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

PROJECT PAPER

Proposal and Recommendations For the Review of the Development Loan Committee

EGYPT - BASIC IMPORT AND PRODUCTION LOAN (III)

AID-DLC/P-2124

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

UNCLASSIFIED

AID-DLC/P-2124

October 24, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: EGYPT - Basic Import and Production Loan (III)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $100 million ($100,000,000) to the Government of Egypt for the import of raw materials, equipment and spare parts to support industrial and agricultural production.

No meeting is scheduled for this proposal. However, if any voting member requests a meeting, we will schedule one. Please advise us of your concurrence or objection as early as possible but in no event later than close of business on October 31, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

Attachments:

Program Assistance Approval Document (PAAD)
Summary and Recommendations
Annexes 1 - 3

CLASSIFICATION:

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.

2. COUNTRY
Arab Republic of Egypt

3. CATEGORY
Commodity Financing Standard Procedure

4. DATE

5. TO:
D er
A or, AID

6. OYB CHANGE NO.
Not applicable

7. FROM: Robert H. Nooter
Assistant Administrator
Bureau for Near East

8. OYB INCREASE
Not applicable

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 100,000,000

10. APPROPRIATION - ALLOTMENT
Supporting Assistance

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
[X] LOAN [ ] GRANT	INFORMAL [ ] FORMAL [X] NONE	11/1/75-3/31/77	PAAD Authorization Date

15. COMMODITIES FINANCED
Industrial and agricultural machinery and equipment, spare parts, industrial raw and semi-finished materials and other commodities to be specified in Implementation Letters and Commodity Procurement Instructions.

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

18. SUMMARY DESCRIPTION

Despite continued large cash transfers from Arab states, the Government of Egypt's balance of payments on current account continues to be in deficit. During 1975, additional Arab OPEC assistance in the form of concessionary credits and increased bilateral aid are expected to more than offset the current account deficit, and probably will permit some reduction of large outstanding bankers' credit facilities. However, during 1976, even after accounting for known Arab and other bilateral assistance, the financing gap is estimated to be substantial.

The proposed loan will assist Egypt with its balance of payments deficit during the coming year. The loan proceeds will finance imports of agricultural and industrial machinery, equipment, spare parts and other essential commodities and services. The loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and to provide agricultural inputs essential to increase agricultural production.

It is recommended that you authorize a loan to the GOE of $100 million ($100,000,000) for financing imports of selected commodities on the following terms:

19. CLEARANCES	DATE
REG/DP	
REG/GC	
AA/PC	
A/CONT	
AA/MR	
AA/DFPE	

20. ACTION

[ ] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE DATE

TITLE

CLASSIFICATION:

1. Interest and Terms of Repayment

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

2. Other Terms and Conditions

(a) Unless AID otherwise agrees in writing, commodities and related services financed under the loan shall have their source and origin in the United States.

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

Loan Committee

Chairperson:	Selig A. Taubenblatt, NE /CD
Desk:	James Roberts, NE /ME
GC:	Michael Kitay, GC/NE
Procurement:	Ransome T. Looper, SER/COM/NE
Program:	Franz Herder, NE /DP

EGYPT: BASIC IMPORT AND PRODUCTION LOAN (III)

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I. Background

On January 14 and June 27, 1975, AID authorized an $80 million and $70 million loan, respectively, to the Government of Egypt to finance imports of agricultural and industrial machinery and commodities. The loan agreements have both been executed and conditions precedent to disbursement for both loans have been satisfied. Procurement under the $80 million loan (263-K-026) currently is underway, and the loan is expected to be fully committed shortly. Conditions precedent under the $70 million loan were just satisfied, and as of mid-September this amount was available for commodity import financing.

In April 1975, the GOE made an urgent request for increased assistance in the form of quick disbursing commodity financing to help it through the current period in which a large balance of payments gap inhibits its ability to finance critical imports and thus the country's economic growth and development. The proposed $100 million loan, in addition to the $70 million loan authorized in June 1975, is in response to Egypt's urgent request for balance of payments assistance and together with $80 million in PL 480 now under consideration will provide some $250 million in quick disbursing assistance.

The basic economic background and U.S. assistance objectives were spelled out in detail in the $80 million Basic Import and Production Loan Paper (AID-DLC/P-2068) dated December 20, 1974. The following will contain a justification for the $100 million loan and will update relevant data as appropriate.

II. Status of FY 1975 and FY 1976 U.S. Assistance Programs

U.S. economic assistance to Egypt is in support of the Government's policy aimed at seeking a negotiated settlement of a permanent nature which will permit Egypt to turn her energies toward economic development. During recent years, Egypt's economic growth has been severely retarded by a shortage of foreign exchange which has affected every facet of the economy. Raw materials and spare parts have been in short supply and domestic investment in industry and agriculture has been much too low to stimulate meaningful growth. Much of these difficulties are due to large defense expenditures, which have drained resources from other purposes.

The willingness of the United States to assist Egypt is seen by other moderate Arab countries as an important indication of the credibility of our interest in the Arab world. Domestic economic progress resulting from U.S. and other bilateral assistance will strengthen Egypt's leadership role and the moderate forces in the Middle East.

A. FY 1975 U.S. Economic Assistance Program

The U.S. economic assistance program in Egypt was resumed in FY 1975 following the renewal of U.S.-Egypt diplomatic relations the previous year. Within this short period of time, significant progress has been made in formulating an assistance program with the Government of Egypt. The major areas of concentration were as follows (in millions of dollars):

		FY 1975
Supporting Assistance		251.2
Suez Clearance & Reconstruction	53.7	
Commodity Import Program	150.0	
Other Development Activities	47.5	
PL 480 Title		120.0

1. Suez Canal Clearance and Reconstruction

Revitalization of the war-damaged Suez area, particularly of the cities of Port Said, Ismailia and Suez City and their environs, has high priority in the Egyptian Government. Preliminary plans for the entire area have been published and final master plans are expected to be ready sometime in 1976. Significant progress has been made in clearing away the war rubble and major housing projects are being completed in Suez City and have been started in Ismailia. The populations in these areas have already returned to their homes in substantial number. In FY 1975, AID provided $40 million in grants for heavy construction equipment ($10 million) and electric distribution equipment ($30 million).

Under Presidential authority (Section 614, FAA) and with AID financing, the Department of Defense began the operation of clearing the Suez Canal of sunken vessels and unexploded ordnance in April 1974. Major clearing work was completed in mid-December 1974, and the principal DOD units and vessels involved departed the Canal Zone. At the request of the Government of Egypt, a residual force, consisting of one ordnance disposal team and a seagoing tug, remained to continue advisory services on the removal of unexploded ordnance and to assist in the removal of smaller wrecks in the basin and port areas. The Suez Canal was opened to commercial traffic June 6, 1975, and the residual force left shortly thereafter. AID provided a total of $13.7 million in FY 1975 toward the cost of clearing the Canal, in addition to the $8.5 million provided in FY 1974.

2. Commodity Import Program

Much of Egypt's economic difficulty today stems from the security situation in the area which has thwarted normal growth.

To accelerate the pace of economic growth, the Egyptian Government has designed an economic development strategy which includes: (1) restoring activity in the Suez Canal area; (2) bringing into production both under-utilized industrial plant and adding new plant to the industrial sector; (3) reviving the tourist industry; and (4) improving agricultural production. This ambitious and necessary development program cannot be accomplished without substantial foreign assistance of this type. In FY 1975, two CIP loans in the amount of $150 million were made available under AID financing. Our support of Egypt in this manner is having a multiplier effect by encouraging other nations to provide additional assistance to the Government of Egypt in order to ameliorate its serious balance of payments problem.

3. Other Development Activities

Other development projects financed by the U.S. in FY 1975 total $47.5 million. A loan of $44.3 million to assist the GOE construct and equip bulk grain storage facilities in Cairo and in the Port of Alexandria was signed in June 1975. A $1 million grant was provided in FY 1975 to finance the procurement of technical services from U.S. firms for the preparation and analysis of feasibility studies for development projects. A $1 million grant was made available to finance technical exchanges and specialized training of Egyptians in U.S. institutions and $1.2 million was made available for transfer of a helicopter. In addition to the $251.2 million economic assistance program outlined above, $120 million in PL 480 Title I was made available for wheat and tobacco.

B. FY 1976 U.S. Economic Assistance Program (Proposed)

Egypt continues to require a high level of economic assistance in the major areas identified in the FY 1975 program. With the initial difficulties in programming and dealing with the implementation procedures of AID now past, it is reasonable to expect the implementation of the FY 1976 program at a level much above that of FY 1975.

The FY 1976 Middle East and Supporting Assistance presentation still has not been forwarded by the Executive Branch to the Congress, and thus data on the FY 1976 program for Egypt is not included in this unclassified paper. However, the FY 1976 program will be discussed at the Near East Advisory Committee meeting and at the DLSC meeting.

III. Loan Justification

The Government of Egypt's balance of payments has continued to worsen during the past year and would have become extremely unmanageable had it not been for substantial additional Arab credits and bilateral assistance.

The situation in 1975 is attributable to several causes: (1) the extreme shortage of industrial and agricultural imports which now must be made up as an important part of the efforts towards economic recovery and growth; (2) an accumulation of short-term debts and supplier credits amounting to well over $2 billion at the end of 1974, which requires major foreign exchange payments and has made it more difficult for the country to obtain new short-term financing; (3) adverse terms of trade; (4) increased imports of consumer goods to offset crop failures and increase rations; and (5) the drop in the value of merchandise exports, particularly raw cotton exports.

In 1975, the Government of Egypt embarked on a program to place the country's external accounts on a sounder basis. The Government has taken action to prevent outstanding foreign bank credit to Egypt from increasing even further. Bank credit facilities utilized (including undisbursed) amounted to $2.7 billion at the end of 1974, compared to $1.1 billion at the end of 1973. The use of this type of high-cost financing has created an enormous liquidity burden for Egypt during 1975, when an estimated $1.8 billion of repayments of these credits were expected to fall due. In placing a limit on bankers' credit facilities, new letters of credit opened against bankers' facilities could not exceed the amount of cash repayments on such facilities falling due during that period. This would mean a postponement of imports required by Egypt in the absence of new medium and long-term credit.

At the same time, the Government of Egypt on an urgent basis has approached the Arab states and other bilateral donors, including the United States, for additional assistance. The Soviet Union has been asked to reschedule outstanding debt service requirements. The medium and long-term concessionary loans from Arab OPEC countries were to constitute a fund to be held at the Central Bank for purpose of financing payments due on bankers' facilities. Egypt also sought quick disbursing program loans from western bilateral donors in order to help finance essential imports.

The Government of Egypt's efforts to place external accounts on a sounder footing have largely been successful. To date, Arab OPEC countries' concessionary loans have totalled $1.2 billion, including Saudi Arabia, $600 million; Kuwait, $500 million; and Qatar, $100 million. Furthermore, western donors are expected to commit additional loans for quick disbursing imports during the remainder of 1975. The proposed $100 million loan, together with the $70 million in CIP loan authorized in June 1975 and proposed $80 million for PL 480 Title I (for a total of $250 million), from the United States is in response to the Egyptian request.

A. Proposed Commodity Import Loan

The proposed $100 million commodity import loan will be used for the import of raw materials, equipment and spare parts to support industrial and agricultural production. Egypt has asked for such assistance to finance priority requirements in these areas. To date, the GOE has committed $44.2 million for such commodities as tallow, electrical equipment and spare parts, and paper and chemical products. In addition, pending procurement of tinplate, tallow and vehicles is expected to fully commit the remainder of the $80 million loan. In view of the progress that has been made under the first program loan, we are encouraged that imports under the $70 million June 1975 executed loan and the proposed $100 million loan will be utilized expeditiously over the next 18 months.

In industry, substantial foreign exchange continues to be needed to finance the equipment, materials and spares required to activate idle industrial capacity as well as to maintain existing capacity. Such requirements are particularly critical in the metallurgy and chemical industries. In agriculture, the immediate GOE priority over the next two years is to acquire critical agricultural inputs that would yield increased production from existing acreage of crops which would have the highest net foreign exchange impact on the economy. During the coming year, Egypt will need substantial imports of electrical and telecommunications equipment, cables, railway and other transportation equipment, hospital and laboratory equipment, tractors and spares, chemical products, and tinplate. Egypt is particularly interested in purchasing these types of commodities in the United States. See Annex 2 of the Basic Imports and Production Loan (I) (AID-DLC/P-2068 dated December 20, 1974) for an assessment of Egypt's industrial and agricultural requirements.

B. Balance of Payments

Egypt's balance of payments on current account has continued in deficit despite large cash transfers from Arab states. During 1975, additional Arab OPEC assistance in the form of concessional credits and increased bilateral aid from other sources are expected to more than offset the current account deficit.

During 1975, exports are projected to decline from 1974 levels by 18 percent to a total of $1,375 million. The sharp reduction in the value of raw cotton exports from $463 million in 1974 to $385 million in 1975 is primarily responsible for the decline. At the same time, merchandise imports are expected to rise by 20 percent in 1975 over the previous year to a total of $3,865 million. Significant increases in the value of fuels, intermediate commodities and capital goods are expected to be primarily responsible for the increase in merchandise imports. As a result, the trade deficit is expected to rise from $1,533 million in 1974 to $2,490 million in 1975, or an increase of

62 percent. In 1975, after taking account of approximately $950 million of Arab cash transfers, the current account deficit is expected to total $1,420 million. However, due to significant additional Arab OPEC cash credits and increased bilateral aid, the current account deficit in 1975 is expected to be more than offset, and probably will permit some reduction of the large outstanding bankers' credit facilities.

The following tabulation summarizes Egypt's balance of payments 1972-74 and projections for 1975 and 1976. It is based on IBRD and IMF data. A more detailed estimate of Egypt's balance of payments 1974-76 is contained in Annex 1. Annex 2, which is being distributed separately, sets forth known commitments from other donors from FY 1974-FY 1976.

Egypt: Balance of Payments Summary[1/]
(1972-76)

	1972	1973	1974 Est	1975 Projection	1976 Projection [2/]
Exports	813	1,003	1,674	1,375	1,950
Imports	1,286	1,574	3,207	3,865	4,445
Trade Balance	-473	-571	-1,533	-2,490	-2,495
Services Net	7	6	169	120	335
Net Transfers	295	642	1,037	950	950
Balance on Current Account	-171	77	-327	-1,420	-1,210
Net MLT Borrowing					
Disbursements	410	345	522	2,245[3/]	1,050
Amortization	295	420	654	545	550
Subtotal	115	-75	-132	1,700	500
Other Non-Monetary Capital (Net)	29	-13	-48	--	--
Overall Balance (Deficit -)	-27	-11	-597	+ 280	-610

1/ Balance of payments data for 1972-75 based on IBRD, Egyptian Central Bank and Ministry of Finance estimates.
2/ A.I.D. projection based on data obtained from IBRD and IMF.
3/ Includes $1.2 billion in Arab OPEC concessionary loans.

During 1976 it is projected that even with known Arab OPEC assistance and bilateral loans and grants, Egypt's overall balance of payments deficit (financing gap) will reach about $610 million. This estimate is based on an increase in total exports (excluding oil) of about 20 percent, including an increase in cotton exports of about 40 percent. In addition, a $300 million increase is likely to result from Sinai oil export availability. Imports are estimated to rise by 15 percent primarily sparked by increased demand for capital goods and intermediate commodities. Thus, the trade deficit is likely to reach approximately $2.5 billion in 1976--almost the same as 1975. Taking into account a significant increase in net services primarily due to Suez Canal receipts and net cash transfers at the 1975 level, the total current account deficit is estimated at $1,210 million. See 1976 balance of payments projection above.

Thus, it appears that in 1976 Egypt will continue to experience an adverse balance of payments and will continue to require sizeable amounts of concessional financing if current levels of imports and domestic consumption are to continue. The GOE recognizes the necessity for taking steps to bring its foreign payments into better balance and has agreed to cooperate with IBRD in an economic management program which will include the following elements:

1. Improved coordination of economic decision making and the follow-up of the implementation of policy decisions through the setting up of a small secretariat, under the Prime Minister, consisting of technical experts and representatives of the economic ministries, attached to the Supreme Committee for Economic and Political Planning, which the Prime Minister chairs.

2. Better management of external resources and external debt by (a) centralization of all information relating to external debt; (b) establishment of a unit to analyze the implications of alternative borrowing policies; (c) tightening up of procedures for preparing the foreign exchange budget; (d) imposing a ceiling on the use of bankers' facilities, and making a serious effort to reduce them below present levels by refinancing.

3. More realistic pricing policies, including: (a) widening of the parallel market to include all imports except basic consumption goods by 1977; (b) a greater use of dual pricing for items of mass consumption and utilities; and (c) greater discrimination in the distribution of subsidies to ensure that the benefits are limited to the poorer sections of the population.

4. Outlining a clear set of economic priorities by (a) the formulation of an indicative plan frame for 1976-80 within which the Annual Plan for 1976 will be prepared; (b) the submission of quarterly reviews of the behavior of the leading economic and social indicators of the Supreme Committee for Economic and Political Planning; (c) quarterly consultations with Bank economic missions on the progress of the economic management program and developments in the economy.

C. Debt Service

Egypt's outstanding debt as of December 31, 1974 was $2,760 million, of which $1,768 million was medium and long-term debt and the remainder ($992 million) was short-term supplier credits and short-term debt due to foreign banks. About 60 percent of the medium and long-term debt and all of the bank and suppliers credits were repayable in convertible currency.

Egypt's repayment burden on medium and long-term debt and on suppliers and bank credits is estimated at $710 million in 1974 and represents a debt service ratio of 30 percent. In 1975 the debt service ratio is expected to rise to about 33 percent, due largely to the substantial decline in merchandise exports.

In view of Egypt's heavy debt service burden, AID normal concessional loan terms are proposed--40 years, including a 10-year grace period, with an interest rate of two percent (2%) during the grace period and three percent (3%) thereafter. With these terms, particularly the 10-year grace period, the repayment prospects for this $100 million loan appear reasonable.

IV. Loan Administration

A. GOE Import Procedures

The entire Egyptian economy continues to be dominated by the public sector. Economic decisions are centrally directed with approximately 90 percent of all investment in the economy being accounted for by the public sector. Costs and prices are administratively controlled, not so much towards achieving economic efficiency as toward

government goals with respect to income distribution and resource mobilization. As a result, many sectors of the economy tend to be insulated from external price changes and the relative scarcities which manifest themselves in these price changes. Within the system a frequently revised foreign exchange budget is the major policy instrument for allocating foreign exchange resources both to the public and private sectors.

Foreign exchange for recurrent import needs is provided from three main sources: (a) Foreign Exchange Budget (FEB) allocations, (b) a part of the enterprises' retained earnings made available for this purpose, and (c) special allocations through the parallel market. Of these, the FEB allocations are by far the most important source, particularly for the public sector. The parallel market has been the main source for the private sector. Control over the allocation of FEB funds or loan funds rests with the Ministry of Economy and Economic Cooperation.

Since September 1973, the private sector has been expected to obtain its foreign exchange resources from the parallel market, particularly for recurring imports. The two primary objectives of the parallel market were to (1) increase the flow of free foreign currency resources, and (2) make these resources available primarily to industry and selected service sectors for increasing production, tourism and exports. Under the parallel market mechanism, a premium of 50 percent for buying and 55 percent for selling free currency is paid over the prevailing official rate of $2.56 for £E 1. Since the establishment of the parallel market, there has been no allocation for the private sector in the Government's foreign exchange budget. Aside from the occasional purchase of small items, funds available through this system have not generally been used for the import of capital equipment.1/

Public sector applications for imports, including applications from semi-independent organizations and national industrial corporations, are forwarded through the General Authorities for approval by the Ministry of Industry or Agriculture. These General Authorities act as an umbrella for many of these organizations. Industrial private sector applications are subject to approval by the Industrial Control Board of the Ministry of Industry. Each separate organization receives a direct FEB allocation or loan funds allocation to cover budgeted foreign exchange costs for import of specific items. Each organization within the authority handles its own procurement, prepares and submits financing requests (FR's), issues tenders, etc.

Determination Committees are the key organization units in the current import procedures and are attached to the respective General Authorities. Each Determination Committee is responsible for the import of a number of commodities. The Committee decides on all

1/ For detailed discussion of foreign exchange parallel market, see IBRD Report "The Egyptian Economy in 1974", September 25, 1974.

import applications for the commodities under its jurisdiction. A separate committee also makes recommdations concerning all recurrent imports by the private sector. Each Committee is authorized to approve import applications within the overall foreign exchange allocations from the Ministries for various commodities. Their approval of an application is treated as final for imports and is equivalent to the import licenses granted in the past. Frequently, import needs of several enterprises are bulked together to obtain better prices.

Under the Government's present regulations, all imports, private or public sector, are channelled either through one of the Government-owned trading companies or directly to the foreign exporter. The imports are effected at competitive terms. AID is using the established GOC procedures whereby the public or private enterprise either directly or through the trading company, invites bids, evaluates them and makes the final recommendation for contract award. Importers are inviting bids through the trading companies and directly through suppliers and thus are able to compare competitiveness of price and other factors.

B. AID Commodity Import Procedures

As in the case of the first two CIP's (Loan 263-K-026 and Loan 263-K-027), procurement of commodities and commodity-related services under this loan will be of U.S. source and origin (000). Items eligible for financing will consist of commodities and equipment as defined in AID Commodity Eligibility List dated January 1, 1972 (the broad "positive" list). This list is provided as an attachment to the Commodity Procurement Instruction (CPI) which is transmitted to the Borrower with the first Implementation Letter under the Loan. AID's standard commodity financing procedures as set forth in Regulation I shall apply, except in special situations, where procedures under Handbook 11, "Country Contracting", will be more appropriate to the transaction.

Public sector procurement shall be eligible for financing only if procured through formal competitive bidding procedures in accordance with Section 2.02.22 of AID Reg I. The so-called "Colombia System" of small business notification will apply to any private sector procurement.

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

The proceeds of this loan are expected to be disbursed within an 18-month period from the time of loan agreement signing. However, because of the possible delays in delivery of manufactured items with long lead times, the terminal date will be set two years from the date of the loan agreement signing.

C. Utilization of Previous CIP Loans

Of the two CIP loans made to Egypt to date (Loans 263-K-026 and 263-K-027), conditions precedent to disbursement have been satisfied on both loans. As of October 3, 1975, letters of commitment in the amount of $44.2 million have been opened under 026 covering such commodities as remote sensing equipment, electrical spare parts, tallow, and a variety of paper and chemical products. In addition, other procurement underway for tinplate, tallow, and trucks and trailers is expected to fully commit the remaining availabilities under 026 within the next couple of months. Thereafter, the GOE will start drawing down under the $70 million loan (Loan 027), which is expected to be utilized expeditiously.

To date, no loan disbursements have occurred; however, disbursement progress for a number of items currently on order is expected over the next few months.

Progress under the CIP loans has been reasonably good and is further improving as the GOE begins to use AID Reg I procedures and familiarizes itself with U.S. supplier specifications and ways of doing business in the United States. However, there are still some problems with invitations for bid and commodity specifications. This is largely due to the Egyptian familiarity with European specifications for materials which they wish to purchase. Thus, specifications received usually require modification in order to be geared to U.S. standards and supplier capability. AID is now in the process of modifying a number of European prepared specifications to conform with U.S. standards and hopefully this problem will be resolved in the near future. The GOE will also have to improve the IFB substance to remove confusion over such matters as freight and how quotations are to be made, i.e., FAS, C&F, FOB, etc.

V. Other Considerations

A. Impact on U.S. Balance of Payments

The long-term impact on U.S. balance of payments will be favorable because this loan will be spent on U.S. goods and services. This loan will continue to permit U.S. suppliers/exporters to re-establish old trade relationships and create new ones for industrial raw materials and materials and commodities essential for increased agricultural production, and will continue to enhance the expansion of the U.S. export market in Egypt. Furthermore, future follow-up orders for machinery and spare parts will result in additional U.S. exports on a commercial basis.

B. Use of U.S. Government Excess Property

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

VI. Recommendations

It is recommended that you authorize a loan to the GOE of $100 million ($100,000,000) for financial imports of selected agricultural and industrial commodities on the following terms:

A. Repayment in United States dollars in no more than forty (40) years after the first disbursement, including a grace period of not to exceed ten (10) years.

B. Interest in U.S. dollars of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

C. Procurement with loan funds from the United States.

D. Such other terms and conditions as AID may deem advisable.

Annex 1. EGYPT: BALANCE OF PAYMENTS PROJECTIONS - 1974-76
(In millions of U.S. dollars)

		Est. 1974 1/	Projections 1975 1/	1976 5/
1.	EXPORTS	1,674	1,375	1,950
	a. Cotton	663	385	539
	b. Petroleum	104	220	520
	Crude Oil	(86)	(80)	---
	Petroleum Products	(18)	(140)	---
	c. Others	907	770	891
2.	IMPORTS	3,207	3,865	4,445
	a. Primary Commodities	869	730	---
	Wheat (Cereals...	758)	(515)	---
	Other		(215)	---
	b. Fuels	218	435	---
	Crude Oil	(102)	(290)	---
	Petroleum Products	(74)	(100)	---
	Coal	(42)	(45)	---
	c. Intermediate Commodities	1,215	1,500	---
	d. Capital Goods	489	700	---
	e. Consumer Goods	416	500	---
3.	TRADE BALANCE (1 - 2)	-1,533	-2,490	2,495
4.	NET SERVICES	169	120	335
	Receipts	711	940	1,185
	Worker Remittances	(188)	(220)	(250)
	Tourism	(414)	(470)	(500)
	Suez Canal	(-)	(125)	(300)
	Other	(109)	(125)	(135)
	Payments	542	820	850
	Interest, etc.	(156)	(230)	(200)
	Other	(386)	(590)	(650)
5.	NET GOODS AND SERVICES (3 + 4)	-1,364	-2,370	-2,160
6.	UNREQUITTED TRANSFERS (ARAB GRANTS)	1,037	950	950
7.	CURRENT ACCOUNT BALANCE (5 + 6)	-327	-1,420	1,210
8.	IDENTIFIED M & LT CAPITAL (NET)	-132	1,700	500
	a. Drawings on Signed Agreements (as of 5/31/75) 1/	249	1,745 2/	550
	b. Drawings on Suppliers Credit 3/	273	500	500
	c. Repayments of Existing M & LT Debt	-654	-545	550
	Long-Term Loans	(-402)	(-223)	---
	Suppliers Credits 4/	(-252)	(-305)	---
	Financing Institutions	---	(-17)	---

		Est. 1974	Projections 1975	1976
9.	BALANCE ON CURRENT AND IDENTIFIED M & LT CAPITAL	-459	280	-610
10.	OTHER NON-MONETARY CAPITAL	-48	---	---
11.	OVERALL BALANCE	-507	280	-610

1/ Agency for Arab and International Economic Cooperation (Govt. of Egypt) and IBRD estimates.
2/ Includes $1.2 billion in cash loans from Saudi Arabia, Kuwait and Qatar.
3/ Central Bank of Egypt estimates.
4/ As reported by Agency for Arab and International Economic Cooperation.
5/ AID projection based on data obtained from IBRD and IMF.

Being distributed under separate cover.

Annex 3. CHECKLIST OF STATUTORY CRITERIA

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

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

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105; § 106; § 107. Is loan being made

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

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA §201 (b) (5), (7) & (8); § 208

A. Describe extent to which country is:

(1) Making appropriate efforts to	Inapplicable.

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

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.	Inapplicable.
(3) Increasing the public's role in the developmental process.	Inapplicable.

(4) (a) Allocating available budgetary resources to development. (b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)	**Inapplicable.**
(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	**Inapplicable.**
(6) Willing to contribute funds to the project of program.	**Inapplicable.**

(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	Inapplicable.
B. Are above factors taken into account in the furnishing of the subject assistance?	Inapplicable.

Treatment of U.S. Citizens and firms.

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

Relations with U.S. Government and Other Nations.

6.	FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba.	No instance of any such present course of conduct is known.
7.	FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	The Secretary of State has determined that Egypt is not controlled by the internatinal communist movement.
8.	FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?	The assistance is not for any such productive enterprise.
9.	FAA § 620(f). Is recipient country a Communist country?	No.
10.	FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	The President has not determined that the recipient country is involved in such conduct.
11.	FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	The President, in accordance with the requirement of section 620(j) has considered terminating assistance to Egypt and has determined that no sufficient reason exists not to furnish the assistance.
12.	FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the the A.I.D. administration within the past year considered denying assistance to such government for this reason?	Egypt has reactiviated its Investment Guaranty Agreement with the U.S.

13.	FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?	The recipient country is not known to be engaged in such a course of conduct.
14.	FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?	Egypt is not in default on interest or principal of any A.I.D. loan.
15.	FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	Egypt severed diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.
16.	FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?	Egypt has paid all of its outstanding U.N. obligations.
17.	FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
18.	FAA § 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	There is no military base in Egypt within the definition of this section.

Military Expenditures

19. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	The President has taken into account each of the listed considerations as to current military expenditures by the GOE and has determined that these do not inhibit economic aid to Egypt but rather that the projected program contributes to the underlying intent of the FAA which seeks to reduce arms costs and to stimulate economic development.

CONDITIONS OF THE LOAN

General Soundness

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

22. FAA § 201(b)(2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.	Inapplicable.
23. FAA § 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.	Inapplicable.
24. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?	The necessary plans and cost estimates are completed and included within the loan paper.
25. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the loan	No further legislative action is required to implement the program other than confirmation action pertaining to the signed loan agreement.
26. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?	Not Applicable.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA § 207; § 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.	Not Applicable.

28.	FAA § 209. Is project susceptible of execution as part of regional project? If so, why is project not so executed?	Not Applicable.
29.	FAA § 201(b)(4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to reliable long-range objectives.	Not Applicable.
30.	FAA § 201(b)(9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.	Not Applicable.
31.	FAA § 209. Information and conclusion whether assistance will encourage regional development programs.	Not Applicable.
32.	FAA § Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.	Not Applicable.
33.	FAA § 201(f). If this is a project loan, describe how such project will promote the country's economic deveopment taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development	Not Applicable.

34.	FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.	**Not Applicable.**
35.	FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	**Not Applicable.**
36.	FAA § 281(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?	**Not Applicable.**
37.	FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	**a) The program loan will be used to finance the import of commodities with the long-term objective of increasing Egypt's ability to engage in international trade, b) Under A.I.D. Reg. I procedures, private initiative and competition will be fostered. c) No direct impact. d) No direct impact. e) The purpose of the loan is to encourage industrial and agricultural production which involves improvement of techinical efficiency of industry, agriculture and commerce. f) No direct impact.**

38.	FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?	**Egypt is not a newly independent country.**

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

39.	FAA § 201(b)(6). Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.	**Inapplicable.**
40.	FAA § 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.	**Inapplicable.**
41.	FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	**Regulation 1 ensures that there will be maximum private participation in transactions financed under the loan.**
42.	FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?	**This assistance is not a capital project activity.**

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

Procurement of commodities and services under the loan will be according to established A.I.D. Reg. 1 procedures.

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

No.

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

Technical assistance is not financed by the loan.

Loan's Compliance with Specific Requirements

46. FAA § 110(a) ; § 208(e). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the loan is to be made?

Not Applicable.

47.	FAA §660. Will loan be used to finance police training or related program in recipient country?	No.
48.	FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?	No.
49.	FAA § 201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?	The funding source is Supporting Assistance.
50.	FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?	Not Applicable.
51.	FAA § 201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	Not Applicable.
52.	FAA § 604(a). Will all commodity procurement financed under the loan be from the Untied States except as otherwise determined by the President?	The loan authorizes procurement from the U.S.
53.	FAA § 604(b). What privision is made to prevent financing commodity pro curement in bulk at prices higher rhan adjusted U.S. market price?	A.I.D. will be incorporated in the Loan Agreement to enforce statutory pricing restrictions.

54. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will the loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?	Egypt does not discriminate against U.S. marine insurance companies.
55. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	See Question 53.
56. FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?	Yes, A.I.D. Reg. 1 will be applied.
57. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.	A.I.D. Reg. 1 applies except to public sector procurement, wherein efforts wil be made to utilize excess property to the maximum extent possible.
58. FAA § 611(b), App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?	Not Applicable.
59. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?	No such contracts are to be financed by the loan.
60. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies	No contractual or other services are being financed under the loan.

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

61. Section 30 and 31 of PL 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? — No.

62. Section 37 of PL 93-189 (FAA of 1973); App. § 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? — No.

63. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? — Endeavor is being made for negotiation of an agreement for the release of U.S owned non-P.L. 480 pounds.

64. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? — The loan will not permit such use.

65. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million? — Not Applicable.

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

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

68. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? — The Loan is not for a capital project.

69.	App. § 107. Will any loan funds be used to pay UN assessments?	No.
70.	App. § 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).	Not Applicable.
71.	App. § 110. Will any of loan funds be used to carry out provisions of FAA § 209(d)?	No.
72.	App. § 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese?	No.
73.	App. § 113. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.	The Committees have been notified at least fifteen days in advance of obligation.
74.	App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?	No.
75.	App. § 504. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals?	No.
76.	MMA § 901.b; FAA § 640C. (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk	A.I.D. Reg. 1 which is incorporated into this loan, will cover this requirement.

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carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.