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263-K052



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

PROJECT PAPER



# EGYPT - COMMODITY IMPORT PROGRAM - LOAN VIII

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## EGYPT: U.S. FY 1979 CIP Loan

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CLASSIFICATION:

AID 1120-1 (8-66)

**DEPARTMENT OF STATE**
**AGENCY FOR INTERNATIONAL DEVELOPMENT**

**PAAD** — **PROGRAM ASSISTANCE APPROVAL DOCUMENT**

1. PAAD NO.: Loan No. 263-K-052
2. COUNTRY: Arab Republic of Egypt
3. CATEGORY: Commodity Financing Standard Procedure
4. DATE: April , 1979
5. TO: Robert N. Nooter, Acting Administrator
6. OYB CHANGE NO.: Not applicable
7. FROM: Joseph C. Wheeler, Assistant Administrator, Bureau for Near East
8. OYB INCREASE: Not applicable
TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ $250,000,000
10. APPROPRIATION – ALLOTMENT: 72-1191037 937-62-298-00-57-91
11. TYPE FUNDING: ☒ LOAN ☐ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☐ FORMAL ☒ NONE
13. ESTIMATED DELIVERY PERIOD: 4/79 – 4/82
14. TRANSACTION ELIGIBILITY DATE: PAAD Authorization Date

15. COMMODITIES FINANCED

Items appearing in the A.I.D. Commodity Eligibility Listing will be eligible for financing under the loan. Priority items are expected to include food commodities and industrial raw and semi-finished materials.

| 16. PERMITTED SOURCE | | 17. ESTIMATED SOURCE | |
|---|---|---|---|
| U.S. only: | $250,000,000 | U.S.: | $250,000,000 |
| Limited F.W.: | | Industrialized Countries: | |
| Free World: | | Local: | |
| Cash: | | Other: | |

18. SUMMARY DESCRIPTION

Egypt continues to suffer from a shortage of foreign exchange with which to sustain its economic recovery and undertake development programs. During 1977, an increase in other donors' support permitted the virtual elimination of arrears in foreign payments. Available financing was such that it was possible to meet basic import needs. With the elimination of arrears and some anticipated restructuring of foreign debt, the need for balance of payments financing in 1979 should be somewhat below that of 1978. However, after comparing anticipated Arab and other bilateral assistance with preliminary estimates of imports and capital needs, a balance of payments deficit still remains indicating a need for at least $250 million in the CIP. Additional U.S. balance of payments support may be required this year depending on such factors as Arab assistance flows and continuing foreign exchange earnings from expatriate worker earnings. Egypt will continue to require large capital flows to achieve its development objectives, while at the same time providing for improving the standard of living in the country, reaching a high level use of production capacity, modernizing capital equipment, and maintaining political stability.

| 19. CLEARANCES | DATE |
|---|---|
| DAA/NE, A. White | |
| NE/PD, S. Taubenblatt | |
| GC, M. Ball | |
| GC/NE, G. Bisson | |
| NE/EI, G. Kamens | |
| NE/DP, B. Langmaid | |
| SER/COM, R. Looper | |
| FM, D. Stafford | |

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE

TITLE

CLASSIFICATION:

The proposed loan will assist Egypt with its balance of payments deficit during the coming three years. The loan proceeds will finance public and private sector imports of raw materials, semi-finished products, industrial machinery, equipment, spare parts as well as other essential commodities (including some food items), and related services. The Loan will supplement other AID project activities aimed at assisting Egypt in its program to utilize full production capacity of existing industrial enterprises and for new industrial expansion and it will provide inputs essential to increase infrastructure, transportation, agriculture, social services and private sector development and production.

It is recommended that you authorize a loan to the GOE of $250 million ($250,000,000) for financing imports of selected commodities, commodity related services, and other services as described below.

1. Interest and Terms of Repayment

Borrower shall repay the $250 million loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest at the rate of two per cent (2%) per annum during the grace period and three per cent (3%) per annum thereafter on the outstanding disbursed balance of the loan and unpaid interest.

2. Other Terms and Conditions

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

~~(b) Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty six months following the satisfactory meeting of Conditions Precedent.~~

(c) Approval is given for the financing of frozen poultry in addition to the items appearing on the A.I.D. Commodity Eligibility Listing.

(d) Labor services for the rebuilding of railway equipment are authorized to be financed under the loan.

(e) Periodically, but no less than annually, the Borrower and A.I.D. will meet to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those concerns.

(f) The Borrower covenants that the Borrower will develop, complement and approve the necessary plans and procedures to enable appropriate participation by the private sector in transactions for which financing is provided by this loan.

(g) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

# I. BACKGROUND

## A. Political Background and U.S. Objectives

A major objective of United States foreign policy is the achievement of a comprehensive peace in the Middle East. With the realization of an Egyptian-Israeli Peace Agreement, the cornerstone of a comprehensive peace has been laid. Over the longer term, our policy aims at a satisfactory evolution of political and economic relations between all countries in the region. The cooperation of Egypt, principal Arab country, is essential for these purposes. The Government of Egypt (GOE) has demonstrated by its actions that it shares our desire to seek a peaceful comprehensive resolution of Middle East differences and an end to the state of tension which has adversely affected the well being of the people throughout the region. The continuing ability and willingness of Egypt to proceed toward this ultimate goal will depend on 1) domestic political stability; 2) avoiding short-term deterioration in the standard of living of the population; and 3) obtaining sufficient foreign assistance to permit an accelerated development effort.

The overall objective of U.S. assistance to Egypt is to foster economic and social development which will facilitate and encourage the establishment of a permanent comprehensive peace. The critical importance of this objective, together with the fragile state of the Egyptian economy and its heavy dependence on foreign assistance, at least over the next few years, not only justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt, but also largely dictates the form and content of this assistance.

Egypt is suffering from a foreign exchange shortage, and, consequently, is unable to meet its import requirements without a high level of external financing. With limitations on its borrowing ability on the private international money market, Egypt is heavily dependent on balance of payments assistance from foreign governments.

Since 197[illegible], the United States and Arab oil states have provided a significant portion of Egypt's balance of payments requirements. The recently concluded Egyptian-Israeli Peace Agreement casts some doubt on continued Arab assistance levels. Were these levels of assistance to drop appreciably or the availability of foreign exchange affected adversely in other ways, the GOE would probably be forced to take drastic economic measures which could have unfavorable political consequences. Social measures could include a radical devaluation of the Egyptian pound and/or stringent foreign exchange rationing, causing a precipitous rise in price levels. Since priority would be given to the import of food and other essentials for the low income majority, imports of intermediate goods would be severely curtailed with a consequent cutback in domestic industrial production adding to inflationary pressures. Further, imports of capital goods, necessary to modernize and improve Egypt's productive capacity would be reduced to the extent they were not financed by foreign donors. Lastly, less essential consumer goods would be cut back fueling middle and upper class discontent with the government. Thus, it is clearly in the interest of the U.S. to provide balance of payments assistance to Egypt, and to encourage other donors to do so and/or be prepared to increase its own support in order to forestall a balance of payments disturbance which would not only constitute a threat to political stability, but would render even more difficult the implementation of needed programs of economic and social development.

In addition, the provision of commodity import funding also provides the United States with an additional specific opportunity to consider macro-economic issues with the Egyptian Government, in terms of the role the CIP program plays not only with respect to foreign exchange needs but also in meeting specific sectoral requirements, in terms of budgetary impact, in terms of the relationship of imports with subsidies and the like. In the absence of a CIP program there would of course be a range of other opportunities (Consultative Group, relations with the IMF, etc.), but the CIP program gives more specific opportunities for broad ranging exchanges of economic policy. In order to utilize this aspect of the CIP program in a more specific manner than has been the case under previous CIP loans, a covenant has been added calling for at least an annual meeting to "discuss the status of the economy, associated economic issues, and the relationship of the A.I.D. program to those concerns".

The U.S. assistance program is directed toward not only promoting economic and political stability in the short term, but also encouraging and supporting a sound, moderate development program. Therefore, while a large portion of U.S. assistance to Egypt, namely, the CIP and PL-480 Title I, has been directed at our short term objective, an increasing portion of our assistance is being utilized to assist the government in its efforts to reduce its dependence on short term foreign borrowing and balance of payments assistance and to lay the economic foundations for long term economic growth and political stability. In line with this latter objective, the U.S. is supporting a major program of capital project investments which will assist in laying the base for more rapid future economic growth. In addition, the U.S. is providing a variety of technical assistance designed to have wide ranging impact on the urban and rural poor through projects in agriculture, health, technology and training. (See Annex Table I for details.)

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## B. Economic Background and U.S. Objectives

In the long run, Egypt has significant economic potential. Egypt, with a population of 40 million, has a large internal market, a reasonably skilled population compared with other LDC's, varied raw materials, a key geographic location, and less internal transportation problems than most LDC's given the concentration of the population along the navigable Nile River. These features make Egypt suitable for industrial development both for the domestic and the growing Arab market. In addition, Suez Canal revenues were over $500 million in 1978 and should increase sharply after 1980 with the widening of the Canal; petroleum production is already contributing about $815 million annually to the BOP, with significant growth likely in the near future; tourism contributed almost $1,000,000,000 in 1978, and more is anticipated for the future as new hotels are completed; considerable potential exists for higher returns from existing agricultural lands; and there is a substantial flow of remittances from over one million Egyptians working in the richer Arab countries of the region.

The most severe constraints on Egyptian development are: a) heavy defense outlays; b) shortage of foreign exchange; c) the external debt burden; d) a poorly organized economic decision-making process; e) an overwhelmingly large and inefficient public sector; and f) rapid population growth, increasing the problems of food supply, unemployment, underemployment and urban congestion. All of these problems are further exacerbated by a subsidy system which has literally gotten out of hand -- partly but not entirely because of increased import costs of certain basic commodities -- and represents a major drain on the economy and indirectly represents a major inflationary threat because of the budgetary deficits and monetary expansion related to the cost of these subsidies.

All of these factors limit the funds available for the development effort. Domestic savings have been substantially less than 10 per cent of GDP. Until 1974 the modest level of foreign resources available and the low level of domestic savings permitted gross investment levels only of around 13 per cent of GDP. As a result, the economy stagnated. However, since 1972 the rapid increase in foreign assistance as well as what appears to be growing savings have permitted the investment level to jump to 25 per cent of GDP. The foreign financing has directly increased the resources available for investment and, through the higher rates of growth in production that foreign-financed raw materials have made possible, has expanded domestic production and the amount of this production that can be allocated to investment.

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The realization of Egypt's long-term potential and the allocation of greater domestic resources to the development effort 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 comprehensive peace settlement in the Middle East. Moreover, the attainment of Egypt's prospects requires the transfer in the medium term of large amounts of capital from abroad; this, in turn, must be in conjunction with a considerable investment in the necessary infrastructure and careful work in preparing a portfolio of projects suitable for the consideration of potential investors (whether private or public). And finally, it requires wide ranging changes in economic policies and institutions.

Given the nature of Egypt's economic problems and overall U.S. political objectives, U.S. assistance strategy must encompass dual objectives:

(a) maintenance of a large net inflow of U.S. and other foreign resources in the short run, and

(b) achievement of a lower need for foreign resource inflow over the medium and long-run through expansion of Egypt's productive capacity and export earnings.

The U.S. assistance strategy is to support Egypt's medium and long-term development program through capital and technical assistance project financing and short-term economic and political requirements through commodity import financing, including PL-480 Title I. As is discussed in more detail later, U.S. assistance is only one element in the foreign support Egypt is receiving. Major commitments have been made by other Western bilateral donors, by multilateral organizations, and by other Arab countries. A consultative group under IBRD sponsorship was established in 1977.

Given the current and projected high levels of economic assistance to Egypt, and, more specifically, the sizable proportion of that assistance earmarked for balance of payments support, it is only reasonable to ask whether provision of such assistance should be linked to GOE commitments to take specific measures directed at improving the balance of payments situation and assisting economic development. It should be noted that the high level of U.S. assistance is intended <u>primarily</u> to demonstrate our support for the GOE's moderate foreign and domestic policies and to facilitate their continuation. The GOE has taken a number of key steps to strengthen its policy-making and domestic policies overall, which the U.S. supported and encouraged. These include

(a) The willingness of the GOE economic team to work out economic reform understandings with the IMF, World Bank, et al.

(b) The formation of a consultative group.

(c) The finalization of the Five-Year Plan.

(d) The greater decentralization of overall economic decision making; and,

(e) The ongoing study on ways and means to revise the unrealistically low government-controlled prices of many key commodities.

The U.S. is in constant dialogue with the GOE on issues of economic policy and reform related to specific projects and economic policy overall. With respect to Egypt's balance of payments fiscal and credit policies, the U.S. has looked to the IMF as the lead entity in recommending appropriate economic policies and has supported such efforts. At the same time, we seek to maintain our own assessment of the economy and are prepared to consider a separate position on issues if such were warranted. As described in the CDSS, we have a continuing dialogue with the GOE ourselves on such matters as the budgetary deficit, subsidies, price reform, investment priorities, etc. At present we do not believe the effectiveness of this dialogue would be enhanced by explicitly linking the CIP to specific reforms.

At the same time, we believe it appropriate to begin to structure this dialogue in a more formal manner. In this context, we have established a new covenant to this year's CIP agreement which will formalize periodic discussion between the GOE and the U.S. on a range of economic activities.

In the past year, the GOE has taken significant measures to implement the economic reforms advocated by the IMF and supported by the U.S. and other donors. For instance, interest rates have been raised: all of the government's foreign exchange expenditures have been shifted from the official to a new unified exchange with equivalent to the former parallel rate of exchange; own exchange imports have been unhampered although tariff rates have been adjusted to seek to stimulate use of the own import facilities more for investment and less for consumption purposes; ways to stimulate the private sector are being investigated and implemented and the subsidy issue is being broadly and publicly discussed, with the prospect that at least some revisions will be made in the coming year.

In addition, the GOE revised the investment code governing foreign investment to make it more attractive for foreign private firms to invest in Egypt. These changes are even more noteworthy when compared with the GOE's previous performance in these areas. Despite this substantial progress in a number of key areas, budgetary deficits are growing and causing a substantial monetary expansion and resulting inflation. In effect, the Government is seeking to increase investment levels at a substantial rate while being unable or unwilling to reduce military expenditures and the subsidy program -- or to increase domestic savings -- and has depended increasingly both on domestic and foreign borrowing to finance this expanded budgetary activity. In fact, the size of the projected 1979 budgetary deficit is at this time a stumbling block in maintaining the validity of the IMF EFF, although discussions on this matter continue between the two parties. The GOE is aware of the need to take further steps on subsidies and the budget deficit, but also recalls too vividly the events in January 1977, when riots resulted from price adjustments related to subsidy problems existing then. Despite the fact that there are differences at this point over the question of budget deficits and inflation, the GOE does appear committed to economic reform and can be expected to continue making appropriate adjustments to the economy, but that this will take place with a careful testing of the political impact of each individual step.

C. Status of U.S. Assistance Programs

1. Commodity Import Program

The FY-75 Commodity Import Program was funded at $150 million. This is 100 per cent committed and 94 per cent disbursed. A.I.D. provided $315 million in FY-76 (including the TQ). This is now 100 per cent committed and 77 per cent disbursed. The FY-77 loan was signed in March 1977 for $440 million. It is 100 per cent committed and 65 per cent disbursed. For FY-78, $250 million was provided originally with add-on of $50 million late in the year. This loan is 98 per cent committed and 15 per cent disbursed. Thus, through February 28, 1979, a total of $1,205 million has been obligated of which $898.3 million is in issued letters of credit to U.S. suppliers, and $737.2 million has been disbursed.

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PROGRAM LOAN STATUS
(Millions)

| | FY-74 | FY-75 | FY-76 | FY-77 | FY-78 | TOTAL TO DATE |
|---|---|---|---|---|---|---|
| Obligated | - | 150.0 | 315.0 | 440.0 | 300.0 | 1,205.0 |
| Allocated | - | 150.0 | 315.0 | 440.0 | 300.0 | 1,205.0 |
| L/Comms Issued | - | 150.0 | 315.0 | 440.0 | 295.0 | 1,200.0 |
| L/Credits Issued | - | 149.4 | 281.6 | 324.6 | 142.7 | 898.3 |
| Disbursed | - | 143.8 | 246.0 | 294.2 | 53.2 | 737.2 |

The high rate of disbursements experienced in FY-78 ($447.1 million) represents the consolidation of understanding between GOE and A.I.D. on procurement procedures in a manner which has permitted more rapid utilization of CIP resources than was earlier the case. It is expected that this high disbursement rate will continue in FY-79. GOE considers that foreign exchange expenditures take place at time of opening L/C's to suppliers. Thus, the impact of CIP balance of payment support takes place at that time and not at time of actual disbursement of CIP funds. With the procurement pipeline now full, lead time required for delivery of priority capital goods does not deter the desired impact on the BOP and the Egyptian economy.

2. Capital Projects

From FY-75 through FY-78, A.I.D. obligated $1,149 million to the GOE to support twenty-five capital projects. Eight of these (totaling $364 million) were on a grant basis to the GOE, including two (involving $44 million) which are being handled largely as commodity loans. Eighteen other projects ($786 million) are loans to the GOE aimed generally at increasing either basic infrastructure or industrial production. "New Directional" projects will take on increasing importance in FY-79. A detailed project listing is provided in Annex Table I.

3. Technical Assistance Projects

From FY-75 to date, A.I.D. has obligated about $165 million to support twenty-four non-capital grant projects of rather diversifie natures. Included are three special direct transfers($27.6 million) to the Department of Defense for clearance of the Suez Canal and of Port Said harbor and for the transfer to Egypt of a presidential helicopter.

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Technical assistance activities have expanded considerably as project development has progressed. The FY-75 projects for technology transfer and feasibility studies (later extended beyond FY-75) were used to support project identification and development. Disbursements on these projects are proceeding normally. Major projects in rural health, water management and irrigation, family planning, scientific research, a range of agricultural efforts, a hydrographic survey, and a special review of U.S. assistance to Egypt have been undertaken, and are expected to lead to activities of amplified scope and geographical coverage. An increasing number of projects are in "new directions" area. See a detailed listing provided in Annex Table I.

4. PL-480 Titles I and II

Since 1974, the U.S. has financed over $855 million for PL-480 Title I commodities and has signed an FY-79 agreement valued at $214 million. The major portion of this assistance has been for wheat grain and flour. The wheat provided has been a critically important element in meeting the demand for this basic foodstuff by the growing Egyptian population.

Title II grant obligations since 1974 have totaled about $54 million and have been used to support feeding and MCH programs in Egypt.

## II. ECONOMIC BACKGROUND AND JUSTIFICATION

### A. General Economic Background

#### 1. Production

Available GDP data indicate that, after exceeding 4 per cent during the two years ending 1971, the real growth rate of the economy dropped to about 2 per cent in 1972 and 3 per cent in 1973. This decline was reversed, with a substantial jump occurring in the growth rate to about 8 per cent in 1974 and 9 per cent in 1975 and 1976. This rise was caused mainly by the recovery of industrial, petroleum and construction activity. The 1975 growth in agricultural production, although greater than in 1974, at 2.4 per cent, barely kept pace with population growth. Preliminary information indicates that the economy grew annually at about 8 - 9% in real terms during the years 1977-78. Much of the growth comes from the petroleum industry, construction, housing, transportation and tourism. The sectorial composition of GDP is given in Annex Table III.

a. Agriculture

Agriculture accounts not only for 28.5 per cent of GDP, but also for about 45 per cent of total employment and about 40% of the earnings from commodity exports. During the last three years, real value added in agriculture has grown by less than 3 per cent per annum, a rate which is only slightly higher than the rate of population growth. This relatively poor performance was due partially to the high level of yields already obtained and to the physical constraints on the expansion of the cultivable area, which at present totals about 5.7 million feddans (5.9 million acres). While yields on the old lands of the Nile Valley are, on many crops, among the highest in the world, this is due largely to highly favorable conditions of perennial irrigation and climate. When compared to productivity in other parts of the world with similar physical conditions, there remains scope for increasing Egyptian productivity, although this requires more complex innovation than would be true in countries of lower overall productivity. Problems of development of the "new lands" being brought under cultivation as a result of the High Dam, are even more complicated, given the extremely high cost of reclamation and the long periods required for preparation of these lands. However, the building of the High Dam at Aswan eliminated both drought and flood, permitted the conversion of an additional 10 per cent of the cultivation area to perennial irrigation, and allowed more flexibility in the distribution of water. On the other hand, it also blocked the annual deposit of soil-nourishing silt and fostered practices that have led to raised water tables, and increased soil salinity. As a consequence, heavier applications of chemical fertilizers — many of which have had to be imported from abroad — have been required and it has been necessary to develop improved water distribution and drainage systems. Moreover, while some 12,500 feddans of existing farmland are being absorbed into urban areas annually, efforts to reclaim new land have encountered recurring difficulties, delays, and new land productivity has generally been below that of the old land lost.

In addition, incentives to farmers to increase production have been adversely affected by the government's policy of maintaining basic food prices at a constant level during a period when other prices have risen appreciably. The GOE recognizes the importance of encouraging agricultural production. The problem in doing so, however, is obvious -- as the January 1977 urban riots following an increase in some food prices demonstrated. Nonetheless, one of the first areas the GOE has requested the AID-supported University of California team to carry out research is price levels and subsidies affecting agriculture. The financing provided through the U.S. CIP program is directed, in part, toward both encouraging and supporting the GOE in undertaking a politically

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realistic program of economic reform that includes rationalizing the price system. In fact, various provisions of the PL-480 Title I Self-Help agreements are also expected to have an effect on agricultural planning and pricing policy. The GOE has decided recently to raise the basic prices of selected agricultural products and this is expected to have a marked impact on production levels in 1979.

b. Infrastructure Development

The GOE recognizes the crucial need to rehabilitate and renew its infrasturcture. It allocates a sizable amount of the capital equipment portion of the CIP to priority requirements to the power, transport and communications sectors.

Power: While the High Dam provides significant generating capacity, additional amounts will be required in the future. Furthermore, the distribution and transmission facilities must be upgraded and expanded to accommodate the anticipated increase in power supply. Utilizing CIP loan funds, GOE has purchased spare parts for power stations, trucks, cables and accessories, generators, turbines and spare parts and transformers. In addition, A.I.D. projects will have a major impact on electrical generating and distributing systems.

Transport: Egypt's transportation network is seriously deteriorated. Roads, bridges, railways and ports cannot cope with the current volume of cargo and must go through an urgent rehabilitation program. CIP loan funds were used in the procurement of marine diesel engines, trucks and trailers, railcars, loaders, tractors, traction motors, navigational control system, cranes and dredgers. Project funds are being devoted primarily to port improvements.

Telecommunications: The telecommunication system has suffered from lack of investment and planning. A.I.D. has financed under CIP two stages of microwave equipment to provide immediate relief to Cairo's telephone system. However, it is anticipated that the majority of future assistance to the telecommunications sector will be handled on a project basis. In FY-1978, A.I.D. initiated a $40 million project providing equipment and technical assistance to ARETO (The Arab Republic of Egypt Telecommunications Organization). Additional project funding is expected in the future.

c. Private Sector

A.I.D. has assisted the GOE efforts to develop and issue procedures for the utilization of CIP loan funds to the private sector. The procedures include incentives involving credit terms, direct loans, etc. USAID expects that under those terms, the Egyptian private sector will have a better access to needed replacement machinery, spare parts, industrial raw materials, trucks, etc. The procurement of such items will undoubtedly increase the output of the economic system and reduce the burden on the ailing public sector. In addition to CIP support for the more immediate needs of the private sector, A.I.D. project assistance aims at assisting in provision of medium terms investment funds and technical assistance to private investors.

d. Industry and Mining

Industry and mining account for about 23 per cent of GDP, and for about one eighth of total employment. In addition, industrial products are the source of over 50% of commodity export earnings, if exports of semi-finished products, such as cotton yarn, are included. During the past three years the growth rate of real value added in industry has steadily increased from -0.4% in 1973 to an estimated 19.8% in 1976.

Foremost among the factors accounting for the improved performance of the industrial sector in recent years was the increased availability of foreign exchange. Furthermore imports financed under own exchange procedures have increased rapidly — totaling about $800 million in 1978. With the greater availability of foreign exchange and improvements in import procedures, imports of raw materials and spare parts increased substantially. This allowed a reduction in the level of slack industrial production capacity, which had been estimated at about 30 per cent at the end of 1973.

For the medium term, the continued provision of commodity import financing is an essential requirement for continued growth in industrial production for two reasons. First, such financing directly ensures the adequate availability of raw and intermediate materials and spare parts that are necessary for greater industrial production. Second, in the absence of U.S. CIP loans and other similar financing, the Egyptian economic situation would be sufficiently grim that the GOE would probably hesitate to initiate the reforms that are necessary for future growth. In addition to a pressing need to restructure institutional relationships, the perverse impact of imbalanced price relationships is as pervasive in the industrial sector as in agriculture. While the CIP will continue to be an important source of financing for industrial raw materials and spare parts, we do anticipate that for this loan financing for industrial equipment and modernization will be limited.

2. Investment

Gross investment hovered at around 13 per cent of GNP until 1974, when its share began to shoot up -- reaching 24 to 25 per cent in 1975-77. Gross national savings stagnated at about 7-8 per cent of GNP through 1975. The Egyptian Five-Year Plan estimates that national savings increased to about 12 per cent in 1976 and tentatively estimates a further increase occurred in 1977 and 1978.

The proportion of gross fixed investment carried out by the public sector declined from over 90 per cent in 1973 to 72 per cent in 1976. Private sector investments may now be increasing as a per cent of total investments. If so, this would be in keeping with recent GOE policy statements that the government will concentrate on infrastructure and largely leave major new industrial investment to the non-governmental sector (although continuing to modernize and improve existing public sector companies).

As regards the sectoral distribution of investment to date, while the commodity sectors received the largest proportion, the percentages going to the distribution and service sectors increased. Among the commodity sectors, the share of agriculture fell rapidly and now accounts for less than 10 per cent of the total, while that of industry remained more or less the same (32-37 per cent of the total). The CIP has been utilized, mainly by public sector companies, to import some of its needed capital goods. The larger investments in the distribution and service sectors occurred mainly in transportation and housing.

3. Public and Private Consumption

The pattern of resource utilization in Egypt is weighted in favor of consumption, which in recent years has absorbed about 90 per cent of gross domestic product (GDP). Private consumption, which has been largely shielded from price increases by the policy of subsidizing essential items, has accounted for about 65 per cent of GDP, with the remainder being made up of consumption by the government. Yet, private consumption utilizes a relatively low share of available resources in comparison to other developing countries with the same level of per capita GNP. Eighty per cent of the countries with per capita incomes between $200 and $300 in 197[illegible] had higher shares of GNP going to private consumption than Egypt.

The information that is available on the distribution of private consumption in Egypt indicates that the Egyptian income distribution is quite egalitarian by developing country standards, and has not deteriorated noticeably over time. Annex Tables IV and V present preliminary estimates of the Egyptian income distribution and the composition of private consumption at different income levels.

### 4. External Financing Requirement

The challenge to Egypt in this regard is clear: How to increase the level of investment relative to consumption while avoiding a deterioration in the level of well-being (consumption) of those least able to afford it. The GOE is addressing itself to this challenge by (1) seeking to reach a comprehensive and lasting peace in the Middle East -- which should favorably influence economic stability and growth in the area; (2) holding other government operating expenses to the minimum compatible with the provision of necessary public services; (3) seeking to encourage foreign and domestic private investors to participate in Egypt's investment program; and (4) seeking interim support from foreign donors to assist in financing the increased investment levels while consumption levels are maintained.

The relative success with which these policies have been followed is shown in the following table:

Egyptian Resource Availabilities and Utilization 1/
(all figures in per cent of GNP)

| | 1973 | 1974 | 1975 | 1976 | Est. 1977 |
|---|---|---|---|---|---|
| Resources: | | | | | |
| GNP | 100.0 | 100.0 | 100.0 | 100.0 | 100 |
| Net Imports of Goods & Services | 5.1 | 12.0 | 20.0 | 12.7 | 12.0 |
| Total Resources Available | 105.1 | 112.0 | 120.0 | 112.7 | 112.0 |
| Utilization: | | | | | |
| Consumption | (92.0) | (94.6) | (92.7) | (88.6) | (88.0) |
| Public | 28.2 | 26.2 | 25.0 | 23.3 | |
| Private | 63.8 | 68.4 | 67.7 | 65.2 | |
| Investment | (13.1) | (17.4) | (27.3) | (24.1) | (24.0) |
| Total Utilization | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| (Gross National Savings)* | (8.0) | (5.4) | (7.3) | (11.5) | (12.0) |

*Equals GNP less consumption or, alternatively, investment less net imports.

1/ Based on IBRD data for 1973-1976 and USAID estimates for 1977. Totals may not add due to rounding of numbers.

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With regard to the medium- to longer-term trends, it appears clear that maintenance of domestic stability precludes any major reduction in the absolute level of private consumption. Given the almost universal experience that income distribution tends to deteriorate during the earlier stages of economic development, it will probably be necessary, in order to offset this tendency, for the overall national level of real per capita private consumption to increase. Given these considerations plus the currently substantial population growth rate (2.4 per cent), a rough but reasonable assumption is that private consumption will continue to absorb about the same fraction of GNP. Thus, it will only be as public consumption is decreased as a proportion of GNP that domestic savings can increase and net foreign inflows can decrease. In the short term, the only prospect for a substantial decrease in public consumption lies in reduced military expenditures, which depends upon continued progress toward a comprehensive peace settlement in the Middle East and stability in other areas nearby to Egypt. In the longer term, a currently high investment program should lead to more rapid growth in GNP and should permit the portion of GNP allocated to public consumption to fall.

B. Economic Justification

1. Balance of Payments

Recent developments in the Egyptian balance of payments and its preliminary projections for 1979 indicate that although Egypt's balance of payments situation improved slightly in 1978, substantial foreign assistance will be needed in 1979. Table II in the Annex shows that during the period 1976-1978, while commodity and services imports increased at the annual rate of 9.8% and 22.1% respectively, commodity and service exports registered annual increases of 6.5% and 26.8% respectively. Because of the rapid growth of service imports, overall export earnings grew at 17.0% per annum while imports rose at 11.8% rate. This rapid growth of exports over imports contributed to maintaining a stable balance of payments situation in 1978 in spite of the amortization payments that increased from $830 million in 1976 to $1,020 million in 1978. As a result Egypt's total foreign exchange requirement in addition to Egypt's own foreign exchange earnings remained at about the same level in 1978 ($2.6 billion as in 1976 ($2.5 billion). The foreign exchange requirement for 1977 was estimated at about $3.5 billion primarily because of the need to repay [illegible] million in arrears, of short-term credits. (These estimates are basically those that were arrived at in our recent CDSS exercise They do not necessarily correspond to official GOE data.)

Projected 1979 balance of payments estimation shows that Egypt will require foreign exchange assistance of $2.7 billion to meet expected current account deficits of $1.6 billion and amortization of debts of $1.1 billion. It is expected that various international organizations will provide the necessary balance of payments

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assistance as shown in Table II. In 1979, the United States will be the largest single donor ($1 billion) of the necessary assistance for the first time since 1973 - $400 million in project and $600 million in program assistance. The relative size of the U.S. share is closely related to political developments. Arab assistance has fluctuated significantly from year to year and future levels remain uncertain at this time. Although projected at a reduced level for 1979, we do not consider this necessary to be indicative of future trends.

2. Public Finance

The Egyptian budgetary system is complex, and substantial double counting due to interbudgetary transfers makes fiscal analysis difficult. The coverage of the various budgets has also changed with the progressive transfers of responsibilities from the central ministries to the public authorities. Moreover, in the interest of security, details are not released on the operation of the Emergency Fund other than global figures for outlays and, in 1976 for the first time, the overall deficit. However, more information is available now than in previous years.

In spite of the fact that the GOE has very successfully mobilized domestic resources for government programs (Central Government tax revenues are about 22 per cent of GNP), the financial situation of the public sector in recent years has been characterized by a serious imbalance between revenue and expenditure. Major problems have been caused by the need for continuing heavy defense expenditure before and after the October 1973 war, and the decision to stabilize the prices for essential commodities through subsidies from the budget. The main costs of subsidization have been met by the General Authority for Supply Commodities, whose commodity trading losses increased from L.E. 119 million in 1975 to an estimated L.E. 1177 million in 1979. A separate Special Fund for Subsidies was established in 1975 to consolidate all direct subsidies into one fund; in that year the cost of these subsidies was L.E. 523 million. If the deficits of the public authorities and Public Economic Organizations (the "public economic sector") are also treated as subsidies, subsidization can be said to have absorbed 30 per cent of tax revenue in 1973, [illegible] per cent in [illegible] and [illegible] per cent in 1975. The increasing requirement for subsidies has been a major factor in the high level of domestic bank financing of the budgetary deficit. This financing equaled 4.8% of GDP in 1974, 7.2% in 1976, and 9.0% in 1978.

Despite the problems caused by the war situation, there has been a progressive increase in public investment expenditure in recent years. Expenditures in 1974 exceeded those of 1973 by 25 per cent and figures for 1975 indicate a further increase of 17 per cent. Moreover, it is reported that an additional L.E. 184 million was utilized from the Emergency Fund in 1975 for reconstruction and development in the

Suez Canal area. In 1978, as in previous years, the main thrust of the investment program was in the manufacturing sector with the very substantial investment in the petroleum industry being to a large extent financed directly by foreign oil companies. Priority was given to the completion of major projects such as the extension of the steel complex at Helwan, the fertilizer plant at Talkha and the aluminum complex at Nag Hamady. Planned investment in 1979 shows 13% over that financed in 1978. The CIP will continue to be utilized by many ministries to import necessary capital goods. This program represents an important element in GOE investment plans.

## III. SUMMARY OBJECTIVES FOR PROPOSED CIP LOAN

The objectives for the proposed $250 million program loan can be categorized among short- and medium-term political and economic objectives.

The short-term political objectives are (1) to demonstrate continued U.S. support to the moderate GOE leadership, and (2) to help assure domestic political stability through the provision of financing for commodity imports. The medium-term political objective is to support a continuation of moderate, forward-looking actions by the GOE as regards a comprehensive and lasting peace settlement in the Middle East.

The economic objective of the CIP loan is to provide a portion of the foreign financing that is necessary to permit a substantial Egyptian development program to be mounted. Private consumption levels are dictated by the unsettled Mid-East situation and the need to provide essential government services to the population. Egypt has recently been able to mount an investment program that totals about 21 per cent of GDP as a result both of increased foreign financing and greater levels of savings. Significant balance of payments financing, like that provided under the U.S. CIP program, will be necessary until domestic savings can be further increased.

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## IV. LOAN IMPLEMENTATION

### A. CIP Setting

Although GOE ownership still dominates all sectors of the economy, a serious effort to revive and expand the private sector is underway. However, the government is the main determinate of resource allocation and domestic prices for essential goods, using administrative controls and direction with more emphasis on income distribution and resource mobilization for specific goals stated in the 5-year economic plan rather than achieving short-term economic efficiency.

The principal policy instrument for allocating foreign exchange is the exchange budget, both the global budget of the nation and the individual budgets for the various sectors. Coupled with the foreign exchange budget, at individual buyer level, is the concurrent local currency budget which must provide sufficient local currency to purchase foreign exchange allocations at the time the allocations are spent.

CIP loans are government to government loans administered by the Ministry of Economy and Economic Cooperation (MOE). The MOE in collaboration with the Ministries of Finance and Planning allocates the CIP loan to various economic sectors requiring foreign exchange at the time the loan funds become available. The receiving sector or Ministry sub-allocates its CIP allocation to central controlling organizations, authorities and individual industries or groups under that ministry's responsibility umbrella in accordance with the ministry's priorities.

GOE procedures are nearly identical for all public sector users except for layering and the attendant higher level approval and decision processes required of sub-ordinated entities. The user's central controlling organization initiates the procurement action, turning on-going details over to the user to resolve. The controlling organization maintains a purchasing committee composed of the member users and controlling organization officials. Separate technical and awards committees are also maintained. Once a purchase is planned, these committees come into action, analyzing supplier proposals, recommending awards and monitoring the purchase. Final decision to place an order is made by the organization's director or the sector's minister depending upon the nature of the purchase. There are some variations in this procedure. In some areas, the ultimate users form their own buying group with ministry approval and conduct purchasing similar to a buying association in the United States. In other areas, the buyer is a single industrial user or an authorized distributor and purchase authority may be delegated directly to the buyer after initial approval of the suballocation.

The majority of one-time purchases utilize formal competitive bid procedures, similar in appearance to AID's procedures. The essential differences is to award determinations and post bid negotiations entered into by the buyers to obtain the best advantage for Egypt. Many routine resupply purchases, especially by public sector industrial concerns, are in accordance with normal commercial practice for that commodity market and a simple solicitation of offers by telex or public announcement and negotiated pricing, delivery, etc. may be utilized.

B. Past Experience

Utilization of the CIP increased substantially over the past year evidenced by a much broader range of imports and larger number of different buyers. As the Egyptians have become more familiar with regulations a-d procedures governing AID procurement, and USAID has developed a closer working relationship with its many local counterparts, the broad application of loan proceeds has escalated markedly. See the following four tables that summarize the historical and current status of the CIP: a) Funds committed and disbursed; b) Illustrative list of commodities purchased under CIP; c) Sector application of CIP purchases; and d) Distribution of CIP loan funds to major ministries.

A summary of CIP commitments and disbursement of previous loans is show in the following table

EGYPT PROGRAM LOANS AS OF DECEMBER 31, 1978

(In Millions of U.S. Dollars)

| | | | | | UNDISBURSED BALANCE | | |
|---|---|---|---|---|---|---|---|
| LOAN NO. (date Agmt). | AMOUNT | L/COMs | L/Cs | DISBURSED | UNLIQUIDATED | UNCOMMITTED | TOTAL |
| 263-K-026 (2/13/75) | 80.0 | 80.0 | 79.4 | 77.9 | 2.1 | - | 2.1 |
| 263-K-027 (6/30/75) | 70.0 | 70.0 | 69.5 | 63.4 | 6.6 | - | 6.6 |
| 263-K-029 (12/18/75) | 100.0 | 100.0 | 100.0 | 96.3 | 3.7 | - | 3.7 |
| 263-K-030 (5/22/76) | 150.0 | 150.0 | 135.3 | 115.4 | 34.6 | - | 34.6 |
| 263-K-036 (9/30/76) | 65.0 | 65.0 | 38.2 | 29.5 | 35.5 | - | 35.5 |
| 263-K-038 (3/6/77) | 440.0 | 440.0 | 310.8 | 287.8 | 152.2 | - | 152.2 |
| 263-K-045 (2/27/78) | 300.0 | 295.0 | 104.7 | 46.4 | 248.6 | 5.0 | 253.6 |
| Total | 1,205.0 | 1,200.0 | 837.7 | 716.7 | 483.3 | 5.0 | 488.3 |

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# ILLUSTRATIVE COMMODITIES PURCHASED UNDER CIP

## As of December 31, 1978

| COMMODITY | Value ($ Millions) |
|---|---|
| Tallow | $ 170.1 |
| Cotton Seed Oil | 86.3 |
| Corn | 64.0 |
| Leaf Tobacco | 60.5 |
| Buses (Public Transportation) | 52.4 |
| Tinplate | 37.7 |
| Coking Coal | 29.3 |
| Cable and Accessories | 23.1 |
| Microwave Equipment | 20.4 |
| Wood Pulp | 18.7 |
| Frozen Chickens | 17.7 |
| Bus Spare Parts | 17.3 |
| Farm Tractors (Unassembled) and Spare Parts | 17.2 |
| Navigational Control System | 16.6 |
| Trucks and Trailers | 13.4 |
| AcetateTow | 12.0 |
| Soybean Meal | 11.0 |
| Raw Cotton | 9.7 |
| Tractors | 9.6 |
| Kraft Paper and Kraft Liner | 9.0 |
| Graphite Electrodes | 7.4 |
| Ambulances | 6.0 |
| T.V.Broadcasting Equipment | 6.0 |
| Railroad and Spare Parts | 5.0 |
| Transformers | 5.0 |
| Refuse Collection Equipment | 4.9 |
| Turbine and Spare Parts | 4.7 |
| Cranes | 4.4 |
| Rock and Stone Crushers | 4.2 |
| Short Wave High Frequency | 4.1 |
| Dredgers | 4.0 |
| Marine Diesel Engines | [illegible] |
| Grain-Unloaders | 3.[illegible] |
| Textile Supply Equipment | 3.0 |
| Synthetic Rubber | 2.9 |
| Generator Sets | 2.9 |
| Refrigerated Rail Cars | 2.6 |
| Compressors & Condensing Equipment | 2.5 |
| Pick-up Trucks | 2.4 |
| Food Machinery | 2.4 |
| Street Lighting Equipment | 2.3 |

| COMMODITY | Value ($ Millions) |
|---|---|
| Cranes | 2.3 |
| Rear Dumpers & Trailers | 2.3 |
| Machinery Equipment & Spare Parts | 2.2 |
| Buses (Industrial Employee Transportation) | 2.0 |
| Soybean Seeds | 2.0 |
| Cigarette Paper | 2.0 |
| Railway Wagons | 1.8 |
| Electronic Spares | 1.8 |
| Herbicides | 1.6 |
| Motor Graders | 1.5 |
| Electric Equipment and Spare Parts | 1.5 |
| Others (incl. Ocean Freight) | 40.5 |
| Totals | $837.7 |

SECTOR APPLICATION OF CIP PURCHASES

(As of December 31, 1978)

| Sector | Value ($ Millions) |
|---|---|
| Infrastructure | 104.6 |
| Transportation, Industry, Commerce & Finance | 496.7 |
| Food and Agriculture | 208.3 |
| Social Services | 28.1 |
| Totals | $837.7 |

# DISTRIBUTION OF CIP LOAN FUNDS

## BY MAJOR MINISTRIES

(As of December 31, 1978)

| Ministries | Allocations ($ Millions) |
|---|---|
| Supply | 430.9 |
| Industry | 321.2 |
| Transport (Railroad) | 22.1 |
| Transport (less Railroad) | 105.9 |
| Electricity | 69.0 |
| Trade | 9.5 |
| Agriculture | 18.0 |
| Information (OBTF-TV) | 20.0 |
| Information (Printing) | 21.0 |
| Health | 14.0 |
| Housing/Reconstruction | 16.1 |
| Development & New Communities | 6.0 |
| Irrigation | 3.9 |
| Telecommunications | 34.7 |
| Higher Education | 2.5 |
| Local Government | 15.5 |
| Suez Canal Authority | 58.4 |
| Academy of Science | 1.2 |
| Cairo Dental School | 0.1 |
| Private Sector | 35.0 |
| Total | 1,205.0 |

There are still problems that impede implementation of the CIP, but positive steps have been initiated to overcome these handicaps. To date, there have been over 120 separate organizations participating in CIP, purchasing either as the ultimate user or as a buying authority for several satellite members. Each loan has had the major portion allocated to the same ministries, but the purchases have often been by new end users unfamiliar with A.I.D. procedures.

An A.I.D. procedure that has worked to inhibit loan utilization in the past is the routine application of the formal bid requirement to all public sector buyers — a procedure that requires mutually agreeable detailed purchase contract terms and equipment specifications plus a step-by-step bid analysis permitting no deviation from published bid invitations. This procedure was being applied to each GOE purchaser, because each purchaser was a government owned entity. As A.I.D. has become familiar with the situation in Egypt, it has become obvious that we have large segments of the "public sector" that behave and operate exactly as private commercial entities in other parts of the world and the United States. A result was that industrial concerns that had established supply contracts with U.S. firms, and distributor/wholesaler concerns that had agency agreements to promote, distribute and service a U.S. manufacturer's product were unable to participate under competitive procedures. Organizations charged with the responsibility of maintaining a supply of resale commodities, such as office machines, ink and other non-luxury items, were unable to negotiate for brands acceptable to the buying public. With reanalysis of the public sector's make-up, these public-commercial organizations have had greater opportunity to participate, and systems other than formal competitive bid procedures have been used for approximately 35 per cent of the CIP transactions over the past year.

Other major foreign exchange sources, such as GOE-owned FX, Saudi credits, Arab nation contributions and other donor's aid, simply fund the results of a normal GOE procurement. Thus, the individual ministries and their sub-organizations routinely purchase their requirements using long established practices, then issue purchase payment documents. This, of course, does not mesh well with A.I.D. procedures that are designed both to notify the U.S. businessmen well in advance of a purchase and establish formal contract terms that are acceptable to both A.I.D. and the U.S. business community as a whole. USAID has on-going programs to brief organizations receiving their first A.I.D. allocations and alert them to the preliminary work required under A.I.D. regulations.

All of the above did, in fact, inhibit purchasing and disbursements in the initial phase of the CIP program. However, continued use by repeating organizations, familiarity with each other's (AID and GOE) procedures; trends toward purchasing fast disbursement, large volume commodities in lieu of long leadtime capital goods and greater AID flexibility on negotiated procurement have all continued to have a major impact on improved utilization. Thus, in the period January through December 1978, $226.6 million in Letters of Credit were opened, and disbursements amounted to $393.0 million.

C. Proposals for New Loan

The Egyptian Government has indicated that in order to support effectively the higher level of investments which they are seeking to undertake as part of the 1979-1983 Five Year Plan, they would like increasing levels of cash aid and commodity assistance, in order in part to generate local currency for the investment program and to dampen overall inflation. Specifically with regard to FY-1979, the GOE has requested that the CIP level remain at least at $300 million, the same as last year. Informally, the Minister of Planning and others are suggesting substantial increase in CIP financing as an element of the proposed "supplemental aid". We are concerned that a substantial increase in foreign exchange financing primarly oriented toward local cost financing of an increased investment program could exacerbate inflationary pressures. Following discussions with the Government, they have concurred in going forward at this time with the Congressional Presentation level. However, the GOE has clearly indicated its desire to have this decision reconsidered during the course of the year and there is no question in the mind of the USAID that there will be a continued interest in augmenting this proposed $250 million CIP program during the remainder of the fiscal year.

The emphasis on funding a large volume of capital equipment has, with respect to on-going CIP activities, decreased in the past year. Approximately 54 per cent of the FY-1978 CIP was allocated for food staples and industrial raw materials. It is anticipated that a substantial portion of this FY-1979 loan will be used to finance food staples and raw materials, thus permitting foreign exchange budgetary support in the near term. Bulk commodities generally require less preliminary procurement lead time, are purchased in large quantities and have short (3 - 6 months) delivery terms. The remainder of the loan is expected to flow into capital goods, such as plant machinery, transport and communications items, construction equipment and spare parts that would enable existing production facility to operate closer to full capacity. It is anticipated that there will be some procurements of long lead-time equipment that may require extension of residual portions of the loan. This type of delay is inherent in any CIP, where a loan is utilized by a large number of buyers with diverse requirements.

This loan, as noted above, is $50 million less than the last loan and is less than the GOE would actually like to have under CIP FY-1979, will necessitate a close examination of priorities by the GOE. Prior to the $440 million FY-77 loan, CIP financing could not be used for food. After the broadening of the commodity eligibility list by the inclusion of food items, the Ministry of Supply purchased approximately $166 million worth of food staples under the CIP. There is a continuing requirement for funding industrial raw materials, replacement machinery and spare parts. We also expect to fund essentially needed capital goods such as transport, communications equipment and factory machinery. The GOE will have to reduce CIP allocations to the Ministry of Supply ($96.5 million, FY-1978) and the Ministry of Industry ($108.0 million, FY-1978), in FY-1979, in order to additionally satisfy, in part, demands for CIP funds by other ministries.

Although there will be continuing need to fund some long lead-time capital goods, we intend to minimize long duration capital goods purchasing by emphasizing where possible, repeat purchases of replacement equipment already defined and successfully purchased, thus cutting procurement lead-times. However, the terminal disbursement date for this loan should be established 36 months from the date conditions precedent are met in order to give sufficient time to procure the capital goods which will be bought. One of the most difficult drawbacks to procurement of capital equipment has been that equipment needed to improve production in almost any sector has a long procurement-production-delivery lead-time. Much is custom manufactured or produced only on order. Buyers with a need for even small value equipment that requires 18 months for delivery are precluded from participating, because the initial purchases preparation lead-time, coupled with suppliers' delivery times, exceed loan terminal dates. Although terminal dates are later extended, this additional time often is provided too late to initiate long lead-time purchases or use residuals when a planned purchase has to be canceled and reallocated.

One drawback to any massive change to financing short lead-time commodities is the overall consideration of price between U.S. sources and other world sources. The U.S. compares unfavorably in price for items such as steel and plastic and especially ocean transportation costs for distances beyond nearby European sources. These cost differences are important to GOE buyers. Therefore, the U.S. can be used essentially for those commodities where the U.S. is competitive worldwide rather than the full range of items normally purchased by the GOE from all sources. This comparative pricing element was significantly affected when CIP loans were shifted from the official to the parallel exchange rate in keeping with the GOE's program of economic reform. This has resulted in some AID-financed purchases being canceled following initial purchase efforts when offered prices are more than the Egyptian buyer can justify in comparison with non-U.S. source prices for the same commodity. The GOE recognizing both the effects of world prices and buyer's normal tendencies to remain with familiar European supply sources, initiated credit incentives for users of the CIP program. This has added to loan utilization and fostered greater user capability in attaining planned goals.

Under the last three commodity loans, the GOE began an effort to make commodity loan funds available to private sector importers. Thirty-five million in total has been allocated for the import of industrial equipment, raw materials and spare parts. There has been some delay in establishing procedures and incentives as this is a new area of GOE activity. Formal agreement has been reached streamlining import formalities. The initiation of this essential aspect of AID has started with establishment of interbank credit incentives effectively providing private importers with nearly the same benefits received by public importers. Since announcement by the GOE private importers have expressed considerable interest and a number of private letters of credit have been accepted by banks.

The GOE has indicated interest in providing additional funding for the private sector. Future allocations are being contemplated and we anticipate that a minimum of 10% of this loan will be allocated for private sector use. Discussions with the GOE point to a positive and practical attitude among officials to furthering private sector participation. Allocations should have substantial impact both in fostering greater Private Sector Development and in disbursements, GOE policy and competitive (public vs private) interest credit benefits to private importation. Entrepreneurs indicate needs for dealer stocks of spare parts, off the shelf equipment, tools, raw materials, and industrial machinery. The GOE advises that imports should include construction materials and hardware necessary to assist the expansion of the private sector industrial and service facilities. The principal GOE guideline for private sector loan usage is development of production and essential services, with a marked interest in assuring allocations do not stimulate luxury imports.

D. Items Necessary To Expedite Utilization

Anticipated utilization of this loan and prior CIP loans (on a Letter of Credit basis) is projected in the following tables:

| | FY-1979 | FY-1980 | FY-1981 |
|---|---|---|---|
| Prior Loans | $226 million | $235 million | $0 million |
| This Loan | $ 50 million | $100 million | $100 million |
| | $276 million | $335 million | $100 million |

Effective utilization to gain the maximum benefit from the loan's budget support effect will require close adherence to the following items:

a. immediate approval of the loan paper and PAAD.

b. use of previously used and standard loan agreement and initial Implementation Letter terms.

c. allocation of loan funds by GOE prior to meeting of Conditions Precedent.

d. allocation of a majority of loan funds to essential, repetitive, previously purchased volume supply and raw material purchases.

e. limit major portion of loan for use by previous CIP volume purchasing organizations.

f. rapid ratification of loan agreement by the People's Assembly.

A few of the actions USAID has taken to expedite all CIP loans improving utilization have been: review of existing allocations and identification of non-starters or slow users; recommendations to GOE to reallocate slow moving allocations; identifying sensitive or difficult proposed commodities at the initial allocation stage and recommending reallocation, such as pharmaceuticals, infant dietary formulas and pesticides; identifying commodities the U.S. is not competitive with non-U.S. sources and recommending reallocation or alternative purchases such as, steel shapes, and structural steel. These actions and the GOE's previously exampled resolution of internal pre-CP delays should measurably increase effective application of this loan to current budget needs.

g. A.I.D. must expedite purchase requests and waivers.

h. A.I.D. must issue an implementation letter which presents procedures for utilization of private sector CIP funds.

E. REVIEW OF CIP TRANSACTIONS

USAID will continue to review CIP transactions to assure they are not inconsistent with A.I.D.'s program strategy and that transactions, if financed, would not be detrimental to the overall program. The steps taken to accomplish this review are:

1. Initial allocations are reviewed with Ministry of Economy to identify and rectify inconsistencies on broad area allocations.

2. Individual broad allocations are reviewed as they are suballocated by receiving ministries to determine scope, content and possible conflicts with other A.I.D. projects.

3. All individual purchase proposals from any subsector allottee are reviewed by the Office of Commodity Imports for identification of ineligible items, sensitive commodity issues and availability of funds.

4. All purchase proposals are summarized weekly and presented to the Mission Director for approval, or recommendations to proceed, cancel or conduct further review/research prior to concluding proposal is acceptable.

5. The Commodity Eligibility Listing (1978), a routine part of each loan CPI, is the standard reference for determining a) basic initial acceptance and, b) required prior approvals or special conditions.

6. Relevant elements of USAID are involved in the review/approval/rejection process of both broad allocations and individual purchases as needed to determine suitability and avoid duplication on project planning. Additionally, a bi-monthly Mission review of all CIP transactions is held with representatives of all Mission offices to provide greater interaction and awareness of the individual CIP actions to Project/Controller/Legal and Programming personnel.

7. With respect to equipment and material purchases in excess of $1 million for use in construction expansion, equipping, or alteration of a physical facility, USAID reviews the soundness of the transaction and will generally satisfy itself that the activity is reasonably sound and that the expansion or construction can effectively be carried out by the end-user either directly or with appropriate technical services.

## V. IMPACT ON U.S. BALANCE OF PAYMENTS

The long-term impact on the 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 material and materials and commodities essential for increased

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agricultural and industrial 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.

VI. RECOMMENDATIONS:

It is recommended that a loan to the GOE of $250 million ($250,000,000) be authorized for financing imports of selected commodities, commodity-related services, and other services as described below.

1. Interest and Terms of Repayment

Borrower shall repay the $250 million loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest at the rate of two per cent (2%) per annum during the grace period and three per cent (3%) per annum thereafter on the outstanding disbursed balance of the loan and unpaid interest.

2. Other Terms and Conditions

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

(b) Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty-six months following the satisfactory meeting of Conditions Precedent.

(c) Approval is given for the financing of frozen poultry in addition to the items appearing on the A.I.D. Commodity Eligibility Listing.

(d) Labor services for the rebuilding of railway equipment are authorized to be financed under the loan.

(e) Periodically, but no less than annually, the Borrower and A.I.D. will meet to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those concerns.

(f) The Borrower covenants that the Borrower will develop, complement and approve the necessary plans and procedures to enable appropriate participation by the private sector in transactions for which financing is provided by this loan.

(g) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

## ANNEX OF TABLES

TABLE I

U. S. ECONOMIC ASSISTANCE PROGRAM FOR EGYPT: FY 1975-78
(Millions of Dollars)

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 |
|---|---|---|---|---|---|
| I. GENERAL ECONOMIC SUPPORT | | 250.0 | 518.1 | 647.1 | 513.45 |
| A. Balance of Payments (Sub-Total) | | 248.1 | 501.1 | 620.7 | 476.5 |
| Commodity Import Program | L | (150.0) | (315.0) | (440.0) | (300.0) |
| PL-480 Title I | L | ( 98.1) | (186.1) | (180.7) | (176.5) |
| B. Development Planning (Sub-Total) | | 1.0 | 17.0 | 26.4 | 24.35 |
| Technical & Feasibility Studies | G | ( 0.9) | ( 15.0) | ( 18.0) | ( 12.0) |
| Technology Transfer & Manpower Development | G | ( 0.9) | ( 2.0) | ( 4.5) | ( 4.0) |
| Applied Science & Technology Research | G | ( - ) | ( - ) | ( 3.9) | ( 4.2) |
| Development Planning Studies | G | ( - ) | ( - ) | ( - ) | ( 3.8) |
| Review of U.S. Assistance to Egypt | G | ( - ) | ( - ) | ( - ) | ( 0.35) |
| Summary: Loan Component | | 248.1 | 501.0 | 620/7 | 476.5 |
| Grant Component | | 1.9 | 17.0 | 26.4 | 24.35 |

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 |
|---|---|---|---|---|---|
| II. INFRASTURCTURE | | 30.0 | 173.0 | 123.01 | 221.0 |
| Electric Power Distribution Equipment for Suez Canal Cities | G | ( 30.0) | ( - ) | ( - ) | ( - ) |
| Ismailia Electric Power Plant | G | ( - ) | ( 99.0) | ( 42.0 ) | ( - ) |
| Establishment of National Energy Control Center | L | ( - ) | ( 24.0) | ( - ) | ( 17.0 ) |
| Gas Turbines for Electric Power at Talkha and Helwan | L | ( - ) | ( 50.0) | ( 10.0 ) | ( - ) |
| Electric Power Distribution Equipment for Cairo, Alexandria, Shibia El Kom and Beni Suef | L | ( - ) | ( - ) | ( 17.01) | ( 29.0 ) |
| Expansion & Modernization of Cairo Water Systems | L | ( - ) | ( - ) | ( 30.0 ) | ( - ) |
| Expansion & Modernization of Alexandria Sewage Systems | L | ( - ) | ( - ) | ( 15.0 ) | ( - ) |
| Expansion & Modernization of Cairo Sewage Systems | G | ( - ) | ( - ) | ( - ) | ( 25.0 ) |
| Expansion & Modernization of Suez Canal Cities Water & Sewage Systems | L | ( - ) | ( - ) | ( - ) | ( 60.0 ) |
| Expansion & Modernization of Telecommunications Systems | L | ( - ) | ( - ) | ( - ) | ( 40.0 ) |
| Design & Construction of Low-Cost Housing & Community Upgrading | G | ( - ) | ( - ) | ( - ) | ( 50.0 ) |
| Summary: Loan Component | | - | 74.0 | 81.01 | 146.0 |
| Grant Component | | 30.0 | 99.0 | 42.0 | 75.0 |

| | L/G | FY 1975 | FY 1976 | FY 1977 | FY 1978 |
|---|---|---|---|---|---|
| III. TRANSPORTATION, INDUSTRY, COMMERCE AND FINANCE | | 35.0 | 255.6 | 21.0 | 180.9 |
| Suez Canal Rehabilitation | G | ( 22.0) | ( 2.6) | ( - ) | ( - ) |
| Heavy Road Construction Equipment | G | ( 10.0) | ( 4.0) | ( - ) | ( - ) |
| Cargo Handling Equipment for Alexandria Port | L | ( - ) | ( 31.0) | ( - ) | ( - ) |
| Suez Cement Plant | G | ( - ) | ( 90.0) | ( - ) | ( - ) |
| Expansion & Modernization of Textile Facilities | L | ( - ) | ( 96.0) | ( - ) | ( - ) |
| Support for Development Industrial Bank | L/G | ( - ) | ( 32.0) | ( - ) | ( 2.0 ) |
| Hydrographic Survey for Suez Canal | G | ( - ) | ( - ) | ( 8.0 ) | ( - ) |
| Port Said Salines (Salt Refinery Facilities) | G | ( - ) | ( - ) | ( 13.0 ) | ( - ) |
| Port Suez Development | L | ( - ) | ( - ) | ( - ) | ( 30.0 ) |
| Industrial Production Sub-Loans | L | ( - ) | ( - ) | ( - ) | ( 46.4 ) |
| Technical Assistance for Industrial Development | G | ( - ) | ( - ) | ( - ) | ( 7.5 ) |
| Quattimiya Cement Plant (1 Million Tons/Year) | L | ( - ) | ( - ) | ( - ) | ( 95.0 ) |
| Helicopter Transfer | G | ( 3.0) | ( - ) | ( - ) | ( - ) |
| Summary: Loan Component | | - | 159.0 | - | 171.4 |
| Grant Component | | 35.0 | 96.6 | 21.0 | 9.5 |

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 |
|---|---|---|---|---|---|
| IV. FOOD AND AGRICULTURE | | 44.3 | 32.5 | 83.84 | 13.8 |
| Grain Storage Silos in Cairo and Alexandria | L | ( 44.3) | ( - ) | ( - ) | ( - ) |
| Equipping of PVC Pipe Production Facilities | L | ( - ) | ( 31.0) | ( - ) | ( - ) |
| Improvement of Irrigation Water Use & Management | L | ( - ) | ( 1.5) | ( 0.8 ) | ( 1.5 ) |
| Canal Dredging & Maintenance Equipment | L | ( - ) | ( - ) | ( 26.0 ) | ( - ) |
| Grain Handling Equipment & Fasts & Oils Storage in Alexandria; Grain Storage Facilities in Safaga | L | ( - ) | ( - ) | ( 42.0 ) | ( - ) |
| Re-Equipping & Provision of New Irrigation Pumps at 34 Locations in Upper Egypt | L | ( - ) | ( - ) | ( 11.0 ) | ( - ) |
| Agricultural Development Systems | G | ( - ) | ( - ) | ( 1.2 ) | ( 3.8 ) |
| Poultry Development | G | ( - ) | ( - ) | ( 0.47) | ( 3.5 ) |
| Rice Research Center and Training | G | ( - ) | ( - ) | ( 2.37) | ( 1.5 ) |
| Aquaculture Development | G | ( - ) | ( - ) | ( - ) | ( 3.5 ) |
| Summary: Loan Component | | 44.3 | 31.0 | 79.0 | - |
| Grant Component | | - | 1.5 | 4.84 | 13.8 |

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 |
|---|---|---|---|---|---|
| V. SOCIAL SERVICES | | 11.2 | 5.4 | 17.4 | 23.5 |
| Rural Health Delivery System | G | ( - ) | ( 1.8) | ( - ) | ( 1.8 ) |
| Family Planning Program | G | ( - ) | ( - ) | ( 4.0 ) | ( 6.0 ) |
| Integrated Social Work Training Centers | G | ( - ) | ( - ) | ( 1.0 ) | ( 1.5 ) |
| Development Decentralization | G | ( - ) | ( - ) | ( - ) | ( 1.4 ) |
| PL-480 Title II a/ | G | ( 11.2) | ( 3.6) | ( 12.4 ) | ( 12.8 ) |
| Summary: Loan Component | | 11.2 | 5.4 | 17.4 | 23.5 |
| TOTAL A.I.D. ASSISTANCE (Excluding PL-480 Program) | | 261.2 | 794.9 | 699.25 | 750.75 |
| PL-480 PROGRAM | | 109.3 | 189.7 | 193.1 | 189.3 |
| GRAND TOTAL U.S. ECONOMIC ASSISTANCE b/ | | 370.5 | 984.6 | 892.35 | 940.05 |

* Includes Interim Quarter
L Loan
G Grant
a/ Incoudes Estimated Ocean Freight Costs
b/ Does Not Include Egyptian Pound Grants

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TABLE II

OVERALL BALANCE OF PAYMENTS - USAID Estimates
(in Millions of Current Dollars Except 1979)

| | 1976 | 1977 | 1978(Est) | 1979 (in 1978 price |
|---|---|---|---|---|
| **Receipts from:** | | | | |
| Exports | 2,018.2 | 2,220 | 2,290 | 2,405 |
| Shipping and Insurance | 97.3 | 150 | 125 | 135 |
| Suez Canal Dues | 311.6 | 430 | 520 | 560 |
| Remittances and Others | 827.9 | 1,180 | 1,500 | 1,590 |
| Tourism and Others | 743.2 | 960 | 1,040 | 1,120 |
| Total | 3,998.2 | 4,940 | 5,475 | 5,810 |
| **Payments for:** | | | | |
| Imports | 4,764.0 | 5,350 | 5,7240 | 5,950 |
| Films and Other Commercial Payments | 116.2 | 130 | 150 | 160 |
| Shipping and Insurance | 88.6 | 100 | 130 | 140 |
| Interests, Profits and Others | 346.8 | 435 | 500 | 535 |
| (Interest) | (325) | (410) | (470) | (505) |
| Tourism and Maintenance | 123.7 | 170 | 230 | 260 |
| Government Expenses | 106.5 | 165 | 175 | 190 |
| Other Payments | 93.5 | 100 | 120 | 145 |
| Total | 5,639.3 | 6,450 | 7,045 | 7,380 |
| Balance on Current Transactions | -1,641.1 | -1,510 | -1,570 | -1,570 |
| Import Surplus (net of interest payments) | 1,316 | 1,100 | 1,100 | 1,065 |
| Amortization of Debts | 8[illegible].8 | 2,[illegible]# | [illegible] | [illegible] |
| Total FX Requirement | 2,471 | 3,520 | 2,590 | 2,715 |
| Available Financing | 2,980 | 3,145 | 2,785 | 2,775 |
| (Deficit -, or Surplus +) | (-91) | (-375) | (+195) | (+60) |

TABLE II (Cont'd)

| | 1976 | 1977 | 1978(Est) | 1979 (in 1978 price) |
|---|---|---|---|---|
| Project | 1,000 | 890 | 1,075 | 1,475 |
| U.S. | 30 | 40 | 50 | 400 |
| IBRD | 50 | 50 | 75 | 150 |
| Suppliers' Credit | 300 | 300 | 400 | 400 |
| Foreign Private Investment | 50 | 100 | 120 | 150 |
| Other Donors | 100 | 200 | 225 | 250 |
| Commercial Credit | 470 | 200 | 200 | 125 |
| Program | 1,380 | 2,255 | 1,710 | 1,300 |
| U.S. (including PL 480) | 275 | 410 | 580 | 600 |
| IMF | 145 | 150 | 250 | 200 |
| GODE (including projects) | 250 | 1,250 | 500) | 500 |
| Other BP Assistance | 710 | 445 | 380) | |

*Includes Payment of $540 million in arrears

Sources: Central Bank, IBRD, IMF publications, USAID/Cairo
P = Preliminary estimates

TABLE III GROSS NATIONAL PRODUCT BY KIND OF ECONOMIC ACTIVITY
(In Millions of Egyptian pounds)
(Current Prices)

| | 1973 | 1974 | 1975 | 1976 |
|---|---|---|---|---|
| Commodity Sectors: | 1914.8 | 2305.7 | 2733.0 | 3182.1 |
| | 689.4 | | | |
| Agriculture | 1062.4 | 1280.0 | 1406.9 | 1553.0 |
| Industry, Petroleum and Mining | 689.5 | 842.8 | 1013.7 | 1302.6 |
| Electricity | 44.8 | 48.0 | 71.9 | 77.5 |
| Construction | 118.1 | 134.9 | 230.5 | 249.0 |
| Distribution Sectors: | 507.9 | 633.9 | 762.7 | 1035.3 |
| Transportation, Communications and Storage | 158.6 | 167.4 | 224.2 | 355.3 |
| Trade and Finance | 349.3 | 466.5 | 538.5 | 680.0 |
| Service Sectors: | 1041.8 | 1171.4 | 1293.3 | 1237.7 |
| Housing | 124.0 | 127.1 | 130.0 | 136.3 |
| Public Utilities | 16.1 | 17.4 | 17.8 | 21.7 |
| Other Services | 901.7 | 1026.9 | 1145.5 | 1079.7 |
| GDP Factor Cost: | 3464.5 | 4111.0 | 4779.0 | 5455.1 |
| Net Indirect Taxes: | 341.8 | 86.0 | 82.0 | 373.0 |
| GDP at Market Prices: | 3806.3 | 4197.0 | 4861.0 | 5828.1 |
| Net Factor Income | -19.1 | -112.0 | -148.0 | -154.0 |
| GNP at Market Prices: | 3787.2 | 4085.0 | 4713.0 | 5674.1 |

TABLE IV EGYPTIAN INCOME DISTRIBUTION
(Share of Income Received by Different Income Stratas)

| Fraction of Population | Share of Income Received: Rural | Urban |
|---|---|---|
| 0-10% | 5.0% | 4.0% |
| 10-20 | 6.5 | 5.0 |
| 20-30 | 6.5 | 6.0 |
| 30-40 | 7.0 | 6.5 |
| 40-50 | 8.0 | 7.0 |
| 50-60 | 8.5 | 8.0 |
| 60-70 | 8.5 | 9.5 |
| 70-70 | 10.5 | 10.5 |
| 80-90 | 12.5 | 16.0 |
| 90-100% | 26.0% | 27.5% |

TABLE V CONSUMPTION PATTERNS FOR EGYPTIAN HOUSEHOLDS

| | Twenty-Fifth Percentile | | Seventy-Fifth Percentile | |
|---|---|---|---|---|
| | Rural | Urban | Rural | Urban |
| Grains and Starches | 22.3% | 13.4% | 17.1% | 7.5% |
| Other Food | 41.4 | 41.4 | 41.1 | 38.2 |
| Clothing | 10.2 | 12.9 | 10.7 | 14.0 |
| Housing & Consumer Durables | 14.5 | 17.9 | 12.2 | 17.4 |
| Health, Education & Culture | 1.7 | 3.2 | 2.2 | 10.2 |
| Other | 9.9 | 11.2 | 16.7 | 12.7 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

## TABLE VI COMMODITY COMPOSITION OF IMPORTS* - 1975
(in millions of dollars)

| | |
|---|---|
| Fuels | $ 266 |
| Crude petroleum | 183 |
| Petroleum products | 8 |
| Coke and coal | 75 |
| Primary commodities | $ 738 |
| Wheat | 543 |
| Tobacco | 52 |
| Maize | 69 |
| Wool | 16 |
| Sesame | 6 |
| Other | 51 |
| Intermediate commodities | $1,578 |
| Animal fats and vegetable oils | 345 |
| Chemicals, n.i.c. | 253 |
| Unwrought, waste and scrap metals | 39 |
| Iron and steel | 260 |
| Dyestuffs and coloring | 47 |
| Wood | 117 |
| Paper and paper products | 140 |
| Fertilizers | 95 |
| Electrical products | 53 |
| Rubber and rubber products | 35 |
| Oils and wax | 23 |
| Other | 163 |
| Capital commodities | $ 664 |
| Automobiles | 247 |
| Other transportation | 33 |
| Textile machinery | 49 |
| Electrical products | [illegible] |
| Earth moving equipment | 38 |
| Other | 230 |
| Consumer commodities | $ 680 |
| Durables | 126 |
| Automobiles and motorcycles | (77) |
| Radio and television | (15) |
| Other | (34) |
| Nondurables | 554 |
| Wheat flour | (119) |
| Sugar | (105) |
| Tea | (32) |
| Coffee and cocoa | (10) |

TABLE VI (Cont'd)

Nondurables (Cont'd)

| | |
|---|---|
| Meat, fish and poultry | $ (58) |
| Beans and lentils | (37) |
| Medicines | (17) |
| Disinfectants and insecticides | (85) |
| Paper and paper products | (34) |
| Other | (57) |
| Total | $ 3,925 |

*These data are based on customs records, and hence differ from the balance of payments figures which are based on exchange control records.

EGYPT FY 79 C.I.P. LOAN

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

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

$250 Million C.I.P. Loan was included in the FY 1979 Congressional Presentation.

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

Yes.

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

No further legislation is required other than customary ratification of Loan Agreement by People's Assembly.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate.

This program is not susceptible of execution as part of a regional or multilateral program. It is not expected to encourage regional development programs. Egypt is not a newly independent country.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Program will increase the flow of international trade by providing the necessary foreign exchange for the importation of goods. A portion of the program assistanc is earmarked for the Egyptian private sector and will tend to foster private initiative and competition.

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A.

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

To the extent that trade patterns between the GOE and U.S. continue to grow and expand this program will have a positive effect on trade patterns.

6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Not applicable. Program provides foreign exchange assistance for commodity import. No other contractual or non-commodity related services are being financed under the loan.

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

Presently, no U.S.-owned-excess currencies are contemplated to be used under the Loan. If this becomes necessary, no problem is anticipated for their release by the GOE.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

a. 1. It will promote economic stability by providing vital foreign exchange required for Egypt's economic development.
2. Yes, to the extent possible.

b. No.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, esp. assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N.A.

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

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(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers; N.A.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) 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 (6) integrating women into the recipient country's national economy. — N.A.

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d. FAA Sec. 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.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(5); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance 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 or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only) — N.A.

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan. — N.A.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 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?

4. Additional Criteria for Alliance for Progress — N.A.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

1. FAA Sec. 611(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes.

2. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? — Assistance is for the import of U.S. commodities, so it is not likely to cause injury to U.S. commodity producers.

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## 3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

### A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

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

2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?

   The loan authorizes procurement from the U.S. only, except as A.I.D. may otherwise agree.

3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?

   Reg. 1 will be incorporated into the Loan Agreement to enforce statutory price restrictions.

4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?

   Not applicable under this loan.

5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?

   Egypt does not discriminate against U.S. marine insurance companies.

6. FAA Sec. 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 3. of item 3A(3), above.

7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?

   Yes, A.I.D. Reg. 1 certification requirements will be applied.

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8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

   Efforts will be made to utilize excess property to the maximum extent possible in public sector procurement under the loan.

9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

   A.I.D. Reg. 1, which is incorporated into this loan, will cover this requirement.

10. International Air Transport. Fair Competitive Practices Act, 1974

    If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

    Yes.

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?

   Yes. Additionally any necessary determinations under 620(h) will be issued.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?

   Financing is not permitted to be used for such purposes.

3. Will arrangement preclude use of financing:

   a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?

      Yes.

   b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?

      Yes.

   c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?

      Yes.

   d. FAA Sec. 662. for CIA activities?

      Yes.

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e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel? — Yes.

f. FY 79 App. Act Sec. 106. To pay U.N. assessments? — Yes.

g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.) — Yes.

h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? — Yes.

i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within U.S. not authorized by Congress? — Yes.

4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? — Not applicable.