

PD-ADY-152

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UNCLASSIFIED

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT

EGYPT: FY 1980 Commodity Import Program

AID Grant No. 263-K-602 (FY 79 Supp ESF)
AID Loan No. 263-K-053 (FY 79 Supp ESF)
AID Loan No. 263-K-054 (FY 80 ESF)

UNCLASSIFIED

CLASSIFICATION:

| | | |
|---|--|---|
| AID 1120-1 (B-66) | DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT | 1. PAAD NO. (AID Loan No. 263-K-054) NE 80-2 (AID Loan No. 263-K-053) |
| | | 2. COUNTRY (AID Grant No. 263-K-602) Egypt |
| | | 3. CATEGORY Commodity, Standard Financing Procedure |
| | | 4. DATE |
| 5. TO: The Administrator | 6. OYB CHANGE NO. | 7. FROM: Acting Assistant Administrator Bureau for Near East <i>White</i> |
| 8. OYB INCREASE | 9. APPROVAL REQUESTED FOR COMMITMENT OF: \$335,000,000 | 10. APPROPRIATION - ALLOTMENT SEE BELOW |
| 11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE | 12. LOCAL CURRENCY ARRANGEMENT | 13. ESTIMATED DELIVERY PERIOD 5/1/80-5/1/83 |
| 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 loans and the grant. Priority items are expected to include food commodities and industrial raw and semi-finished materials.

| | |
|---|--|
| 16. PERMITTED SOURCE U.S. only: \$335,000,000 Limited F.W.: Free World: Cash: | 17. ESTIMATED SOURCE U.S.: \$335,000,000 Industrialized Countries: Local: Other: |
|---|--|

18. SUMMARY DESCRIPTION

| Block | Appropriation | Allotment | |
|-------|---------------|---------------------|--|
| | 72-1101037 | 037-62-298-00-57-01 | (\$250,000,000 loan from FY 80 ESF) |
| | 72-11X1037 | 967-62-298-00-57-01 | (\$ 30,000,000 loan from Supp. FY 79 ESF) |
| | 72-11X1037 | 967-62-298-00-59-01 | (\$ 55,000,000 grant from Supp. FY 79 ESF) |

Egypt continues to suffer from a shortage of foreign exchange with which to sustain its economic recovery and undertake developmental programs. In recent years, an increase in other donor's 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 1980 should be somewhat below that of 1979. However, after comparing anticipated other bilateral assistance with preliminary estimates of imports and capital needs, a balance of payments deficit

19. Clearances:

| | Date |
|---------------------------------|---------|
| NE/PD, SATaubenblatt <i>SAT</i> | 4/21/80 |
| NE/DP, BLangmaid <i>BC</i> | 4/22/80 |
| NE/EI, GGower <i>GGower</i> | 4/23/80 |
| COM/NE, RTLooper <i>RT</i> | 4/23/80 |
| GC/NE, JMullen <i>JMullen</i> | 4/23/80 |
| GC, NHolmes <i>NH</i> | 4/23/80 |
| FM, MDStafford <i>MD</i> | 4/23/80 |
| AA/PPC, AShakow <i>CP</i> | 4/25/80 |

| |
|---|
| 20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED |
| <i>[Signature]</i> AUTHORIZED SIGNATURE |
| DATE 4/20/80 |
| Administrator |
| TITLE |

still remains indicating a need for at least \$335 million in the CIP. The CIP loan from FY 80 funding is to be established at a level of \$250 million. This is a \$50 million increase over our previous planned level, and will permit the GOE to free Egyptian FX for additional fertilizer imports, i.e., GOE would provide FX for procurement of fertilizer from traditional supply sources while additional CIP will be utilized to finance other priority commodities requirements from the U.S. In addition to the requested commitment of \$250 million from current year funding, an additional \$85 million loan/grant to be provided from the \$300 million FY 79 supplemental A.I.D. legislation. Of the \$85 million, \$55 million will be grant and \$30 million will be loan.

Additional U.S. balance of payments support may be required this year, depending on such factors as continuing foreign exchange earnings from expatriate workers 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.

The proposed FY 80 CIP will assist Egypt with its balance of payments deficit during the coming three years. The loan/grant 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 CIP will supplement other A.I.D. 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, private sector development and production. The Government of Egypt (GOE) allocated ten percent (10%) of FY 79 CIP funds to the private sector and has agreed to do the same for the FY 80 CIP.

It is recommended that you authorize a loan to the GOE of \$250 million (250,000,000 dollars) from current year funding. In addition, it is recommended that you authorize a Grant of \$55 million (55,000,000 dollars) and a loan of \$30 million (30,000,000 dollars) from FY 79 supplemental funding. The total of \$335 million (335,000,000 dollars) will be utilized for financing imports of selected commodities, commodity related services, and other services as described below.

A. Interest and Term of Repayment

Borrower shall repay the \$250 million loan and the \$30 million loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under each 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 percent (2%) per annum for ten years following the date of first disbursement and at the rate of three percent (3%) per annum thereafter on the outstanding disbursed balance of the loans and thereafter on the outstanding disbursed balance of the loans and unpaid

interest.

B. Other Terms and Conditions

1. Conditions Precedent to Initial Disbursement. Prior to any disbursement or to the issuance of any Letter of Commitment or other authorization of disbursement under the loans or grant, the Borrower-Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.: (a) an opinion or opinions of the Minister of Justice of the Arab Republic of Egypt that the Agreements have been duly authorized and/or ratified by and executed on behalf of the Borrower-Grantee and that they constitute valid and legally binding obligations of the Borrower-Grantee in accordance with all their terms, and (b) a statement of the names of the persons holding or acting in the office of the Borrower/Grantee specified in the Agreements and a specimen signature of each person specified in such statements.

2. Covenants

(a) The Borrower covenants to develop and implement plans to increase the availability of fertilizer, to address the associated economic issues and to consult with USAID on the relationship of the AID program to those issues.*

(b) Periodically, but no less than annually, the Borrower-Grantee 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 these concerns.

(c) The Borrower-Grantee covenants to continue to support appropriate participation by the private sector in transactions for which financing is provided under the CIP. A minimum of 10% of FY-80 CIP funds will be allocated to the private sector.

(d) For the Grant portion of the CIP, except as A.I.D. may otherwise agree in writing, the Grantee covenants to establish a Special Account in the Central Bank of Egypt and deposit therein Egyptian currency in amounts equal to proceeds accruing to the Grantee as a result of the importation or sale of eligible items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee and as otherwise specified in the Agreement.**

3. General Terms

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

* applies only to \$250 million Loan

** applies only to \$55 million Grant

(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.

(e) Unless A.I.D. otherwise agrees in writing, to the extent that Grant Funds, of up to approximately \$10 million, are set aside for the Egyptian Ministry of Education for the purchase of educational materials and are not used for this purpose within a period of 12 months from fulfillment of the Conditions Precedent, they will revert to use for general commodity import financing. Funds used for educational equipment and materials will not result in the accrual of proceeds to the Grantee and therefore no counterpart deposit into the Special Account will be required.*

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

* applies only to \$55 million Grant

EGYPT: U.S. FY 1980 CIP LOAN

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* applies only to \$55 million Grant

I. SUMMARY OBJECTIVES FOR THE PROPOSED FY 1980 CIP ASSISTANCE

The objective for CIP assistance 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 U.S. CIP assistance is to provide a portion of the foreign financing that is necessary to permit a substantial Egyptian development program to be mounted. Egypt has recently been able to mount an investment program that totals about 24 percent of GNP as a result of increased foreign financing and greater levels of national savings. Significant balance of payments financing, like that provided under the U.S. CIP program, will be necessary until savings can be further increased. For the period 1981-83, Egypt's need for non-project foreign financing will equal about \$1 billion annually. Other donors, the IMF, and supplier credit financing should be able to meet about half of this need. U.S. PL-480 and CIP assistance is required for the balance.

We had earlier planned (as reflected in the Congressional Presentation) that the FY 1980 CIP program would consist of a \$200 million loan from the regular AID program and an \$85 million grant/loan from the \$300 million supplemental appropriation. This would have been \$50 million less in CIP funding than in FY 1979. Although the GOE has made clear that it would prefer no reduction in CIP financing, this planned downward trend reflects our objective of shifting to project-type activities as the Egyptian balance of payments strengthens. However, as a result of discussions with the ministries of agriculture and economy, we believe that a higher level of CIP funding in 1980 would enable us to support and facilitate important GOE measures relating to fertilizer. Our objective has a dual thrust to both a) enable the GOE to provide additional levels of fertilizer through its own importation programs and b) to encourage distribution of the additional fertilizer through private sector channels at reduced subsidy levels. In order to achieve this, our intent is to increase the CIP loan by \$50 million with GOE agreement to use an equal amount of the GOE's own foreign exchange to purchase the additional fertilizer. Details of the proposal are provided in Annex C.

As a result of the above we are proposing that FY 1980 CIP assistance total \$335 million rather than the earlier planned level of \$285 million.

II. BACKGROUND

A. Political-Economic 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 the 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, the 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 peaceful 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 a continuing 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.

Since 1974, the United States and other donors have provided a significant portion of Egypt's balance of payments requirements. 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.

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. 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.

Egypt continues to suffer 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. As analyzed in more detail in Annex A, Egypt is projected to need about \$1 billion annually in non-project foreign financial support during the 1980-83 period. We have projected that other donor balance of payments financing, suppliers credits, and IMF financing will meet about half of this need. The balance is foreseen to be provided by U.S. PL-480 and CIP financing. The proposed FY 1980 CIP of \$335 million coupled with previous commitments will help meet this need.

As discussed above, the high level of U.S. assistance is intended primarily to demonstrate our support for the GOE's moderate foreign and domestic policies, and to facilitate their continuation. At the same time, the provision of commodity import funding also provides the United States with an opportunity to consider macro-economic issues with the Egyptian Government. In the absence of a CIP program there would of course still be a range of other opportunities (Consultative Group, relations with the IMF, etc.), but the CIP program provides additional opportunities for broad ranging exchanges of economic policy. The U.S. is also in constant dialogue with the GOE on issues of economic policy and reform related to specific projects.

With respect to Egypt's balance of payments and 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 have begun to structure this dialogue in a more formal manner. In this context, we have recently held a wide ranging discussion with the GOE economic ministerial group on a variety of economic policy issues. We have agreed to follow up these through a variety of working level groups on specific issues and to meet periodically with the ministerial group. On one issue, we have had a series of discussions which are aimed at reducing GOE subsidy for imported fertilizer and an improved system for fertilizer distribution. The current status of these discussions and the potential role of the CIP in helping the GOE attain key reform objectives in this area are discussed elsewhere in this paper.

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B. Status of U. S. Non-Project Assistance

1. Commodity Import Program

The Commodity Import Program for Egypt was initiated in FY-1975 at a level of \$150 million. Through FY-79, a total of \$1,540 million has been obligated, an average of over \$300 million a year. Over 1,200 transactions have been completed and supply contracts consummated. Issued letters of credit to U.S. suppliers total approximately \$1,250 million and over \$1,000 million (one billion) has been disbursed.

PROGRAM LOAN GRANT STATUS

(MILLION)

| | <u>FY-75</u> | <u>FY-76</u> | <u>FY-77</u> | <u>FY-78</u> | <u>FY-79</u> | <u>TOTAL</u> | <u>DATE</u> |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Obligated - | 150.0 | 315.0 | 440.0 | 300.0 | 335.0 | 1,540.0 | 2/29/80 |
| Allocated - | 150.0 | 315.0 | 440.0 | 300.0 | 335.0 | 1,540.0 | 2/29/80 |
| L/Comms Issued - | 150.0 | 315.0 | 440.0 | 300.0 | 319.5 | 1,524.5 | 2/29/80 |
| L/C's Issued - | 149.0 | 305.4 | 385.6 | 244.9 | 170.4 | 1,255.3 | 2/29/80 |
| Disbursed - | 148.2 | 280.3 | 349.4 | 204.9 | 19.7 | 1,002.5 | 2/29/80 |

The Government of Egypt considers that Foreign exchange expenditures take place at the time of opening of letters of credit to suppliers. Thus, the balance of payment input of the CIP is measured at the time L/C's are opened, and not at the time of commodity delivery, when actual disbursement of CIP funds take place. With the procurement pipeline now full, lead time required for procurement and delivery of priority capital goods does not deter the desired impact on the balance of payments and the Egyptian economy. It is expected that the disbursement rate in FY-80 will exceed the FY-79 total of \$213.4 million and will closely approximate the average level for letter of credits (approximately \$250 million per year).

2. PL-480 Title I, II, and III

Since 1974, the U.S. has financed over \$895 million for PL-480 Title I commodities. In FY-80 an agreement for \$242.2 million was signed. 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 \$77.0 million and have been used to support feeding and MCH programs in Egypt.

Title III grant agreement will be amended to provide 88,000 tons of wheat valued at \$15 million.

III. ECONOMIC JUSTIFICATION

A. Balance of Payments

Recent developments in the Egyptian balance of payments and projections for 1980 and beyond indicate that although Egypt's balance of payments situation improved slightly in 1979, substantial foreign assistance will be needed for the next few years. Table II in the Annex shows that during the period 1977-1979, while the negative trade balance increased at the annual rate of 18%, the positive services balance registered annual increase of 30.9%. This rapid growth of service exports over imports contributed to maintaining a stable balance of payments situation during 1977-79 in spite of amortization payments that increased from \$812 million in 1977 to \$938 million in 1979. Egypt's total foreign exchange requirement in addition to Egypt's own foreign exchange earnings rose slightly in 1979 (\$2.5 billion) from 1977 (\$2.3 billion).

Projected 1980 balance of payments estimation shows that Egypt will require foreign exchange assistance of \$2.7 billion to meet expected current account deficits of \$1.7 billion and amortization of debts of \$1.0 billion. It is expected that various international organizations, private investors, and supplier credits will provide the necessary balance of payments assistance. As shown in Table II, about \$1.6 billion is projected to be in the form of project assistance, while \$1.2 billion should be non-project type financing. In 1980, the United States will be the largest single donor of the necessary assistance--\$400 million in project and \$580 million in program assistance. For the period 1981-83, project type financing is projected to increase steadily. Egypt's need for non-project foreign financing will equal about \$1 billion annually. Other donors, the IMF, and supplier credit financing should be able to meet about half of this need. U.S. PL-480 and CIP financing will be required for the balance.

B. 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 percent 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. 491 million in 1975 to an estimated L.E. 984 million in 1979. 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 1979. The GOE economic ministers have made clear their intent to reduce this deficit in relationship to GDP. In the budget for 1980, they have taken several measures directed at this problem. Although much remains to be done and it is too early to assess the actual impact of planned measures, the government's intent is clear.

Despite the problems caused by military requirements, there has been a progressive increase in public investment expenditure in recent years. In 1979, 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. Planned investment in 1980 shows an increase of 16% over that planned in 1979. The CIP continues to be utilized by many ministries to import necessary capital goods and represents an important element in GOE investment plans. In addition, the GOE is planning to allocate a portion of CIP funds directly to the governorates in conjunction with its decentralization process. GOE and USAID will work together in the implementation of this objective at the time allocations are considered.

IV. CIP IMPLEMENTATION

A. CIP Setting

Although GOE ownership still dominates all sectors of the economy, a determined effort is underway to revive and expand the private sector. Since late FY 78, the GOE has allocated 10% of CIP funds to the private sector (See Annex B, Section C, for details on these transactions). However, the government continues to play a key role in allocating resources and setting 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 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 and grants are government to government loans/grants, administered by the Ministry of Economy and Economic Cooperation (MOE). The MOE, in collaboration with the Ministries of Finance and Planning, allocates CIP loan/grant funds to various economic sectors requiring foreign exchange at the time such funds become available. The receiving sector or Ministry sub-allocates its CIP allocation to central controlling organizations, authorities and individual industries or groups under the Ministry's umbrella in accordance with the Ministry's priorities.

GOE procurement procedures are nearly identical for all public sector entities except for layering and the attendant higher level approval and decision processes required of subordinated entities. The entity'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 member users and organization officials. Separate technical and awards committees are also in place. Once a purchase is initiated, these committees come

into action, analyzing supplier proposals, recommending awards and monitoring the purchase. Final decision to enter into a purchase contract is made by the organization's director, or the sector's Ministry, depending upon the nature of the purchase. There are some variations in this procedure. In some areas, the ultimate end-users form their own buying group with ministry approval and undertake procurements in the same way as buying associations in the United States. In other areas, the buyer is a single industrial entity or an authorized distributor, and purchase authority may be delegated directly to the buyer after initial approval of the sub-allocation.

For non-AID financed transactions, the majority of public sector organizations utilize formal competitive bid procedures, similar in appearance to AID's procedures. The essential difference is the method of post bid negotiations entered into by buyers to obtain the most advantageous price in Egypt. Many routine repeat orders, 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 CIP funds continues to increase substantially as evidenced by a much broader range of imports, a larger number of different buyers, and an acceleration in the private sector program. As Egyptians have become more familiar with regulations and 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 tables in Annex B 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 funds to major ministries. To date, there are over 120 separate public sector organizations participating in CIP, purchasing either as the ultimate user or as a buying authority for several satellite members. Each loan/grant has had its major portion allocated to the same ministries, but the purchases have often been by new end users, unfamiliar with A.I.D. procedures. Over 150 Egyptian private sector importers have opened letters of credit under the CIP.

Other major foreign exchange resources, such as GOE-owned FX and other donors' aid, are used to fund regular GOE procurements. Thus, the individual ministries and their sub-organizations routinely purchase their foreign exchange using long established practices. GOE procurement practices do not mesh well with A.I.D. procedures that are designed to promote competition and to 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. These steps did, at first, inhibit procurement and delayed disbursements in the initial phase of the CIP program. However, continued use of CIP funds by the same organizations, familiarity with each other's (AID and GOE) procedures, trends toward purchasing fast disbursing large volume commodities, in lieu of long leadtime capital goods, and greater AID flexibility on negotiated procurement have all contributed to an accelerated CIP utilization. Thus, in the period January through December 1979, \$293.7 million in Letters of Credit were opened, and total disbursements amounted to \$235.0 million.

C. Proposals for New Loan/Grant

The emphasis in funding a large volume of capital equipment, with respect to on-going CIP activities, has decreased in the past year. Approximately 59 percent of the FY-1979 CIP was allocated for food staples and industrial raw materials. It is anticipated that a substantial portion of this FY-1980 CIP will be used to finance fast moving bulk commodities, 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 FY-80 CIP 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 facilities 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/grant. This type of delay is inherent in any CIP, where a loan is utilized by a large number of buyers with diverse requirements.

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 whenever possible, repeat purchases of replacement equipment, already defined and successfully purchased, thus cutting procurement lead-times. However, the terminal disbursement date for this loan/grant should be established 36 months from the date conditions precedent are met in order to give sufficient time for delivery of capital goods which will be purchased. One of the most difficult drawbacks to procurement of capital equipment has been long procurement, production and delivery lead-time. Much of the equipment 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 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 cancelled and reallocated.

A major consideration in any attempt to increase the financing of short lead-time commodities is the overall difference in price between U.S. sources and other world sources. The U.S. has not compared favorably in price for items such as steel and plastic. Ocean transportation costs are substantially higher from the U.S. in comparison to shipments from European sources. GOE buyers are naturally sensitive to these cost differences. 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. The GOE, recognizing both the effects of world prices and buyer's normal tendencies to remain with familiar European supply sources, has initiated credit incentives for users of the CIP program. This has facilitated loan utilization and fostered greater user capability in attaining planned goals. While concessional terms established by the GOE have served to encourage CIP utilization by both public and private sector importers, we believe that financing terms should take into account the evolution of the Egyptian economy. USAID has initiated a review of credit facilities offered the private sector with the view of expanding it to include the public sector.

Under the last four commodity loans and the commodity grant, the GOE began an effort to make CIP funds available to private sector importers. Sixty-eight million dollars have been allocated for the import of industrial equipment, raw materials and spare parts. There was initially some delay in establishing procedures and incentives as this was a new area of GOE activity. Formal agreement was subsequently reached to streamline private import formalities. The initiation of this essential aspect of the AID

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program got underway with the establishment of interbank credit incentives effectively providing private importers with nearly the same benefits received by public importers. Since the inception of the private sector CIP, importers have shown considerable interest in it, and almost 200 letters of credit have already been accepted by Egyptian banks.

The GOE has expressed a continuing 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/grant will be allocated for private sector use. Discussions with the GOE point to a positive and practical attitude among government officials in furtherance of private sector participation. These allocations are expected to have substantial impact both in fostering greater private sector development and in more rapid disbursement of CIP funds. There exists a strong demand for dealer stocks of spare parts, off the shelf equipment, tools, raw materials, and industrial machinery. The GOE has encouraged imports of 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/grant utilization are geared to the development of production and essential services, with built-in safeguards to insure allocations do not stimulate luxury good imports.

D. Items Necessary To Expedite Utilization

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

| | <u>FY-1980</u> | <u>FY-1981</u> | <u>FY-1982</u> |
|------------------------|----------------------|----------------------|----------------------|
| Prior Loans & Grants | \$329 million | \$361 million | \$0 million |
| FY 1980 CIP Loan/Grant | <u>\$ 60 million</u> | <u>\$125 million</u> | <u>\$150 million</u> |
| | \$389 million | \$486 million | \$150 million |

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

1. Immediate approval of the loan/grant paper and PAAD.
2. Use of previously used standard agreement and initial Implementation Letter terms (with new covenants for fertilizer and private sector).
3. Allocation of loan/grant funds by GOE prior to meeting of the initial Conditions Precedent.
4. Allocation of a majority of CIP funds to essential, repetitive, previously purchased volume supply and raw materials purchases.
5. Earmark major portion of loan/grant for use by previous CIP volume purchasing organizations.
6. Rapid ratification of loan agreement by the People's Assembly.

A few of the actions USAID has taken to expedite all CIP loans/grants, thus 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 procurements at the initial allocation stage and recommending reallocation; identifying commodities where the U.S. is not competitive with non-U.S. sources and recommending reallocation or alternative purchases. These actions, and the GOE's previously exemplified resolution of internal pre-CP delays, should measurably increase effective application of the FY-80 CIP to current budget needs.

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/or detrimental to the overall program. The steps taken in the course of this review are:

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

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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. activities.

3. All individual purchase proposals, from any sub-sector 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 and/or recommendation to proceed, cancel or conduct further review/research prior to determining that a given proposal is acceptable.

5. The A.I.D. Commodity Eligibility Listing (1978), as amended, is an integral part of each CPI, and 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 with 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 transaction in order to 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.

F. LOCAL CURRENCY SPECIAL ACCOUNT

In accordance with Section 609 of the Foreign Assistance Act of 1961, as amended, and as provided in the US/GOE Bilateral Agreement which was entered into from October 15, 1978, the Government of the Arab Republic of Egypt will establish a special account in the National Bank of Egypt and deposit therein currency of the Government of the Arab Republic of Egypt in amounts equal to proceeds accruing to the government or any agency thereof as a result of the sale or importation of eligible items.

Deposits into the special account are only generated by sales and imports financed under the Grant portion of the CIP. The Special Account was established in conjunction with the FY-79 Supplemental Commodity Import Program Grant. It is estimated that the first local currency deposits from this Grant will be made into the Special Account in March-April 1980. Funds in the Special Account may be used for such purposes as we mutually agreed upon by A.I.D. and the Government of Egypt. Agreement on general areas of use have been reached and specific use of funds are mutually agreed upon as specific uses are proposed.

Of the \$85 million from the FY-79 Grant, up to approximately \$15 million was set aside for the Egyptian Ministry of Education for the purchase of educational materials and equipment from the U.S. Funds used for educational equipment and materials will not result in the accrual of proceeds to the Grantee and therefore no counterpart deposit is required. Procurement of the educational commodities under the FY-79 Grant is proceeding on schedule and it is estimated that the entire \$15 million will be utilized within 12 months from the fulfilment of the conditions precedent. (\$5 million for universities, \$3 million for a textbook production system, and \$7 million for primary education materials).

From the \$55 million FY-80 Supplemental Commodity Import Program Grant, up to approximately \$10 million will be set aside for the Egyptian Ministry of Education for the purchase of educational equipment and materials, similar to that being financed under the earlier Grant. Funds used for purchasing this educational equipment and materials will not result in the accrual of proceeds to the Grantee and therefore no counterpart deposits will be required.

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Deposits to the Special Account become due and payable upon advice to the GOE from A.I.D. as to the disbursements made under the Grant Agreements. Thus, the FY-79 Supplemental Commodity Grant will generate deposits of the local currency equivalent to approximately \$70 million and the FY-80 Supplemental Grant will generate deposits equivalent to approximately \$45 million. USAID representatives will meet with GOE representatives to agree upon specific uses of funds in the special account and to conclude a separate trust fund agreements.

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/grant will be spent on U.S. goods and services. This loan will continue to permit U.S. suppliers/exporters to reestablish old trade relationships and create new ones for industrial materials and commodities essential for increased 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 you authorize a loan to the GOE of \$250 million (250,000,000 dollars) from current year funding. In addition, it is recommended that you authorize a Grant of \$55 million (55,000,000 dollars) and a loan of \$30 million (30,000,000 dollars) from FY-79 supplemental funding. The total of \$335 million (335,000,000 dollars) will be utilized for financing imports of selected commodities, commodity related services, and other services as described below.

A. Interest and Term of Repayment

Borrower shall repay the \$250 million loan and the \$30 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 percent (2%) per annum for ten years following the date of first disbursement and at the rate of three percent (3%) per annum thereafter on the outstanding disbursed balance of the loan and thereafter on the outstanding disbursed balance of the loan and unpaid interest.

B. Other Terms and Conditions

1. Conditions Precedent to Initial Disbursement. Prior to any disbursement or to the issuance of any Letter of Commitment or other authorization of disbursement under the loan or grant, the Borrower-Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.: (a) an opinion or opinions of the Minister of Justice of the Arab Republic of Egypt that the Agreements have been duly authorized and/or ratified by and executed on behalf of the Borrower-Grantee and that they constitute valid and legally binding obligations

of the Borrower-Grantee in accordance with all their terms, and (b) statement of the names of the persons holding or acting in the office of the Borrower-Grantee specified in the Agreement and a specimen signature of each person specified in such statements.

2. Covenants

(a) The Borrower covenants to develop and implement plans to increase the availability of fertilizer, to address the associated economic issues and to consult with USAID on the relationship of the AID program to those issues.*

(b) Periodically, but no less than annually, the Borrower-Grantee 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 these concerns.

(c) The Borrower-Grantee covenants to continue to support appropriate participation by the private sector in transactions for which financing is provided under the CIP. A minimum of 10% of FY-80 CIP funds will be allocated to the private sector.

(d) For the Grant portion of the CIP except as A.I.D. may otherwise agree in writing, the Grantee covenants to establish a Special Account in the Central Bank of Egypt and deposit therein Egyptian currency in amounts equal to proceeds accruing to the Grantee as a result of the importation or sale of eligible items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee and as otherwise specified in the Agreement.**

3. General Terms

(a) Unless A.I.D. otherwise agrees in writing, commodities and related services financed under the loan and grant 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.

* applies only to \$250 million Loan

** applies only to \$55 million Grant

(c) Approval is given for the financing of frozen poultry in additions 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.

(e) Unless A.I.D. otherwise agrees in writing, to the extent that Grant Funds, of up to approximately \$10 million, are set aside for the Egyptian Ministry of Education for the purchase of educational materials, and are not used for this purpose within a period of 12 months from fulfilment of the Conditions Precedent, they will revert to use for general commodity import financing. Funds used for educational equipment and materials will not result in the accrual of proceeds to the Grantee and therefore no counter-part deposit into the Special Account will be required.*

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

* applies only to \$55 million Grant.

ANNEX OF TABLES

| NUMBER | TITLE |
|----------|--|
| Table I | U.S. Economic Assistance Program for Egypt FY 1975-1978 |
| Table II | Commodity Composition of Imports 1977 and 1978 |

U.S. ECONOMIC ASSISTANCE TO EGYPT: FY 1975-1979
(Millions of Dollars)

| | <u>L/G</u> | <u>FY 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|--|------------|----------------|-----------------|----------------|----------------|----------------|
| I. <u>GENERAL ECONOMIC SUPPORT</u> | | <u>250.0</u> | <u>518.1</u> | <u>647.1</u> | <u>500.85</u> | <u>547.1</u> |
| A. Balance of Payments (Sub-Total) | | 248.1 | 501.1 | 620.7 | 476.5 | 532.1 |
| Commodity Import Program | L | (150.0) | (315.0) | (440.0) | (300.0) | (250.0) |
| Commodity Import Program | G | (-) | (-) | (-) | (-) | (70.0) |
| PL480 Title I | L | (98.1) | (186.1) | (180.7) | (176.5) | (212.1) |
| B. Development Planning (Sub-Total) | | 1.9 | 17.0 | 26.4 | 24.35 | 15.0 |
| Technical & Feasibility Studies | G | (0.9) | (15.0) | (18.0) | (12.0) | (5.0) |
| Technology Transfer & Manpower Development | G | (0.9) | (2.0) | (4.5) | (4.0) | (10.0) |
| Applied Science & Technology Resrarch | 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 | 501.1 | 620.7 | 476.5 | 462.1 |
| Grant Component | | 1.9 | 17.0 | 26.4 | 24.35 | 85.0 |

| | <u>L/G</u> | <u>FY 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|--|------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| II. <u>INFRASTRUCTURE</u> | | <u>30.0</u> | <u>173.0</u> | <u>123.0</u> | <u>221.0</u> | <u>305.8</u> |
| Electric Power Distribution Equipment for Suez Canal Cities | G | (30.0) | (-) | (-) | (-) | (-) |
| Ismalia 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 Talka & Helwan | L | (-) | (50.0) | (19.0) | (-) | (-) |
| Electric Power Distribution Equipment for Cairo, Alexandria, Shibim 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/G | (-) | (-) | (15.0) | (-) | (87.3) |
| Expansion & Modernization of Cairo Sewage Systems | G | (-) | (-) | (-) | (25.0) | (-) |
| Expansion & Modernization of Suez Canal Cities Water & Sewage Systems | L/G | (-) | (-) | (-) | (60.0) | (36.0) |
| Expansion & Modernization of Telecommunications Systems | L/G | (-) | (-) | (-) | (40.0) | (80.0) |

| | <u>L/G</u> | <u>FY 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|---|------------|----------------|-----------------|----------------|----------------|----------------|
| Design & Construction of Low-Cost Housing & Community Upgrading | G | (-) | (-) | (-) | (50.0) | (-) |
| Shoubra Electric Generating Plant | G | (-) | (-) | (-) | (-) | (100.0) |
| Sinai Planning Studies | G | (-) | (-) | (-) | (-) | (2.5) |
| Summary: Loan Component | | - | 74.0 | 81.01 | 146.0 | - |
| Grant Component | | 30.0 | 99.0 | 42.0 | 75.0 | 305.8 |

III. TRANSPORTATION, INDUSTRY, COMMERCE & FINANCE

| | | <u>35.0</u> | <u>255.6</u> | <u>21.0</u> | <u>180.9</u> | <u>54.0</u> |
|---|-----|-------------|--------------|-------------|--------------|-------------|
| 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 | I/G | (-) | (32.0) | (-) | (2.0) | (-) |
| Hydrographic Survey for Suez Canal | G | (-) | (-) | (8.0) | (-) | (-) |
| Port Said Salines (Salt Refinery Facilities) | G | (-) | (-) | (13.0) | (-) | (-) |

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| | <u>L/G</u> | <u>FY 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|--|------------|----------------|-----------------|----------------|----------------|----------------|
| Port Suez Development | L | (-) | (-) | (-) | (30.0) | (-) |
| Industrial Production Sub-Loans | L | (-) | (-) | (-) | (46.4) | (-) |
| Technical Assistance for Industrial Development | G | (-) | (-) | (-) | (7.5) | (16.0) |
| Quattimiya Cement Plant (1 Million Tons/Year) | L | (-) | (-) | (-) | (95.0) | (-) |
| Private Investment Encouragement Fund | G | (-) | (-) | (-) | (-) | (33.0) |
| Private Sector Feasibility Studies | G | (-) | (-) | (-) | (-) | (5.0) |
| Helicopter Transfer | G | (3.0) | (-) | (-) | (-) | (-) |

| | | | | | | |
|-------------------------|--|------|-------|------|-------|------|
| Summary: Loan Component | | - | 159.0 | - | 171.4 | - |
| Grant Component | | 35.0 | 96.6 | 21.0 | 9.5 | 54.0 |

IV. FOOD AND AGRICULTURE 44.3 32.5 83.84 13.8 105.5

| | | | | | | |
|--|-----|--------|--------|---------|--------|--------|
| Grain Storage Silos in Cairo & Alexandria | L | (44.3) | (-) | (-) | (-) | (-) |
| Equipping of PVC Pipe Production Facilities | L | (-) | (31.0) | (-) | (-) | (-) |
| Improvement of Irrigation Water Use & Management | G | (-) | (1.5) | (0.8) | (1.5) | (3.2) |
| Canal Dredging & Maintenance Equipment | L/G | (-) | (-) | (26.0) | (-) | (5.2) |

| | <u>L/G</u> | <u>FY- 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|--|------------|-----------------|-----------------|----------------|----------------|----------------|
| Grain Handling Equipment & Fats & 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) | (7.9) |
| Poultry Development | G | (-) | (-) | (0.47) | (3.5) | (0.6) |
| Rice Research Center & Training | G | (-) | (-) | (2.37) | (1.5) | (5.9) |
| Aquaculture Development | G | (-) | (-) | (-) | (3.5) | (-) |
| Major Cereals Production | G | (-) | (-) | (-) | (-) | (30.0) |
| Small Farmer Production | G | (-) | (-) | (-) | (-) | (25.0) |
| Agriculture Cooperative Development | G | (-) | (-) | (-) | (-) | (5.0) |
| Small Scale Agricultural Activity | G | (-) | (-) | (-) | (-) | (1.7) |
| Agricultural Mechanization | G | (-) | (-) | (-) | (-) | (21.0) |
| | | | | | | |
| Summary: Loan Component | | 44.3 | 31.0 | 79.0 | - | - |
| Grant Component | | - | 1.5 | 4.84 | 13.8 | 105.5 |

| | <u>L/G</u> | <u>FY 1975</u> | <u>FY 1976*</u> | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> |
|--|------------|----------------|-----------------|----------------|----------------|------------------------|
| V. SOCIAL SERVICES | | <u>12.6</u> | <u>3.4</u> | <u>17.0</u> | <u>17.2</u> | <u>43.7</u> |
| Rural Health Delivery System | G | (-) | (1.8) | (-) | (1.8) | (4.2) |
| Family Planning Program | G | (-) | (-) | (4.0) | (6.0) | (6.5) |
| Integrated Social Work Training Centers | G | (-) | (-) | (1.0) | (1.5) | (1.5) |
| Development Decentralization | G | (-) | (-) | (-) | (1.4) | (2.5) |
| Urban Health Delivery System | G | (-) | (-) | (-) | (-) | (5.0) |
| Commodity Import Program Grant - Education | G | (-) | (-) | (-) | (-) | (15.0) |
| PL 430 Title II <u>a/</u> | G | (12.6) | (5.6) | (12.0) | (6.5) | (14.0) |
| Summary: Loan Component | | - | - | - | - | - |
| Grant Component | | 12.6 | 3.4 | 17.0 | 17.2 | 43.7 |
| TOTAL A.I.D. ASSISTANCE (Excluding PL-480 Program) | | <u>261.2</u> | <u>795.9</u> | <u>699.25</u> | <u>750.75</u> | <u>335.0 <u>c/</u></u> |
| PL-480 PROGRAM | | <u>110.7</u> | <u>191.7</u> | <u>192.7</u> | <u>189.3</u> | <u>226.1</u> |
| GRAND TOTAL U.S. ECONOMIC ASSISTANCE <u>b/</u> | | <u>371.9</u> | <u>987.6</u> | <u>891.95</u> | <u>933.75</u> | <u>1,061.1</u> |

* Includes Interim Quarter

L - Loan; G - Grant

a/ Includes Estimated Ocean Freight Costs

b/ Does Not Include Egyptian Pound Grants

c/ Includes \$85 Million FY 1979 Supplemental Peace Allotment

TABLE II COMMODITY COMPOSITION OF IMPORTS * 1977 and 1978

(In millions of Dollars)

| | <u>1977</u> | <u>1978</u> |
|-----------------------------------|------------------|------------------|
| <u>Fuels</u> | \$ <u>84.2</u> | \$ <u>73.4</u> |
| Crude Petroleum | - | - |
| Petroleum Products | 13.8 | 19.6 |
| Coke and Coal | 70.4 | 53.8 |
| <u>Primary Commodities</u> | \$ <u>645</u> | \$ <u>784</u> |
| Wheat | 329.2 | 433.9 |
| Tobacco | 86.3 | 117.7 |
| Maize | 76.8 | 97.0 |
| Wool | 40.2 | 26.6 |
| Sesame | 15.3 | 11.3 |
| Other | 97.2 | 97.5 |
| <u>Intermediate Commodities</u> | <u>\$1,583.1</u> | <u>\$2,078.7</u> |
| Animal fats & Vegetables Oils | 87.5 | 171.7 |
| Chemicals, n.i.c. | 185.6 | 211.2 |
| Unwrought, waste and scrap metals | 15.4 | 30.4 |
| Iron and Steel | 201.2 | 271.4 |
| Dyestuff and colouring | 38.6 | 57.6 |
| Wood | 273.9 | 279.0 |
| Paper and paper products | 97.3 | 116.5 |
| Fertilizers | 38.9 | 58.6 |
| Electrical products | 65.5 | 118.3 |
| Rubber and rubber products | 36.6 | 69.6 |
| Oils and Wax | 23.5 | 26.1 |
| Other | 519.1 | 668.3 |
| <u>Capital Commodities</u> | <u>\$1,451</u> | <u>\$2,199.0</u> |
| Buses, Trucks & Other Vehicles | 222.7 | 408.6 |
| Textile Machinery | 103.4 | 172.3 |
| Electrical Products | 85.4 | 224.2 |
| Earth Moving Equipment | 91.6 | 157.2 |
| Other | 947.9 | 1,236.7 |
| <u>Consumer Commodities</u> | <u>\$1,058.5</u> | <u>\$1,602.5</u> |
| <u>Durables</u> | <u>\$ 325.1</u> | <u>\$ 442.8</u> |

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

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| | | |
|--------------------------------|-----------------|-------------------|
| Automobiles and Motorcycles | (141.6) | (195.3) |
| Radio and Television | (69.1) | (81.9) |
| Other | (114.4) | (165.6) |
| <u>Non-durables</u> | \$ <u>733.2</u> | \$ <u>1,157.1</u> |
| Wheat Flour | 126.5 | 195.5 |
| Sugar | 42.7 | 104.0 |
| Tea | 66.5 | 112.6 |
| Coffee and Cocoa | 14.3 | 1.8 |
| Meat, fish and poultry | 69.12 | 112.6 |
| Beans and lentils | 13.6 | 12.8 |
| Medicines | 35.8 | 51.2 |
| Disinfectants and insecticides | 49.4 | 73.7 |
| Paper and paper products | 35.6 | 24.3 |
| Other | 279.7 | 472.6 |
| | | |
| TOTAL | \$4,822 | \$ 6,737.6 |
| | ===== | ===== |

ANNEX A

ECONOMIC BACKGROUND AND JUSTIFICATION

A. Production Savings and Investment

Available GDP data indicate that, after exceeding 4 percent during the two years ending 1971, the real growth rate of the economy dropped to about 2 percent in 1972 and 3 percent in 1973. This decline was reversed with a substantial jump in the growth rate to about 10 percent in 1975 and 1976. This rise was caused mainly by the recovery of industrial, petroleum and construction activity. Preliminary information indicates that the economy grew annually at about 8-9% in real terms during the years 1977-79. Much of the growth comes from the petroleum industry, construction, housing, transportation and tourism. The sectorial composition of GDP is given in Annex Table 3.

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 \$550 million in 1979 and should increase sharply after 1980 with the widening of the Canal; petroleum exports are estimated to top \$500 million in 1979, with significant growth likely in the future; tourism contributed about \$650 million in 1979, and more is anticipated for the future as new hotels are completed; considerable potential exists for high returns from existing agricultural lands; remittances from over one million Egyptians working in the richer Arab countries of the region reached about \$1900 million in 1979.

A two gap model was used to project the pattern of future economic growth and balance of payments developments in Egypt. Basic assumptions are (1) that Egypt will be successful in significantly increasing domestic savings from 7.8% of GDP in 1979 to 15.8% in 1984, (2) that there will be a modest increase in the productivity of investment (the Incremental Capital Output Ratio will fall from 2.95 to 2.85); and (3) there will not be a dramatic increase in foreign assistance. The result of these assumptions is that Gross Domestic Product (GDP) will increase in real term at 8% per annum during the period 1980-84.

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General equilibrium projections are given in Table 1. By adding estimated stock changes to the fixed investment calculated above, the required levels of Gross Investment are projected to increase from LE 2,720 million in 1979 to LE 3,825 million in 1984 expressed in constant 1979 values.

National savings (that portion of GNP not consumed) are estimated to increase from LE 1,620 million in 1979 to LE 3,095 million in 1984 at an average annual growth rate of 14%. Egypt's own financing of investment will increase from 59.6% in 1979 to 80.9% of Gross Investment in 1984. Required foreign saving is shown to decrease gradually from LE 1,100 million in 1979 to LE 730 million in 1984 (all expressed in 1979 prices). Total foreign exchange requirements, the sum of required foreign saving and medium and long term amortization payments, is given in line 12 of Table 1 and projected in detail in Table 2. In current prices, it is projected to rise by \$365 million during the next two years from \$2,510 million in 1979 to \$2,875 million in 1981, but to remain at about the 1981 level during 1982-84. The level of total required foreign exchange is then compared with the estimated level of available foreign exchange financing. It is estimated that during the period 1980-84 total available foreign exchange financing will exceed total foreign exchange requirement by about \$290 million, which will permit a small increase in the current low foreign exchange reserves.

B. Balance of Payments

The balance of payments picture for the period 1980-84 is projected in Table 3. Whereas total exports of goods and services are estimated to increase at an annual real growth rate of 7%, total imports of goods and services are projected to rise at 5%. As a result estimated net imports (foreign saving) will decrease from \$1,565 million in 1979 to \$1,135 million in 1984 (in 1979 prices). Thus, Egypt should be able to finance an increasingly larger proportion of necessary imports from its own foreign exchange earnings. Egypt's foreign exchange earnings are derived from three main sources: exports of goods (including petroleum), non-factor services, and Egyptian worker remittances. Exports of goods are estimated to increase from \$2,660 million in 1979 to \$4,005 million in 1980, an annual growth rate of 9%. Most of this export growth rate rests on exports of petroleum which accounts for more than 50% and 57% of all goods exported in 1979 and 1984 respectively. Exports of industrial products are forecast to rise rapidly in percentage terms beginning 1981. Although the magnitude of industrial products exports is still small, it is thought possible that Egypt, after several years of industrial investment, will be able to increase industrial exports. Exports of non-factor services depend primarily on Suez Canal dues and tourism receipts. Both are projected to rise rapidly during

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1980-84 due to the scheduled completion of widening and deepening of the Canal and to completion of new hotel constructions currently underway. On the other hand, it is believed that workers' remittances have reached a peak in 1979 and are likely to undergo no growth in real terms during the projected period. The deterioration in relations between Egypt and other Arab countries, the large number of Egyptians already working in the Arab countries, and increasing employment opportunities and wage levels in Egypt make it difficult to project further increases in the number of Egyptian workers abroad for the next few years. Thus, workers' remittances are projected constant at \$1,900 million in 1979 prices. Total services exports are estimated to grow from \$3,590 million in 1979 to \$4,875 million in 1984 in 1979 prices, an annual real growth rate of 6%. Food imports are projected to grow at 3% annually to compensate for population and income growth. Intermediate and capital goods imports are estimated to rise at 8% yearly to facilitate attainment of the GDP target growth rate. Imports of other goods are to grow at 6% annually to accommodate total consumption rise. Total imports of goods and services are projected to increase from \$7,815 million in 1979 to \$9,990 million in 1984. However,, as explained above, Egypt's own exports will gradually finance a larger proportion of imports -- from 80% in 1979 to 89% in 1984.

C. Available Foreign Exchange Financing

Table 2 shows sources of available foreign exchange to meet the requirement. All projections are in current prices. Overall project disbursements will increase during this period from \$1,385 million in 1979 to \$2,000 million in 1984. Much of the increase will come from rapidly rising U.S. and IBRD project disbursements. U.S. project disbursements will rise from \$225 million in 1979 to \$600 million in 1982. IBRD disbursements, are projected to increase steadily from \$200 million in 1979 to \$450 million in 1984. Other donor and non-oil foreign private investment are projected to rise gradually during the next 5 years.

Non-project disbursements are expected to remain at about \$1,100 million during 1979-82 and then to begin to decline in 1983 and 1984 due to declining CIP levels beginning 1983. Suppliers' credits are projected at relatively low level of \$300 million a year starting 1981. This is in line with the GOE-IMF objective of reducing utilization of costly short-term credits.

Total available foreign exchange financing will reach about \$2,950 million in 1981 and remain at about that level the rest of the period. According to this projection Egypt should not experience any severe shortages of foreign exchange during 1980-84.

TABLE 1

GENERAL EQUILIBRUM
(LE Millions in 1979 Prices)

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 1. Gross Domestic Product (growth rate = 8%) | 10665 | 11520 | 12440 | 13435 | 14510 | 15670 |
| 2. Required Fixed Investment (ICOR = 2.95 during 1979-81; 2.85 during 1982-84) | 2520 | 2720 | 2935 | 3065 | 3310 | 3575 |
| 3. Gross Investment (FI plus stock change) | 2720 | 2910 | 3140 | 3280 | 3540 | 3825 |
| 4. Gross National Product GDP + (Net Factor Income other than WR) + (Workers' Remittances) | 11470 (-525) (1330) | 12320 (-530) (1330) | 13210 (-560) (1330) | 14160 (-605) (1330) | 15190 (-650) (1330) | 16295 (-705) (1330) |
| 5. Total Consumption (assumed APC) | 9850 (.86) | 10470 (.85) | 11095 (.84) | 11750 (.83) | 12455 (.82) | 13200 (.81) |
| 6. National Saving (% GNP) | 1620 (14.1) | 1850 (15.0) | 2115 (16.0) | 2410 (17.0) | 2735 (18.0) | 3095 (19.0) |
| 7. Domestic Saving (% GDP) | 815 (7.6) | 1050 (9.1) | 1345 (10.8) | 1685 (12.5) | 2055 (14.2) | 2470 (15.8) |
| 8. Required Foreign Saving | 1100 | 1060 | 1025 | 870 | 805 | 730 |
| 9. Required FS (in Millions of 1979 Dollars) | 1570 | 1515 | 1465 | 1244 | 1151 | 1044 |
| 10. Required FS (in Millions of Current Dollars) (10% Inflation) | 1570 | 1665 | 1775 | 1655 | 1685 | 1680 |
| 11. MLT Amortization Payments | 940 | 1000 | 1100 | 1200 | 1200 | 1200 |
| 12. Total FX Requirement | <u>2510</u> | <u>2665</u> | <u>2875</u> | <u>2855</u> | <u>2885</u> | <u>2880</u> |
| 13. Available FX Financing Deficit (-) or Surplus (+) | <u>2495</u> -15 | <u>2780</u> 115 | <u>2950</u> 75 | <u>3000</u> 145 | <u>2900</u> -15 | <u>2850</u> -30 |

TABLE 2

AVAILABLE FOREIGN EXCHANGE FOR FINANCING
(\$ Million Current Prices)

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>TOTAL AVAILABLE</u> | <u>2495</u> | <u>2780</u> | <u>2950</u> | <u>3000</u> | <u>2900</u> | <u>2850</u> |
| Project | 1385 | 1600 | 1850 | 1900 | 1900 | 2000 |
| U.S. | 225 | 400 | 550 | 600 | 600 | 550 |
| IBRD | 200 | 250 | 300 | 350 | 400 | 450 |
| Other Donors | 350 | 250 | 300 | 300 | 350 | 400 |
| Foreign Private Investment | 150 | 200 | 200 | 250 | 250 | 300 |
| Foreign Oil Co. Expenditures | 460 | 500 | 500 | 400 | 300 | 300 |
| Program | 1100 | 1180 | 1100 | 1100 | 1000 | 850 |
| U.S. | 460 | 580 | 500 | 500 | 400 | 250 |
| (CIP) | (222) | (330) | (250) | (250) | (150) | (-) |
| (PL 480) | (250) | (250) | (250) | (250) | (250) | (250) |
| IMF | - | - | 200 | 200 | 200 | 200 |
| IBRD | - | - | - | - | - | - |
| Other Donors | 100 | 100 | 100 | 100 | 100 | 100 |
| Suppliers' Credits | 550 | 500 | 300 | 300 | 300 | 300 |

TABLE 3

EGYPTIAN BALANCE OF PAYMENTS PROJECTION
(In Millions of 1979 US Dollars)

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>TOTAL EXPORTS</u> | <u>6250</u> | <u>6850</u> | <u>7310</u> | <u>7880</u> | <u>8365</u> | <u>8855</u> |
| Goods Other Than Petroleum | 1320 | 1345 | 1410 | 1480 | 1590 | 1705 |
| Cotton | 320 | 300 | 300 | 300 | 300 | 300 |
| Other agricultural products | 185 | 200 | 200 | 200 | 200 | 200 |
| Yarn and Textiles | 235 | 250 | 250 | 250 | 250 | 250 |
| Other Industrial Products (15% growth, 1981 on) | 280 | 285 | 330 | 380 | 440 | 505 |
| Others | 300 | 310 | 330 | 350 | 400 | 450 |
| Petroleum | 1340 | 1875 | 2000 | 2100 | 2200 | 2300 |
| <u>Total Goods</u> | <u>2660</u> | <u>3220</u> | <u>3410</u> | <u>3580</u> | <u>3790</u> | <u>4005</u> |
| Non-Factor Services | 1690 | 1730 | 2000 | 2400 | 2675 | 2950 |
| Suez Canal Dues | 590 | 620 | 750 | 900 | 1000 | 1100 |
| Tourism | 650 | 650 | 750 | 900 | 1000 | 1100 |
| Others (including Own Ex. Duty) | 450 | 460 | 500 | 600 | 675 | 750 |
| Workers' Remittances | 1900 | 1900 | 1900 | 1900 | 1900 | 1900 |
| <u>Total Services</u> | <u>3590</u> | <u>3630</u> | <u>3900</u> | <u>4300</u> | <u>4575</u> | <u>4875</u> |
| <u>TOTAL IMPORTS</u> | <u>7815</u> | <u>8310</u> | <u>8760</u> | <u>9130</u> | <u>9540</u> | <u>9990</u> |

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Goods (assumed growth rate) | 6515 | 6985 | 7410 | 7760 | 8135 | 8555 |
| Foods (3% per year) | 1575 | 1620 | 1670 | 1720 | 1770 | 1825 |
| Intermediate (8%) | 1880 | 2030 | 2190 | 2370 | 2555 | 2760 |
| Capital (8%) | 1540 | 1665 | 1800 | 1940 | 2095 | 2265 |
| Others (6%) | 1200 | 1270 | 1350 | 1430 | 1515 | 1605 |
| Foreign Oil Co. Imports | 320 | 400 | 400 | 300 | 200 | 100 |
| Non-Factor Services | 1300 | 1325 | 1350 | 1370 | 1405 | 1435 |
| <u>NET IMPORTS (Foreign Saving)</u> | <u>1565</u> | <u>1460</u> | <u>1450</u> | <u>1250</u> | <u>1175</u> | <u>1135</u> |
| Memorandum Item | | | | | | |
| <u>Required FS</u> | <u>1570</u> | <u>1515</u> | <u>1465</u> | <u>1244</u> | <u>1151</u> | <u>1044</u> |
| Difference | -5 | -55 | -10 | +6 | 24 | 91 |

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ANNEX B

CIP HISTORY

A. General

The following four tables summarize the historical and current status of the CIP:

1. Funds committed and disbursed;
2. Illustrative list of commodities purchased under CIP;
3. Sector application of CIP purchases; and
4. Distribution of CIP loan funds to major Ministries.

A Summary of CIP Commitments and Disbursements of Previous Loans and Grant is shown in the following table;

EGYPT PROGRAM LOANS GRANT AS OF DECEMBER 31, 1979

(In Million of U.S. Dollars)

| LOAN NO. (date Agmt) | AMOUNT | L/COMs | L/Cs | DISBURSED | UNDISBURSED BALANCE | | |
|-------------------------|--------|--------|-------|-----------|---------------------|-------------|-------|
| | | | | | UNLIQUIDATED | UNCOMMITTED | TOTAL |
| 263-K-026 (2/13/75) | 80.0 | 80.0 | 79.0 | 79.0 | 1.0 | - (closed) | 1.0 |
| 263-K-027 (6/30/75) | 70.0 | 70.0 | 69.2 | 69.2 | .8 | - | .8 |
| 263-K-029 (12/18/75) | 100.0 | 100.0 | 99.3 | 98.5 | 3.7 | - | 3.7 |
| 263-K-030 (5/22/76) | 150.0 | 150.0 | 146.2 | 127.5 | 34.6 | - | 34.6 |
| 263-K-036 (9/30/76) | 65.0 | 65.0 | 58.5 | 47.4 | 35.5 | - | 35.5 |
| 263-K-038 (3/6/77) | 440.0 | 440.0 | 381.3 | 335.1 | 152.2 | - | 152.2 |
| 263-K-045 | 300.0 | 300.0 | 244.9 | 191.8 | 248.6 | - | 253.6 |

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| LOAN NO. | AMOUNT | L/COMs | L/Cs | DISBURSED | UNLIQUIDATED | UNCOMMITTED | TOTAL |
|-----------|----------------|----------------|----------------|--------------|--------------|-------------|--------------|
| (3/19/79) | | | | | | | |
| 263-K-052 | 250.0 | 249.5 | 53.0 | 3.2 | 249.5 | .5 | 250.0 |
| Grant | | | | | | | |
| 263-019 | 85.0 | - | - | - | 85.0 | 85.0 | 85.0 |
| (8/29/79) | | | | | | | |
| Total | <u>1,540.0</u> | <u>1,454.4</u> | <u>1,131.4</u> | <u>951.7</u> | <u>323.1</u> | <u>85.5</u> | <u>321.3</u> |

COMMODITY IMPORT PROGRAM
ILLUSTRATIVE COMMODITIES

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As of December 31, 1979

| ITEM | QTY | \$ (MILLION) |
|--|--------------------|--------------|
| 1. Tallow | 455.057 MT | 209.272 |
| 2. Tinplate | 105.850 MT | 62.681 |
| 3. Wood Pulp | 60.791 MT | 18.795 |
| 4. Kraft Paper & Kraft Liner | 42.316 MT | 8.982 |
| 5. Plastics | 3.090 MT | 1.827 |
| 6. Cranes | 45 each | 8.021 |
| 7. Coking Coal | 850.000 MT | 56.186 |
| 8. Marine Diesel Engines | 245 each | 3.716 |
| 9. Cotton Seed Oil | 144.400 MT | 86.255 |
| 10. Corn | 883.500 MT | 99.995 |
| 11. Frozen Chickens | 23.000 MT | 28.245 |
| 12. Trucks and Trailers | 302 each | 12.474 |
| 13. Pick-Up Trucks | 1,200 each | 6.928 |
| 14. Inter-City Buses | 1,000 each | 24.904 |
| 15. City Bus, Cairo-Alex | 600 each | 27.478 |
| 16. Farm Tractors, Massey-Fergusson and Spare Parts | 2,403 each | 17.247 |
| 17. Water Pumps | 451 each | 2.575 |
| 18. Buses (other than Micro & Inter-City) | 77 each | 1.348 |
| 19. Micro Buses and Vans | 74 each | .654 |
| 20. Fire Fighting Truck (Am. La France) | 8 each | .908 |
| 21. Water Truck | 5 each | .106 |
| 22. Jeeps | 149 each | .947 |
| 23. T.V. Broadcasting Equipment (OBTF) | - | 17.829 |
| 24. Ambulances & EMS Equipment | 140 each | 6.000 |
| 25. Refr. Railcars, 30 T. Capacity | 15 each | 2.591 |
| 26. Grain Unloaders | 96 each | 3.000 |
| 27. Matchboard | 2,460 MT | .995 |
| 28. Geophysical Equipment | - | .120 |
| 29. Wheeled Dozer (CAT) | 6 each | .587 |
| 30. Railway Wagons (Ex.Prop.) (ERS) | 718 each | 1.779 |
| 31. Food Processing Machinery | - | 1.699 |
| 32. Textile Supply Equipment & Dyestuff | - | 7.302 |
| 33. Leaf Tobacco | 16,914 MT | 60.419 |
| 34. Irrigation Equipment | - | .137 |
| 35. Raw Cotton | 6,800 MT | 9.710 |
| 36. Graphite Electrode & Nipples | 6,382 and 48 MT | 7.358 |
| 37. Welding Electrode & Equipment | 57 MT and 264 each | .487 |
| 38. Wheel Type Front End Loaders | 8 each | .518 |
| 39. Carpenter Workshop Equipment | - | .297 |
| 40. Traffic Control System | - | 8.118 |
| 41. Aluminium Rear Bricks | 5,220 MT | 1.210 |
| 42. Private Sector - Commodities | - | 31.287 |
| 43. Rear Dumpers | 18 each | 1.405 |
| 44. Dredger | 2 each | 3.989 |
| 45. Tractors & Spare Parts | 171 each | 7.007 |
| 46. Motor Graders | 29 each | 1.008 |
| 47. Road Rollers | 13 each | .427 |
| 48. Construction Equipment | - | 2.216 |

ILLUSTRATIVE COMMODITIES

As of December 31, 1979

| <u>ITEM</u> | <u>QTY</u> | <u>\$ (MILLION)</u> |
|--|----------------------------------|---------------------|
| 49. Bus Spare Parts (Inter-City) | - | 8.255 |
| 50. Bus Spare Parts (City) | - | 9.070 |
| 51. Remote Sensing Equipment | - | 1.192 |
| 52. Electronic Spares | - | 1.553 |
| 53. Machine Tools | - | .632 |
| 54. Herbicides | 587 MT | 1.571 |
| 55. Spare Parts for Crane & Dredger | - | 1.066 |
| 56. Cable and Accessories | - | 23.641 |
| 57. Acetate Tow | 9.729 MT | 22.586 |
| 58. Rotary Thermoformer | 2 each | .282 |
| 59. Match Making Machinery | - | 1.114 |
| 60. Rotary Hearth Furnace & Spare Parts | 1 each | 6.675 |
| 61. Salt Harvesters | 5 each | .567 |
| 62. Soybean Meal | 55,000 MT | 10.646 |
| 63. Soybean Seeds & Inoculant | 2,000 & 20 MT | 1.220 |
| 64. Hospital Beds | 5745 each | .613 |
| 65. Microwave Equipment (ARETO) | - | 32.373 |
| 66. Generators | 75 each | 5.346 |
| 67. Street Lighting | - | 2.283 |
| 68. Turbine and Spare Parts | - | 5.221 |
| 69. Transformers | 1,046 each | 4.991 |
| 70. Condensers & Compressores) and Spare Parts) | 7.133 + 400 each Compr. Cond. | 1.991 |
| 71. Communication System and Telecommunication | - | 3.152 |
| 72. Synthetic Rubber and Carbon Black | 731 MT | 2.937 |
| 73. Freight (Tallow) | - | 2.949 |
| 74. Freight (Corn) | - | 8.094 |
| 75. Refuse Collection Equipment | - | 12.460 |
| 76. Diesel Power Shovels | 2 each | .504 |
| 77. Tire Plant Machinery | - | 3.391 |
| 78. Elevated Dry Dock | 1 each | 1.150 |
| 79. Components for Air Conditioners & Ref. Units | - | 1.315 |
| 80. Scientific & Medical Equipment | - | 2.200 |
| 81. Cigarette Paper | 1,399 MT | 2.000 |
| 82. Tires | 4,200 each | .115 |
| 83. Batteries | 1,800 each | .054 |
| 84. Circuit Breakers | 40.000 each | .123 |
| 85. Metallic Goods | 21,800 MT | 1.395 |
| 86. Railroad Spare Parts | - | 5.183 |
| 87. Traction Motor (Rebuild) | 250 each | 5.271 |
| 88. Spare Parts for Water Pumps | - | .663 |
| 89. Sedans | 50 each | .281 |
| 90. Freight (Vehicles) | - | 2.325 |
| 91. Freight (Vessels - Demurrage) | - | .100 |
| 92. Chains, Shackles, Bolts | 1,550 MT | .422 |
| 93. Grinding Media | - | .319 |
| 94. Binding and Sticking Machinery | - | .535 |
| 95. Insulators Washers | 7 each | 1.105 |

COMMODITY IMPORT PROGRAM
ILLUSTRATIVE COMMODITIES (Cont'd)

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As of December 31, 1979

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| ITEM | QTY | \$ (MILLION) |
|--|----------|--------------|
| 96. Chemicals | 819 MT | .828 |
| 97. Navigation Control System | - | 16.610 |
| 98. Tobacco Conditioning Unit | 2 each | .397 |
| 99. Forklifts and Spare Parts | 62 each | 1.582 |
| 100. Printing Machine | - | 10.941 |
| 101. Hand Jacks and Insulator Electric Springs | - | .132 |
| 102. Electrical Equipment and Spare Parts | - | 1.512 |
| 103. Loader and Trailer (Excess Property) (SCA) | 5 each | .220 |
| 104. Road Markers | 2 each | .036 |
| 105. Rock Drills | 2 each | .450 |
| 106. Telephone Exchange, 2000 Lines | 1 each | .817 |
| 107. Drills, Bench Grinders | - | .051 |
| 108. Electrical and Workshop Equipment | - | 5.248 |
| 109. Utility Vehicles | 290 each | 1.985 |
| 110. Truck Tractor Unit 300 Ton Capacity | 1 each | 1.274 |
| 111. Miscellaneous & Nonemurated Products | | 2.551 |
| 112. Kenworth Truck Tractor/Trailer | 398 each | 22.492 |
| 113. Spare Parts for Kenworth Truck Tractor/Trailer | | 6.258 |
| | | <hr/> |
| | TOTAL: | \$1,131.354 |

| <u>Summary</u> | <u>\$ Millions</u> | <u>Percentage %</u> |
|---------------------------------------|--------------------|---------------------|
| Capital Equipment | 429.0 | 38 |
| Raw Material | 468.2 | 41 |
| Food Items | 234.2 | 21 |
| | <u>\$1,131.4</u> | <u>100%</u> |
| <u>Capital Equipment</u> | | |
| Remote Sensing | 1.2 | |
| Electronic Spares | 1.5 | |
| Marine Diesel Engines | 3.7 | |
| Spare Parts | 1.0 | |
| Trucks, Trailers | 12.5 | |
| Tractors, (Farm) | 17.2 | |
| Tractors (Construction) | 7.0 | |
| Buses | 53.7 | |
| Bus Spare Parts | 17.3 | |
| Construction Equipment | 2.2 | |
| Grain Unloaders | 3.0 | |
| Micro-Wave System | 32.4 | |
| Med/Dental Equip./Ambulances | 6.0 | |
| Railroad Spare Parts | 5.1 | |
| Broadcasting Equipment | 17.8 | |
| Food Machinery | 1.7 | |
| Tools Machinery | 6.0 | |
| Dredger Crane | 5.0 | |
| Cranes | 8.0 | |
| Textile Equipment | 7.3 | |
| Transformers, Generators | 50.7 | |
| Power Cable & Other | | |
| Related Equipment (Min/Electricity) | | |
| Mining, Welding, Tire Plant Equipment | 5.7 | |
| Water Pumps, Spares | 3.2 | |
| Micro Buses, Sedans | .9 | |
| Pick-Up Trucks | 6.9 | |
| Printing Equipment | 10.9 | |
| Refuse Collection Equipment | 12.4 | |
| Refuse Collection Trucks | | |
| Truck W/Dump Body | | |
| Truck W/Wrecker Body | | |
| Front End Loader | | |
| Tractor Dozer | | |
| Containers 2 & 3 Cu.Yd. | | |
| Refuse Bins | | |
| Air Conditioning Components | 1.3 | |
| Telecommunications System | 3.1 | |
| Salt Harvesters | 0.5 | |
| Traffic Control System | 8.1 | |
| Rail Wagons (Excess Property) | 1.8 | |
| Furnaces | 6.7 | |
| Match Making Machinery | 1.1 | |
| Refrigerated Rail Cars | 2.6 | |
| Street Lighting Equipment | 2.2 | |
| <u>Raw Material</u> | | |
| Tallow | 212.2 | |
| Cotton | 9.7 | |
| Kraft Paper | 8.9 | |
| Tinplate | 62.7 | |
| Coking Coal | 56.2 | |
| Graphite Electrode | 7.3 | |
| Wood Pulp | 18.8 | |
| Tobacco | 60.4 | |
| Acetate Tow | 22.6 | |
| Cigarette Paper | 2.0 | |
| Rubber/Plastics | 4.8 | |
| Herbicides | 1.6 | |
| Match Board | 1.0 | |
| | <u>TOTAL</u> | <u>\$468.2</u> |
| <u>Food Items</u> | | |
| Edible Oil | 86.2 | |
| Corn | 108.0 | |
| Frozen Poultry | 28.2 | |
| Soybean Meal | 10.6 | |
| (for Chicken) | | |
| Soybean Seed/Inoculant | | |
| (for Planting) | 1.2 | |
| | <u>TOTAL</u> | <u>\$234.2</u> |
| <u>Capital Equipment Cont'd.</u> | | |
| Telephone Exchange | .8 | |
| Private Sector | 31.3 | |
| Commodities (182 L/Crs) | | |
| Photo Supplies and | | |
| Equipment | | |
| Auto Spare Parts | | |
| Vehicles | | |
| Ice Making-and Ref. | | |
| Equipment | | |
| Hand Tools | | |
| Cranes | | |
| Tinplate | | |
| Pumps | | |
| Prefab Bldgs | | |

As of December 31, 1979 (Cont'd)

Capital Equipment (Cont'd)

| | | | |
|---------------------------------|------|-----------------------|------|
| Elevated Dry Dock | 1.1 | Hospital Beds (Excess | |
| Scientific & Medical Equipment | 2.2 | Property) | .6 |
| Traction Motors (re-build) | 5.3 | Miscellaneous and | |
| Navigation Control System (SCA) | 16.6 | Non-enumerated | |
| Utility Vehicles | 1.9 | Products | 11.6 |
| Truck Tractor (300 M/T Cap.) | 1.2 | | |
| Truck Tractors and Trailers | | | |
| (Kenworth) | 22.5 | | |
| Spare Parts for Kenworth | | | |
| Tractor/Trailer | 6.2 | | |

TOTAL \$1,131.4

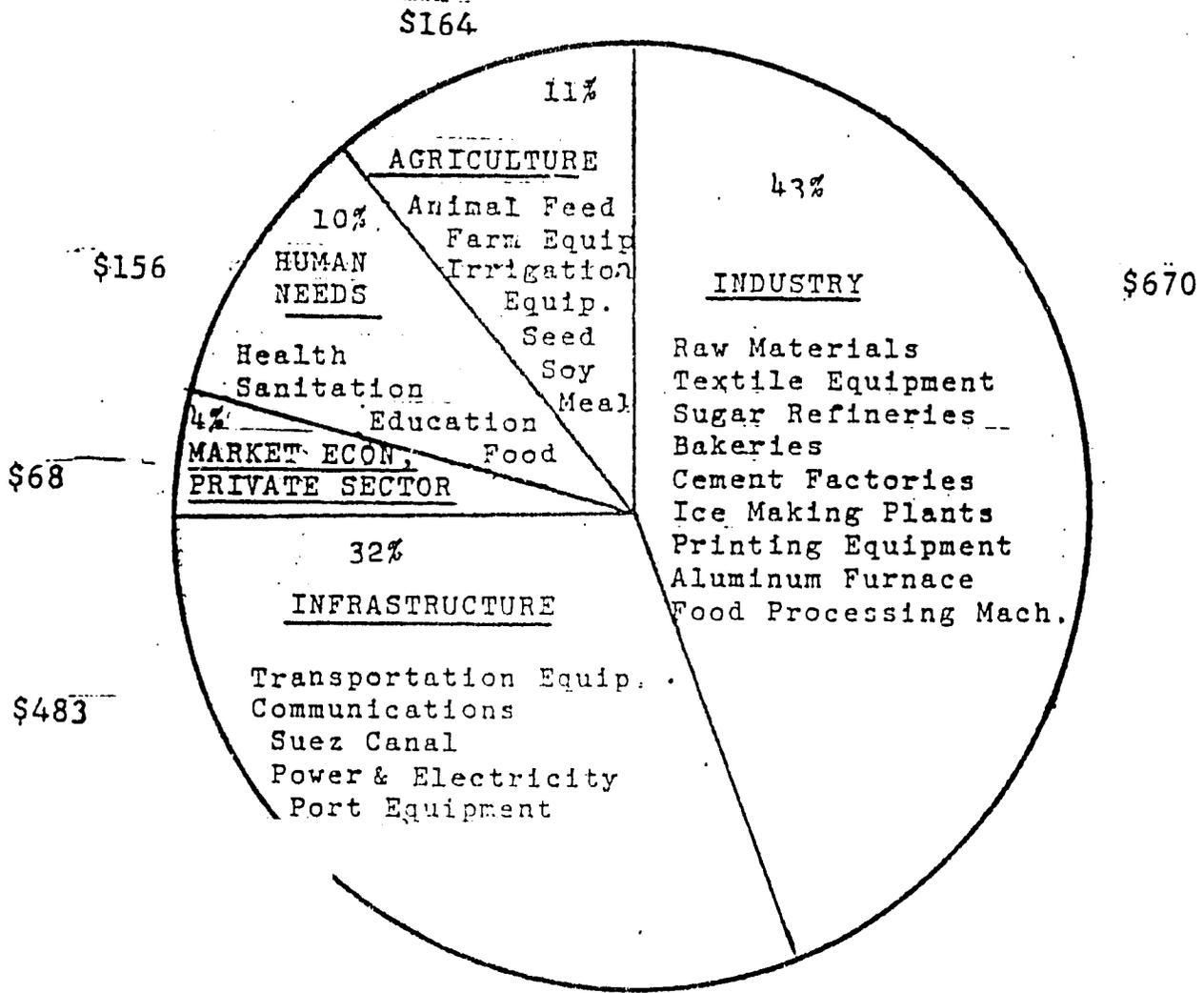
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COMMODITY IMPORT PROGRAM

FY 1975-79 \$ 1,540 MILLION

DEVELOPMENTAL ASPECTS

ALLOCATION BY SECTORS IN \$ MILLIONS



DISTRIBUTION OF CIP LOAN FUNDS

BY MAJOR INDUSTRIES

(As of December 31, 1979)

CIP USERS

| <u>Ministries</u> | <u>Allocations (\$ Million)</u> | <u>Number of Sub- Organizations</u> |
|---------------------------|--------------------------------------|---|
| Supply | 549.4 | 3 |
| Industry | 427.2 | 59 |
| Transport (Railroad) | 28.1 | 1 |
| Transport (Less Railroad) | 137.7 | 9 |
| Electricity | 78.5 | 2 |
| Trade | 10.5 | 5 |
| Agriculture | 23.0 | 2 |
| Information (OBTF-TV) | 20.0 | 1 |
| Information (Printing) | 31.0 | 3 |
| Health | 9.6 | 4 |
| Housing | 20.5 | 3 |
| Irrigation | 4.4 | 2 |
| Telecommunications | 34.7 | 2 |
| Higher Education | 21.1 | 11 |
| Local Government | 15.5 | 4 |
| Suez Canal Authority | 58.4 | 3 |
| Academy of Science | 1.2 | 1 |
| Cairo Dental School | 0.1 | 1 |
| Private Sector | 68.5 | 7 (Banks) |
| Civil Aviation | .6 | 1 |
| | <hr/> | <hr/> |
| | TOTAL 1,540.0 | 124 |

U.S. SUPPLIERS/BANKS

365 U.S. Companies have received purchase awards.

Individual orders range from \$10 thousand to \$24.9 million.

Average individual procurement transaction with single company total \$3.1 million.

Total of 16 U.S. banks acting as CIP Letter of Commitment banks and 9 Egyptian banks as approved applicant banks.

B. Sectorial Utilization of CIP

1. Since 1975, the GOE has designated nearly 11%, or \$ 164 million, of the total AID assistance program to the Agriculture sector. The percentage of the total CIP devoted to this sector has steadily increased and, for FY 79, amounted to 14% of the program. Some of the commodities financed under the CIP for the Agricultural sector include animal feed, farm machinery, irrigation equipment, improved seeds and inoculant, herbicides, and special purpose vehicles.

Approximately one million metric tons of yellow corn has been imported from the United States under CIP-financing. Nearly 700,000 MT of this yellow corn has been used as animal feed and is a major factor in the production of beef and poultry in Egypt. Specifically in the area of feeds, CIP-financing was also utilized to import \$ 10 million of soybean meal to upgrade poultry feed. In addition to the soybean meal, \$ 1 million of CIP funds were utilized to import improved soybean seed and inoculant. It is our understanding that recent improvements in the yield of soybean in Egypt, partly attributable to this assistance, is permitting the Ministry of Agriculture, through the General Poultry Company, to expect a surplus of nearly 28,000 MT of soybean meal this year, and shift this year's CIP allocation to the importation of fishmeal to provide additional nutrients in chicken feed.

The CIP has financed 2,400 farm tractors, which were assembled and marketed in Egypt. Transport equipment, including 480 pickup trucks and 40 utility vehicles have been delivered to assist agricultural needs in rural areas. On going activities included the CIP financing of locust control vehicles to assist MOA in counteracting potential locust crop damage near the Nubian frontier and 1,000 mobile spraying units needed in controlling weevil infestation of cotton crops in the Nile delta area.

2. Infrastructure Development

The GOE recognizes the crucial need to rehabilitate and renew its infrastructure. It allocates a sizeable amount of the capital equipment portion of the CIP to priority requirement for the power, transport and communications sectors.

(a) Power

While the high dam provides significant power generating capacity, the rapid increase in demand for electrical energy and power in Egypt, indicates the need for additional thermal power stations and generating equipment to those presently operating, as well as those under construction.

Furthermore, the power distribution and electrical transmission facilities of the ARE must be upgraded and expanded to accommodate the increased demand for power supply to include those areas of the ARE recently returned to administrative control of the Government of Egypt.

Utilizing approximately 10 million dollars of the 1979 CIP loan funds, the GOE presently is purchasing 30 Diesel Generator sets for utilization in 25 locations within the Sinai area, and an additional 25 megawatt (MW) Gas Turbine units, to be added to similar units already in operation to ensure continuous operation in supplying required electric power to the respective grid zones.

During the past five years (1975 - 1980), GOE has utilized approximately 51 million dollars of CIP loan funds for the purchase of electrical power generating and distribution equipment, i.e., Gas and Steam Turbine units, Mobile Transformer Sub-Stations, Mobile Diesel Generating sets, electric power cable and accessories, plus spare and repair assemblies and parts to increase the power generating capacity and operational efficiency of the GOE power sector.

In addition to these commodity purchases to increase and expand the power supply in areas throughout the ARE, AID projects being developed, such as the 220 KV Power Transmission Line, in the Suez Area, scheduled for completion on March 1981, will have a major impact on the electrical generating and distributing systems.

(b) Transport

The deterioration of the ARE transportation network indicates a need for an extensive requirement, and a high priority to be given toward improving all aspects of the GOE transport system. The deterioration of the Egyptian Railway System and the water transport facility resulted in a heavy reliance on truck transport which consequently adds to an already serious problem of heavy traffic congestion and inadequate road systems. Additionally, roads, bridges, railways, water transport and ports are not adequate to effectively cope with the measuring volume of cargo traffic. These delays in freight movement, port congestion and other related factors, have had an undesirable impact on the Egyptian economy, and an extensive and urgent rehabilitation program was desired by the GOE.

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Utilizing approximately 165 million dollars of the CIP loan funds during the period 1975 - 1979, the GOE purchased much of the equipment needed to improve the GOE transportation system. Approximately 34 million was utilized to purchase railroad equipment, i.e., freight cars (various types) purchased through the AID Excess property program; refrigerated rail cars to transport meat and fish; from port areas to the regions of Upper Egypt; repairs and spare parts and assemblies for locomotive; maintenance and ship equipment and allied equipment.

Additionally, at present the Railway Traffic Control System purchase from CIP loan funds (9.7 million dollars) is being installed to improve the efficiency and safety in the operation of the Egyptian Railway System.

CIP loan funds were used in the purchase of Marine Diesel Engines and Drive trains for the major Egyptian Water Transport Companies; navigational control system for the efficient operation of the Suez Canal Authority; Traction motors for the locomotives of the Egyptian Railways; trucks, tractor and trailers for the major heavy truck transport companies; and assorted heavy construction equipment for the major Road Construction companies of Egypt.

The improvement of Egyptian port facilities, Alexandria and Port Said, are being accomplished through AID project funds, devoted primarily for this purpose.

(c) Telecommunications

The telecommunications system of the ARE has previously suffered severely from a lack of investment capability and future planning.

AID has financed under the CIP loan funds the equipment required for a microwave program implemented in two stages, to provide immediate relief to the problem of Cairo's outmoded and overloaded telephone system.

The first stage is the interconnection of the Cairo exchanges through two tandem exchanges located at Abbasia and Ramses. The second stage is the connection of all local exchanges together to eliminate the need to have a call go through the tandem exchanges when calling from one local exchange to another.

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This microwave installation opens a total of 8,000 trunk lines between the tandem exchanges (Ramsis - Abbasia) and allows expansion to 17,000 circuits and 300,000 connections upon completion of both stages.

The GOE utilized a total of 35 million dollars of CIP loan funds for this procurement in two stages.

It is anticipated that the greater share of future assistance required for the telecommunications sector will be provided on a project basis.

C. Private Sector

In response to the Government of Egypt's policy to expand the role of the private sector in Egypt's economic development, A.I.D. has funded specific programs to assist their efforts. A.I.D. is currently providing \$68.5 million in CIP funds for financing eligible commodities and related services for private Egyptian importers. In FY-79, the GOE allocated 10% of its CIP (\$33.5 million) to the private sector and plans to allocate a similar sum in FY-80. Approximately 250 letters of credit to U.S. suppliers have been issued through five Egyptian Banks, totaling over \$45 million. Participating banks are responsible for evaluating the importer's financial standing, credit worthiness and the economic soundness of the proposed activity. USAID is responsible for verifying the commodity eligibility for proposed transactions. The GOE is providing incentive credit terms. Under those terms, the fledgling Egyptian private sector has better access to capital type imports, such as replacement machinery, spare parts, industrial raw materials, resale stock items, etc. The average transaction is approximately \$150,000. A single Egyptian Importer is not allowed to utilize over \$500,000 in CIP financing for like commodities a year. The GOE has stated that it will open up the private sector CIP to joint venture companies in FY-80, when such companies can demonstrate that they are producing goods for import substitution.

In addition to CIP financing for the more immediate needs of the private sector, A.I.D. has established several other programs to assist the private sector. Through the Development Industrial Bank, A.I.D. is providing medium-term financing of investment projects. A total of \$31.5 million in sub-loans has

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been provided for the establishment or expansion of business activities in Egypt. The DIB makes its own detailed evaluation of projects and heavy emphasis is placed upon economic benefits of the projects to Egypt's developmental goals. The Bank has approved approximately \$20 million in loans for business investment. A.I.D. is also providing \$30 million to establish a fund to co-finance, with designated participating banks, the expansion or renovation of industrial and other projects with total cost of at least \$1 million. The Private Sector Encouragement Fund is directed toward medium-term financing of larger sized investment projects and is available to Egyptian and joint venture companies. The Fund will provide loans and, in exceptional cases, equity participation for the procurement of U.S. equipment and services. This Fund is expected to be operational in early 1980, after completion of detailed arrangements with the Ministry of Economy, including designation of participating Banks, which are expected to be a wide range of public and private sector banks. In addition to the major private sector programs outlined above, A.I.D. is providing \$5 million for private sector investment studies, which will reimburse qualified U.S. firms up to 75% of the cost of producing pre-investment feasibility studies. It is expected that procedures for this project will be in place by March 1983. A.I.D. is currently exploring the desirability of an Industrial Free Zone project and a project to strengthen the information and promotion efforts of the Egyptian Investment Center.

D. Industry and Mining

Industry and mining including petroleum account for about 27 percent 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. The annual growth rate of real value added in non-petroleum industry increased sharply from -0.4% in 1973 to an average of 9% during 1975-77, but has fallen back to about 6% since then.

Foremost among the factors accounting for the improved performance of the industrial sector in 1975-77 period was the increased availability of foreign exchange. Furthermore imports financed under own exchange procedures have increased rapidly -- totaling about \$1000 million in 1979. With the greater availability of foreign exchange, and improvements in import procedures, imports of raw materials and spare parts increased substantially. This reduced substantially the level of slack industrial production capacity which had been estimated at about 30 percent at the end of 1973.

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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 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. As is evident by the recent slow down in industrial growth, policy reform and modernization are now the critical requirements for accelerating industrial growth.

E. Basic Human Needs

About 10 percent (\$157 million) of CIP funds has been allocated so far by the GOE to meet a number of basic needs, e.g., health, sanitation, education, and food. The CIP has financed 30,000 MT of frozen poultry (approximately 30 million birds) resulting in market price stabilization and incentive for the private sector to expand cold storage facilities. Close to 1 million tons of corn has been imported from the U.S., of which two-thirds was used for animal feed thus contributing to an increase in local production of poultry and beef. Another significant input has been the financing of 160,000 MT of edible oil which constitute an affordable nutritional substitute for expansive animal fats among the low-income population. In the field of health, the CIP has financed 140 ambulances for a newly created emergency medical service, and 6,000 hospital beds acquired under A.I.D. Excess Property Program. Worth mentioning in this context are the 480,000 MT of CIP-financed tallow which have gone into the production of 2.4 billion soap bars and practically eliminated previous periodic shortages. Also, the CIP has financed the purchase of 170 refuse collection trucks and 12,000 refuse containers and bins which are having a significant impact on the clean-up campaigns in the two major cities of Greater Cairo and Alexandria.

Under the FY 79 CIP supplemental grant, \$15 million has been earmarked in support of education (\$5 million for universities, \$3 million for a text book production system and \$7 million for basic education). This is additional to the \$2.6 million allocated to 11 universities under a previous CIP loan.

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Finally, the CIP-financing of such items as tinsplate, coking coal and scrap iron also helps the GOE to meet the population's basic needs. Over 100,000 tons of tinsplate have produced more than one million cans used for the preservation of beans, honey, fruit juices, etc., and also crown caps for dairy and pharmaceutical products. Coal and iron are used to produce reinforced steel bars which are in great demand as the GOE attempts to ease the housing shortage.

ANNEX C

FY 1980 Fertilizer Program

BACKGROUND

Total agricultural output has been lagging behind population growth in recent years. Yields of most crops although high are stagnant or increasing only very slowly. Fertilizer use, particularly of nitrogen, is higher than for most developing countries but at levels below what could appear to be optimal for the practically 100 percent irrigated conditions and favorable climate that prevail in Egypt. However use is curtailed by the system of rationing and controlled prices currently in operation.

Current Situation

In nutrient terms, approximately 545,000 MT of nitrogen and 92,000 MT of phosphate were distributed in 1979. For 1980, it had been planned to distribute roughly 605,000 MT of nitrogen and 130,000 MT of phosphate. While phosphate targets will probably be achieved, distributing the projected quantity of nitrogen fertilizers will necessitate much larger imports than earlier planned due to lower than previously expected local production.

Information provided by the Agricultural Crops Equalization Fund indicates that on a nutrient basis approximately 140,000 MT of nitrogen and 32,000 MT of phosphate would need to be imported to reach the 605,000 and 130,000 MT levels. To date, the government has arranged to import about 54,000 nutrient metric tons of N and the necessary quantities of phosphates and has authorized, but not provided the Foreign Exchange for the importation of an additional 62,000 MT of N.

A gap remains for N fertilizers. Filling the gap and even exceeding earlier distribution targets would stimulate agricultural production, would raise fertilizer use, particularly N, closer to levels to be provided by domestic production in 1981 and 1982, and would help change perceptions that fertilizers are scarce and should be rationed.

At the same time it appears that a change in fertilizer pricing policy must occur at some point. Due to rising fertilizer costs, and in spite of modest price increases to farmers, the fertilizer subsidy bill in 1980 is projected to be almost 40 percent higher than in 1979. Additional increases in the economic, if not financial, costs of this subsidy are likely in the future, if prices are not increased, as domestic production grows and application levels rise.

Recognizing there are other than purely financial or economic considerations, some efforts to raise fertilizer prices, if only to determine farmers response, seems justified. The provision of fertilizer with a lower subsidy while output prices were raised would perhaps be an optimum method of both reducing subsidies and maintaining farm income. But this would be a complex undertaking requiring careful analysis of effects on subsidies, farm income and government revenues. As a first step, it is suggested that additional fertilizer be provided at prices which reduce the subsidy to 50 percent of current levels.

Related to additional quantities of fertilizer and a change in pricing policy is the involvement of other organizations in handling and distributing fertilizer. The Principal Bank for Development and Agricultural Credit (PBDAC) performs well in supplying very large quantities of fertilizer to Egyptian farmers. Undoubtedly they could distribute larger quantities. However, if optimum input provision to the farmer is the target there are reasons to believe that several organizations simultaneously providing inputs might well provide better service. For one thing, different organizations reach different individuals. Also, there may be administrative difficulties for the PBDAC to handle fertilizers at different subsidy levels. It is suggested that all the additional fertilizer above amounts currently procured be handled by organizations other than the PBDAC to reach farmers effectively and to test the capabilities of different organizations to which the GOE may ultimately wish to give greater responsibilities.

Proposed Program

To provide a quick boost in production through raising fertilizer distribution closer to levels to be provided by domestic production by 1982 USAID proposes to increase the CIP level for FY 80 by \$50 million to permit the GOE to free Egyptian FX for additional fertilizer imports, i.e., GOE would provide

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FX for procurement of fertilizers from traditional supply sources while additional CIP funds would be utilized to finance other priority GOE import requirements. The \$50 million level will allow an increase in the N fertilizer amount of 60-75,000 MT so that total 1980 levels are roughly 12 percent over 1979 levels and 9 percent over MOA recommended levels. The amount would also cover an increase in phosphate fertilizer of 5 to 15 percent over 1980 targets.

As understandings and target objectives for the program, AID will propose the following:

1. A commitment by the GOE that additional nitrogen and phosphate fertilizers will be imported, raising the expected distribution levels in 1980 to 643,000 MT of N and 143,000 MT of phosphate.
2. A commitment by the GOE to proceed rapidly with procurement to enable distribution of additional fertilizer quantities for 1980 summer, fall and winter crops.
3. An agreement that farmers will be provided the additional fertilizer through one or more agricultural organizations other than the Principal Bank for Development and Agricultural Credit.
4. An agreement that the additional amounts of fertilizer will be sold without quantity restrictions based on farm size or cropping pattern.
5. Agreement that the additional amounts of fertilizer will be sold at prices which reduce the subsidy by at least 50 percent.
6. Agreement that agricultural input and output prices will be examined with a view toward raising prices where warranted. This would be undertaken prior to the next cropping season.
7. Agreement that a monitoring system for fertilizer distribution and sale, for assessing market demand for the higher priced fertilizer and to determine the actual usage of the additional fertilizer will be established.

USAID recognizes that although the GOE may agree to commit themselves to a program basically the same as that outlined above, external factors, bureaucratic red-tape, political issues and other unforeseen conditions, may inhibit the attaining of stated aims. To some extent the success of this program may have to be measured by the level of effort the GOE directs toward meeting their goals and the degree of progress achieved in implementing the program.

ANNEX D

EGYPT FY 80 C.I.P. LOAN

3A(2) - NON-PROJECT 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 Committee on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

The Committee were notified of this program in the amount of \$200 million in AID's FY 80 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%)?

The intended obligation for the program is within the level of funds appropriated for Egypt for FY 80. An "Advice of Program Change" will be transmitted to the appropriate Congressional Committee to cover the additional \$50 million.

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

No further legislative action is required to implement the program other than the customary ratification of the signed loan agreement.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

This program is not susceptible of execution as part of a regional or multilateral program. Assistance is not expected to encourage regional development programs.

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4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusion 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;
 - (f) strengthen free labor unions.

This program will increase the flow of international trade by providing the necessary foreign exchange for the importation of goods. A portion of the program assistance is earmarked for the Egyptian Private Sector, thus tending to foster private initiative and competition.

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 Egypt and the U.S. continue to grow and expand, we foresee this program as having a positive effect on trade patterns.

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 contractual or other services are being financed under the loan.

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

If U.S. owned-excess currencies are needed in support of program, their release by the GOE would be no problem. Presently, no use of such currencies is contemplated.

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B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

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

(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. FAA Sec. 533. Will assist under this chapter be used military or paramilitary activities?

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; (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

Not Applicable.

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).

B.

- (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;

B

- (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.
- c. FAA Sec. 207; Sec. 113. Extent to N.A. 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.
- 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(a); 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

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will it contribute to realizable long-range objectives?

- f. FAA Sec. 201(b)(6); 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)

- 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. N.A.
- 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.)

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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 fundings 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. 601(a). 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.

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 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

Yes.

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?

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. 104(b) 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.

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- 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.
- 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 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.