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UNCLASSIFIED

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

PROJECT PAPER

Proposal and Recommendations  
For the Review of the  
Bilateral Assistance Subcommittee

SYRIA - DEVELOPMENT IMPORTS LOAN

AID/BAS-010

UNCLASSIFIED

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

UNCLASSIFIED

AID/BAS-010

June 23, 1978

MEMORANDUM FOR THE BILATERAL ASSISTANCE SUBCOMMITTEE

SUBJECT: Syria - Development Imports Loan

Attached for your review are recommendations for authorization of a loan to the Syrian Arab Republic of not to exceed Twenty Million United States Dollars (\$20,000,000) to finance the U.S. dollar costs of equipment and other commodities essential for Syria's continued economic development.

No meeting has been scheduled for this loan proposal. However, we would appreciate your advising us of your concurrence or objections as early as possible, but no later than close of business on Friday, July 7, 1978. If you are a voting member, a poll sheet has been enclosed for your response.

Working Group on Bilateral Assistance  
Office of Policy Development and Program  
Review

Attachments:

Summary and Recommendations  
Annexes I - III

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

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AID/BAS-010

June 23, 1978

MEMORANDUM FOR THE BILATERAL ASSISTANCE SUBCOMMITTEE

SUBJECT: Syria - Development Imports Loan

~~Attached for your review are recommendations for authorization of a loan to the Syrian Arab Republic of not to exceed Twenty-One Million Five Hundred Thousand United States Dollars (\$21,500,000) to finance the U.S. dollar costs of equipment and other commodities essential for Syria's continued economic development.~~

No meeting has been scheduled for this loan proposal. However, we would appreciate your advising us of your concurrence or objections as early as possible, but no later than close of business on Friday, July 7, 1978. If you are a voting member, a poll sheet has been enclosed for your response.

Working Group on Bilateral Assistance  
Office of Policy Development and Program  
Review

Attachments:

Summary and Recommendations  
Annexes I - III

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PROGRAM ASSISTANCE COMMITTEE:

Chairperson:	Joseph R. DeSousa, NE/PD
Desk Officers:	Kurt Teil, NE/ME
Counsel:	Jan Miller, GC/NE
Procurement Officer:	Ransome Looper, SER/COM/NE
Project Manager/Supply Advisor:	W. VonSpiegelfeld, USAID/Syria

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AID 1120-1 (6-66)  <b>PAAD</b>	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO.
		2. COUNTRY Syria
		3. CATEGORY Commodity Financing Standard Procedures
		4. DATE
5. TO: Mr. John J. Gilligan Administrator, A.I.D.	6. OYS CHANGE NO.	
7. FROM: Joseph C. Wheeler Assistant Administrator Bureau for Near East	8. OYS INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ Up to \$12,500,000	10. APPROPRIATION - ALLOTMENT SA	

11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 12/01/78 - 12/01/80	14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date
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15. COMMODITIES FINANCED  
Heavy duty off-highway trucks, equipment and training aids for Damascus University, automatic bakery lines, and other eligible import items as specified in Implementation Letter.

16. PERMITTED SOURCE U.S. only: Up to \$12,500,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: Up to \$12,500,000 Industrialized Countries: Local: Other:
------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------

18. SUMMARY DESCRIPTION  
This loan is part of a continuing U.S. assistance program to Syria to encourage further development of U.S.-Syrian bilateral relations. U.S. participation in Syrian economic development is one of the more effective ways of achieving improved relations and contributing to a peaceful settlement in the Middle East.  
  
The proposed loan will finance the U.S. dollar costs of equipment and other commodities essential for Syria's continued economic development. The development of Syria's agricultural, educational and health sectors will benefit from many of the anticipated imports.  
  
It is recommended that you authorize a loan to the Syrian Arab Republic in the amount of up to Twelve and One-half Million U.S. Dollars (\$12,500,000) for financing essential equipment and commodities on the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period

19. CLEARANCES	DATE	20. ACTION
DAA/NE:ADWhite	_____	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
NE/PD:SATaubenblatt	_____	
GC/NE:JMullen	_____	
NE/DP:BLangmaid	_____	
NE/JLS:BRichardson	_____	
SER/COM/NE:RTLooper	_____	
		AUTHORIZED SIGNATURE _____ DATE _____
		TITLE _____

of not to exceed ten (10) years at an interest rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

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.



exceed ten (10) years at an interest rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions

(a) Unless A.I.D. 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 A.I.D. may deem advisable.

## I. BACKGROUND

### A. Political and Economic Considerations

The U.S. is providing assistance to the Syrian Arab Republic (SARG) in order to encourage the further development of U.S. - Syrian bilateral relations, and to assist Syria's economic and social development. A detailed economic background of Syria is contained in Annex 1.

U.S. willingness to participate in Syrian development is one of the most effective ways to 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.

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. Financing Syria's development requirements beyond the capacity of Syria itself or any one foreign donor. The Syrians are seriously interested in U.S. technical cooperation and technology and welcome U.S. participation in 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 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 improving U.S. - Syria relations and the cause of peace in the Middle East.

In FY 1975, the A.I.D. program totalled \$83 million, consisting of a \$48 million loan for the improvement and expansion of the Damascus water supply system; a \$30 million commodity import loan for 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 and Transition Quarter program totalled \$95

million consisting of: A loan for the construction of the Damascus-Deraa 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 Irrigation Maintenance Project (\$17.6 million); a grant of \$1.25 million finance training in the U.S. for SARG officials; a grant of \$0.4 million for the development of health services; a grant of \$0.35 million to establish an English language training program; and \$15 million for the Basic Inputs and Production Loan used to finance commodity imports such as tires, medical equipment and sanitation equipment.

Of A.I.D.'s \$80 million FY 1977 Loan/Grant program for Syria, a \$40 million loan was authorized to help finance Syria's commodity import program. Loan proceeds are being used to procure machinery and equipment necessary to support agricultural land development, crop production, processing and marketing, and other sectors of the economy related to overall food production. The balance of the FY 77 program consisted of a loan for Rural Electrification (\$34.7 million); a grant of \$3.5 million to finance further technical services and feasibility studies, including agriculture and transport sector assessments; a grant of \$0.983 million to fund training in the U.S. for additional SARG officials; a grant of \$.482 million for English language training; a \$.335 million grant for health services; and a \$25,000 disaster relief grant to help combat the cholera epidemic last September 1977.

The FY 1978 program is currently planned to include, along with this proposed program loan, a project loan \$60 million for the design and construction of a major coastal highway, as well as the following grants: soils survey/land classification, technical health institute, English language training, development of health, technical services and feasibility studies III, and general participant training. Future activities will increasingly emphasize rural services (roads, water, electricity, health) to benefit the nation's rural poor.

#### C. Utilization of Previous Commodity Import Type Loans

There have been three previous commodity import type loans to Syria. A \$30 million FY 1975 loan - The Agricultural Inputs and Production Loan, No. 276-J-007; a \$15 million loan FY 1976 Transitional Quarter Loan - The Basic Inputs and Production Loan, No. 276-K-013; and a \$40 million FY 1977 loan - Agricultural Machinery and Production Inputs II, No. 276-K-015.

1. Agricultural Inputs and Production Loan No. 276-J-007

The SARG originally allocated the available foreign exchange of \$30.0 million exclusively to the Agricultural Machinery Distribution Company (A.M.D.C.). Invitation-for-Bid (IFB) No.1 through 3, if all items had been contracted for, would have committed all the funds for the items specified in these tenders. However, A.M.D.C. decided to purchase plows, planters, fertilizers spreaders, hand planes, tractors and traxcavators valued at \$2,070,000 under IFB No. 3. Letters of Credit for the total amount were issued in the second half of CY 1976 and before the end of the year the first three shipments arrived in Syria. All of these commodities cleared Syrian customs prior to April 30, 1977 and have entered the Syrian economy.

Subsequent to the cancellation of the proposed procurement under IFB's 1 and 2 and some items of IFB 3, the SARG decided to make the remainder of the loan funds available for the purchase of heavy construction equipment. The public sector Foreign Trade Organization for Machinery and Equipment (Aftomachine) was designated as the eligible importer. Aftomachine issued IFB No. 4 in July 1976 and signed contracts for a total of over \$26.2 million (on a CIF basis) for equipment and spare parts with five U.S. suppliers. The equipment included loaders, tractors graders and mobile work shops for use by the public sector construction companies working on major irrigation facilities. Letters of Credit were opened in February 1977 and all the contracted for imports, arrived in Syria prior to the end of October 1977, with the exception of a quantity of spare parts which were shipped in the first half of calendar year 1978. The remainder of the funds of approximately \$1.7 million was used for shop equipment, both mobile and stationary, and for special tools.

2. Basic Inputs and Production Loan No. 276-K-013

A FY 1976 loan of \$15 million for financing commodity imports was signed by the SARG and USAID on September 30, 1976. The conditions precedent to disbursement of loan funds were met by the SARG in January 1977. The funds were made available to finance imports from the United States of the same type of commodities as were authorized in the earlier loan. The State Planning Commission received requests for utilization of funds, from a number of ministries and state import companies and organizations far in excess of the available dollar amount. USAID received a formal request to use this loan to purchase tires and equipment for a cardiovascular surgical center and IFBs were issued. Bids for the tires and tubes were

opened in mid-July 1977. \$6.5 million worth of offers for tires were received which met the bid specifications but the majority of these bids were rejected because of high prices and \$1.2 million worth of tires were purchased. L/Cs were opened in late December 1977 and shipment of these tires and tubes was completed in June 1978. Another Letter of Credit financed by this loan was opened in January 1978 covering the equipment for the cardiovascular surgical center. The ordered commodities are expected to arrive in Syria prior to the end of FY 1978.

For the remainder of loan funds, IFB 013-2 was issued on March 13, 1978 and bids were opened on May 4, 1978 for compactors, containers of different sizes, mechanical sweepers, landfill compactors and steam cleaners for use in sanitation. The SARG procurement committee made the technical evaluation of the offers and submitted its recommendation to the higher economic committee for approval. After such approval is given, AFTOMACHINE will finalize the purchase of the equipment mentioned above including spare parts from four U.S. suppliers. The mechanical sweepers will have to be financed with Loan 015 funds because insufficient funds remain in Loan 013. To speed up the procurement of the equipment under this IFB, for which the SARG has much interest, both AID/W and the SARG agreed to use direct L/COM to U.S. suppliers rather than using L/CS through banks. Because of the SARG high economic committee has not yet approve the recommendation of the procurement committee the first units will be delivered in the fall of 1978 or later.

3. Agricultural Machinery and Production Input Loan II 276-K-015

This loan of \$40 million was signed September 20, 1977 and the conditions precedent to disbursement of loan funds were met early in January 1978. The Ministry of State for Planning Affairs received requests for funding of equipment needs from the USA for various ministries, public sector construction companies, Damascus University, and many more public sector entities, exceeding half a billion dollars. After a screening of these requests by a number of committees in January 1978 the Prime Minister's office decided what commodities would be purchased with the proceeds of the loan. IFB 015-1 for 30 rear dump trucks was announced on May 9th with a bid closing day of June 22; and IFB 015-2 for construction equipment such as track-type tractors and wheel-type front-end loaders was announced May 22 with a bid closing date of July 8. The remainder of the funds of this loan will be utilized to purchase equipment such as hydraulic cranes, motor graders, trimming and

lining machines, excavators and combines. IFBS will be announced upon finalizing preparation of technical specifications for this equipment by the SARG.

In summary, the status of the three commodity import loans is as follows:

Loan 007      Essentially fully disbursed

Available from Loans 013 and 015	\$55,000,000
L/C issued	\$ 2,164,584
Bids evaluated, awaiting awards	\$13,348,188
Reserved for banking charges	\$ 20,000
IFB's issued	\$ 26,000,000 (est.)
Balance remaining:	\$13,467,228
Firm requests rec'd from SARG	\$ 31,000,000 (est.)
Present shortfall	\$17,532,772

Current disbursement data for the previous three loans is as follows: Loan 276-J-007, \$28,257,000 disbursed; Loan 276-K-013, \$1,171,000 disbursed; Loan 276-K-015, no disbursement as yet.

## II. LOAN JUSTIFICATION

### A. The Proposed Commodity Import Loan

Development in Syria is partially dependent on the importation of commodities such as machinery, equipment and the associated mechanical technology, all of which are available from the United States. The proposed loan of \$21.5 million will finance development imports including equipment, machinery, and spares which the Syrians need to procure from the United States to assist in their development programs.

In order to improve and expand the entire agricultural sector, machinery will be needed to build roads, irrigation structures such as dams and canals, and to clear and level lands. In spite of the SARG's general ban on imports of motor vehicles and trucks, truck importation will be permitted under this loan. SARG has requested financing, (under Loan 276-K-015 for FY 1977) for thirty 35 ton heavy-duty off-highway dump trucks, and is expected to request additional heavy-duty trucks to further the country's infrastructure development, to be financed with funds from this proposed loan.

A firm request for financing of equipment and supplies for six faculties of Damascus University, has also have been forwarded to AID. Two engineering faculties, the faculty of medicine and sciences, as well as agriculture will receive needed modern training equipment aids.

Equipment, such as automatic bakery lines to process agricultural products, have been requested for financing under this loan. These bakery lines, designed for producing Syrian bread, popular with the urban poor, will enable the SARG to keep the price of bread at a level the poor can afford and assure that sufficient bread will be available at all times.

It is also expected that equipment and supplies for a marine biology laboratory will be financed from funds from this loan, as well as air pollution monitoring equipment for one stationary unit and two mobile units. The latter is especially welcome as it indicates that the Syrian Government is beginning to be concerned with environmental deterioration.

## B. Balance of Payments and Debt Services

Balance of Payments data for Syria is difficult to obtain, incomplete in many respects and generally out of date. Military imports and some foreign financing may be disguised or omitted. Receipts outside of official channels, largely unrequited remittances from Syrians working abroad, are substantial, but until 1977, unestimated. The table below is based on a June, 1977 IMF Report and a May, 1978 report prepared by the AID Mission. It does no more than provide general trend lines which indicate that Syria's need for foreign exchange will continue for some time into the future.

### Syrian Arab Republic: Balance of Payments Summary (Millions of Syrian Pounds) \*

	1973	1974	1975	1976 <sup>1/</sup>	1977
Goods and Services	<u>-266</u>	<u>-1,095</u>	<u>-2,268</u>	<u>-4,768</u>	<u>-5,700</u>
Exports (F.O.B.)	1,339	2,914	3,441	4,141	3,920
Imports (C.I.F.)	<u>-2,341</u>	<u>-4,176</u>	<u>-5,697</u>	<u>-8,826</u>	<u>-9,420</u>
Trade Balance	<u>-1,002</u>	<u>-1,262</u>	<u>-2,256</u>	<u>-4,685</u>	<u>-5,500</u>
Receipt from Services	1,033	1,338	1,420	1,224	N/A
Payments for Services	<u>-298</u>	<u>-1,171</u>	<u>-1,432</u>	<u>-1,307</u>	<u>N/A</u>
Net Services	<u>735</u>	<u>167</u>	<u>-12</u>	<u>-83</u>	<u>-200</u>
Transfer Payments (Net)	<u>1,506</u>	<u>1,714</u>	<u>2,612</u>	<u>1,766</u>	<u>2,730</u>
Private	140	167	195	205	230
Official	1,366	1,547	2,417	1,561	2,500
Nonmonetary Capital(Net)	<u>95</u>	<u>-2</u>	<u>-35</u>	<u>1,048</u>	<u>700</u>
Private	-99	63	68	280	-100
Official	194	-65	-103	768	800
Net Errors and Omissions	<u>-185</u>	<u>-27</u>	<u>-19</u>	<u>50</u>	<u>      </u>
Overall Surplus or Deficit(-)	<u>1,150</u>	<u>590</u>	<u>290</u>	<u>-1,904</u>	<u>-2,270</u> <sup>2/</sup>
Monetary Movements (increase in Assets -)	<u>-1,150</u>	<u>-590</u>	<u>-290</u>	<u>1,904</u>	<u>2,270</u> <sup>2/</sup>

<sup>1/</sup> Estimated

<sup>2/</sup> Estimated receipts outside official channels of SP 1,450 million reduce this amount to SP 820 million.

\* 1 U.S. Dollar = 3.9 Syrian Pounds.

Syria has consistently experienced a balance of trade deficit which has grown greatly over the years as the pace of development increased the need for imports at the same time the growth of exports, primarily crude oil, cotton and phosphates has slowed due to changes in the world market. Through 1975, however, Syria's overall balance of payments and its reserve position appeared favorable because of receipts for services and transfer payments from the Arab oil producing countries and Syrians working abroad.

In 1976, two events occurred which revealed the fundamental weakness of Syria's balance of payments position. Firstly, Syria's oil transit agreement with Iraq terminated and was not renewed due to a lack of agreement on transit payments from Iraq and the price Syria would pay to Iraq for crude oil. This deprived Syria of a source of receipts for services and the preferentially priced crude oil which it needed to blend with its own heavy, high sulfur crude to permit the distillation of gasoline and other light distillates. Additionally, Syria became involved in Lebanon which both caused a large out flow of foreign exchange, and at the same time may have been responsible for a decline in transfer payments to Syria from the Arab oil producing states. Also, the flight of Syrian workers from Lebanon had an impact on receipts outside official channels as well as on private transfers through official channels.

Faced with a deteriorating balance of payments situation, the SARG imposed severe import restrictions in early 1977. These restrictions consisted of limiting issuance of Letters of Credit to public sector organizations and not selling government owned foreign exchange to private sector organizations. The Syrian Government relies on such restrictions rather than tariffs, quotas or devaluation to discourage imports. It does attempt to discourage the demand for imports through fiscal means, but it does not manage the fiscal tools available to it for this purpose fully nor does it attempt to compensate for the current accounts deficit by attracting capital through raising interest rates or bond sales. This lack of flexibility in choosing the means by which the SARG tries to balance accounts and its generally limited fiscal management stem from political constraints, the inflexibility of its centrally managed economy and administrative problems due to oversized, cautious and tradition bound bureaucracy.

By the last quarter of 1977, import restricting measures had taken effect with the monthly average value of imports falling from SP 924 million (\$237 million) for the first 9 months of the year to SP 365 million (\$94 million) for the tenth and eleventh month. Exports fell slightly in 1977 due to a decrease in crude oil production. This produced an overall deficit of the balance of trade of SP 5,500 million (\$1,410 million). The full impact of

the termination of the Iraq transit agreement was felt in 1977 with such receipts falling to zero and representing a loss of SP 120 million (\$31 million) as compared to 1976. Transfer payments improved somewhat presumably reflecting the trend toward peace in Lebanon. The private part of these transfer payments increased a little, coming from Syrian workers, some of whom returned to Lebanon but most of whom passed through Syria to the oil producing states. Public transfers from the oil producing states increased by SP 1 billion (\$256 million). Capital flows were down somewhat because the temporary inflow of private capital due to the Lebanon situation reversed itself and slow project implementation affected public flows negatively with disbursements of public capital estimated at SP 1,400 million (\$359 million) and repayments of public capital estimated at SP 600 million (\$154 million).

The Mission report includes an estimate of receipts outside official channels for 1977. This figure is not available for other years. These receipts are believed to be the remittances of Syria workers abroad. Since the SARG has liberalized its control of these remittances and private sector imports, the remittances provide a source of foreign exchange for private sector imports. The Mission estimate of this flow is SP 1,450 million (\$372 million). If it is taken into account it reduces Syria's net deficit from SP 2,270 million (\$582 million) to SP 820 million (\$210 million).

Looking to the future it is difficult to predict what will happen in 1978 and 1979. The nature of Syria's major exports, crude oil, cotton and phosphates, do not lend themselves to rapid expansion and are vulnerable to world market conditions. Since Syria is planning to increase refining capacity to permit it to use more of its crude production for domestic purposes leaving less crude available for export, we believe exports will continue to show small declines over the next several years.

On the import side, if Syria were to maintain the controls it imposed in 1977 into 1978 and 1979, then imports would be about half the 1977 level. It is highly unlikely that Syria will continue to maintain the stringent import controls imposed in 1977, since the maintenance of such severe restrictions would seriously limit the overall growth of the economy and more importantly have a direct negative impact on the implementation of Syria's economic development plans. The restrictions fall

most heavily on public sector enterprises which are largely involved in implementing development projects. The private sector, as noted above, has an alternative source of foreign exchange.

Assuming all other elements of the balance of payments remain essentially unchanged, including official transfer payments, with exports declining slightly and imports beginning to rise, Syria's balance of payments position will show an improvement in 1978 as a result of the restrictions imposed in 1977. However, the improvement will be at the expense of growth and development since it will be achieved largely by cutting development imports. We expect the pressure for development on the SARG to result in a loosening of restrictions, resulting in an increase in the trade deficit in late 1978 and 1979, and on balance, we conclude that Syria will require additional foreign exchange in 1979, the year this loan will be disbursed, to finance development imports. The proposed AID Loan of \$21.5 million will permit Syria to increase its imports for development.

Syria's reserves declined in 1976 to an amount equal to about 2½ months of imports or about \$471 million. In 1977, the change in net assets due to the balance of payments deficit was actually a change in gross liability rather than a decline in gross assets. Syria is borrowing to cover its deficit. The SARG's Ministry of Finance records of external public debt, excluding debt of less than one year maturity and debt related to national security, show a rapid increase between 1970 and 1975 from \$258 million to \$453 million. Debt repayments increased from \$33 million in 1970 to \$133 million in 1976. Repayments are believed to have been about \$250 million in 1977 and are expected to remain at that level until 1981 for debt already incurred. Since Syria's balance of payments deficit will continue to grow, additional debt will be incurred if the deficit is not covered by transfers from the oil producing states. Given Syria's sharp increase in external debt and AID's interest in supporting Syria's development effort, the proposed loan should be made at concessional or near concessional terms. Congress has fixed the amount of loans which may be made at 40 and 30 years maturity and thus Syria will receive a small portion of the proposed loan at 30 years maturity. The amount, \$9 million, is in proportion to Syria's share of total SSA assistance in the Middle East. Finally, given the generally favorable long term prospects for the Syrian economy, we conclude that the repayment prospects on these terms are reasonable.

C. Other Donor Assistance

In recent years, Syria received considerable financial assistance from international donors, principally from the Arab oil exporting nations. The composition of the donors changed substantially between 1968 and 1975. In the first phase (1968-1970) East European governments and the U.S.S.R. in particular, were the main donors, providing 70-90 percent of Syria's external concessional 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-producing countries, beginning with commitments made at the 1973 Rabat Conference, estimated to be about \$500 million in grants, of which Saudi Arabia, Kuwait and Abu Dhabi provided the largest part. Public transfers, such as budget support, have consequently increased dramatically. In 1970-73 they averaged about \$35 million per year, while in 1974-77 they have averaged about \$500 million per year. At present, the U.S. provides about ten percent of the assistance provided Syria.

The risks of relying so heavily on foreign transfers to finance development expenditures became strikingly evident in 1976, when such transfers fell to about \$225 million. The inflexibility of development expenditures caused Syria to draw down reserves by some \$400 million, and to incur substantial short-term debt. Transfers during 1977, were used to repay this debt, leaving reserves at a low, but acceptable level.

Loans from bilateral sources and international organizations, which increased after 1971, and further after 1973, began to be disbursed in significant amounts in late 1973 and 1974 (about \$100 million per year). This increased dramatically in 1975 to about \$260 million, and were up to about \$350 million in 1976 and 1977.

### III. LOAN ADMINISTRATION AND IMPLEMENTATION

#### A. Syrian Government Import Procedures

The majority of Syria's imports are handled by public sector trading agencies. The public sector trading agencies are organized as the focal point for imports of specific groups of commodities. Public sector agencies include the following:

1. The Foreign Trade Organization for Machinery and Equipment (Aftomachine) Aftomachine is the exclusive importer of tourist cars, ambulances, buses (both inter- and intracity), minibuses, vans and tires. Other imports in this sector such as trucks, tankers, pick-up trucks, mounted cranes and loaders and traxcavators for industry can be imported by both Aftomachine and the private sector, but private sector importers must secure an import license from Aftomachine and pay it a commission. Spare parts can also be imported by Aftomachine and the private sector.
2. The Agricultural Machinery Distribution Company (A.M.D.C.) AMDC is the exclusive importer of agricultural tractors and implements, harvesters, combines, and other agricultural machinery and equipment. Other equipment used in agriculture such as front-end loaders and traxcavators, etc. can be imported by A.M.D.C. as well as the private sector with the license being issued by A.M.D.C. and receiving a commission payment.
3. The Foreign Trade Organization for Metals and Building Building Supplies (Aftometal) Aftometal is the exclusive importer of building supplies, cement, wood, iron and steel products and their distributor is Intermetal.
4. The Foreign Trade Organizational for Chemical and Food Products (TAFCO) TAFCO imports such commodities as industrial chemicals, fertilizers, pesticides and other agricultural chemicals plus foodstuffs.

In addition, individual ministries and agencies within ministries can also import commodities. An example of a ministry which is permitted to handle its own imports is the Ministry of the Euphrates Dam which imports heavy construction machinery for road and canal building and maintenance, as well as agricultural and irrigation machinery and supplies.

As with past loans the State Planning Commission (the Ministry of Planning) will have the coordinating responsibility for implementation of the loan, assuring the allocation of loan funds in accordance with the SARG's developments priorities and passing A.I.D.'s procedural requirements on to the purchasing organizations. While requests from various government agencies for financing have exceeded and are expected to continue surpassing the availability of funds, delays have been and probably will be encountered in the SARG's establishing the priority use of these funds.

The loan proceeds are expected to be utilized by the SARG for public sector imports only. Private sector imports consist generally of small value transactions and it is doubtful that any meaningful utilization of the loan by the private sector will occur. Except as otherwise stated above, the SARG does not encourage procurement by the private sector at present since foreign trade is still considered a public sector monopoly. However, some liberalization of this position can be expected in the future. In fact, we understand that Aftomachine now plans to make private agents/dealers responsible for maintenance of equipment.

It is not advisable to push the issue of increased private sector participation with the SARG at present, other than making private sector imports eligible for A.I.D. financing. For some commodities imported for distribution to the private sector such as farm tractors and implements, pick up trucks etc. we will try to persuade the SARG to make some loan funds available to local distributors of American manufacturers for financing of the equipment they can sell. This financing method would assure utilization of the AID financed imports and the distributors would be made responsible for their maintenance and repair.

#### B. A.I.D. Commodity Import Procedures

This loan will operate with an expanded commodity eligibility listing. Items eligible for financing will include those items normally eligible for A.I.D. financing, as defined in A.I.D.'s Commodity Eligibility Listing, in the following categories: Road building and heavy construction equipment, transport equipment, agricultural equipment, industrial machinery required to process agricultural products and medical and educational equipment and supplies. In addition, a broad range of other industrial

machinery needed for Syria's economy will be eligible. The list of eligible items is provided as an attachment to the Commodity Procurement Instructions which is transmitted to the Borrower with the first Implementation Letter. SARG's decisions regarding the types of equipment it will import will be reviewed in terms of this list of eligible items.

A.I.D.'s standard commodity financing procedures as set forth in A.I.D. Regulation I, shall apply to all transactions under this loan. Procurement of commodities and commodity-related services will be restricted to U.S. source and origin as defined in A.I.D. Regulation I.

The Loan Agreement will contain a provision limiting to \$1 million the amount of commodities or commodity related services for use in constructing expanding, equipping, or altering a single physical facility or related physical facilities without prior A.I.D. approval.

As the loan proceeds are expected to be mostly utilized by the public sector, formal competitive bidding procedures in accordance with Section 2.02.22 of A.I.D. Regulation I will apply. USAID will recommend waiver of these procedures in favor of negotiated procurement only when procurement of a proprietary item is involved, when procurement on an emergency basis is necessary or in special situations when it would be impractical or inconsistent with the purpose of the loan to require formal procurement procedures. Assistance of an A.I.D. Supply Management Advisor has been available to the Syrian Government since the inception of A.I.D.'s procurement loan in FY 1975 and the USAID Mission will continue to provide this service during the implementation of this new loan. The USAID Supply Management Advisor will help the buying organization determine requirements, establish specifications, develop IFBs, communicate with potential U.S. suppliers and generally assure that procurement is conducted in accordance with A.I.D. procedures, standards and practices. Short-term contract services can also be arranged for specialty items as has been done in the past.

The State Planning Commission has now been thoroughly briefed on reporting requirements for arrival, customs clearance and utilization of A.I.D. financed commodities. They have accepted all of USAID's recommendations on this subject and have passed them on to the designated importers with their instruction that these reports be maintained in proper form and made available to USAID on a twice yearly basis.

C. Implementation Procedures

Experience with the FY 1975 Agricultural Inputs and Production Loan (276-J-007) has shown that there are several obstacles to the smooth operation of a commodity import program. One problem is the need for the various importers to have all their implementation decisions approved by higher levels of the SARG bureaucracy. For example, AFTOMACHINE very professionally executed the following importing procedures under IFB #4 mentioned above: issued the tender; administered the opening of the bids; established two committees to evaluate the offers from a technical point of view; complied with procedural tender provisions; and made the final awards. However, all these actions had to receive approval from a higher government authority. The signed contract awards ultimately had to be sanctioned by the Supreme Economic Council. This approval process will continue to be a problem for American suppliers because of the many delays before they can receive a workable Letter of Credit for their awards. However, the State Planning Commission, as well as other implementation agencies and ministries, are becoming more familiar with AID procedures and the lengthy SARG approval process will hopefully be reduced.

While it is not certain what SARG entities will handle the implementation of the proposed loan, the heavy equipment (trucks, etc.) will probably be handled by AFTOMACHINE; automatic bakery lines probably by the Ministry of Supplies; and the educational equipment for the University faculties more than likely by the Ministry of Education. USAID's (supply advisor) who manages the import loan has informed AID/W that these SARG entities should be able to implement the proposed loan and disburse funds within two years following meeting Conditions Precedent.

Those Agencies familiar with AID procedures such as AFTOMACHINE work more rapidly. Organizations, such as the Ministry of Education, which have not used AID commodity import loan funds before will require more time and the assistance of AID's supply advisor and his staff.

It appears more than likely, based on the extent of requests for A.I.D. financing of imports received by the State Planning Commission that a considerable number of new import organizations will get allocations of the new program loan funds. This will undoubtedly cause new delays in implementation until these entities which are unfamiliar with A.I.D. rules and regulations get themselves organized to effect rapid drawdown of the loan. A disbursement period of at least two years from the date conditions precedent are met must, therefore, be anticipated.

D. Disbursements

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 A.I.D.'s regular Letter of Commitment procedure. For the FY 1975 loan, the Commercial Bank was designated as the Approved Applicant. The same was done for the 1976 loan but it turned out that one importer, the Ministry of Higher Education could only open letters of credit through the Central Bank. The approved applicant for this loan and subsequent ones will therefore be changed to the Ministry of State for Planning Affairs with all Government owned Syrian banks being authorized to open L/Cs. Bulk Shipments and awards for more than \$100,000 to a single supplier will be financed through direct Letters of Commitment to suppliers, saving both time and money.

#### IV. OTHER CONSIDERATIONS

##### A. Impact on U.S. Balance of Payments

The long-term impact on U.S. Balance of Payments will be favorable because the proceeds of this loan will be spent on U.S. goods and services. This loan will help U.S. supplier/exporters to continue to re-establish old trade relationships and create new ones for all the commodities financed under this loan 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 1976 to \$275 million (including \$105 million for the sale of Boeing aircraft).

##### B. Use of U.S. Government Excess Property

Because of the nature of the assistance being provided and the limited Syrian maintenance capability it is unlikely that U.S. Government excess property would be appropriate for this loan. However, given the large amount of U.S. Government excess property available, SER/COM is asked to continue to look at possibilities for using such excess property.

##### C. Use of Local Currency

Although some of these public sector agencies commodities may be 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 if a system of formal or informal A.I.D. involvement in the use of local currency proceeds were developed, it has been determined that a local currency control mechanism is inappropriate for this program.

V. RECOMMENDATIONS

It is recommended that a \$21.5 million loan to the Syrian Arab Republic be authorized to finance imports of selected machinery, equipment and other commodities subject to the following terms:

1. For \$9 million of this \$21.5 million loan, repayment in United States dollars in no more than thirty (30) years after the first disbursement, including a grace period of not to exceed ten (10) years at an interest rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.
2. For \$12.5 million of this \$21.5 million loan, 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 at an interest rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.
3. Procurement with loan funds shall be of United States source and origin.
4. The terminal date for disbursement shall be twenty-four (24) months following satisfaction of conditions precedent. The SARG will be allowed 120 days to meet the conditions precedent.
5. USAID will not attempt to exercise commingling control over CIP commodities imported by SARG public sector trading companies for commercial resale or other transfer to Syrian public or private entities. USAID will, however, exercise control to assure that bloc projects or companies will not be designated by the SARG as the importer of CIP-financed commodities. It is anticipated that some loan-financed commodities or equipment would be added to the inventory of Syrian public sector companies and, therefore, could be used in support of numerous activities some of which would qualify as bloc projects.
6. Such other terms and conditions as A.I.D. may deem advisable.

## ANNEX I

### SYRIA: ECONOMIC BACKGROUND

#### General

The Syrian Arab Republic covers an area of 71,000 square miles (185,000 square kilometers). About four-fifths of this area is mountainous, semi-arid or desert. The population totals 7.9 million and is about half rural and half urban. More than 50 percent of the population derives its income directly or indirectly from agriculture. Per capita income is estimated at about \$800 in current prices.

#### Public Sector Role

The Syrian economy is dominated by the public sector. Until the mid-sixties, Syria had a largely laissez-faire economy, the principal elements of which were commerce and large-scale agriculture. In 1963, following a change in leadership, a program of land reform was initiated and about one-quarter of Syria's cultivated land was expropriated and redistributed among state farms, cooperatives, and private farmers. Syria's commitment to a publicly-owned agricultural sector has waned, however, and at present less than 2 percent of the cultivated land is owned by the State. <sup>1/</sup>

During this same period, there were widespread nationalizations of medium - and large-scale industries, including oil and textiles, and the private sector was severely limited in its range of activities. While public ownership remains the rule for industry (and all large industries are publicly owned), the private sector still accounts for approximately one-half of the total GDP. The private sector has made its greatest contribution to the Syrian economy in construction and services.

#### Agriculture

About 6 million hectares, or about 32 percent of the total land area, are cultivable in Syria. Of this amount, only about 3.7 million hectares are under cultivation at any given time with the remainder fallow. Less than one-tenth of the total cultivable land is irrigated. Because of irregular rainfall and the limited irrigation, agricultural production is subject to severe fluctuations.

<sup>1/</sup> Public ownership in agriculture remains important. Most poultry production and similar "agribusiness" enterprises are state-owned.

The agricultural sector contributed 19 percent of Syria's GDP in 1976. Mining and manufacturing yielded about 20 percent, while services (communications and transportation, trade and finance, public administration) produced 56% and construction 4%. The relative importance of Syrian agriculture has been declining in recent year due to a relatively successful economic diversification program. Agriculture, nonetheless, retains a predominant importance in the Syrian economy because it is the livelihood of a majority of the population and because it accounts for about one-third of total export earnings.

Prospects for growth in Syria's agricultural output are very good if the Euphrates River Basin development program is completed. This program is a massive undertaking involving the construction of a large dam across the Euphrates River at Thawra with the eventual addition, over the next 15-20 years, of 640,000 hectares of irrigated land. This will more than double the total of Syria's present irrigated land area and significantly reduce the importance of weather conditions on agricultural output. This undertaking, coupled with Syria's efforts to increase crop yields through new techniques, should make a substantial contribution to Syria's economic development.

### Petroleum

While Syria is not an oil rich country, revenue from crude production and refining and from transit charges on oil flowing to East Mediterranean ports from Iraq and Saudi Arabia reached about \$750 million, or about 30 percent of foreign exchange earnings, in 1975. The transit charge revenues are highly variable, however, and, in the case of Iraq, subject to recurring political disagreements. Iraqi shipments have been suspended since March of 1976, with a resultant loss of \$100 million in annual revenues. Production of crude began in 1968 with 1 million metric tons and rose to 10.5 million metric tons in 1976. Prospects for crude production at about this level through 1980 seem good. Reserves are declining, however, and it is difficult to judge the likelihood of reversing the decline through new finds.

Refinery revenues have been reduced some \$300 million per year because of the complete stoppage of Iraqi crude. Syria has had to import crude from the United Arab Emirates and Saudi Arabia to keep the refineries operating. This crude must be purchased at market, while the Iraqi crude was priced at \$3.05 per barrel -- substantially under market.

Syrian Arab Republic  
Prime Ministry  
State Planning Commission  
Directorate of Investment for  
Economic, Social and  
Technical Development  
No 2125/1433/78

Subject: Concerning signing new loan agreement (\$40 million) for financing the procurement of equipment

To: USAID Director - Damascus

With reference to your letter dated 11/8/1978 referring to loans and Grants approved for the country for the Fiscal Year 1979.

And pursuant to our letter No. 8642/6033/78 dated 12/3/1977 which included designation of 2 million dollars from the mentioned funds allocated for scientific and economic feasibility studies.

And due to urgent need for American equipment for development projects in the Syrian Arab R. will

Please arrange with AID/C to designate \$40 million as a loan to be given to Syria within the allocated funds for the year 1978, and undertake your suitable and quick procedures for signing the agreement connecting with the requested loan.

Damascus 3/22/1978

Minister of State  
for Planning Affairs  
Dr. George Hamadiah

BEST AVAILABLE COPY

## SYRIA - COMMODITY IMPORT LOAN

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? COUNTRY CHECKLIST IS UP TO DATE. STANDARD ITEM CHECKLIST HAS BEEN REVIEWED.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

(a) Advice of Program Change will be forwarded to Congressional Committees.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

(b) Yes.

2. FAA Sec. 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 purpose of the assistance?

No further legislative action is required.

3. FAA Sec. 209, 679. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No. There is no indication that assistance will encourage regional development programs. Syria is not a newly independent country.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance 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.

The assistance by financing the importation of commodities needed by the Syrian Arab Republic (SARG) for their development projects will contribute to efforts to increase international trade and to improve the technical efficiency of agriculture and industry.

REF. NO.	EFFECTIVE DATE	TRANS. DESIG. NO.	AID HANDBOOK
3A(2)-2	November 2, 1977	4:6	4, App 3A

## A.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
6. FAA Sec. 612(b); Sec 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.
7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

All commodities financed by the assistance will be provided by U.S. private enterprise.

The Loan Agreement will so provide.

Syria is not an excess currency country.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE1. Nonproject Criteria for Security Supporting Assistance

- a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

(a) The assistance will support the economic stability by financing the foreign exchange costs of imported commodities necessary to the Syrian economy. Syria is among the twelve SA countries.

2. Nonproject Criteria for Development Assistance

- a. FAA Sec. 102(c); Sec. 111; Sec. 231a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A.

- b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

2760 02300

UNCLASSIFIED

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

PROGRAM ASSISTANCE PAPER

SYRIA: DEVELOPMENT IMPORTS LOAN II

UNCLASSIFIED

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AID 1123-1  
(8-66)

DEPARTMENT OF STATE  
AGENCY FOR  
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT

1. PAAD NO.	NE 79-1
2. COUNTRY	Syria
3. CATEGORY	Commodity Financing Standards Procedures
4. DATE	

6. TO:  
Robert H. Nooter  
Deputy Administrator

5. OYS CHANGE NO.	
8. OYS INCREASE	

7. FROM:  
Joseph C. Wheeler  
Assistant Administrator  
Bureau for Near East

TO BE TAKEN FROM:	
-------------------	--

9. APPROVAL REQUESTED FOR COMMITMENT OF:  
\$20,000,000

10. APPROPRIATION - ALLOTMENT	ESF
-------------------------------	-----

11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 06/01/79-06/01/81	14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date
---------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------	-------------------------------------------------------------

15. COMMODITIES FINANCED  
Heavy duty off highway machinery and equipment and spares, equipment training aids for Damascus University, medical equipment and other eligible import items as specified in Implementation Letters.

16. PERMITTED SOURCE
U.S. only: \$20,000,000
Limited F.W.:
Free World:
Cash:

17. ESTIMATED SOURCE
U.S.: \$20,000,000
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION  
This loan is part of a continuing U.S. assistance program to Syria to encourage further development of U.S.-Syria bilateral relations. U.S. participation in Syrian economic development is one of the more effective ways to achieving improved relations and contributing to a peaceful settlement in the Middle East.

The proposed loan will finance the U.S. dollar costs of equipment and other commodities essential for Syria's continued economic development. The development of Syria's agricultural, educational and health sectors will benefit from many of the anticipated imports.

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

1. Interest and Terms of Repayment

Borrower shall repay the loan to A.I.D. in United States Dollars in no more than forty (40) years from the date of the first disbursement, including a grace period not to exceed ten (10) years from such date. Borrower shall pay to A.I.D. in

19. CLEARANCES	DATE
DAR/NE, ADWhite	1/1/79
NE/ED, SRTaubenblatt	1/1/79
EC/NE, JMcullen	1/1/79
NE/DP, BLancens	1/1/79
NE/ULS, BRichardson	1/1/79
SER/COM/NE, RTLooper	1/1/79
SC, WBall	1/1/79

20. ACTION	
<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	
<i>Robert Nooter</i>	1/16/79
AUTHORIZED SIGNATURE	DATE
Deputy Administrator	

United States Dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) thereafter on the outstanding undisbursed 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 origin and source in the United States of America.

(b) The Loan shall be subject to such other terms and conditions as AID may deem advisable.

## 1. BACKGROUND

### 1.1 Political and Economic Considerations

The U.S. is providing assistance to the Syrian Arab Republic (SARG) in order to encourage the further development of U.S.-Syrian bilateral relations and to assist Syria's economic and social development. A detailed economic background of Syria is contained in Annex 1.

1.2 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 a broader context, the U.S. objective in the Middle East is to help Syria and other nations in that area follow a peaceful course in working out their differences.

1.3 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. Financing Syria's development requirements is beyond the capacity of Syria itself or any one foreign donor. The Syrians are interested in U.S. participation in development projects. The Syrian Government is also prepared to open the door to the private sector. U.S. assistance also helped to reestablish U.S.-Syrian commercial contacts which were severed during the break in diplomatic relations (1967-1974).

### 1.4 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 improving U.S.-Syria relations and the cause of peace in the Middle East. In FY 1975, the A.I.D. program totalled \$83 million, consisting of a \$48 million loan for the improvement and expansion of the Damascus water supply system; a \$30 million commodity import loan for 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.

1.5 The FY 1976 and Transition Quarter program totalled \$95 million consisting of: 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 Irrigation 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; a grant of \$0.35 million to establish an English language training program; and \$15 million for the Basic Inputs and Production Loan used to finance commodity imports such as tires, medical equipment and sanitation equipment.

1.6 Of A.I.D.'s \$80 million FY 1977 Loan/Grant program for Syria, a \$40 million loan was authorized to help finance Syria's commodity import program. Loan proceeds are being used to procure machinery and equipment necessary to support agricultural land development, crop production, processing and marketing, and other sectors of the economy related to overall food production. The balance of the FY 77 program consisted of a loan for Rural Electrification (\$34.7 million); a grant of \$3.5 million to finance further technical services and feasibility studies, including agriculture and transport sector assessments; a grant of \$0.983 million to fund training in the U.S. for additional SARG officials; a grant of \$0.432 million for English language training; a \$0.335 million grant for health services; and a \$25,000 disaster relief grant to help combat the cholera epidemic in September 1977.

1.7 In Fiscal Year 1978 a Development Imports Loan in the amount of \$20 million was authorized and signed in August of 1978. Nine million of this loan has a maturity of thirty years and the remaining \$11 million has one of forty years. A project loan of \$60 for the design and construction of a major coastal highway was the other FY 78 loan obligation. The remainder of the \$90 million earmarked for the Syrian Arab Republic consisted of grants. One of \$2 million was for additional technical services and feasibility studies. Others were for continuation of on-going projects for English Language Training (\$560,000); General Participant Training (\$850,000); and Development of Health Services (\$340,000). Two new grants were signed, one for \$4,050,000 for a Technical Health Institute project and one for \$2,200,000 for a Soil Survey/Land Classification project.

1.8 The FY 1979 program is currently planned to include, along with this proposed program loan of \$20 million, loans for provincial water supplies, rural roads and rural schools and approximately \$15.6 million in grants. The grants include funding for on-going projects in English Language Training, General Participant Training and the Technical Health Institute. New grants are planned for Agricultural Education and Research, a Remote Sensing Center, as well as an additional grant for Technical Services and Feasibility Studies.

#### 1.9 Utilization of Previous CIP Type Loans

There have been four previous commodity import type loans to Syria. An explanation of the development of each, through October 1978, can be found in Annex 2. A presentation of the details of each as of October 31, 1978 (L/Com's issued, Award Information, Shipping Status, Disbursements, etc.) is shown in Annex 3: Syria CIP Utilization Report, produced by SEP/COM/AID/W. A summary of the status of each is shown in the following table.

SUMMARY - UTILIZATION OF PREVIOUS CIP TYPE LOANS

Loan Number (Date Signed)	Amount	Value of I/Com's Issued	Dis- bursed	UNDISBURSED BALANCE		
				Unliqui- dated	Uncom- mitted	Total
276-J-007 (02/25/75)	30	30	29.90	.09	0	.09
276-K-013 (09-29-76)	15	14.95	2.02	12.93 <sup>1/</sup>	.04	12.97
276-K-015 (08/29/77)	40	18.32	0	18.32	21.67 <sup>2/</sup>	40
276-K-017 (08/21/78) <sup>3/</sup>	20	0	0	0	20	20
TOTAL	105	63.27	31.92	31.34	41.71	73.06

1/ Shipments underway - expected to be drawn down by March 1979.

2/ IFB's with estimated value of \$15.35 million were issued with BOD's between 9-11-78 and 12-18-78. L/Com's are expected to be issued for most by Dec/Jan

3/ Not yet ratified by SARG.

SOURCE: SER/COM/AID/W 12-11-78

## 2. LOAN JUSTIFICATION

### 2.1 The Proposed Commodity Import Loan

Development in Syria relies on the importation of commodities such as machinery, equipment and the associated mechanical technology, all of which are available from the United States. The proposed loan of \$20.0 million will finance development imports including equipment, machinery, and spares which the Syrians need to procure from the United States to assist in their development programs.

2.2 In order to improve and expand the entire agricultural sector, machinery will be needed to build roads, irrigation structures such as dams and canals, and to clear and level land. In spite of the SARG's general ban on imports of motor vehicles and trucks, truck importation will be permitted under this loan. The SARG has requested financing, (under Loan 276-X-017 for FY 1978) for over 1340 units of chassis for trucks and buses. As the expected cost of these chassis plus spare parts will be at least \$5 million more than the funds available under loan 017, a portion of the new loan will finance the balance.

2.3 By the same token, only slightly more than \$3 million is expected to be available under loan 015 for the purchase of equipment for Damascus University whereas the SARG's request amounts to \$8 million. Thus a shortfall of about \$10 million between earlier loans and firm SARG requests exists to be financed with this loan. The USAID understands that it will shortly receive new requests for additional medical equipment for a kidney transplant unit. More agricultural tractors and additional construction equipment will also be needed for the development of agricultural land in the Euphrates Basin.

### 2.4 Balance of Payments and Debt Services

Balance of Payments data for Syria are difficult to obtain, incomplete in many respects and generally out of date. Military imports and some foreign financing may be disguised or omitted. Receipts outside of official channels, largely unrequited remittances from Syrians working abroad, are substantial, but until 1977, unestimated. The table below is based on a Nov. 1978 IMF Report. It does no more than provide general trend lines which indicate that Syria's need for foreign exchange will continue for some time into the future.

Syrian Arab Republic: Balance of Payments Summary

(In millions of U.S. dollars)

	1974	1975	1976	1977 <sup>1/</sup>
<u>Goods and services</u>	<u>-294</u>	<u>-621</u>	<u>-1,226</u>	<u>-1,411</u>
Trade balance	-339	-618	-1,205	-1,548
Exports (f.o.b.)	(783)	(943)	(1,065)	(1,077)
Imports (c.i.f.)	(-1,122)	(-1,561)	(-2,270) <sup>2/</sup>	(-2,625)
Services balance	45	-3	-21	137
Receipts	(359)	(389)	(315)	(385)
Payments	(-314)	(-392)	(-336)	(-248)
<u>Unrequited transfers (net)</u>	<u>460</u>	<u>715</u>	<u>454</u>	<u>1,244</u>
Private	45	53	53	93
Official	416	662	401	1,151
<u>Nonmonetary capital (net)</u>	<u>-1</u>	<u>-10</u>	<u>270</u>	<u>317</u>
Private	17	19	72	88
Official	-17	-28	198	229
<u>Net errors and omissions</u>	<u>-7</u>	<u>-5</u>	<u>-17</u>	<u>21</u>
<u>Overall surplus or deficit (-)</u>	<u>159</u>	<u>79</u>	<u>-520</u>	<u>171</u>
<u>Monetary movements (increase in assets -)</u>	<u>-159</u>	<u>-79</u>	<u>520</u>	<u>-171</u>
<u>Memorandum item:</u>				
Conversion rates (LS/S)	3.7225	3.6500	3.8875	3.9000

<sup>1/</sup> Preliminary.

<sup>2/</sup> Includes imports of nonmonetary gold valued at \$379 million.

2.5 Syria has consistently experienced a balance of trade deficit which has grown greatly over the years as the pace of development increased the need for imports at the same time the growth exports, primarily crude oil, cotton and phosphates and has slowed due to changes in the world market. Through 1975 however, Syria's overall balance of payments and its reserve position appeared favorable because of receipts for services and transfer payments from the Arab oil producing countries and Syrians working abroad.

2.6 In 1976, two events occurred which revealed the fundamental weakness of Syria's balance of payments position. First, Syria's oil transit agreement with Iraq terminated and was not renewed due to a lack of agreement on transit payments from Iraq and the price Syria would pay to Iraq for crude oil. This deprived Syria of a source of receipts for services and the preferentially priced crude oil which it needed to blend with its own heavy, high sulfur crude to permit the distillation of gasoline and other light distillates. It is still too early to tell whether the political reconciliation between Syria and Iraq in October 1978 will lead to a new oil agreement between the two countries or what its economic impact would be if such an agreement were concluded. Additionally, Syria became involved in Lebanon which might have caused a large outflow of foreign exchange, and at the same time may have been responsible for a decline in transfer payments to Syria from the Arab oil producing states. Also, the flight of Syrian workers from Lebanon had an impact on receipts outside official channels as well as on private transfers through official channels.

2.7 Faced with a deteriorating balance of payments situation, the SARG imposed severe import restrictions in early 1977. These restrictions consisted of limiting issuance of Letters of Credit to public sector organizations and not selling government owned foreign exchange to private sector organizations. The Syrian Government relies on such restrictions rather than tariffs, quotas or devaluation to discourage imports. It does attempt to discourage the demand for imports through fiscal means, but it does not manage the fiscal tools available to it for this purpose fully nor does it attempt to compensate for the current accounts deficit by attracting capital through raising interest rates or bond sales. This flexibility in choosing the means by which the SARG tries to balance accounts and its generally limited fiscal management stem from political constraints, the inflexibility of its centrally managed economy and administrative problems due to an oversized, cautious and tradition bound bureaucracy.

2.8 By the last quarter of 1977, import restricting measures had taken effect with the monthly average value of imports falling from SP 924 million (\$237 million) for the first 9 months of the year to SP 365 million (\$94 million) for the tenth and eleventh month. Exports fell slightly in 1977 due to a decrease in crude oil production. This produced an overall deficit of the balance of trade of SP 5,500 million (\$1,410 million). The full impact of the termination of the Iraq transit agreement was felt in 1977 with such receipts falling to zero and representing a loss of SP 120 million (\$31 million) as compared to 1976 and of SP 390 million (\$100 million) as compared to 1975. Transfer payments improved somewhat presumably reflecting the trend toward peace in Lebanon. The private part of these transfer payments increased a little, coming from Syrian workers, some of whom returned to Lebanon but most of whom passed through Syria to the oil producing states. Public transfers from the oil producing states increased by SP 1 billion (\$256 million). Capital flows were down somewhat because the temporary inflow of private capital due to the Lebanon situation reversed itself and slow project implementation affected public flows negatively with disbursements of public capital estimated at SP 1,400 million (\$359 million) and repayments of public capital estimated at SP 600 million (\$154 million).

2.9 The Mission report includes an estimate of receipts outside official channels for 1977. This figure is not available for other years. These receipts are believed to be the remittances of Syrian workers abroad. Since the SARG has liberalized its control of these remittances and private sector imports, the remittances provide a source of foreign exchange for private sector imports, the remittances provide a source of foreign exchange for private sector imports. The Mission estimate of this flow is SP 1,450 million (\$372 million). If it is taken into account it reduces Syria's net deficit from SP 2,270 million (\$582 million) to SP 820 million (\$210 million).

2.10 Not even partial data are yet available for 1978, and it is difficult to predict what will happen in 1979. The nature of Syria's major exports, crude oil, cotton and phosphates, do not lend themselves to rapid expansion and are vulnerable to world market conditions. Since Syria is planning to increase refining capacity to permit it to use more of its crude production for domestic purposes leaving less crude available for export, we believe exports will continue to show small declines over the next several years.

2.11 On the import side, if Syria were to maintain the controls it imposed in 1977 into 1979, then imports would be about half the 1977 level. It is highly unlikely that this will happen, since the maintenance of such

severe restrictions would seriously limit the overall growth of the economy and more importantly have a direct negative impact on the implementation of Syria's economic development plans. The restrictions fall most heavily on public sector enterprises which are largely involved in implementing development projects. The private sector, as noted above, has an alternative source of foreign exchange.

2.12 Assuming all other elements of the balance of payments remain essentially unchanged, including official transfer payments, with exports declining slightly and imports beginning to rise, Syria's balance of payments position will show an improvement in 1978 as a result of the restrictions imposed in 1977. However, the improvement will be at the expense of growth and development since it will be achieved largely by cutting development imports. We expect the pressure for development on the SARG to result in a loosening of restrictions, producing an increase in the trade deficit in 1979, and on balance, we conclude that Syria will require additional foreign exchange in 1979 and 1980, when this loan will be disbursed, to finance development imports. The proposed AID loan of \$20 million will permit Syria to increase its imports for development.

2.13 Syria's reserves declined in 1976 to an amount equal to about 2½ months of imports or about \$471 million. In 1977, the change in net assets due to the balance of payments deficit was actually a change in gross liability rather than a decline in gross assets. Syria is borrowing to cover its deficit. The SARG's Ministry of Finance records of external public debt, excluding debt of less than one year maturity and debt related to national security, show a rapid increase between 1970 and 1975 from \$258 million to \$453 million. Debt repayments increased from \$33 million in 1970 to \$133 million in 1976. Repayments are believed to have been about \$250 million in 1977 and are expected to remain at that level until 1981 for debts already incurred. Since Syria's balance of payments deficit will continue to grow, additional debts will be incurred if the deficit is not covered by transfers from the oil producing states. Given Syria's sharp increase in external debt and AID's interest in supporting Syria's development effort, the proposed loan should be made at concessional or near concessional terms. Finally, given the generally favorable long term prospects for the Syrian economy we conclude that the repayment prospects on these terms are reasonable.

## 2.14 Other Donor Assistance

In recent years, Syria received considerable financial assistance from international donors, principally from the Arab oil exporting nations. The composition of the donors changed substantially between 1968 and 1975. In the first phase (1968-1970) East European governments and the U.S.S.R. in particular, were the main donors, providing 70-90 percent of Syria's external concessional 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-producing countries, beginning with commitments made at the 1973 Rabat Conference, estimated to be about \$500 million in grants, of which Saudi Arabia, Kuwait and Abu Dhabi provided the largest part. Public transfers, such as a budget support, have consequently increased dramatically. In 1970-73 they averaged about \$35 million per year, while in 1974-77 they have averaged about \$500 million per year. At present, the U.S. provides about ten percent of the assistance provided Syria.

2.15 The risks of relying so heavily on foreign transfers to finance development expenditures became strikingly evident in 1976, when such transfers fell to about \$225 million. The inflexibility of development expenditures caused Syria to draw down reserves by some \$400 million and to incur substantial short-term debt. Transfers during 1977, were used to repay this debt, leaving reserves at a low, but acceptable level.

2.16 Loans from bilateral sources and international organizations, which increased after 1971, and further after 1973, began to be disbursed in significant amounts in late 1973 and 1974 (about \$100 million per year) This increased dramatically in 1975 to about \$260 million, and was up to about \$350 million in 1976 and 1977.

## 3. LOAN ADMINISTRATION AND IMPLEMENTATION

### 3.1 Syrian Government Import Procedures

The majority of Syria's imports are handled by public sector trading agencies. The public sector trading agencies are organized as the focal point for imports of specific groups of commodities. The major Public Sector agencies which were allocated loan funds in the past are the following:

1. The Foreign Trade Organization for Machinery and Equipment (Aftomachine) is the exclusive importer of automobiles, ambulances, buses (both inter- and intracity), minibuses, vans and tires. Aftomachine also imports all kinds of construction equipment.
2. The Agricultural Machinery Distribution Company (A.M.D.C.) is the exclusive importer of agricultural tractors and implements, harvesters, combines, and other agricultural machinery and equipment. Other equipment used in agriculture, such as front-end loaders and traxcavators, etc., can be imported by A.M.D.C. as well as the private sector with the license being issued by A.M.D.C. which receives a commission payment.
3. The Ministry of Higher Education has already been the importer of AID financed commodities for one of the hospitals under its administration. Additional medical equipment is expected to be purchased, and the requested procurement for equipment for Damascus University and the Marine Biology Laboratory will be handled by the Ministry.
4. The Ministry of Health will purchase a prefabricated warehouse.
5. The Syrian Arab Irrigation Construction Company (SARICO) which operates under the Ministry of Public Works was designated by the Prime Minister as an importer of equipment used in their construction contracts, and received an allocation of loan funds by the State Planning Commission.

3.2 In addition, individual ministries and agencies within ministries can also import commodities. An example of a ministry which is permitted to handle its own imports is the Ministry of the Euphrates Dam, which imports heavy construction machinery for road and canal building and maintenance, as well as agricultural and irrigation machinery and supplies.

3.3 As with past loans, the State Planning Commission (the Ministry of Planning) will have the coordination responsibility for implementation of the loan, assuring the allocation of loan funds in accordance with the SARIC's development priorities and passing AID's procedural requirements on to the purchasing organizations. While requests from various government agencies for financing have exceeded and are expected to continue surpassing the availability of funds, delays have been and probably will be encountered in the SARIC's establishing the priority use of these funds.

3.4 The loan funds are expected to be utilized by the SARG for public sector imports only. Private sector imports consist generally of small value transactions, and it is doubtful that any meaningful utilization of the loan by the private sector will occur. Except as otherwise stated above, the SARG does not encourage procurement by the private sector at present, since foreign trade is still considered a public sector monopoly. However, some liberalization of this position may occur in the future. In fact, Aftomachine now plans to make private agents/dealers responsible for maintenance of equipment. It is not practicable to push the issue of increased private sector participation with the SARG at present, other than making private sector imports eligible for AID financing. For some commodities imported for distribution to the private sector, such as farm tractors and implements, pick up trucks, etc., the Mission will try to persuade the SARG to make some loan funds available to local distributors of American manufacturers for financing of the equipment they can sell. This financing method would assure utilization of the AID financed imports, and the distributors would be made responsible for their maintenance and repair.

### 3.5 AID Commodity Import Procedures

This loan will operate with an expanded commodity eligibility listing. Items eligible for financing will include those items normally eligible for AID financing, as defined in AID's Commodity Eligibility Listing, in the following categories: Road building and heavy construction equipment, transport equipment, agricultural equipment, industrial machinery required to process agricultural products and medical and educational equipment and supplies. In addition, a broad range of other industrial machinery needed for Syria's economy will be eligible. The list of eligible items is provided as an attachment to the Commodity Procurement Instructions which is transmitted to the Borrower with the first Implementation Letter. SARG's decisions regarding the types of equipment it will import will be reviewed in terms of this list of eligible items.

3.6 AID's standard commodity financing procedures as set forth in AID Regulation 1, shall apply to all transactions under this loan. Procurement of commodities and commodity-related services will be restricted to U.S. source and origin as defined in A.I.D. Regulation 1.

3.7 The Loan Agreement will contain a provision limiting to \$1 million the amount of commodities or commodity related services for use in constructing, expanding, equipping, or altering a single physical facility or related physical facilities without prior AID approval.

3.8 As the loan funds are expected to be mostly utilized by the public sector, formal competitive bidding procedures in accordance with Section 201.22 of AID Regulation 1 will apply. USAID will recommend waiver of these procedures in favor of negotiated procurement only when procurement of a proprietary item is involved, when procurement on an emergency basis is necessary or in special situations when it would be impractical or inconsistent with the purpose of the loan to require formal procurement procedures. Assistance of an AID Supply Management Advisor has been available to the Syrian Government since the inception of AID's procurement loan in FY 1975, and the USAID Mission will continue to provide this service during the implementation of this new loan. The USAID Supply Management Adviser and his Syrian staff will help the buying organization determine requirements, establish specifications, develop IFBs, communicate with potential U.S. supplier, make and use checks, and generally assure that procurement is conducted in accordance with AID procedures, standards and practices. The services of the Regional Legal Advisor in Damascus are also available. Short-term contract services can also be arranged for reviewing the need for and establishing specifications of specialty items, as has been done in the past. The State Planning Commission has now been thoroughly briefed on reporting requirements for arrival, customs clearance and utilization of AID financed commodities. They have accepted all of USAID's recommendations on this subject and have passed them on to the designated importers with their instruction that these reports be maintained in proper form and made available to USAID on a twice yearly basis.

### 3.9 Implementation Procedures

Experience with the FY 1975 Agricultural Inputs and Production Loan (276-J-007) has shown that there are several obstacles to the smooth operation of a commodity import program. One problem is the need for the various importers to have all their implementation decisions approved by higher levels of the SARG bureaucracy. For example, Aftomachine very professionally executed the following importing procedures: issued the tender; administered the opening of the bids; established two committees to evaluate the offers from a technical point of view; complied with procedural tender provisions; and made the final awards. However, all these actions had to receive approval from a higher government authority. The signed contract awards ultimately had to be sanctioned by the Supreme Economic Council. This approval process will continue to be a problem for American suppliers because of the many delays before they can receive a workable Letter of Credit for their awards. However, the State Planning Commission, as well as other implementation agencies and ministries, are becoming more familiar

with AID procedures and the lengthy SARG approval process will hopefully be reduced. While it is not certain which SARG entities will handle the implementation of the proposed loan, the heavy equipment (trucks, etc.) will probably be handled by Aftomachine; and the educational equipment for the University faculties more than likely by the Ministry of Higher Education.

3.10 Those SARG agencies familiar with AID procedures, such as Aftomachine, work more rapidly. Organizations, such as the Ministry of Education, which have not used AID commodity import loan funds before will require more time and the assistance of AID's supply advisor and his staff.

3.11 It appears more than likely, based on the extent of requests for AID financing of imports received by the State Planning Commission, that a considerable number of new import organizations will get allocations of the new program loan funds. This will undoubtedly cause new delays in implementation until these entities, which are unfamiliar with AID rules and regulations, get themselves organized to effect rapid loan disbursement. A disbursement period of two years from the date conditions precedent are met must, therefore, be anticipated.

### 3.12 Disbursements

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. For the FY 1975 loan, the Commercial Bank was designated as the Approved Applicant. The same was done for the 1976 loan, but it turned out that one importer, the Ministry of Higher Education, could only open Letters of Credit through the Central Bank. The approved applicant for the 1977 and 1978 loans, therefore, was changed to the Ministry of State for Planning Affairs with all Government owned Syrian banks being authorized to open L/Cs. This loan will follow the same procedure. Bulk shipments and awards for more than \$100,000 to a single supplier will be financed through Direct Letters of Commitment to suppliers, saving both time and money.

#### 4. OTHER CONSIDERATIONS

##### 4.1 Impact on U.S. Balance of Payments

The long-term impact on U.S. Balance of Payments will be favorable because the proceeds of this loan will be spent on U.S. goods and services. This loan will help U.S. supplier/exporters to continue to reestablish old trade relationships and create new ones for all the commodities financed under this loan 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 1976 to \$275 million (including \$105 million for the sale of Boeing aircraft). The U.S. Department of Commerce reports that in 1977 this was \$133.6 million and through October 1978, \$103 million.

##### 4.2 Use of U.S. Government Excess Property

Although some of these public sector agencies commodities may be 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 if a system of formal or informal AID involvement in the use of local currency proceeds were developed, it has been determined that a local currency control mechanism is inappropriate for this program.

#### 5. RECOMMENDATIONS

5.1 It is recommended that a \$20.0 million loan to the Syrian Arab Republic be authorized to finance imports of selected machinery, equipment and other commodities subject to the following terms:

1. 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 at an interest rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.
2. Procurement with loan funds shall be of United States source and origin. Transportation costs (including both air and ocean freight) incurred on AID Geographic Code 941 (Selected Free World) carriers will be financed, provided a supplier applies for and a Certificate of Non-Availability of U.S. Flag Service is issued by SER/COM/TR/AID/W.

3. The terminal date for disbursement shall be twenty-four (24) months following satisfaction of Conditions Precedent. The SARG will be allowed 120 days to meet the Conditions Precedent.
4. USAID will not attempt to exercise commingling control over CIP commodities for commercial resale or other transfer to Syrian public or private entities. USAID will, however, exercise control to assure that Socialist Bloc projects or companies will not be designated by the SARG as the importer of loan financed commodities. It is anticipated that some loan-financed commodities or equipment would be added to the inventory of Syrian public sector companies and, therefore, could be used in support of numerous activities some of which would qualify as block projects.
5. Such other terms and conditions as AID may deem advisable.

SYRIA: ECONOMIC BACKGROUND

General

The Syrian Arab Republic covers an area of 71,000 square miles (185,000 square kilometers). About four-fifths of this area is mountainous, semi-arid or desert. The population totals 8.1 million and is about half rural and half urban. More than 50 percent of the population derives its income directly or indirectly from agriculture. Per capita income is estimated at about \$800 at current prices.

Public Sector Role

The Syrian economy is dominated by the public sector. Until the mid-sixties, Syria had a largely laissez-faire economy, the principal elements of which were commerce and large-scale agriculture. In 1963, following a change in leadership, a program of land reform was initiated and about one-quarter of Syria's cultivated land expropriated and redistributed among state farms, cooperatives, and private farmers. Syria's commitment to a publicly-owned agricultural sector has waned, however, and at present less than 2 percent of the cultivated land is owned by the State. Public ownership in agriculture, nevertheless, remains important. Most poultry production and similar "agribusiness" enterprises are state-owned.

In the 1950's and mid-1960's, there were widespread nationalizations of medium- and large-scale industries, including oil and textiles, and the private sector was severely limited in its range of activities. While public ownership remains the rule for industry (and all large industries are publicly owned), the private sector still accounts for approximately one-half of the total GNP. The private sector has made its greatest contribution to the Syrian economy in construction and services.

Agriculture

About 6 million hectares, or about 32 percent of the total land area, are cultivable in Syria. Of this amount, only about 3.7 million hectares are under cultivation at any given time with the remainder fallow. Less than one-tenth of the total cultivable land is irrigated. Because of irregular rainfall and the limited irrigation, agricultural production is subject to severe fluctuations.

The agricultural sector contributed 18 percent of Syria's GNP in 1977. Mining and manufacturing yielded about 22 percent, while services (including public administration) produced 51% and construction 9%. The relative importance of Syrian agriculture has been declining in recent years due to a relatively successful economic diversification program. Agriculture, nonetheless, retains a predominant importance in the Syrian economy because it is the livelihood of a majority of the population and because it accounts for about one-third of total export earnings.

Prospects for growth in Syria's agricultural output are good if the Euphrates River Basin development program is completed. This program is a massive undertaking involving the construction of a large dam across the Euphrates River at Thawra. Design and implementation problems have been encountered. The eventual addition, over the next 20-25 years, of 640,000 hectares of irrigated land is planned. If this occurs, the total of Syria's present irrigated land area will double, reducing the importance of weather conditions on agricultural output. This undertaking, coupled with Syria's efforts to increase crop yields through new techniques, should make a substantial contribution to Syria's economic development.

#### Petroleum

While Syria is not an oil rich country, revenue from crude production and refining and from transit charges on oil flowing to East Mediterranean ports from Iraq and Saudi Arabia reached about \$750 million, or about 30 percent of foreign exchange earnings, in 1975. The transit charge revenues are highly variable, however, and, in the case of Iraq, subject to recurring political disagreements. Iraqi shipments have been suspended since March 1976, with a resultant loss of \$100 million in annual revenues. Domestic production of crude began in 1968 with 1 million metric tons, rose to 10 million metric tons in 1976, and declined to 9.1 million tons in 1977. Prospects for crude production at about this level through 1980 seem good. Reserves are declining, however, and it is difficult to judge the likelihood of reversing the decline through new finds. There are active exploration programs being carried out in Syria, notably by American firms.

Refinery revenues have been reduced some \$300 million per year because of the complete stoppage of Iraqi crude. Syria has had to import crude from the United Arab Emirates and Saudi Arabia to keep the refineries operating. This crude must be purchased at market, while the Iraqi crude was priced at \$3.05 per barrel.

UTILIZATION OF PREVIOUS COMMODITY IMPORT TYPE LOANS

There have been four previous commodity import type loans to Syria. A \$30 million FY 1975 loan - The Agricultural Inputs and Production I Loan, No. 276-J-007; a \$15 million FY 1976 Transitional Quarter Loan - The Basic Inputs and Production Loan, No. 276-K-013; a \$40 million FY 1977 Loan - Agricultural Machinery and Production Inputs II, No. 276-K-015; and a FY 1978 Development Imports I Loan, No. 276-K-017, in the amount of \$20 million.

1. Agricultural Inputs and Production Loan, No. 276-J-007

The SARG originally allocated \$30.0 million to the Agricultural Machinery Distribution Company (A.M.D.C.). Invitation-for-Bids (IFB) No. 1 through 3, if all items had been contracted for, would have committed all the funds for the items specified in these tenders. However, A.M.D.C. decided to purchase only plows, planters, fertilizer spreaders, land planes, tractors and trax-cavators valued at \$2,070,000 under IFB No. 3. Letters of Credit for the total amount were issued in the second half of CY 1976 and before the end of the year the first three shipments arrived in Syria. All of these commodities cleared customs prior to April 30, 1977 and have entered the Syrian economy.

Subsequent to the cancellation of the proposed procurement under IFB's 1 and 2 and some items of IFB 3, the SARG decided to make the remainder of the loan funds available for the purchase of heavy construction equipment. The public sector Foreign Trade Organization for Machinery and Equipment (Aftomachine) was designated as the eligible importer. Aftomachine issued IFB No. 4 in July 1976 and signed contracts for a total of over \$26.2 million (on a CIF basis) for equipment and spare parts with five U.S. suppliers. The equipment included loaders, tractors, graders, and mobile work shops for use by the public sector construction companies working on major irrigation facilities

Letters of Credit were opened in February 1977, and all the contracted-for imports arrived in Syria prior to the end of October 1977, with the exception of a quantity of spare parts which were shipped in the first half of calendar year 1978. The remainder of the funds totaling approximately \$1.7 million was used for two types of mobile shop equipment and for special tools. Nine units of 30 ton shop trailers arrived in Syria early in CY 1978 and were distributed to construction companies with multiple units of AID

financed equipment. They are considered very useful additions to their equipment pool. Six self-propelled workshops also arrived prior to June 30, 1978, and are now in operation. After the arrival of all ordered commodities a balance of less than \$100,000 remains in one L/Com and will be used for the purchase of additional spare parts. The loan is now almost entirely disbursed.

2. Basic Inputs and Production Loan, No. 276-K-013

A FY 1976 loan of \$15 million was signed on September 30, 1976. The Conditions Precedent to Disbursement of loan funds were met by the SARG in January 1977. The funds were made available to finance imports from the United States of the same type of commodities as were authorized in the earlier loan. The State Planning Commission received requests for utilization of funds from a number of ministries and state import companies and organizations far in excess of the available dollar amount. USAID received a formal request to use this loan to purchase tires and equipment for a cardiovascular surgical center, and IFBs were issued. Bids for the tires and tubes were opened in mid-July 1977. \$6.5 million worth of offers for tires were received which met the bid specifications, but the majority of the bids were rejected because of high prices, and only \$1.2 million worth of tires were purchased. L/Cs were opened in late December 1977 and shipment of these tires and tubes was completed in June 1978. Another Letter of Credit financed by this loan was opened in January 1978 covering the equipment for the cardiovascular surgical center. The commodities arrived in Syria in August 1978.

For the remainder of loan funds, IFB 013-2 was issued on March 13, 1978, and bids were opened on May 4, 1978, for compactors, containers of different sizes, mechanical sweepers, landfill compactors and steam cleaners for use in sanitation. To speed up the procurement of the equipment under this IFB, in which the SARG had a great interest, both AID/W and the SARG agreed to use direct L/Coms to U.S. suppliers rather than using L/Cs through banks.

The first units of garbage trucks and all the landfill compactors will be shipped in December 1978. By the end of April 1979, all ordered units should be in Syria, and the loan will be disbursed to an approximate balance of \$250,000. These remaining funds will probably be used for some air pollution equipment, which will be purchased by the end of the calendar year.

3. Agricultural Machinery and Production Input Loan II, No. 276-K-015

This loan of \$40 million was signed September 20, 1977, and the Conditions Precedent to Disbursement of loan funds were met early in January 1978. The State Planning Commission received requests exceeding half a billion dollars for funding of equipment from the U.S. for various ministries, public sector construction companies, Damascus University, and many more public sector entities. After a screening of these requests by a number of committees in January 1978, the Prime Minister's office decided what commodities would be purchased with the loan funds. IFB 015-1 for 30 rear dump trucks was announced on May 9th, with a bid closing date of June 22. A Direct Letter of Commitment in the amount of \$4,512,497.77 was established in favor of Euclid Inc. This past August a competition was held for the procurement of crawler tractors and a Direct Letter of Commitment to Caterpillar Overseas was established for \$8,042,707.52. A September tender covered 30 rough terrain cranes, and an award was recommended by the procurement committee to Grove in the amount of \$2,869,350.

There were two tenders in October, one for wheel loaders with expected awards of \$6,254,385. The second tender is for the supply of excavators, expected to amount to \$1,573,493. Aftomachine is the importer for all commodities purchased as a result of these tenders.

In addition to these formal tenders, AID approved a proprietary procurement waiver for the supply of thirty five Caterpillar bulldozers and spare parts, and a contract for \$4,213,225 was signed on October 23, 1978.

One award in the amount of \$627,560 under the garbage collection equipment tender is also financed from this loan.

Two additional tenders for motorgraders will be announced in the near future, and several negotiated procurement actions are already announced or in the final stages of preparation. They include equipment for air pollution monitoring, a marine biology lab, an uninterrupted power supply for Damascus airport, and a prefabricated warehouse. The remainder of the funds under this loan will most likely be used for equipment for six faculties of Damascus University. A team of four U.S. experts is expected to arrive in Syria before the end of November 1978 to prepare the list of needed instruments and equipment and to determine the method of procurement after identification of the specifications.

It is not clear whether the previously expected financing of canal trimming and lining equipment will be AID funded. The equipment to be purchased will be mainly employed in a section of the Euphrates Basin for the development of which a World Bank loan is available, possibly including funds for purchase of this equipment. We are, however, continuing to urge Syria to consider an American purchaser.

4. Development Imports Loan, No. 276-K-017

This FY 1978 loan for \$20,000,000 was signed on August 21, 1978. The Conditions Precedent are in the process of being satisfied. The SARG has advised us that it will be primarily used for the importation of U.S. manufactured vehicle chassis. Procurement will be handled by Aftomachine, and the chassis will be delivered to Metalco, a government company which is equipped with modern machinery, for the production of truck and bus bodies and their assembly onto imported chassis.

The following types of chassis are to be imported:

<u>Commodity</u>	<u>Capacity</u>	<u>QTY</u>
1. Pick ups	1-3 tons	416
2. Trucks	5-15 tons	308
3. Dump trucks	10-15 tons	116
4. Microbuses	20-23 passengers	309
5. Water tankers	15000 liters	91
6. Buses	50 passengers	100

As the procurement of all these chassis will cost more than the funds available in loan 017, either the residual funds under loan 015 will be used or funds under the proposed loan will be earmarked for the balance that cannot be accommodated under the two earlier loans.

SYRIA CIP UTILIZATION REPORT  
(Thousands of Dollars)

ANNEX 4  
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Loan Number and Relevant Dates	Amount of Loan	Value of I/CIM's Issued	Est. Value of IFB's Issued	AWARD INFORMATION		SHIPPING STATUS		Total Disbursements on 10-31-79	Remarks
				Supplier/Community	Contract Amount	Vessel	D/L Date		
Loan No. 276-J-007  Signed: 2/20/75 Contracting: 2/20/75- 2-28-79 Shipping: 2/20/75- 6-30-79 TRD: 7-31-79  *****	\$10,000		2,057	<u>White Farm Equipment, Inc.</u> 70 Moldboard Plows	184	Tash Turkiye	10-30-76	184	IFB's 1 and 2 were cancelled.
				<u>Bilton, Cooper &amp; Gibbs, Inc.</u> 11 Potato Planters	173 (53)	Tash Italia	10-15-76	170 (51)	
				50 Fertilizer Spreaders	(120)	Tash Italia	10-15-76	(119)	
				<u>Evansen, Inc.</u> 15 Landplanes	119	Tash Italia	10-22-76	111	
				<u>International Harvester</u> 10 Tractor, Crawler	1,581	Tash Italia	3-29-77	1,528 (1,449)	
				10 Traxcavators		Tash Italia	4-26-77	(79)	
				Bank Charges				3	
				TOTAL IFB No. 3	2,057			1,996	
				IFB No. 4: <u>Fiat-Allis Construction Mach. Co.</u> 10 Crawler Loaders, 12-GB ) 10 Wheel Loaders, 645-B )	7,597 (1,037)			7,442 (1,037)	
				25 Crawler Tractor, 31 5 Wheel loaders, 545-B	(4,848)	Tash Turkiye	7-20-77	(936)	
		Tash Turkiye	8-29-77	(1,123)					
		Tash Pacifico	9-11-77	(1,497)					
Spare Parts	(589)	Tash Italia	9-25-77	(1,123)					
Special Tools	(146)	Tash Pacifico	8-01-77	(279)					
		Tash Italia	9-25-77	(238)					
11 Mobile Workshops	(977)	Tash Italia	7-01-77	(169) (968) (72)					
<u>WACO Trade Co.</u> 20 Elevating Scrapers, 333-F	3,951 (3,592)	Tash Italia	7-01-77	3,947 (1,620)					
		Tash Turkiye	8-10-77	(1,969)					
Spare Parts (10% FAS)	(359)	Tash Turkiye	8-12-77	(239)					
		Sold FAS	12-19-77	(91)					
		Tash Pacifico	1-22-76	(28)					

SYRIA CIP UTILIZATION REPORT  
(Thousands of Dollars)

ANNEX 3  
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Loan Number and Pertinent Dates	Amount of Loan	Value of I/CUM's Issued	ESU Value of I/CUM's Issued	AWARD INFORMATION		SHIPPING SERVICES		Total Disbursements on 10-31-78	Remarks		
				Supplier/Commodity	Contract Amount	Vessel	D/L Date				
276-J-007 (Cont'd)				Caterpillar Tractor Co.	8,693						
				20 Wheel Tractor Scraper, 631-D	(3,307)	Lash Italia	5-24-77	(6,671)			
						Lash Turkiye	6-05-77	(1,157)			
				10 Wheel Tractor Scraper, 637-D	(2,448)	Lash Italia	5-24-77	(2,148)			
						Lash Turkiye	6-25-77	(1,958)			
				25 Motor Graders, 14-D	(2,140)	Lash Turkiye	6-05-77	(490)			
				Spare Parts (10% FAS)	(790)	Lash Turkiye	6-05-77	(2,146)			
						Lash Turkiye	8-22-77	(564)			
						Lash Turkiye	8-30-77	(43)			
						Lash Italia	9-29-77	(132)			
						Paci/Atlant.	Var. 3-78	(37)			
						Lash Pacifico	6-15-78	(2)			
						International Harvester Co.	6,373			6,373	
						75 Payloaders, 195-C	(3,045)	Lash Italia	5-30-77	(1,828)	
								Lash Turkiye	8-25-77	(609)	
						25 Paydozers, 25-C	(2,666)	Lash Pacifico	9-09-77	(609)	
								Lash Italia	6-30-77	(533)	
								Lash Italia	8-25-77	(533)	
								Lash Pacifico	9-09-77	(1,559)	
						Spare Parts (10% FAS)	(662)	Lash Turkiye	6-09-77	(36)	
								Lash Italia	6-28-77	(18)	
								Lash Atlant.	12-23-77	(12)	
								Lash Atlant.	1-17-78	(15)	
				Lash Atlant.	3-17-78	(34)					
				Lash Atlant.	1-30-78	(32)					
				Lash Atlant.	1-31-78	(313)					
				Lash Atlant.	1-31-78	(59)					
				Lash Atlant.	3- 1-78	(99)					
				Lash Atlant.	12-20-77	(29)					
				Lash Atlant.	1-30-78	(55)					
		Wolff Export	560			560					
		6 Mobile Workshops for L.H. Tractors with special tools		Lash Italia	4-6-78	(129)					
				Lash Pacifico	5-30-78	(431)					

SYRIA CIP UTILIZATION REPORT  
(Thousands of Dollars)

ANNEX 3  
Page 1 of 5

Loan Number and Expiration Dates	Amount of Loan	Value of I/CUM's Issued	Est. Value of IFB's Issued	AWARD INFORMATION		SHIPPING STATUS		Total Disbursements on 10-31-78	Remarks		
				Supplier/Commodity	Contract Amount	Vessel	B/L Date				
276-J-007 (Cont'd)			27,995	J. J. Case Co.	821			821			
				5 Cranes, 1500	(372)	Lash Italia	5-24-77	(186)			
				5 Cranes, 1800	(374)	Lash Pacific	5-03-77	(186)			
						Lash Italia	5-24-77	(187)			
						Lash Pacific	5-03-77	(187)			
				Spare Parts (108 FAS)	(75)	Concordia	5-31-77	(66)			
		Bank Charges			( 9)						
		TOTAL IFB No. 4		27,995			86				
	\$30,000	\$30,000	\$30,052	TOTAL LOAN 276-J-007	30,052			27,902			
Loan No. 276-K-011  Signed: 9-30-76 Contracting: 9/30/76-6/30/79 Shipping: 9/30/76-7/31/79 MRO: 9/30/79	\$15,000	\$2,266	906	American Health Facility Int'l Cardiovascular Unit for Hospital	906			774	Will perform training and installation in early 1979.		
				TOTAL Request for Proposal	906			774			
					IFB No. 013-1, Tires and Tubes for Pick-up Trucks, Agricultural and Off-highway vehicles:						
					<u>General Tire</u>	805	Lash Italia	4-06-78		805	
							Lash Italia	6-02-78		(78)	
					<u>Drake (Agents for Armstrong Tire)</u>	383	Lash Pacific	2-28-78		381	
					<u>Firestone</u>	70	Lash Italia	4-07-78		63	
		TOTAL IFB No. 013-1		1,258			1,248				

SYRIA CIP UTILIZATION REPORT  
(Thousands of Dollars)

ANNEX 7  
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Loan Number and Parliament Dates	Amount of Loan	Value of I/CUM's Issued	Est. Value of IFB's Issued	AWARD INFORMATION		SHIPPING STATUS		Total Disbursements on 10-11-74	Remarks				
				Supplier/Commodity	Contract Amount	Vessel	D/L Date						
276-K-013 (Cont'd)		11,754		IFB No. 013-2:					Shipments started in November and will be completed by March.				
				Back Trucks	11,754								
				208 Garbage Trucks with containers, 16 cu. yd.	(9,894)								
				15 Garbage Trucks, with containers, 20 cu.yd.	(792)								
				Spare Parts	1,069								
				824									
				Caterpillar Overseas, S.A.	824								
				8 Landfill Compactor Dozers	(753)								
				Spare Parts	(70)								
				113									
Wayne Engineering Corp.	113												
37 Trailer Mounted Steam Cleaners	(102)												
Spare Parts	(11)												
			12,691										
				SUB-TOTAL IFB No. 013-2	12,691								
				Total Bank Charges				2					
	\$15,000	14,957	\$14,855	TOTAL LOAN No. 276-K-013	14,855			2,024					

SYRIA CIP UTILIZATION REPORT  
(Thousands of Dollars)

ANNEX 3  
Page 5 of 5

Loan Number and Vertical Dates	Amount of Loan	Value of I/CFA's Issued	Est'd Value of IFB's Issued	AWARD INFORMATION		SHIPPING STATUS		Total Disbursements on 10-31-78	Remarks
				Supplier/Commodity	Contract Amount	Vessel	D/L Date		
Loan 276-K-015	\$ 40,000								
Signed: 09-20-77 Contracting Dates: 9/30/77-6/30/79 Shipping Dates: 9/30/77-1/31/79		\$ 5,140	628	IFB No. 013-2 (Funded 015) Elgin Leach 18 Mechanical Street Sweepers Spare Parts	628 (514) (114)				
		4,512	4,512	Euclid 30 Ea 35 ton Dump Trucks Spare parts & Tools	4,512 (4,032) (480)				Will ship in January & Feb.
		8,043		Caterpillar (IFB 015-2) 20 Crawler Tractors, D-9 15 Crawler Tractors, D-8 Spare Parts	8,043 (4,142) (2,050) (1,851)				Recommended cancellation & retendering.
			2,800	IFB 015-3, BOB 9-11-78 30 Self-Propelled Cranes					
			1,100	IFB 015-4, BOB 12-18-78 20 Motorgraders, 160 HP					
			2,800	IFB 015-5, BOB 10-26-78 Hydraulic Excavators					
			250	IFB 015-1, BOB 12-18-78 Air Monitoring Equipment					
	\$ 40,000	\$18,121	\$27,531	TOTAL LOAN 276-K-015	13,183				
Loan 276-E-017	\$ 20,000								
Signed: 8-21-78 T10: 5/31/80 T30: 7/31/80 T14: 8/31/80									
<b>GRAND TOTAL</b>	\$105,000	\$61,280	\$72,440		57,999			31,926	

MEMORANDUM FOR THE DIRECTOR  
SUBJECT: [Illegible]

TO: [Illegible]

FROM: [Illegible]

SUBJECT: [Illegible]

[Illegible body text]

ADMINISTRATIVE INFORMATION: [Illegible]

DATE: 12/13/1973

ADMINISTRATIVE INFORMATION: [Illegible]

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SYRIA - COUNTRY CHECKLIST - FY 1979.

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 115. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?
 

The Department of State has not so determined.
2. FAA Sec. 461. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics 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 such determination has been made
3. FAA Sec. 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 has determined that Syria is not controlled by the international Communist movement.
4. FAA Sec. 620(c). If assistance is to 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?
 

At present there are no claims which require that assistance be terminated pursuant to this section.
5. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of 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 such actions in the past. However, it has been determined that Syria is taking appropriate steps to discharge its obligations.

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6. FAA Sec. 620(a), 620(i); IDPA Sec. 602; App. Sec. 108, 114, 606.

Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

Syria is not a Communist country.  
No.

7. FAA Sec. 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?

No.

8. FAA Sec. 620(f). 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 no 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 in Syria.

9. FAA Sec. 620(i). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

An investment guaranty agreement for the specific risks of expropriation, inconvertibility or confiscation was concluded with Syria on August 9, 1978.

10. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 3. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,

Not applicable.

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

b. has complete denial of assistance been considered by AID Administrator?

11. FAA Sec. 620(d); App. Sec. 605. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds.

(a) No.

(b) No.

12. FAA Sec. 620(s). "If contemplated assistance is development loan (including Alliance loan) or security supporting assistance, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems?" (An affirmative answer may refer to the record of the taking into account, e.g.: "Yes as reported in annual report on implementation of Sec. 620(s)." This report is prepared at the time of approval by the Administrator of the Operational Year Budget.

Yes, as reported in the FY 1977 620 report to Congress, approved on August 11, 1978. It has been determined that there has been no significant change which would affect the content of that report.

Share charges in one Sec. 620(f) factors occurring in the course of the year of substantial significance to include that an affirmative answer might need review, should still be reported, but the safety check list will not normally be the preferred vehicle to do so.)

- 13. FIA Sec. 620(c). 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?

Syria severed diplomatic relations with the United States in 1967. Diplomatic relations have been resumed and new bilateral assistance agreements are currently being negotiated.

- 14. FIA Sec. 620(d). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrears taken into account by the AID Administrator in determining the current AID Operational Year budget?

Syria has fully paid its U.N. obligations as of September 30, 1978.

- 15. FIA Sec. 620a. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

Syria has itself been the object of terrorist attacks. We know of no recent case in which Syria has granted sanctuary to individuals or groups in connection with acts of international terrorism. Not applicable.

- 16. FIA Sec. 659. If (a)/military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, 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?

- 17. FIA Sec. 656. Does the country object, on basis of race, religion, national origin or sex, to the presence of any ~~office or employee of the U.S.~~ there to carry out economic development program under FIA?

- 18. FIA Sec. 659, 670. Has the country, after August 1, 1977, allowed or received nuclear enrichment or processing equipment, materials, or technology, without specialized arrangements or safeguards? Has it detonated a nuclear device after August 1, 1977 although not a "nuclear-weapon State" under the nonproliferation treaty?

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19. Approp. Sec. 608. (a) Will assistance be used to establish or expand production for export by any country other than the United States of any commodity which is likely to be in surplus on world markets at the time productive capacity is expected to become operative? (a) No.
- (b) If so, will the assistance cause substantial injury to United States producers of the same, similar or competing commodity? (b) No.

## SYRIA - COMMODITY IMPORT LOAN

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to the Economic Support Fund Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? COUNTRY CHECKLIST IS UP TO DATE. STANDARD ITEM CHECKLIST HAS BEEN REVIEWED.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

(a) Notification is not now required but advice of future program change will be forwarded to Congressional Committees.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

(b) Yes.

2. FAA Sec. 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 purpose of the assistance?

No further legislative action is required.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No. There is no indication that assistance will encourage regional development programs. Syria is not a newly independent country.

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4. FAA Sec. 601(a) Information and conclusions whether assistance 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.

By financing the importation of commodities needed by Syria for development projects, the assistance will contribute to efforts to increase international trade and to improve the technical efficiency of agriculture and industry.

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

All commodities financed by the assistance will be provided by United States private enterprise.

6. FAA Sec. 612(b); Sec 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 Loan Agreement will so provide.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

Syria is not an excess currency country

8. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

i. Nonproject Criteria for Economic Support Fund Assistance

FAA Sec. 102, 531. Is the assistance ~~consistent with the policy directions~~ of FAA Sec. 102? How will the assistance promote economic or political stability?

Yes.

The assistance will support the economy by financing the foreign exchange costs of imported commodities necessary to the Syrian economy.