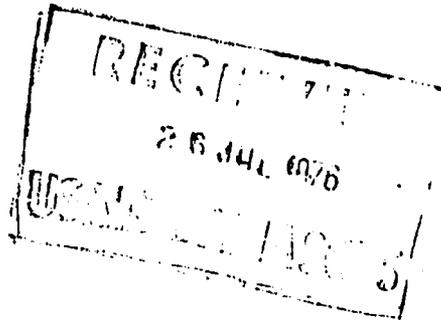
SYRIAN ARAB REPUBLIC
PRESIDENCY OF THE COUNCIL
OF MINISTERS
STATE PLANNING COMMISSION

الجمهورية العربية السورية
رئاسة مجلس الوزراء
هيئة تخطيط الدولة

Ref. : H 549 / R. 1,

Date : 26/7/1976

Mr. Gordon B. Ramsey
AID Representative
Embassy of the United States of America
Damascus, Syrian Arab Republic



1. Mr. Ramsey
2. Mr. Chandler
3. Mr. Miller
4. R.F.
5. File

Dear Mr. Ramsey

Subject: Transition Quarter-Commodity Import Loan

In view of the additional \$ 15 million appropriated by the U.S. Congress for Syria during the Transition Quarter (July 1 - September 30, 1976) the Syrian Government requests that these funds be used for a commodity import loan to enable Syria to purchase from the U.S. heavy construction machinery, agricultural equipment and other items needed for the further development of the Syrian economy. Therefore, please initiate the necessary steps which will lead to a loan agreement between our governments for this purpose.

Sincerely

Eng. H. Issam Hilou
Deputy Minister of State
For Planning Affairs

CHECKLIST OF STATUTORY CRITERIA

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

ISAA, 1976 - International Security Assistance and Arms Export Control Act of 1976.

App. - Foreign Assistance and Related Programs Appropriation Act, 1976, and the period ending September 30, 1976.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;

§ 106; § 107. Is loan being made

- a. for agriculture, rural development or nutrition;
- b. for population planning or health;
- c. for education, public administration, or human resources development;
- d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;
- e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

Inapplicable. Loan is being provided from Security Supporting Assistance funds.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA §201 (b) (5), (7) & (8); § 208

- A. Describe extent to which country is:
 - (1) Making appropriate efforts to

Inapplicable. Loan is being provided from Security Supporting Assistance funds.

increase food production and
improve means for food storage
and distribution.

(2) Creating a favorable climate
for foreign and domestic private
enterprise and investment.

(3) Increasing the public's role in
the developmental process.

- (4) (a) Allocating available budgetary resources to development.
- (b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Willing to contribute funds to the project of program.

(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures

B. Are above factors taken into account in the furnishing of the subject assistance? **Inapplicable.**

Treatment of U.S. Citizens and firms.

3. 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) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? There are at present no claims meeting the criteria for termination of assistance pursuant to this Section. However, Syria is now discussing with the U.S.G. and private creditors the status of all remaining outstanding debts of Syria, in order to reach negotiated settlement.
4. 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 beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? Syria, has taken action in the past, which without appropriate action on Syria's part would call for 620(e) sanction. Syria is now discussing the resolution of these claims with the U.S.G. and private creditors. A determination has been made that Syria is taking appropriate steps to discharge its obligations.
5. 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 sanctions is now known.
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by A.I.D. Administrator?

Relations with U.S. Government and Other Nations.

6. 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 such conduct is known.
7. 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 Syria is not controlled by the international communist movement.
8. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? The purpose of the contemplated program is not to assist the conduct or operation of a productive enterprise within the meaning of 620(d).
9. FAA § 620(f). Is recipient country a Communist country? The recipient is not a communist country.
10. 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.
11. 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? There is not reason to believe that Syria will fail to take adequate measures to prevent the recurrence of mob action which may result in damage or destruction to U.S. property within Syria. Negotiations pertaining to settlement of old claims pertaining to such damage will take place soon.
12. 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 the A.I.D. administration within the past year considered denying assistance to such government for this reason? The institution of an investment guaranty program is now under review. A.I.D. has not considered denying assistance for this reason.

13. 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?
14. FAA § 620(q). Is the government of the recipient country in default of interest or principal of any A.I.D. loan to the country?
15. 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?
16. 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?
17. 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?
18. 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?
- Syria is not known to be engaged in such a course of conduct.
- The Administrator has determined that assistance to Syria is in the national interest, despite the prohibition contained in Section 620(q). Syria broke diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed, and the two governments are actively negotiating an up-dated bilateral assistance agreement to replace the earlier agreement still in effect. Syria is up to date in payment of its U.N. obligations.
- The President has made no determination under Section 481 that Syria is in violation of this section.
- Inapplicable.

Military Expenditures

19. 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).)

A.I.D. is taking into account each of the listed considerations and has determined that considerations as to current military expenditures by the Syrians do not inhibit economic aid but rather that the projected program contributes to the underlying intent of the FAA which seeks to stimulate economic developments.

CONDITIONS OF THE LOAN

General Soundness

20. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
21. FAA § 201(b)(2); § 201(e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

Items 20, 21, 22, and 23 of this section of the checklist are inapplicable because the proposed loan will be provided from Security Supporting Assistance funds.

Inapplicable.

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| 22. <u>FAA § 201(b)(2)</u> . Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects. | Inapplicable. |
| 23. <u>FAA § 201(b)(1)</u> . Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. | Inapplicable. |
| 24. <u>FAA § 611(a)(1)</u> . 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 commodity listings and cost estimates are completed and included in the loan paper. |
| 25. <u>FAA § 611(a)(2)</u> . 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 other than the ratification action pertaining to the signed loan agreement which in past cases requires no more than 90 days and has not delayed program implementation. |
| 26. <u>FAA § 611(e)</u> . 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? | Inapplicable as not capital assistance. |

Loan's Relationship to Achievement of Country and Regional Goals

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| 27. <u>EAA § 207; § 113</u> . Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy. | Items 27, 28, 29, 30, 31, 32, 33, 34, 35, and 37 of this checklist are not applicable because the proposed loan will be provided from Security Supporting Assistance funds. |
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28. FAA § 209. Is project susceptible of execution as part of regional project? If so, why is project not so executed? Inapplicable.
29. FAA § 201(b)(4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to reliable long-range objectives. Inapplicable.
30. FAA § 201(b)(9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth. Inapplicable.
31. FAA § 209. Information and conclusion whether assistance will encourage regional development programs. Inapplicable.
32. FAA § Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life. Inapplicable.
33. FAA § 201(f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development. Inapplicable.

34. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions. Inapplicable.
35. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. Inapplicable.
36. FAA § 201(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities? Inapplicable.
37. 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, agriculture, and commerce; and (f) strengthen free labor unions. (a) The program loan will be used to finance the import of commodities with the long-term objective of increasing Syria's ability to engage in international trade. (b) Under A.I.D. Reg. 1 procedures, private initiative and competition will be fostered to the maximum extent possible. (c) No direct impact (d) No direct impact (e) the program will encourage improvement in technical efficiency of industry, agriculture and commerce (f) No direct impact.

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

Syria is not a newly independent country.

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

39. FAA § 201(b)(6). Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

Items 39 and 40 are not applicable because the proposed loan will be provided from Security Supporting Assistance funds.

40. FAA § 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

Inapplicable.

41. 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 loan will finance the costs of commodities and related services from the United States. Reg. 1 ensures that there will be maximum private participation in transactions financed under the loan.

42. 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?

Since the loan is for program assistance this section is inapplicable.

43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan. Procurement of commodities and services under the loan will be according to A.I.D. Reg. 1 procedures, so U.S. small business will be able to participate as suppliers, as appropriate.
44. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries? No.
45. 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. No technical assistance is financed by this loan, so this section is inapplicable.

Loan's Compliance with Specific Requirements

46. FAA § 110(a) ; § 208(e). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the loan is to be made? Items 46, 48, 49, 50, and 51 of this checklist are inapplicable because the proposed loan will be provided from Security Supporting Assistance funds.

47. FAA § 660. Will loan be used to finance police training or related program in recipient country? No.
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? Inapplicable.
49. FAA § 201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year? Inapplicable.
50. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Inapplicable. (Loan will in fact provide for such interest rate).
51. FAA § 201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? Inapplicable.
52. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? Yes. The loan authorizes procurement only from the United States.
53. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? A.I.D. Regulation 1 will be incorporated in the loan agreement to enforce this provision.

54. 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? Syria has indicated that there will be no discrimination against U.S. marine insurance companies. This provision will be covered by the loan agreement.
55. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? No offshore procurement is to be financed.
56. FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable? Yes. The loan agreement shall so provide through application of A.I.D. Reg. 1.
57. 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. A.I.D. Reg. 1 applies except to public sector procurement, wherein efforts will be made to utilize excess property to the maximum extent possible. In the private sector, the procurement of such property may not be financed under A.I.D. Reg. 1
58. 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? Inapplicable.
59. FAA § 611(c). 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? Inapplicable.
60. 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 No contractual or other services are financed under the loan other than commodity related services in accordance with AID Reg. 1.

owned by the United States are utilized to meet the cost of contractual and other services.

61. 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 forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? No.
62. 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.
63. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? No, Syria is not an excess currency country.
64. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? The scope of the loan project coupled with the restrictions of A.I.D. Reg. 1 will prohibit use of loan funds for any such purpose.
Inapplicable.
65. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? Inapplicable.
66. 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. Procurement is limited to the United States.
67. FAA § 502B.(a) Has it been determined that the recipient country has been engaged in a consistent pattern of gross violations of internationally recognized human rights? (a) No.
(b) Inapplicable.
(b) If so, have resulting statutory provisions been complied with?

68. FAA § 620 A. Has the recipient country aided or abetted international terrorists by granting them sanctuary from prosecution? No.
69. FAA § 669. Has the recipient country received or delivered nuclear reprocessing or enrichment equipment, materials or technology not subject to multilateral and International Atomic Energy Authority controls? No.
70. ISAA, 1976 § 404. Does the assistance have the purpose or effect of promoting or augmenting the capacity of any nation, group, organization, or individual to conduct military or paramilitary operations in Angola? No.
71. ISAA, 1976 § 406. Does the assistance furnish military or security supporting assistance, military education or training, or credits or loan guarantees under the Arms Export Control Act to Chile? No.
72. ISAA, 1976 § 607. Has information been received which substantiates that officials of the recipient country have received illegal or otherwise improper payments from U.S. corporations, or extorted or attempted to extort money or other things of value in return for permitting a U.S. corporation or citizen to conduct business in that country? No.
73. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? No.
74. App. § 106. Will any loan funds be used to pay UN assessments? No.
75. App. § 107. Will any of loan funds be used to carry out provisions of FAA § 209(d)? No.
76. App. § 108. Does the activity provide assistance to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos? No.

77. App. § 109. Does the activity finance directly or indirectly military assistance to Angola? No.
78. App. § 110. Will the activity finance, directly or indirectly, the planning or carrying out of any assassination, any foreign political activity, or any other action influencing a foreign election in peace time? No.
79. App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress? No.
80. App. § 506. Is the recipient country in default in excess of one year of principal or interest on any loan made by the U.S. pursuant to a program funded under this Act? This section does not apply until September 30, 1976. Syria is taking appropriate steps to cure the default.
81. MMA § 901.6; FAA § 640 C. (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. A.I.D. Reg. 1 and the loan agreement will require compliance with this provision.