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

PROGRAM ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

EGYPT, Basic Import and Production Loan

AID-DLC/P-2151

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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: Daniel Parker Administrator, 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: \$150,000,000	10. APPROPRIATION - ALLOTMENT Supporting Assistance		
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 4/15/76 - 10/15/77	14. TRANSACTION ELIGIBILITY 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 U.S. only: 000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION  
 Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake development programs. During 1975, Arab OPEC assistance in the form of grants and concessionary credits and increased bilateral aid more than offset the current account deficit, thus permitting some reduction in large outstanding bankers' credit facilities. During 1976, after accounting for known Arab and other bilateral assistance, a balance of payments deficit still remains. Egypt will continue to require large capital flows to achieve its development objectives and at the same time provide for improving the standard of living in the country.

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 related services. The loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and for new industrial expansion and to provide agricultural inputs essential to increase agricultural production.

19. CLEARANCES REG/DP _____ DATE _____ REG/GC _____ AA/FC _____ A/CONT _____ AA/MR _____ AA/DFPE _____	20. ACTION <input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  _____ AUTHORIZED SIGNATURE DATE  _____ TITLE
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It is recommended that you authorize a loan to the GOE of \$150 million (\$150,000,000) for financing imports of selected commodities on the following terms:

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: Cynthia Goldstein, GC/NE  
Procurement: Robert Richardson, SER/COM/NE  
Economist: Thomas Miller, NE/ME  
CD: Steven Kinsley, NE/CD

SAT: 4/6/76

## EGYPT: BASIC IMPORT AND PRODUCTION LOAN (IV)

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## I. Background

Since February 13, 1975, AID has signed loan agreements for \$250 million in commodity import loans to finance the importation of agricultural and industrial machinery and commodities. (Loan agreements were signed as follows: \$80 million on February 13, 1975; \$70 million on June 30, 1975; and \$100 million on December 18, 1975.) The first \$150 million has virtually been committed and disbursements are proceeding on an active basis. The \$100 million loan recently executed has become effective with the satisfaction of conditions precedent to disbursement in early April 1976. The Government of Egypt currently is identifying various types of equipment and commodities for allocation under this loan.

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 \$100 million loan signed last December was in response to Egypt's urgent request and the proposed \$150 million CIP loan being considered herein represents a continuation of such quick disbursing assistance to meet Egypt's balance of payments requirements.

A summary of Egypt's current economic situation and prospects prepared by the World Bank<sup>1/</sup> is set forth in Annex 1. Basic economic data on Egypt also prepared by the World Bank are set forth as Annex 2.

## II. U.S. Assistance Programs to Egypt

### A. Political and Economic Considerations

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. Egypt has demonstrated its desire and willingness to work toward a negotiated peace by playing a key role in the two interim settlements--a negotiated disengagement of forces between Egypt and Israel in early 1974 and a second-step agreement in September 1975. The successful implementation of these agreements as well as further progress toward a permanent peace will depend in large part on a willingness of the Egyptian people to support a permanent peace settlement and an economic and social atmosphere within Egypt conducive to growth, development and peace.

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<sup>1/</sup> Arab Republic of Egypt Economic Report, World Bank, January 5, 1976.

The objective of U.S. assistance is to foster economic and social development within Egypt and thereby to create the preconditions to a continued and more permanent peace. 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.

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 development purposes. Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake economic development programs. Shortages of raw materials and spare parts for domestic industry have resulted in scarcity of basic consumer items. The low levels of domestic investment in industry, agriculture and related infrastructure have slowed Egypt's real growth in per capita gross domestic product to under one (1) percent annually over the past ten years.

Egypt will continue to require substantial assistance to achieve its development objectives and at the same time provide for improving the current standard of living of its people. Egypt's economic recovery requires resources far beyond its own or any other single donor's ability to provide. Substantial Arab economic assistance and assistance from other bilateral donors have been provided in the past and are expected to continue in the future to assist overcoming the country's balance of payments problems. United States economic assistance also is needed urgently to bring Egypt through this critical period in its post-war recovery and development.

#### B. Status of Economic Assistance Programs

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.

In FY 1975, AID provided \$251.0 million, including \$53.5 million for Suez area reconstruction and development; \$47.5 million for national development programs (which included financing of grain storage facilities in Cairo and in the Port of Alexandria);

and \$150 million for commodity import program loans. Projects and programs financed during FY 1975 are proceeding and currently are in various stages of implementation. In addition, the United States provided \$120 million in PL 480 Title I during FY 1975.

During FY 1976, a \$750 million Security Supporting Assistance program for Egypt has been presented to the Congress. This includes \$223.5 million for Suez area reconstruction and development, which will be funded on a grant basis; \$276.5 million for national development programs, most of which will be funded by concessional loans; and \$250.0 million for commodity import assistance. Of the latter, \$100 million already has been obligated under a signed loan agreement and the \$150 million CIP loan is being considered in this loan paper. In addition, in FY 1976 PL 480 under Title I is estimated to amount to about \$175 million mostly for wheat, wheat flour and a small quantity of tobacco.

For FY 1977, the President has proposed for Egypt \$750 million in Security Supporting Assistance (the same as FY 1976) as follows: Suez reconstruction and development, \$180 million; national development program, \$320 million; and commodity import program, \$250 million. In addition, PL 480 Title I, primarily wheat, is estimated at \$150 million at current prices (availabilities permitting).

### III. Loan Justification

The Government of Egypt continues to experience major balance of payments problems which would become extremely unmanageable had it not been for continuing substantial Arab OPEC grants and credits and other bilateral assistance. The balance of payments deficits in 1975 and 1976 are attributable to several causes: (1) the extreme shortage of industrial and agricultural inputs which now must be made up as an important part of the efforts toward economic recovery and growth; (2) an accumulation of short-term debts and supplier credits which represents sizable debt service requirements; (3) adverse terms of trade; and (4) increased imports of consumer goods which reflect increased demand and increased rations. Egypt's balance of payments, both current and capital account, is discussed in paragraph B., below.

The Government of Egypt will continue to require sizable amounts of concessional financing if current levels of imports and domestic consumption are to continue. The GOE recognizes the need to bring its foreign payments into better balance and has undertaken a wide range of measures to deal with the balance of payments problem and to improve economic efficiency in general. The Government has formulated an economic management program and the main elements are: (1) improved coordination of economic

policy making, (2) improved public sector efficiency through decentralization and other measures, (3) rationalization of consumption subsidies and increased national savings, (4) better management of external resources and external debts, and (5) raising basic interest rates.

Measures aimed more directly at balance of payments problems include: (1) setting a ceiling on the use of banking facilities, (2) widening the parallel foreign exchange market, (3) seeking concessionary credits from Arab and other countries to meet payments due on bankers' facilities, (4) seeking quick-disbursing loans and (5) attempting to reschedule debt service payments to the Soviet Union.

Egypt's economic problems are of major proportions and have not been relieved to any significant extent by recent Egyptian economic actions. The steps undertaken in the program relative to the balance of payments are constructive but modest relative to the magnitude of the problem. The credit program, although an improvement over 1975, nevertheless will continue to generate inflationary forces during 1976. Although measures taken thus far are in the right direction, more substantive policy changes will have to be introduced to achieve improvement on balance of payments account in the medium-term period.

The outlook for 1976 is for continuing balance of payments difficulties which will require sizable amounts of economic assistance on concessional terms. Over the medium term, the balance of payments prospects look somewhat more promising, particularly given the higher receipts from the Suez Canal, an expected substantial increase in petroleum exports and potential in tourism and in the industrial sector.

#### A. Proposed Commodity Import Loan

The proposed \$150 million commodity import loan will be used for imports 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. Despite initial delays in drawing down previous CIP loans, the GOE is proceeding expeditiously with orders and purchases of equipment and commodities and commitments and disbursements are well under way under Loans 026 and 027. The \$100 million loan signed in December 1975 (Loan 029) is also proceeding expeditiously as orders are being placed for priority imports. A detailed discussion of the status of previous CIP loans is contained in Section IV.C.

In industry, substantial foreign exchange continues to be needed to finance equipment, materials and spare parts required to both maintain existing capacity and to permit both expansion and the installation of new plant and facilities. In agriculture, the immediate GOE priority 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, various types of transportation equipment including rail and trucks and buses, hospital and laboratory equipment, tractors and spares, chemical products, paper products and tinplate. Egypt has expressed interest in purchasing some 1,600 buses in the U.S. valued at \$50,000,000-\$60,000,000. USAID/ARE discussions on procedures for such a purchase currently are under way. The GOE expects to finance these buses out of the last \$100,000,000 program loan (029), since funds under previous loans are virtually committed. Egypt is particularly interested in purchasing various types of commodities in the United States, and the proposed \$150 million program loan will be used for such purchases.

#### B. Balance of Payments

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

During 1975, exports are estimated at \$1,570 million, a decline from the 1974 level of some 6 percent. The reduction in exports is accounted for by a decline in cotton prices, Egypt's primary export. At the same time, merchandise imports during 1975 rose by 34 percent over 1974 to a total of \$4,590 million. Significant increases in the value of fuels, intermediate commodities and capital goods were responsible for the increase in merchandise imports. As a result, the trade deficit rose by 72 percent during 1975 over the previous year, for a total deficit of \$3,020 million. In 1975 after taking account of approximately \$1.1 billion in unrequited transfers (Arab grants) and \$300 million net surplus on services, the current account deficit was estimated at \$1,660 million. Additional capital flows from OPEC countries in the form of cash credits and increased bilateral concessional lending more than offset the current account deficit, leaving a surplus estimated at some \$320 million. This surplus permitted a reduction in the large amount of outstanding short-term bank borrowing.

The following table summarizes Egypt's balance of payments 1972-74 and projections for 1974-75. The figures given reflect our best estimates based on data from the Egyptian Central Bank and Ministry of Finance, IBRD, IMF and AID.

Table 1. EGYPT: Balance of Payments Summary <sup>1/</sup>

(1972-76)

(In million U.S. dollars)

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u> (Est)	<u>1976</u> (Proj)
Exports	813	1,003	1,674	1,570	1,830
Imports	<u>1,286</u>	<u>1,574</u>	<u>3,428</u>	<u>4,590</u>	<u>4,900</u>
Trade Balance	- 473	- 571	-1,754	-3,020	-3,070
Services Net	7	6	170	280	555
Net Transfers	<u>295</u>	<u>642</u>	<u>1,258</u>	<u>1,080</u>	<u>750</u> <sup>2/</sup>
Balance on Current Account	- 171	77	- 326	-1,660	-1,765
Net MLT Borrowing					
Disbursements	410	345	522	2,990	2,290
Amortization	<u>295</u>	<u>420</u>	<u>654</u>	<u>690</u>	<u>705</u>
Sub-total	115	- 75	- 132	1960	1,585
Other Non-Monetary Capital (Net)	29	- 13	- 53	20	50
Overall Balance (Deficit -)	- 27	- 11	- 511	320	-130
Debt Service (MLT)	339	466	720	753	954
Debt Service Ratio	33.4	35.8	32.3	35.5	30.7
Increase in Foreign Bank Liabilities (+)	22	272	583	NA	NA

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

<sup>2/</sup> Estimate based on known OPEC grants.

During 1976, after taking into account known Arab OPEC assistance and bilateral loans and grants, Egypt's overall balance of payments deficit is currently estimated at \$130 million. This estimate is based on an expected 17 percent increase in exports (including petroleum exports), and a 7 percent rise in imports (sparked by an increased demand for intermediate commodities). Thus, the trade deficit during 1976 is estimated to remain at roughly the same level as 1975, some \$3,070 million. Taking into account a significant increase in net services sparked by increased Suez Canal receipts and worker remittances, the current account deficit is estimated at \$1,765 million (including an estimated \$750 million in Arab grants). Accordingly, it appears that for 1976 Egypt will continue to experience an adverse balance of payments and will require a flow of sizable amounts of concessional financing if current levels of imports and domestic consumption are to continue. A detailed estimate of Egypt's balance of payments 1974 and estimates for 1975 and 1976 are contained in Annex 3.

A major element of Egypt's meeting its balance of payments deficit has been the cash grants and long-term loans on concessional terms from the Arab OPEC countries. During 1975 Arab OPEC assistance and Iranian assistance totalled \$2.7 billion, and in 1976 current projections of such OPEC assistance show about a \$2.0 billion level. This includes assistance from Saudi Arabia, Kuwait, United Arab Emirates, Abu Dhabi, Iran and the Arab Fund. Since many of these grants and loans are being made available in the form of cash, such quick disbursements should have an immediate impact in assisting Egypt's balance of payments problems. In addition, the DAC countries and multilateral organizations have contributed \$510 million in 1975 and \$720 million is being estimated for 1976. The following tabulation summarizes other donor assistance in 1975 and estimates for 1976.

TABLE 2. OTHER DONOR ASSISTANCE (Commitment Basis)  
(\$ Millions)

<u>Totals</u>	<u>CY 75 Actual</u>	<u>CY 76 Projections</u>
OPEC	\$2,400	\$1,750
Iran	300	250
DAC Countries	350	340
Multilateral/International		
Agencies	160	380
Communist Countries	<u>30</u>	<u>30</u>
<u>Grand Totals</u>	<u>\$3,240</u>	<u>\$2,750</u>

During 1976, it is estimated that about \$2.3 billion will be disbursed, which compares to disbursements in 1975 of about \$3.0 billion. The decline is mainly due to an expected decline in OPEC assistance in 1976 compared to 1975. The disbursement estimates for 1976 take into account the different rates of disbursement on projects and CIP assistance in 1976 and earlier and cash loans which are disbursed in the current year.

Egyptian discussions are continuing with various OPEC countries and Western European countries for additional financing on concessional terms. If additional OPEC and other bilateral financing is forthcoming during 1976, the deficit will be reduced accordingly; and if a balance of payments surplus results, the Egyptians will be able to reduce the sizable banking facilities outstanding.

#### C. Debt Service

Egypt's outstanding medium- and long-term debt as of December 31, 1975 was \$5.1 billion. An additional \$2,620 million of debt was owed in the form of bank credit facilities outstanding (including unutilized credits). About two-thirds of the medium- and long-term debt were repayable in convertible currency.

Egypt's repayment burden on medium- and long-term debt and on suppliers is estimated at \$720 million in 1974 and \$753 million in 1975. This represents a debt service ratio of 32.3 percent and 35.5 percent in 1974 and 1975, respectively. In 1976 the debt service ratio is not expected to change appreciably.

In view of Egypt's heavy debt service burden, AID normal concessional loan terms are proposed--40 years, including a 10-year grace period, with an interest rate of 2 percent per annum during the grace period and 3 percent per annum thereafter. With these terms, particularly the 10-year grace period, the repayment prospects for this \$150 million CIP loan appear favorable.

#### IV. Loan Administration

##### A. GOE Import Procedures

The public sector continues to dominate the economy of Egypt. It accounts for about 90 percent of total investment and 75 percent of industrial production; it owns all financial intermediaries, foreign trading and wholesale firms; it controls the transport sector; it is a major source of domestic resource mobilization and fiscal performance; it is the main determinant of monetary and credit expansion. Cost and prices are administratively

controlled, not so much toward 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 extreme price changes and 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. The new economic strategy makes it clear that the adoption of a more liberal outlook does not mean the abandonment of the public sector but only a change in its structure and functions.

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 LE 1. Since the establishment of the parallel market, there has been no allocation for the private sector in the Government's Foreign Exchange Budget.

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. 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.

As part of the Government of Egypt's economic liberalization program, the Government issued a decree (No. 111 of 1975, dated September 4, 1975) dissolving the General Organizations that had

previously controlled all major investment and production decisions in industry. The decree permits individual enterprises to have greater flexibility in many areas but does not resolve a number of issues on pricing policy, employment decisions, production scheduling, export sales, etc. It is understood that other measures to resolve some of these matters are currently under consideration.

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 import applications for the commodities under its jurisdiction. A separate committee also makes recommendations 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 GOE 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 three CIP's (Loan 263-K-026, Loan 263-K-027 and Loan 263-K-029), procurement of commodities and commodity-related services under this loan will be of U.S. source and origin (OOO). Items eligible for financing will consist of commodities and equipment as defined in AID Commodity Eligibility List dated December 16, 1974 (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 and major equipment 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

To date, commodity import loans to Egypt (Loans 263-K-026, 027 and 029) have totalled \$250 million. Under the first two CIP loans (\$80 million and \$70 million), as of February 28, 1976, letters of commitment totalling \$111.7 million have been issued and \$26.0 million disbursed. The \$100 million CIP loan was signed on December 18, 1975 and conditions precedent to disbursement satisfied in early April 1976. A summary of commitments and disbursements under the Egypt CIP loans is set forth below.

Table 3.  
EGYPT - Program Loans as of February 28, 1976  
(in millions of U.S. dollars)

Loan Number (Agmt. Signed)	Amount	L/Coms	Disbursed	Unexpended Balance		Total Unliquidated
				Unliqui- dated	Uncom- mitted	
263-K-026 (2/13/75)	80.0	74.2	17.1	57.1	5.8	62.9
263-K-027 (6/30/75)	70.0	37.5	8.9	28.6	32.5	61.1
263-K-029 (12/18/75)	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100.0</u>	<u>100.0</u>
Total	250.0	111.7	26.0	85.7	138.3	224.0

Commodities being funded under the CIP loans include tallow, paper and paper products, plastics, synthetic rubber, tinplate, remote sensing equipment, wood pulp, spare parts for electric power equipment, grain handling equipment, trucks and trailers, caprolactum, textile dyes, agricultural equipment, spare parts, microwave equipment, other transportation equipment, pharmaceuticals, etc. A summary of the status of CIP transactions by amount and major commodity composition is set forth in Annex 4.

Progress under the CIP loans has been reasonably good and is further improving as the GOE begins to further familiarize itself with AID Reg I procedures, with U.S. supplier specifications, and ways of doing business in the United States. The proliferation of unofficial tenders has largely been brought under control and procurement procedures being used by the GOE have been sufficiently modified to accord with AID requirements. U.S. producers'/suppliers' interest continues to be high, competition among U.S. suppliers fairly active, and only a few procurement transactions (for example, caprolactum and duplex boxboard) have been cancelled due to unavailability or excessively high prices.

Despite the considerable improvement, there still are some problems with Invitations for Bids (IFB's) and commodity specifications. This is largely due to Egyptian familiarity with European specifications for materials which they wish to produce; thus, specifications received usually require modification in order to be geared to U.S. standards and hopefully this problem will be mostly resolved in the near future, particularly as AID increases its supply management staff in Cairo to work with the GOE ministries and importers. In this regard, AID plans to assign three direct hire staff to assist the Ministry of Economy and Economic Cooperation with the commodity import program.

## 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 in 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 \$150 million (\$150,000,000) for financing imports of selected agricultural and industrial commodities and related services 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.

## A N N E X E S

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## Annex 1. Current Economic Situation and Prospects<sup>1/</sup>

1. In the period 1960-67, Egypt's GDP grew at an average rate of about 6 percent a year in real terms. This was accompanied by a steady increase in the level of investment, which reached 18 percent of GDP in 1966-67, and domestic savings (over 14 percent in 1966-67). Until the mid-1960's, there was a substantial inflow of external capital. After the war of 1967, investment was squeezed by the diversion of resources to defence and the virtual drying up of the capital inflow; during 1968-72 there was a net outflow to the West, if interest on debt is taken into account. There was a decline in the level of investment (to 12 percent of GDP in 1972) and in the growth of the GDP, which averaged around 3 percent a year in real terms in the period 1967-73. Domestic savings also dropped to about 8 percent of GDP in 1973.

2. After the war of October 1973, the changed situation called for a new economic strategy. President Sadat's "October Working Paper," which was approved in a national referendum in May 1974, enunciated the basic principles which guide Egypt's present development policies. These envisage consolidation of state-owned enterprises, liberalization of the private sector, incentives to private foreign investment and expanded economic cooperation with Arab countries. Accordingly, in 1974 and the first half of 1975, Egypt initiated a number of steps in furtherance of these principles, which are expected to lead to a significant restructuring of the economy. In particular, steps were taken to remove some of the heavy restrictions on private business activities, to encourage foreign private investment and to expand exchange transactions outside the official rate. It should be noted, moreover, that this policy of economic liberalization was pursued in a largely unfavorable international political and economic environment.

### Recent Economic Developments

3. Egypt's economy in 1974 was dominated by pressures that originated in the external sector but spilled over into the rest of the economy. On the external side, these included the slow progress towards peace in the Middle East; the steep rise in the prices of Egypt's main imports, the recession in the OECD countries; and the slow disbursements of concessional assistance and private external capital. On the domestic side, the escalation in the world prices of food led to an almost three-fold increase in the net budgetary subsidies on the items of mass consumption, as the Government attempted to maintain the domestic price of imported foodstuffs.

4. The deficit on the balance of payments was met largely by the use of bank credit facilities, which reached a level of LE 1,055 million (\$2.7 billion) <sup>2/</sup> at the end of 1974. The debt structure worsened considerably and the short maturity period associated with bankers' facilities created severe

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<sup>1/</sup> Source: Arab Republic of Egypt Economic Report, World Bank, January 5, 1976.  
<sup>2/</sup> Including undisbursed amounts.

problems of liquidity. The heavy subsidization of the items of mass consumption, together with the slow growth of tax revenues, squeezed public sector savings and increased the Government's borrowings from the banking system. This resulted in a 29 percent increase in money and quasi-money in a year in which output in real terms is estimated to have increased by about 4 percent. Almost inevitably, inflation continued at a high rate. Thus, the Egyptian economy entered 1975 in a very vulnerable state, with both external and domestic resources fully stretched.

5. In the first half of 1975, the Government made efforts to prevent a major expansion in the use of bank credit facilities. It also sought to obtain long-term loans from Arab and other countries in order to repay the bank credits. These efforts succeeded in raising LE 625 million (\$1.6 billion) on concessionary terms from Saudi Arabia, Kuwait, Iran, Abu Dhabi, and Qatar and a start has been made towards reducing the level of banking facilities. The pressure on the balance of payments was moderated and the debt structure improved. On the other hand, the net cost-of-living subsidies in 1975 were budgeted at LE 493 million (\$1.26 billion) -- an increase of almost 50 percent above the actual figure for the previous year, owing to the inflation in the international prices of foodstuffs. Public sector savings -- and hence, because of its size, total domestic savings -- for 1975 will remain low. A serious effort to contain consumption expenditures in the future has to be made in order to reduce the domestic resource gap without having recourse to additional debt.

6. Production and Investment. The growth of output in 1974 is estimated at about 4 percent in real terms; with industry (largely because of greater utilization of capacity) and services (including construction and tourism) being the leading growth sectors. Investment expenditures increased from LE 470 million in 1973 (which was only marginally above the 1965/66 level) to LE 740 million in 1974 (in current prices), which is about 19 percent of GDP. The 1975 Plan envisages gross fixed investment of LE 1154 million, of which LE 1056 million will be in the public sector. The 1975 Plan has the following priorities: (i) reconstruction in the Suez Canal area (mainly in housing and related infrastructure); (ii) completion of ongoing projects; (iii) replacement, renewal, and better utilization of idle capacity; and (iv) new projects considered essential for economic development, such as for producing fertilizers and cement. The Plan also proposes tripling investment in the private sector to LE 98 million, almost all of which will be in service activities and commodities production. Preliminary estimates indicate that the real growth of the GDP in 1975 is likely to be about 4-5 percent, while actual investment may be about 75-80 percent of the target.

7. The Domestic Budget. Preliminary budget figures for 1974 show a rise in the deficit to LE 653 million compared with LE 387 million in 1973, largely because of a 270 percent increase in the cost of living subsidies (to

LE 330 million) <sup>1/</sup>, while current revenues increased by about 12 percent. Despite an estimated 35 percent increase in current revenues (arising principally from a doubling of revenues from customs duties, including collection of arrears), the 1975 budget projects a large deficit (LE 927 million). Direct bank financing of the budget deficit is projected at LE 125 million, but total lending by the banking sector to the Government may exceed this level. Preliminary figures for the first half of 1975 indicate that both current revenues and expenditures were in line with budgeted amounts. However, the revenues comprised substantial arrears in payments on import duties offset by a higher-than-projected growth of other taxes.

8. Balance of Payments. Egypt's deficit on its commodity trade amounted to LE 685 million (\$1,754 million) in 1974 (more than twice that experienced in 1973); this was largely due to the steep rise in the price of Egypt's main imports. Egypt's balance of payments difficulties were further compounded by a slow disbursement of medium- and long-term loans committed during 1973 and 1974 and a high level of debt repayment of LE 255 million (\$654 million) in 1974; this resulted in a net outflow of LE 52 million (\$132 million) on official medium- and long-term capital. Substantially increased Arab grants (LE 475 million (\$1,217 million) in 1974) helped to reduce the current deficit but the overall deficit on the current and the capital accounts nevertheless amounted to LE 199 million (\$511 million), which was met by the use of bank credit facilities.

9. Estimates of Egypt's balance of trade and services in 1975 indicate a deficit of about LE 860 million (\$2,200 million). Repayments of about LE 213 million (\$545 million) have to be made during the year on outstanding medium- and long-term loans and suppliers' credits. The resulting deficit (of about LE 1.1 billion -- about \$2,800 million) is expected to be financed largely through Arab grants, commodity loans, project loans and suppliers' credits.

#### Constraints on Development

10. The most severe constraints on Egyptian development are: (a) the heavy defense burden; (b) the pressing shortage of foreign exchange; (c) the external debt burden; (d) the rigid economic decision-making process; and (e) the rapid population growth, increasing the problems of food supply, unemployment, underemployment, and urban congestion. Moreover, the new economic strategy sketched out in the October Paper might give rise to competition among objectives, the simultaneous pursuit of all of which could act as a brake on development. The main areas of such potential conflict can be identified as: an equitable income distribution as against the incentives to be provided for the growth of the private sector; the protection to be given to industry and its results on economic efficiency; the rationalization of the price system (including both domestic prices and the foreign exchange rate) on

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<sup>1/</sup> Almost entirely due to the increase in international prices of imported foodstuffs (largely flour, maize, sugar and edible oils).

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the one hand, and price stability on the other; and the decentralization of decision-making versus the need to maintain some centrally determined social goals.

### Development Prospects

11. Despite the current economic difficulties, Egypt's economic potential over the long run is promising. The reasons for this assessment may be briefly summarized: (i) the country has a large market, a skilled population, low wages, varied raw materials, and a key geographical location, which makes it a natural base for industries that wish to supply the domestic market and the growing regional market. It is realized that the development prospects in the medium-term hinge to a large extent on the country's ability to attract external capital and technology. For this purpose, Egypt has promulgated Law No. 43 of 1974, which provides an incentive package for foreign investment; Egypt is also making major and apparently successful efforts to attract bilateral and international aid; (ii) Suez Canal revenues are estimated to reach a level of around LE 300 million per year by 1980; these could increase to a possible LE 500 million per year as a result of physical expansion and greater usage of the Canal; (iii) the improved prospects for oil production, which is put (by the oil companies) at one million barrels a day by 1980-82; (iv) considerably increased earnings from tourism; (v) a much more intensive utilization of agricultural land, with greater emphasis on the higher value-added crops; and (vi) an increased flow of remittances from Egyptians working in the richer Arab countries of the region.

12. However, the realization of the long-term potential hinges upon a number of complex factors, some of which are not entirely within Egypt's control. The most important of these is a definite movement towards an equitable and permanent peace settlement in the Middle East. Moreover, the attainment of Egypt's prospects requires the transfer of large amounts of capital from abroad; this, in turn, must be preceded by a considerable amount of work on preparing a suitable portfolio of projects for the consideration of potential investors (whether private or official). And finally, it requires fundamental changes in economic policies and institutions. Hence, a realistic estimate of the time required to achieve a significant restructuring of the economy would be of the order of at least 5-10 years.

13. Furthermore, an inappropriate response to the short-term difficulties may obstruct or postpone the realization of the long-term potential. The Government has, therefore, formulated an economic management program to steer its way past the short-term obstacles. The main elements of this program are (i) improved coordination in economic policy-making; (ii) improved public sector efficiency through decentralization and other measures; (iii) rationalization of consumption subsidies and increased national savings, while protecting lower income groups through appropriate price, fiscal and monetary policies; (iv) promotion of efficient resource allocation through widening the parallel foreign exchange market and pursuing price policies that would better reflect economic scarcities; and (v) rationalization of the external debt situation and implementation of a debt management program.

## Annex 2. Egypt - Country Data

<u>AREA</u> 1,002,000 km <sup>2</sup>	<u>POPULATION</u> 36.4 million (mid-1974 - Estimated) Rate of Growth: 2.2%	<u>DENSITY</u> 36.3 per km <sup>2</sup> Over 1000 per km <sup>2</sup> of inhabited area
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<u>POPULATION CHARACTERISTICS (1971)</u>		<u>HEALTH (1973)</u>	
Crude Birth Rate (per 1,000)	35.1	Population per physician	1,700
Crude Death Rate (per 1,000)	13.2	Population per hospital bed	435
Infant Mortality (per 1,000 livebirths)	119.0 (1970)		

<u>INCOME DISTRIBUTION (1965)</u>		<u>DISTRIBUTION OF LAND OWNERSHIP (1965)</u>	
% of national income, highest quintile	47.0%	% owned by top 5.5% of owners	43%
lowest quintile	4.2%		

<u>ACCESS TO PIPED WATER</u>		<u>ACCESS TO ELECTRICITY</u>	
% of population - urban	::	% of population - urban	::
- rural	::	- rural	::

<u>NUTRITION</u>		<u>EDUCATION</u>	
Calorie intake as % of requirements	103.0% (1970)	Adult literacy rate	40% (1971)
Per capita protein intake	83.5% (1969)	Primary school enrollment	70% (1970)

### GNP PER CAPITA IN 1974. <sup>1/</sup> US\$280

<u>GROSS NATIONAL PRODUCT IN 1974</u>			<u>ANNUAL RATE OF GROWTH (% constant prices)</u>			
	US \$ Mln.	%	1960-65	1965-70	1970-73	1974
GNP at Market Prices	10,109	100.0	6.6	3.8	3.0	3.8
Gross Domestic Investment	1,894	18.7	11.0	-1.1	8.8	26.4
Gross National Saving <sup>2/</sup>	310	3.1	-	-	-	-
Current Account Balance <sup>2/</sup>	-1,584	-15.6	-	-	-	-
Exports of Goods, NFS	2,196	21.7	5.0	1.9	(3/)	(3/)
Imports of Goods, NFS	3,823	37.8	8.0	1.0	(3/)	(3/)

### OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1974

	<u>Value Added<sup>4/</sup></u>		<u>Employment</u>		<u>V. A. Per Worker</u>	
	US \$ Mln.	%	Mln.	%	US \$	%
Agriculture	3,187	34.2	4.21	46.6	757	73.4
Industry and Mining	1,933	20.7	1.15	12.7	1,681	162.9
Electricity	123	1.3	.04	0.4	3,075	298.0
Construction	345	3.7	.31	3.4	1,113	107.9
Distribution Sector	1,352	14.5	1.29	14.3	1,048	101.6
Services Sector	2,389	25.6	2.04	22.6	1,171	113.5
Total/Average	9,329	100.0	9.04	100.0	1,032	100.0

### GOVERNMENT FINANCE

	<u>Central/Federal Government</u>		
	(\$ Mln.)	<u>% of GDP</u>	
	1974 <sup>5/</sup>	1974	1969-71 <sup>6/</sup>
Current Receipts	2,926	31.6	21.3
Current Expenditure	3,105	33.5	20.7
Current Surplus	-179	-1.9	0.6
Emergency Fund <sup>7/</sup>	1,308	14.1	9.2
Capital Expenditures	1,492	16.1	11.7
External Financing (net)	202	2.2	-0.4

- 1/ The Per Capita GNP estimate is at market prices, calculated by the same conversion technique as the 1975 World Bank Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.
- 2/ Excluding unrequited transfer receipts.
- 3/ Accurate constant price growth rates are not available due to insufficient information concerning trade deflators.
- 4/ At current factor costs.
- 5/ Preliminary figures.
- 6/ 1969-71 current receipts and expenditures not comparable with 1974 data because of differences in methodology.
- 7/ A Government account for special defence facilities and reconstruction, funded by Arab grants and earmarked revenue receipts. The operations of the Fund are excluded from the national budget.

MONEY, CREDIT and PRICES

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
		(Million LE Outstanding End Period)		
Money and Quasi Money	1,166	1,345	1,633	2,114
Claims on Government	1,342	1,469	1,656	2,038
Claims on Non-Government Sector	549	553	531	788

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	36.0	39.7	44.9	53.2
Consumer Price Index (1966/67 = 100)	113.6 <sup>1/</sup>	117.4	122.4	135.7
Annual percentage changes in:				
Consumer Price Index	4.0 <sup>1/</sup>	2.8	4.3	10.9
Claims on Government	13.6	9.5	12.7	23.1
Claims on Non-Government Sector	5.0	0.7	-4.0	48.4

BALANCE OF PAYMENTS

	<u>1972</u>	<u>1973</u>	<u>1974</u>
	(Millions US \$)		
Exports of Goods	813	1,003	1,674
Imports of Goods	1,286	1,660 <sup>2/</sup>	3,428 <sup>2/</sup>
Trade Balance (deficit = -)	-473	-657	-1,754

Services, Net	7	7	170
Net Transfers	295	727 <sup>2/</sup>	1,258 <sup>2/</sup>
Balance on Current Account	-171	77	-326

Net MLT Borrowing			
Disbursements	417	362	522
Amortization	294	420	654
Subtotal	123	-58	-132

Other Non-Monetary Capital (net)	21	-13	-53
Overall Balance (surplus +)	-27	6	-511

Gross reserves 356

MERCHANDISE EXPORTS (AVERAGE 1973-74)

	<u>US \$ Mln</u>	<u>%</u>
Raw Cotton	515	10.7
Yarns and textiles	218	16.3
Rice	73	5.5
All other commodities	502	37.5
Total	1,338	100.0

EXTERNAL DEBT, DECEMBER 31, 1974

	<u>US \$ Mln</u>
Public Debt Outstanding & Disbursed	2,760

DEBT SERVICE RATIO for 1974<sup>3/</sup>

	<u>%</u>
Public Debt Outstanding & Disbursed	32.3

RATE OF EXCHANGE

Through January 1973  
US \$ 1.00 = LE 0.435  
1.00 = US \$ 2.30

Since February 1973  
US \$ 1.00 = LE 0.390  
1.00 = US \$ 2.56

IBRD/IDA LENDING, (Sept. 30, 1975) (Million US \$):

	<u>IBRD</u>	<u>IDA</u>
Outstanding & Disbursed	5.9	72.1
Undisbursed	156.1	143.8
Outstanding incl. Undisbursed	162.0	215.9

<sup>1/</sup> Due to non-availability of data on calendar year basis, figure refers to "fiscal" year 1970/71.

<sup>2/</sup> Includes the market value of petroleum grants.

<sup>3/</sup> Ratio of Debt Service to Exports of Goods and Non-Factor Services.

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## Annex 3.

## EGYPT

BALANCE OF PAYMENTS PROJECTIONS 1974-76 1/

(In millions of U.S. dollars)

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

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

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

2/ Subcategory fuels breakdown based upon IMF predictions.

3/ Includes aviation company receipts and shipping services.

March 24, 1976

Annex 4. Egypt: Procurement Progress under  
Loans 026, 027 and 029 as of March 26, 1976

A. Overall

Loan 026

1) Bids already opened - 15 tenders	\$54.2 million
2) Bids to be opened next 45 days - 1 tender	20.0 million
3) Tenders and/or specifications being finalized - 3 tenders	3.4 million
4) Loan funds not allocated	<u>2.4 million</u>
TOTAL	\$80.0 million

Loan 027

1) Bids already opened - 2 tenders	\$19.5 million
2) Bids to be opened next 45 days - 6 tenders	29.2 million
3) Tenders and/or specifications being finalized	<u>21.3 million</u>
TOTAL	\$70.0 million

B. Commodities Under Procurement

Loan 026

<u>Commodities Received or Being Shipped</u>	<u>Quantity (1)</u>	<u>Value (in millions) (2)</u>
1. Tallow	41,000 MTs	\$18.0
2. Kraft Liner/Fluting Paper	25,750 MTs	4.0
3. Plastics	3,100 MTs	2.0
4. Synthetic Rubber	1,320 MTs	1.0
5. Tinsplate	13,000 MTs	5.0
6. Cigarette Paper	1,400 MTs	2.0
7. Woodpulp - dissolving	6,000 MTs	3.0
8. Graphite Electrodes	2,300 MTs	3.0
9. Remote Sensing Equipment		1.2
10. Power Plant Spares		1.0
11. Kraft Paper	18,400 MTs	<u>5.0</u>
SUBTOTAL		\$45.2

- (1) Quantities per tender requirements  
(2) L/Comm Values

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<u>Commodities Not Shipped</u>	<u>Value (1)</u>	<u>Comments</u>
1. Grain Handling Equipment	\$ 3.0	Award expected Mar/Apr 76. Final tender to be submitted for GOE review Jan. 30, 1976.
2. Trucks & Trailers	20.0	
3. Duplex Boxboard	2.0	All bids rejected as too high; intend procure Acetate Filters.
4. Caprolactam	1.0	Funds reprogrammed.
5. Textile Dyes	1.0	Negotiated procurement.
6. Agricultural Spares	1.0	Expect awards Mar/Apr 76.
7. Microwave Equipment	.4	Under GOE review.
SUBTOTAL	\$28.4	

Remaining \$6.4 remains in reserve to cover additional tallow or possible freight shortfalls and will be programmed as final disbursements give clearer drawdown picture.

Loan 027

Procurement in Process

<u>Commodity</u>	<u>Value (in millions)</u>	<u>Comments</u>
1. Paper Pulp	\$ 6.0	Shipping commenced Jan. 76.
2. Tallow	12.0	Shipping completed.
3. Machine Tools	1.0	Tender to be published April 76.
4. On Line Computer System	12.0	Originally an international tender being reworded for AID financing.
5. High Voltage Cables	10.0	GOE reviewing AID/W suggested spec changes.
6. Metallic Goods	1.3	Tender to be published April 76.
SUBTOTAL	\$42.3	

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1/ L/Comm values

Commodities Currently Under Review

<u>Commodity</u>	<u>Value (in millions)</u>	<u>Comments</u>
1. Kraft Paper	\$ 4.0	GOE preparing specs & tenders.
2. Pharmaceuticals	5.0	" "
3. Vehicles & Spare Parts	11.5	" "
4. Electrical Equipment	0.9	" "
5. Transport Equipment	2.5	" "
6. Chemicals	1.2	" "
7. Stationary Equipment	0.3	" "
8. Packing Materials	0.8	" "
9. Spare Parts for Dredges	1.0	" "
10. Teleconn Equipment	0.5	" "
SUBTOTAL	<u>\$27.7</u>	

Loan 029

<u>Commodity</u>	<u>Value (in millions)</u>	<u>Comments</u>
Buses a) 600 city type	\$50-\$60	Tender to be published April 76.
b) 1000 intercity type		

Annex 5.

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. **Inapplicable.**

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise. **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 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? 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 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 beneficially 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 international communist movement.
8. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? The 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 reactivated 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?

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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 development taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development. 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 § 201(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities? 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 technical efficiency of industry, agriculture and commerce. f) No direct impact.

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

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 I 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. I 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 United States except as otherwise determined by the President? The loan authorizes procurement from the U.S.
53. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? A.I.D. 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. I 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. I applies except to public sector procurement, wherein efforts will 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.

... by the United States  
... to meet the cost  
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. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress? No.
75. App. § 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? No.
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. I which is incorporated into this loan, will cover this requirement.

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.