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UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

EGYPT: FY 1985 COMMODITY IMPORT PROGRAM

AID GRANT NO. 253-K-610

UNCLASSIFIED

EGYPT: U.S. FY 1983 CIP ASSISTANCE
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PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	AID Grant No. 263-K-610	
	PROGRAM ASSISTANCE APPROVAL DOCUMENT	Egypt	
		Commodity, Standard Financing Procedure	
		DATE	
TO: Frank Kimball Director, USAID/Cairo		6. OYB CHANGE NO. Not Applicable	8. OYB INCREASE
7. FROM: George Laudato AD/DPPE <i>g. Laudato</i>		TO BE TAKEN FROM:	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 200,000,000		10. APPROPRIATION - ALLOTMENT	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 8/85 - 8/87	14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date

15. COMMODITIES FINANCED
Items appearing in the A.I.D. Commodity Eligibility Listing that will be eligible for financing under this loan. Priority items are expected to include food commodities.

16. PERMITTED SOURCE U.S. only: \$200,000,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: \$200,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION
Egypt's balance of payments position remains characterized by fundamental structural weaknesses. Export earnings are heavily concentrated in petroleum, workers' remittances, the Suez Canal and tourism. While earnings from these sectors, especially petroleum and workers' remittances, grew very rapidly through 1980, they leveled off in 1981/82 and their future growth potential is not buoyant. Supplements to export earnings must be developed in the commodity producing industrial and agricultural sectors in order to meet the import requirements for sustaining favorable trends in production, consumption and investment; however, it is necessary to change a range of domestic economic policies in order to accomplish this. Such changes are difficult to bring about. Reflecting these factors, Egypt's current account deficit is probably increasing by about 450 million dollars from 1983/84 to 1984/85. A continuation of balance of payments assistance through the CIP is essential to provide vitally needed imports and to assist this adjustment process.

19. CLEARANCES LEG: K O'Donnell <i>KFM</i> AD/IM: T McMahon <i>TM</i> AD/IS: D Pressley <i>DP</i> IS/CMT: W Gill <i>W</i> DPPE/PAAD: D Dodson <i>DD</i>	DATE 3/4/85 3/6/85 3/6/85 6 Mar 85 March 7, 1985	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <i>Frank B Kimball</i> AUTHORIZED SIGNATURE DATE 3/6/85 Director USAID/Cairo TITLE
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I. U.S. OBJECTIVES

The proposed FY 1985 CIP assistance package has both political and economic objectives. The immediate political objective is to demonstrate the continuity of U.S. support for the Mubarak government and its continuation of policies supportive of U.S. political objectives for a comprehensive and durable peace settlement 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 among all countries in the region. The cooperation of Egypt, the principal Arab country, is essential for these purposes. The 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 that 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 (a) sustaining domestic political stability; (b) avoiding abrupt short-term deterioration in the standard of living of the population; and (c) obtaining sufficient foreign resources to permit a continuing development effort. The overall objective of U.S. assistance to Egypt is to foster economic and social development that 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 dependence on foreign assistance, at least over the next few years, justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt.

The economic objective of U.S. CIP assistance is to help sustain Egyptian consumption, investment and production levels by providing a portion of the foreign exchange these require. The import requirements to sustain current levels of consumption and production cannot now be financed solely on the basis of market-determined sources of foreign exchange as merchandise and service export earnings and private capital inflows. The main current sources of foreign exchange revenues are petroleum, workers' remittances, tourism and Suez Canal revenues. The development of substantial increases in Egypt's exports of agricultural and industrial products as additional sources of foreign exchange offers the best hope for raising future foreign exchange earnings, but that process will be a lengthy one. In the meantime, sustaining some growth of the Egyptian economy from its present level of activity will require continued concessional and flexible balance of payments assistance of the type provided by the CIP.

Although the CIP is in itself essential to development by easing the balance of payments constraint on productive activity, an effort will again be made to give the program a stronger direct orientation toward investment uses by earmarking half of the proposed \$200 million in FY 1985 CIP funds for imports of capital equipment. The remaining \$100 million of CIP

assistance would be used to provide more traditional balance of payments support in the form of purchases of industrial raw materials, intermediate inputs, and direct consumables. If mutually agreed upon by AID and GOE, funds may be shifted between these two categories in response to priority development needs.

II. BACKGROUND AND CIP JUSTIFICATION

A. Recent Economic Developments

1. Balance of payments: During the period 1965-1974, the Egyptian economy grew in real terms by only 3% annually and experienced severe pressures in its balance of payments as problems stemming from a trend of stagnating exports and rising domestic demand were exacerbated by the burden of defense expenditures. However, between 1975 and 1980, Egypt's real economic growth soared to some 8% annually and balance of payments pressures were substantially relieved through a surge in foreign exchange receipts from expanded petroleum exports, earnings from the Suez Canal, tourism receipts, supplier credits, and emigrant remittances. This surge is graphically portrayed in the following table:

TABLE I
PRINCIPAL FOREIGN EXCHANGE RECEIPTS
(\$ Billion)

	<u>1975</u>	<u>1980</u>
Petroleum	0.4	2.7
Suez Canal	0.1	0.7
Tourism	0.4	0.8
Supplier credits	0.4	0.8
Worker remittances	0.4	4.0
	<u>1.7</u>	<u>9.0</u>

With annual petroleum export receipts declining slightly from the peak of \$3.3 billion reached in 1981/82 and with receipts from other foreign-source earnings rising slowly, real economic growth has subsided to an annual average rate of about 4 to 6 percent. Petroleum export receipts are likely to continue to be level as the effect of modest production increases is offset by the recent weakening of prices, continued rapidly rising consumption, and higher foreign company-owned shipments. An equally disquieting development has been the stagnation in domestic production and exports of agricultural and industrial commodities. While the production of onions, potatoes and some fruits has expanded significantly since 1977/78, the production of wheat, cotton, rice, maize and millet has stagnated. Production of most industrial commodities has increased little and, on an overall basis, industrial exports have declined in real terms from the \$882 million achieved in 1978. There was a hopeful 28% surge in the value of non-petroleum exports during 1983/84, following at least four years of declining real exports of such commodities.

Stagnation in the international oil market and the disproportionately large drop of Arabian Gulf exports have dampened the use of the Suez Canal, and, for the foreseeable future, are likely to preclude any significant expansion in toll revenue from the current \$1.0 billion annual level.

A major recent disappointment to GOE officials is the current fall in workers' remittances. Through mid-1984, remittances had risen by an estimated 25 percent annually for two years with the assistance of relatively liberal and improving incentives for conversion of foreign earnings into local currency. However, crackdowns upon (illegal) parallel market dealers during 1984 and the introduction of new exchange market regulations on January 5, 1985 have caused a major reduction recently in estimated receipts of workers' remittances. During the first two months after introduction of the new exchange market regulations, conversions of remittances fell by an estimated 35 percent from year-earlier levels. Assuming that the GOE will act soon to restore improved incentives for conversion of workers' remittances, we currently project only a modest reduction in foreign exchange receipts for 1984/85 as compared to 1983/84 (See Annex A, Table II.B). If the foreign exchange rate for workers' remittances becomes truly flexible and attractive and the overall business climate improves, the workers' remittances are likely to resume a modest upward trend in future years. An inauspicious economic outlook for the oil economies of Iraq, Libya, Saudi Arabia and Gulf States probably precludes a rate of expansion in remittances as robust as that of the early 1980s. Moreover, if Egyptian exchange market and other economic policies continue to appear threatening to remittances, there may indeed be a continuing decline in such receipts.

Since the sources of export receipts and domestic economic growth identified in Table I above have all levelled off and now show doubtful or uncertain prospects for future growth, Egyptian planners and foreign donors look toward development of agriculture and industry as the major future stimuli to the economy. Growth in these two sectors is needed to provide export earnings, improve productivity, and maintain opportunities for gainful employment required for favorable economic performance.

Imports have been flat over the 1980/81-1982/83 period, and sharply rising imports of food was the main cause of a billion dollar rise in imports during 1983/84. We project imports to be flat over 1984/85 as a whole, although the erection of new non-tariff barriers to imports (under the so-called "import rationalization" system) in January 1985 and the confusion attendant upon the new foreign exchange regulations are apparently causing a sharp 35-50 percent reduction in private sector imports.

Reflecting the various factors listed above, the Egyptian current account deficit for 1984/85 is probably increasing by \$450 million, and the small overall balance of payments surplus of the previous year is expected to be followed by a modest deficit for 1984/85.

2. Domestic developments: The major macroeconomic features of the economy in recent years have been a persistently high budget deficit and a declining (though still high) level of investment relative to GNP. These developments have not yet led to accelerated growth in bank credit or to escalation of Egypt's 15-20 percent annual rate of inflation. Rising levels of foreign official financing, including higher disbursements of U.S. economic and military assistance, have partly insulated the GOE from the need to reduce its fiscal deficit.

At its own initiative, the GOE announced in August and September 1984 its intention to reduce the fiscal deficit for 1984/85 and to curb growth of subsidies within the budget. Several measures have been introduced or announced to reduce subsidies for cigarettes, bread, cotton cloth and a few other products. President Mubarak has also solicited and received from universities and others a number of proposals for reduction of the burden of subsidies over future years.

Hopefully, this initiative by President Mubarak will lead eventually to a comprehensive set of reforms in pricing policies of the GOE for energy, agricultural products, industrial products and foreign exchange, so as to encourage production efficiency, discourage uneconomic consumption, and channel new investment into Egypt's areas of comparative advantage -- as well as to reduce the budget deficit.

To date, the GOE has moved slowly on price reform in order to cushion or minimize the disruptions or income losses occurring to some firms and households. If the GOE were to adopt more vigorous adjustment policies, donor assistance through both project and non-project modes could alleviate the adverse effects of this adjustment process. The most disappointing aspect of the GOE's price reform program in recent years has been the failure to attack the enormous (over LE 5 billion annually), rapidly growing burden of energy subsidies for the economy. These subsidies serve no well-conceived social welfare objective, lead to major distortions in the allocation of investment in the economy, and encourage highly wasteful patterns of energy use by industry and other consumers.

Through a meaningful escalation of real energy prices (probably requiring compensatory wage adjustments to avoid any decline in households' real purchasing power) and through adjustment of other prices to economic levels, by clearing up the confusion on exchange rate reform through a forthright move towards a flexible, unified system, the GOE could simultaneously achieve a reduction in its ominously large budget deficit and help to restrain effectively the current account deficit in the medium term.

B. Economic Justification

It will take considerable time and difficult policy reforms to place Egypt's balance of payments performance and development process on a more self-sustaining basis. During this period, the U.S. assistance program will need to achieve an appropriate accommodation between flexible, development-related balance of payments support and project assistance. Non-project assistance, in the form of the commodity import program (CIP) and PL 480, can be as "developmental" as project assistance. By easing the balance of payments constraint on economic activity and making available intermediate inputs and investment goods to agriculture, industry and other sectors of production, the CIP is a significant element in keeping the Egyptian economy functioning. The flexible character of the CIP program will enable the U.S. to respond quickly to assist Egypt in meeting sudden balance of payments pressures that may arise.

The 50-50 allocation between capital goods and intermediate goods and consumables is tentative; it may be necessary to reallocate funds from one category to another, after review of development concerns and CIP implementation patterns. Such transfers within the grant would not require amendment of the PAAD.

C. PL 480 Title I, II and III

From FY 1975 through 1984, the U.S. financed \$2.17 billion in PL 480 Title I and III commodities. The present annual programming level is \$225 million. The major portion of this assistance has been for wheat grain and flour. The wheat provided has been a critical element in meeting the demand for this basic foodstuff by the growing Egyptian population.

Title II grant obligations from FY 1975 through FY 1984 totaled \$151.9 million and have been used to support feeding and MCH programs in Egypt.

These PL 480 shipments complement CIP-financed shipments of corn, vegetable oil, tallow and of other consumer goods in helping to provide a higher level of domestic consumption than Egypt's stringent balance of payments situation would otherwise permit.

D. Impact on U.S. Balance of Payments

The long-term impact on the U.S. balance of payments will be favorable. The grant will be spent on U.S. goods and services. It will permit U.S. suppliers and exporters to strengthen recently developed trade relationships as well as create new ones. Past experiences indicate that future follow-up orders for machinery and spare parts will result in additional U.S. exports on a commercial basis.

Announced in December 1982, the GOE Five-Year Investment Plan for 1982/83 - 1986/87 indicates that total aggregate investment during the five years will equal LE 35 billion in 1981/82 prices (\$42 billion at the present LE 0.84 per dollar official incentive commercial bank rate of exchange). A large proportion of the equipment component of total investment and a good part of the major construction services are imported.

Although part of the capital goods imports will be tied to donor countries, much will be financed by the GOE and opened to international competitive bidding. As a result of trade relationships developed under the CIP, it is expected that U.S. suppliers should be able to win a substantial share of the bidding.

III. CIP IMPLEMENTATION

A. Past Experience

Since 1975, 18 CIP agreements have been signed obligating a total of \$3.1 billion. This figure compares with total U.S. commitments of \$9.7 billion since 1975, of which \$2.3 billion has been allocated for PL 480 commodities (see table II). Against these CIP obligations, over 4,000 letters of credit were issued to U.S. suppliers, and disbursements totaled \$2.5 billion through September 1984. FY 1983 and 1984 disbursements were \$302 and \$285 million respectively. Data on the 18 CIP agreements are presented in table III with respect to obligations, letters of credits, disbursements and initial and terminal shipping dates.

Sectoral allocations of CIP funds are presented in Figures I and II and in Table IV. From FY 1975 through FY 1984, industry has received the largest share of funds at 40% (\$1,246 million), followed by infrastructure at 29% (\$877 million), basic human needs at 10% (\$300 million) and agriculture at 16% (\$516 million). During FY 1982-FY 1984, these four sectors received allocations totaling (\$million) 341, 219, 50 and 283 respectively. The Ministry of Supply has been the largest receiving Ministry during the last nine years at 1,073 million, followed by Industry at \$858 million, Transport at \$295 million, Electricity at \$174 million and Information at \$ 107 million. The Private Sector has received \$138 million in allocations.

The principal industries supplied with raw materials, spare parts and equipment have been textiles, sugar, bakeries, cement, printing, aluminum and food processing. Past assistance to the power sector emphasized rehabilitation of stations and transmission systems as well as new generating equipment especially in Cairo, Suez, the Aswan Dam and the Sinai. The transport sector has been assisted with buses, railroad rolling stock, freight cars, refrigerated rail cars; locomotives; railway maintenance and signalling equipment; Suez Canal radar equipment; marine engines and boat maintenance equipment trucks; tractors, trailers, forklifts, and road building machinery and maintenance equipment. The telecommunications program embraces a \$ 62 million microwave system for Cairo permitting 8,000 new trunk lines and 300,000 new subscribers, a \$11 million microwave junction program for Alexandria, and radio and television transmitters and antenna systems.

Agriculture assistance has embraced shipments of corn, soybean meal, and fishmeal, mainly for use in raising poultry; vegetable seeds; insect spraying equipment; peanut shelling and roasting equipment; vegetable oil processing equipment; irrigation equipment; farm tractors, utility vehicles; and repair parts.

Assistance in the health sanitation and food sectors has included 275 ambulances; over 10,000 hospital beds; X-Ray machines and other hospital equipment; 400 refuse trucks; over 15,000 garbage containers; fire trucks; over 800,000 tons of tallow; laboratory, teaching and vocational equipment, printing equipment; library supplies; testing equipment; frozen poultry and edible oils.

Breakdowns of the commodities financed under the CIP through fiscal year 1984 are given in tables VI and VII. Food items have totaled \$551 million, capital equipment \$910 million, and raw materials and other commodities \$1,162 million. The most important commodities have been corn; tobacco; tallow and other inedible oils; vegetable oils; frozen chickens; coking coal, iron/steel strips; agricultural and food machinery; printing machines; transformers, generators and motors; radio and radar apparatus; and motor vehicles.

B. Evidence of Development Impact

During the second and third quarters of 1984, Price Waterhouse Khattab and Development Associates completed an impact evaluation of the CIP. The tenuous character of the overall conclusions is related to the much greater significance of other forces acting on Egyptian balance of payments and budget and on the necessarily still small size of the sample of companies interviewed: USAID/Cairo authorized contract amendments to expand the number of companies interviewed to forty.

With total imports and capital goods imports relatively static since 1980/81 at roughly nine and two billion dollars per year respectively, CIP imports have covered a relatively constant 4% and 7% respectively of these requirements. The rapidly rising budgetary deficits have caused the relative contribution of the CIP towards meeting them to fall: from 12% in 1980/81 to 5% in 1983/84. The overall macroeconomic conclusion is that the CIP has provided the COE "a safety net" for continuing to import vitally needed commodities from the United States.

Conclusions at the microeconomic level are necessarily illustrative and dependent upon the personal perceptions of the interviewees. Examples of these comments follow regarding their impressions on the use of CIP financed equipment and materials: 1) the importation of steel bars for canning and construction uses has supported the expansion of these sectors; 2) the Suez Canal Authority has noted improvements in the control and safety of canal traffic through new tracking and monitoring equipment; 3) Cairo and Alexandria municipalities have noted better coverage in refuse collections and improved sanitary conditions for their employees; 4) The sugar refinery has noted an improved product quality; 5) New machinery enabled a textile firm to develop new product lines using synthetic fibers in place of cotton. Pretreated chemicals and dyes appear to be providing better health and safety conditions for laborers; 6) The Egyptian National Railways noted increased ability to offer dependable and expanded

services; 7) new equipment for the production of corrugated containers has assisted critically in export promotion efforts for fruits and vegetables. There has also been a significant stimulus to the use of local starch and printing materials.

We are not satisfied that current allocation procedures lead to satisfactory fulfillment of the developmental potential of the Commodity Import Program. Accordingly, we intend to initiate discussions with the MPIC under the FY 85 program to review the criteria MPIC uses to screen the Ministry and public sector organization submissions and to justify the final selections. We also envision that USAID will prepare suggestions to MPIC on commodity procurements to be funded by the CIP for FY 1985 -- both prior to the initial MPIC allocation among ministries and between the time that the tentative organization allocations are made and our receipt of the commodity lists. If such procedures cannot be developed or if the results do not appear to lead toward a material enhancement of the developmental impact of CIP procurements, USAID will prepare a proposal for a phase down and discontinuation of the CIP and its replacement with other project or program activities.

C. Administrative Provisions

1. The allocation process: The CIP program is administered on a government to government basis, with the Ministry of Planning and International Cooperation (MPIC) acting as the coordinating body on the Egyptian side. Proposals for the use of CIP funds are prepared by public sector organizations and Ministries and are then reviewed by the MPIC. The procedures under earlier CIP programs have been that the approved list of allocations is transmitted to USAID and, in the case of capital equipment, there is a certification that the equipment is in the purchaser's development budget. The list is circulated to all USAID Associate Directors for any expressions of concern before final USAID concurrence.

2. The acquisition process: Once the allocation procedure between USAID and MPIC is completed and the prospective purchasers are identified, the USAID/Cairo Office of Commodity Management and Trade works closely with the purchasers and with M/SER/CCM in AID/Washington to develop and refine technical specifications for the desired commodities. When formal tender documents are made final, the issue is made through the Egyptian Embassy in Washington, D.C. Advertising is accomplished through a series of AID-issued bulletins and the Commerce Business Daily. Purchasing committees in the public sector organizations analyze the supplier proposals and notify USAID/Cairo on their decisions of contract awards. After approval of the awards, standard bank letters of credit will be issued to the awardees or, in a Direct Letter of Commitment.

The purchasing committee is usually appointed by each entity's central controlling organization, but, 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. There are over 120 separate public sector organizations participating in the CIP, purchasing either as the ultimate user or as a buying authority for several satellite members.

GOE procurement practices, traditionally followed with the use of GOE-owned foreign exchange and other donors' aid, 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 ongoing 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 delay disbursements. However, continued use of CIP funds by the same organizations, familiarity with each other's (A.I.D. and GOE) procedures, and greater A.I.D. flexibility on negotiated procurement have all contributed to an accelerated CIP utilization.

Other recent procedures for prompt CIP utilization include:

- Proposals for funding of less than \$1 million are to be discouraged.
- Concentrating on repeat purchases of replacement equipment already defined and successfully purchased under past CIP programs.
- Avoiding, where possible, custom-built commodities, or equipment with unusual specification development/review requirements.
- Confining low unit-value purchases to high volume orders for standard packages (e.g., the "basic education package"). Screening the intricate and diverse requirements for laboratory equipment, for example, required an inordinate amount of staff time. We are recommending that educational institutions use a Procurement Services Agent to assist in the preparation of specifications for desired equipment.
- Concentrating procurement activities on GOE agencies with a proven track record in effective and timely implementation. A certification of liquidity and the reallocation of funds now are required if procurement contracts are not produced within six months after allocation. This new requirement should permit a by-passing of several end-users that have delayed excessively in providing specifications or in making contract awards.
- A streamlined preparation and review of specifications by M/SER/COM and its support contractor have accelerated the flow of tender documents from AID/W.

- with respect to capital equipment purchases, many users are providing a structured justification of the feasibility and appropriateness of procurement packages and their specifications before an allocation of CIP funds is made. The user agency certifies that necessary action has been taken to permit the immediate and effective use of the commodities: before a tender is issued, the equipment site will be prepared and the building where the equipment will be installed will be erected. There will also be plans for the installation of the equipment, and for operating and maintaining it. The USAID will continue to finance through the CIP such planning, training and technical consultant services as will help to speed up the preparation of good proposals for the procurement of capital equipment.
- In only rare cases, will procurements be approved for equipment requiring installation at multiple sites or or requiring installation time of more than one month.

3. Other provisions: The new certification of liquidity has combined with a strengthening of GOE credit terms in causing difficulty in some proposed CIP transactions. Starting in 1982, the GOE has required end-users who do not pay cash to finance their purchases "at the highest rate set by the Central Bank at the time of L/C opening." The rate then varied from 5 to 10% depending upon the category of end-user. Beginning with the 1983 program, this rate was redefined as the "highest prevailing rate for industry set by the Central Bank at the time of L/C opening." This rate is currently 13% less a standard 1% discount and is expected to remain the same for the 1985 CIP. We are continuing contacts with the MPIC and the Ministry of Finance to ensure that these interest rates are in fact applied. In earlier contacts in September 1984, USAID officials were surprised to learn that the Ministry of Finance was applying lower interest rates for public sector firms. (Interest rates under the private sector production credit program are agriculture 11%, industry 13%, services 13-15% and traders i.e. outside the end-users 16%. In early March 1984, the Minister of Economy issued instructions to the Central Bank for applying the 1% interest rate discount on the capital goods imported through the production credit program). The other terms on the loans will remain the same for the 1984 CIP e.g. minimum down payment 25% and repayment in five annual installments for capital goods and in two annual installments for intermediate goods. As part of the new procedures in installing the approved accounting system for Special Account deposits, any proposed procurements for end-users with outstanding arrears will be disallowed until the payment of such arrears.

"Set aside" relief from these credit terms is normally given only to institutions which are non-revenue producing and provide essential public services.

The grant agreement will continue to specify that "grantee will make such deposits at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of Egypt." In view of recent changes in the GOE's foreign exchange system and the marked depreciation of the Egyptian pound during the last two years in two of the tiers of the system, negotiations have been completed to revise the rate applicable to the deposits into the CIP Special Account. Unless there are further significant developments beyond the changes announced by the GOE on January 5, this rate will be \$1 equals 91 piasters.

C. Allocation of Funds

In a side letter to the 1984 Cash Transfer agreement dated October 13, 1984, the Government of Egypt made a commitment that "during fiscal year 1985, it will continue to import bulk corn on a competitive basis under the A.I.D.-financed Commodity Import Program at approximately the same average level as in the past five years." This requirement has been agreed to in deference to maintaining opportunities for US-flag carriers. We have determined that the average level to be met is \$62 million. We are proposing that for fiscal year 1986, the minimum level for food staples and industrial raw materials be set at least that level and the maximum level at \$100 million. The minimum level for capital goods will be set at \$100 million. The final allocation between capital and other goods will be mutually agreed upon between MPIC and USAID, taking into account development concerns and CIP implementation patterns.

The allocation experience to date for capital goods (including spare parts) has been 54% under agreements 055,601,602 and 603, 43% (including the amount reserved for TFF) under agreement 604 with 3% unallocated, and 55% (including the amount reserved for TFF) under agreement 606. The Mission is anticipating increased use of the TFF under the Commodity Import Program during FY 1985 (See Annex C). Over the next year, the Mission will be evaluating the Damanhour approach to TFF and may be revising the TFF circular to reflect this experience.

IV. LEGAL PROVISIONS

A. 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 that was entered into on October 15, 1978, the Government of the Arab Republic of Egypt was to establish a Special Account in the Central Bank of Egypt and to deposit therein currency of the Government 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. The Special Account was established in conjunction with the FY 1979 Supplemental Commodity Import Program Grant.

The FY 1982 CIP Agreement and subsequent agreements stipulate that in cases where credit terms are provided for imports under the CIP, deposits to the Special Account are made in accordance with the debt service schedule associated with these credit terms. Since there have been indications that many of these deposits have not been made on a timely basis, the FY 1984 CIP agreement stipulated the establishment of an improved accounting system to assure tighter control over these deposits into the Special Account and to establish better accountability. This system requires that for cash purchases, importers pay 100 percent of funds when a bank L/COM is used and 25 percent of funds when a direct L/COM is used, with the remaining 75 percent paid before release of shipping documents. For credit purchases, importers must pay 25 percent before the AID Financing Request or bank letter of credit is issued and must sign a promissory note for the remaining 75 percent before shipping documents are released.

In January 1985, the GOE completed the installation of this system in the local banks and the Central Bank of Egypt which will prospectively account for all CIP grant transactions. With assistance from Price Waterhouse and Watson Rice & Co., USAID had designed and installed a computerized Counterpart Accounting System which will retroactively account for all CIP grant transactions.

The importers having arrearages from past CIP transactions have been identified and agreement has been reached with MPIC that such importers will not be allocated further CIP funds until the delinquent balances are resolved. Exceptions will be granted on a case by case basis by the Mission Director only if the commodities to be imported are critically required for economic, humanitarian or other reasons. The USAID delivered to the GOE on February 3 two implementation letters incorporating these understandings. We will continue to work with MPIC to reconcile the several discrepancies in records on transactions between the two accounting systems in order to expedite the full collection of arrears.

B. Condition Precedent to Disbursement.

Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the 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 statement representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each person.

C. Covenants

1. The Grantee will maintain a Special Account in the Central Bank of Egypt and will deposit therein Egyptian currency in amounts equal to the proceeds of the importation or sale of eligible items, except as A.I.D. may otherwise agree in writing. Funds in the Special Account will be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee and otherwise specified in the agreement.

2. Periodically, but no less than twice annually, the 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.

3. A proposed allocation, for the year following the signature of this Agreement, of Egyptian currency generated under the Commodity Import Program for item I of the Memorandum of Understanding Regarding the Special Account.

D. General Terms

1. Unless A.I.D. otherwise agrees in writing, any set-asides or extraordinary allocation of funds shall be agreed to by A.I.D. and the Ministry of Planning and International Cooperation and set forth in Implementation Letters.

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

3. Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty-six (36) months after the Conditions Precedent have been met.

4. Labor services for the rebuilding of railway equipment are authorized to be financed.

5. None of the proceeds of this Grant may be used for financing military requirements of any kind, including the procurement of commodities or services for military purposes.

6. Short-term technical advisory and training services in addition to those specified under Regulation I may be agreed to by A.I.D. and the Ministry of Planning and International Cooperation on a case-by case basis where such services would contribute to the proper operation, maintenance, or application of commodities financed by A.I.D.

7. The grant shall be subject to such other terms and conditions as A.I.D. may deem advisable.

TABLE II
EGYPT: BALANCE OF PAYMENTS
I.T.A. MERCHANDISE TRADE

(In Millions of Current Dollars)

<u>Transaction</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>Projected 1984/85</u>
Exports: Total	4,405	3,892	4,556	4,500
Goods except Petroleum	1,076	1,085	1,396 ^{1/}	1,400
Cotton	291	314	452	
Other agricultural products	157	159	211	
Industrial products	628	612	733	
Petroleum	3,329	2,807	3,160	3,100
Crude oil ^{2/}	2,600	2,182	2,420	2,400
of which:				
Excess cost				
recovery oil ^{2/}	778	695	640	
Refined products and bunkers	729	625	740	700
Imports: Total ^{3/}	8,600	8,300	9,300	9,500
Food	2,221	2,395	3,115	
Capital goods	2,224	2,382	2,150	
Other	4,155	3,523	4,035	
Trade Deficit	4,195	4,408	4,744	5,000

Footnotes and Sources on following page.

II.A. MERCHANDISE TRADE (CONT'D)

1/ The recorded exports may not fully reflect the use of the free market rate for most exports other than petroleum and cotton and may consequently be over-estimated.

2/ Shipments of foreign partners' profit share and cost recovery are not included by Egypt in its recorded exports or in those reported by the International Monetary Fund. For example, the tabulation on p. 96 of the IMF's ARE - Recent Economic Developments, SM/84/119 of June 15, 1984 reports Egypt's share only, including receipts of excess cost recovery petroleum. If the unit values for the foreign partners' cost recovery shipments during these four years are assumed to be the same as for the Egypt share shipments, then these foreign partners' share shipments are valued as shown below.

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>Projected 1984/85</u>
<u>Million tons:</u>				
Foreign partners cost recovery shipments	2.3	2.9	3.0	3.3
Profit share shipments	<u>3.7</u>	<u>3.9</u>	<u>4.5</u>	<u>4.7</u>
TOTAL	6.0	6.8	7.5	8.0
<u>Billion dollars:</u>				
TOTAL	1.34	1.38	1.45	1.50

3/ Imports financed through some civilian grant assistance as well as military shipments and credits are unrecorded in official statistics. Equipment brought in by foreign oil companies valued at \$650-750 million annually is also unrecorded either as imports or as direct investment. The current account deficit and capital account transactions are correspondingly under-estimated. The figures may not, however, fully reflect the increasing trend for import transactions taking place at the free market rate and to that extent may be over-estimated.

Sources: Petroleum data from Egypt General Petroleum Company, other data from Central Bank of Egypt. 1984/85: mission projection.

EGYPT: BALANCE OF PAYMENTS
II.B. SERVICES

(In Millions of Current Dollars)

<u>Transaction</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>Projected 1984/85</u>
Service Receipts: Total	5,858	6,665	7,256	7,100
Suez Canal Dues	909	957	974	1,000
Tourism ^{1/}	611	551	557	600
Worker remittances ^{2/}	2,070	2,770	3,350	3,300
Cash (Official)	680	1,110	1,270	
Own-exchange imports	1,390	1,660	2,030	
Investment income ^{3/}	1,583	1,267	1,360	1,200
Other	685	1,120	1,025	1,000
Service Payments: Total	3,550	3,521	3,765	3,800
Investment Income and Interest on Debt ^{3/}	1,837	1,666	1,720	1,800
Travel & Government	486	555	545	500
Other payments	1,227	1,300	1,500	1,500
Services, Net	2,308	3,144	3,501	3,300
Current Account Deficit	1,887	1,264	1,243	1,700

^{1/}Includes unrecorded tourism receipts resulting from increasing divergence between official bank and free market rates, which may run about \$500 million annually.

^{2/}Total worker remittances, recorded and unrecorded, probably come to about \$4 billion or so annually. The dip in recorded remittances during 1981/82 and subsequent recovery were mostly offset by changes in unrecorded remittances, being caused by greater restrictions on worker use of official own exchange system during 1981/82 and later liberalization. To the extent that the unrecorded tourism receipts and worker remittances are used to finance imports, the official import figures are underestimated.

^{3/}Includes IMF estimates of interest income and payments on deposits and of interest payments on military debt.

Source: Central Bank of Egypt, IMF and Mission estimates.

EGYPT: BALANCE OF PAYMENTS
II.C. CAPITAL ACCOUNT
(In Millions of Current Dollars)

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>Projected 1984/85</u>
USES OF FUNDS	2,923	2,576	2,763	3,350
Current Account Deficit	1,887	1,264	1,243	1,700
Amortization Payments	1,036	1,312	1,520	1,650
Government and inter- national organizations	174 ^{1/}	361	520	625
Suppliers	862	951	1,000	1,025
SOURCES OF FUNDS	3,000	3,465	3,000	2,975
Direct investment	250	247	250	275
International assistance ^{2/}	1,489	1,787	1,825	1,900
U.S. Total ^{3/}	839	1,137	1,125	1,200
CIP	242	302	285	
PL 480	292	270	220	
Projects	305	565	620	
Other bilateral	400	350	400	400
Multilateral	250	300	300	300
Supplier credits	842	886	950	
Banks (net position) ^{4/}	305	-	-100	-100
Other & errors & omissions	114	545	-	
Additions to Reserves ^{5/}	77	883	237	-375

^{1/}Some debt rescheduling may have occurred. See Sadik Amjed, World Bank, "Public Finance in Egypt: Its Structure and Trends"; April 1984, p. 49.

^{2/}Including grant civilian assistance but excluding military assistance. IMF tabulations on capital account omit grant assistance. See, for example, p. 124 of IMF SM/83/116.

^{3/}Figures are for US fiscal years (October-September) rather than JOE fiscal years (July-June).

^{4/}Repayment of principal under the 1982 \$200 million Chase Manhattan Bank loan is due in July 1985; repayment under the 1977 \$250 million loan was about \$50 million during 1983/84. A repayment of \$50 million from a Development Bank loan was also due during 1983/84. Most of the other "banking facilities" tabulated by the Ministry of Economy in its foreign exchange budgets are short-term and are excluded here.

^{5/}1981/82 and 1982/83 figures from IMF SM/84/119, p. 27.

Sources: US assistance figures from USAID/Cairo controller reports. Other assistance figures from DAC ODA estimates. Most other data from p. 27 of IMF SM/84/119.

TABLE III

U.S. Economic Commitments to Egypt, FY 1975-1984
(In Millions of Dollars)

<u>Programs</u>	<u>Amount</u>
Commodity Export Program	3,125
PL 480 Titles I, II and III	2,323
Cash Transfer	102
Total	5,550
<u>Projects</u>	<u>Amount</u>
Energy	774
Water/Wastewater	768
Industry/Finance	661
Decentralization	462
Agriculture/Irrigation	376
Transport/Communications	358
Grain Storage	180
Education/Training	200
Health/Housing	231
Other	170
Total	4,181
Grand Total	9,731

TABLE IV
SUMMARY OF CIF AGREEMENTS - LOANS AND GRANTS
By Agreement Number
FY 1975 Thru September 30, 1984

(In Thousands of Dollars)

Agreement No.	(A)	(B)	(C)	(D)	(E)	(F)	Eligi- bility Date	Terminal Dates	
	Amount Obligated	L/C's* Opened	In Process	AMOUNT AVAILABLE	AMOUNT DISB'D	AMOUNT UNDISB'D		Shipping	Disbursement
GRAND TOTAL	3,124,827	2,813,267	83,246	422,566	2,542,645	582,242			
263-K-026	79,926	79,926	--	--	79,926	--	01-14-75	07-31-80	08-31-80
263-K-027	69,908	69,922	--	--	69,908	--	06-27-75	07-31-80	08-31-80
263-K-029	99,843	99,915	--	--	99,843	--	04-05-76	11-30-81	12-31-81
263-K-030	149,175	150,538	--	--	149,175	--	10-07-76	06-30-82	07-31-82
263-K-036	65,000	63,141	--	--	64,803	197**	09-30-76	09-30-82	07-31-82
263-K-038	446,000	439,484	--	1,808 N	437,261	2,739**	03-05-77	04-30-83	06-30-83
263-K-045A	228,000	225,354	--	886 N	224,509	1,491**	02-27-78	03-31-83	04-28-83
263-K-045B	74,000	72,952	--	48 N	72,905	1,065**	02-27-78	03-31-83	04-28-83
263-K-052	259,000	246,339	383	1,277	247,557	2,443	05-19-79	09-22-85	10-22-85
263-K-053	39,000	29,638	--	42	29,501	409	06-30-80	10-31-84	11-30-84
263-K-054	250,000	245,260	468	4,272	245,023	4,377	06-30-80	06-30-85	07-31-85
263-K-055	70,000	64,716	--	3,284	68,543	1,457	06-28-81	08-31-85	09-15-85
263-K-601	85,000	84,732	6	262	83,925	1,065	03-29-79	12-31-83	01-15-84
263-K-602	55,000	54,215	--	1,635	54,161	839	06-30-80	12-31-84	01-31-85
263-K-603	230,000	209,572	3	20,425	197,335	32,665	06-28-81	08-31-85	09-15-85
263-K-604	350,000	278,774	15,615	55,611	254,503	95,437	02-05-82	05-31-85	06-30-85
263-K-606	300,000	195,467	32,773	71,761	162,977	137,023	07-28-83	09-13-86	10-13-86
263-K-606A	1,055	--	--	1,055	--	1,055	07-25-83	06-25-86	07-25-86
263-K-607	300,000	--	34,000	266,000	--	300,000	07-30-84	07-31-87	09-30-87

* "L/C's Opened" amount is greater than "amount Obligated," when (1) a refund is made against an Agreement and not a specific L/COM or (2) when a U.S. bank releases residual or expiring funds and such funds have been utilized, but the local bank fails to identify the specific L/C's to be decreased.

** Agreements have expired and funds are being deobligated.

N Non Add, is not included in available amount.

Col (C). "In Process" means funds have been reserved for an identified transaction.

Col (D). "Available" means that no transaction has been approved. However, specifications may be in process by importer.

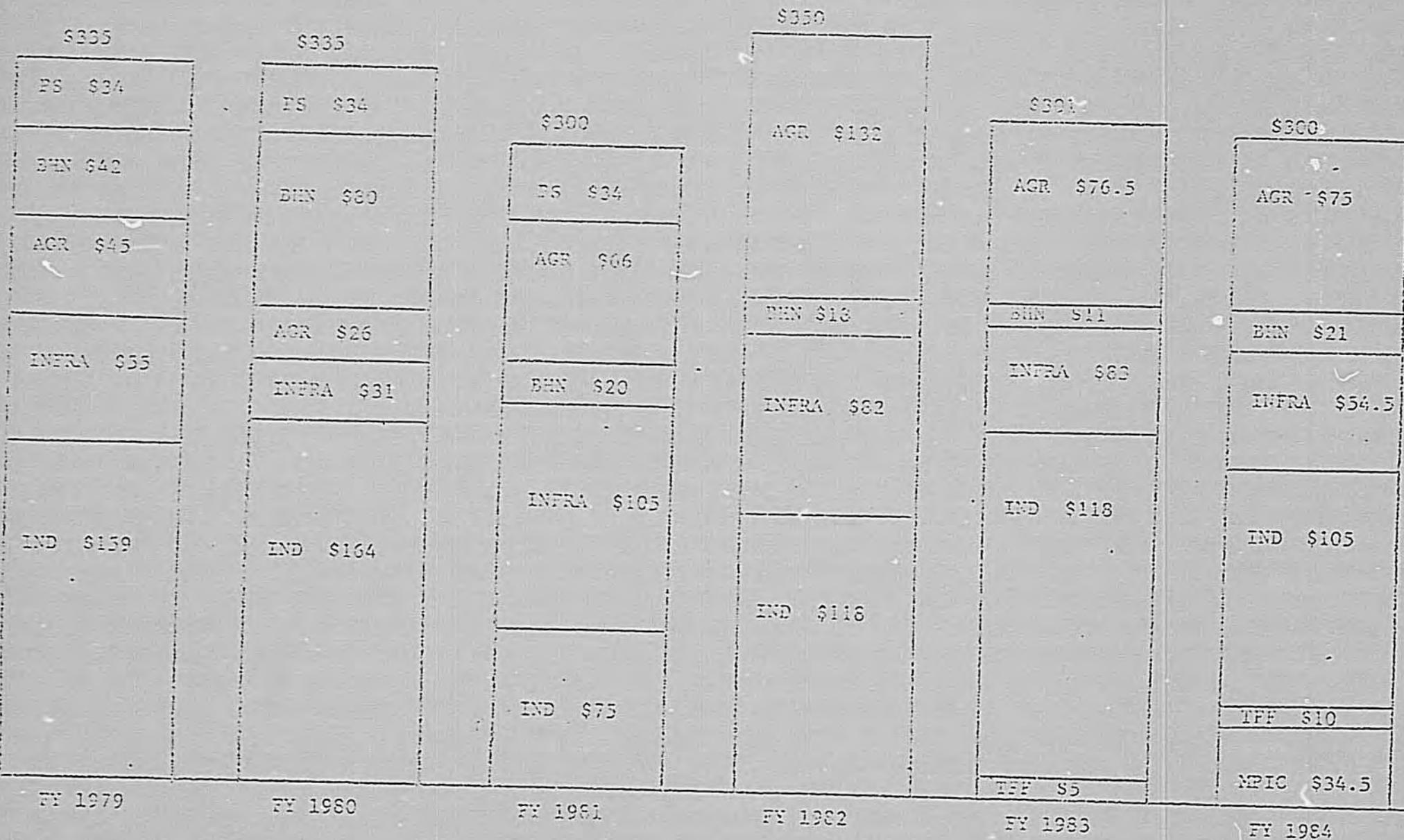
Columns (B)+(C)+(D) = Column (A). Also, Columns (E)+(F) = Column (A), unless affected by one of the caveats stated above.

FIGURE II

COMMODITY IMPORTS FINANCED UNDER EGYPT CIP, BY SECTOR

FY 1975 - 1984 AGREEMENTS

(IN MILLIONS OF DOLLARS)



AGR - Agriculture
 BHN - Basic Human Needs
 IND - Industry

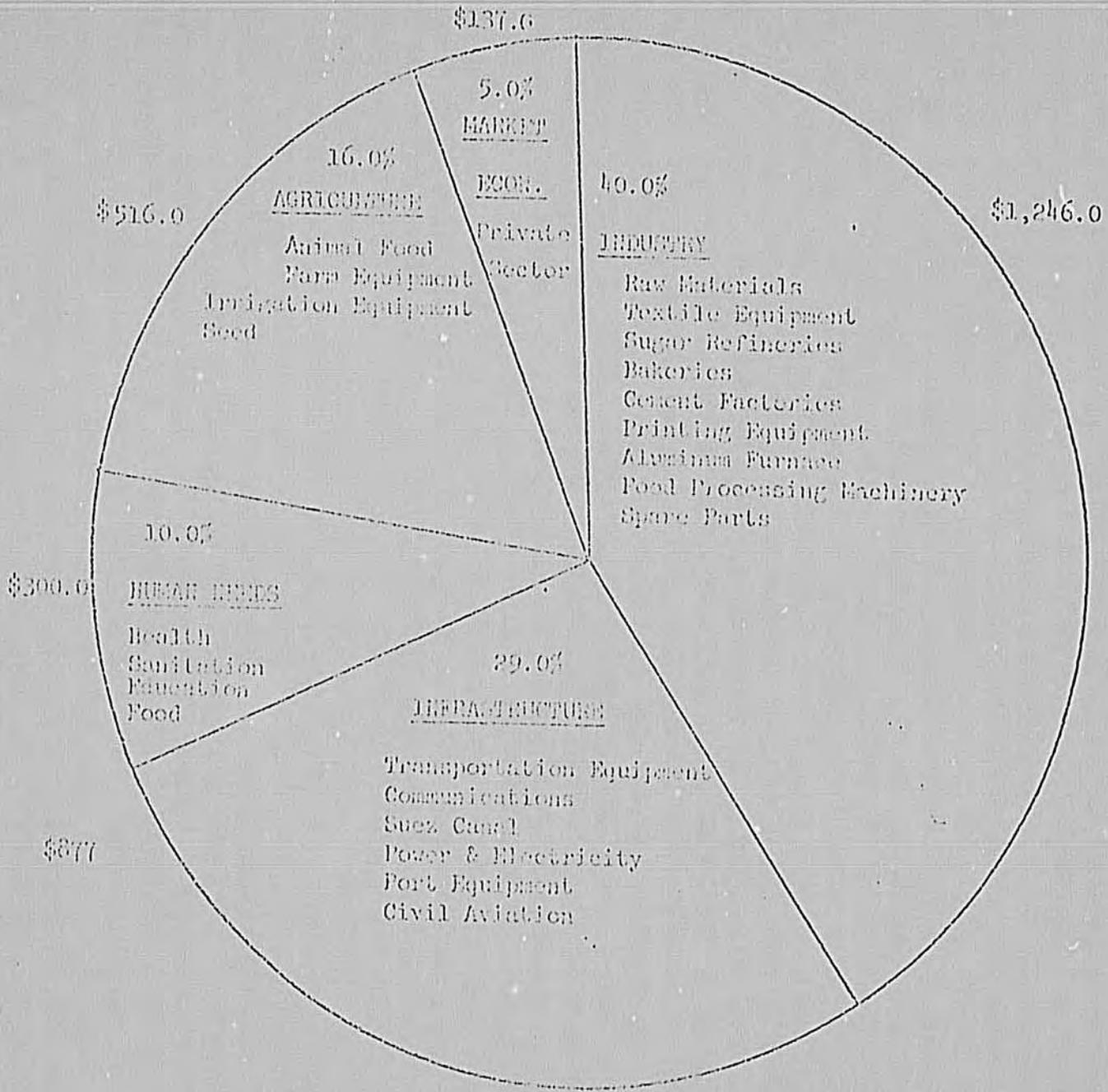
INFRA - Infrastructure
 PS - Private Sector
 TFF - Trade Financing Facility
 MPIC - Ministry of Investment & Int'l Cooperation

FIGURE I

EGYPT COMMODITY IMPORT PROGRAM - DEVELOPMENTAL ASPECTS

FY 1975 thru FY 1984 Agreements

ALLOCATIONS BY SECTORS IN MILLION DOLLARS



TOTAL: \$3,076.0

This Figure Excludes:

TFF: \$15.0 million
 Reserved: \$34.5 million

TABLE V

Summary of CIF Financing FY 1973 Thru December 31, 1984
By Ministry/Agency

Ministry/Agency	(In Thousands of Dollars)				
	(A) Amount Allocated*	(B) Percent of Total	(C) L/C's Granted	(D) In Process	(E) Available
TOTAL	3,122,371	100.00%	2,015,276	267,012	252,449
Ministry of:					
Agriculture	49,067	1.6%	39,362	--	13,704
Central Agency for Auditing	2,588	0.1%	--	500	2,000
Civil Aviation	1,851	0.1%	1,039	62	--
Civil Production	5,000	0.2%	--	--	5,000
Communications	74,198	2.4%	74,122	6	65
Education	72,120	2.3%	55,161	9,628	7,329
Electricity	173,766	5.6%	126,012	20,011	27,143
Health	15,825	0.5%	12,247	2,108	885
Housing	1,100	0.0%	--	--	1,100
Industry	858,223	27.5%	729,286	88,646	40,253
Including Gofl	(770,284)	(24.6%)	(662,110)	(71,926)	(37,258)
Gofl	(87,939)	(2.8%)	(67,226)	(17,921)	(2,994)
Information	107,115	3.4%	95,403	1,460	10,247
Irrigation	24,344	0.8%	10,476	3,112	5,781
Land Reclamation	32,458	1.0%	33,250	15,446	10,762
Social Affairs & Ins	2,151	0.1%	2,184	7	1,000
Supply	1,072,903	34.4%	979,660	71,367	22,956
Trade	3,794	0.1%	2,784	--	--
Transport	293,117	9.4%	222,371	30,556	42,069
Governorates	66,598	2.1%	45,378	18,009	6,211
Suez Canal Authority	40,460	1.3%	43,121	--	1,346
Private Sector	137,613	4.4%	134,562	24	2,927
TRF	20,919	0.7%	5,919	--	15,000
Unallocated	34,500	1.1%	--	--	34,500

* Unhighlighted amounts from expired agreements have not been deducted from Ministry totals. USAID is attempting to obtain required information on L/C utilization from local banks. Appropriate adjustments will be made when information is received.

Columns (C)+(D)+(E) = Column (A).

TABLE VI
 COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
 FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984
 BY COMMODITY GROUPING

(L/C Values in Dollars)

Schedule 'B' No.	Description	Dollar Amount
GRAND TOTAL		2,622,545,854
105	CITRUS FRUITS, FROZEN	61,699,479
126	SEEDS, GARDEN & FIELD	15,600
127	SEEDS, OTHER	2,060,233
130	COGNAC	375,522,982
140	NUMEROUS VEGETABLES	14,300,777
170	TOBACCO	137,240,371
175	OIL-SEEDING SEEDS, EXCL. PEANUTS	776,477
176	OILS, VEGETABLE	96,205,373
177	TALLOW & OTHER EDIBLE OILS	314,259,016
184	AROMATIC FLAVORS & ADJECTIVES	29,811,075
202	LEATHER, SYNTHETIC, FLOTTING, ETC.	3,399,627
250	PAPER & PAPER PRODUCTS, INCL. RECYCLED	46,126,589
252	PAPER/PAPERBOARD IN ROLLS/SHEETS	16,467,392
256	PAPER/PAPERBOARD, CUT TO SIZE	2,035,649
270	TRADING AIDS	135,000
300	COTTON	9,709,500
309	KNITTING FIBERS	59,393,716
310	KNITTING YARNS	26,616,347
404	CHEMICAL COMPOUNDS, CYCLIC	19,491,749
415	CHEMICAL ELEMENTS, INCL. CARBON	37,288,799
418	CHEMICAL BYPRODUCTS	113,641
419	EXTRACTIVE PRODUCTS	184,587
421	SODAS & SODA, INCL. CARBONIC SODA	1,022,564
422	TIN & TINNED FOOD PRODUCTS	54,989
423	COMPOUNDS (ZINC OXIDE)	8,391
431	CHEMICAL COMPOUNDS, ACYCLIC	5,243,192
433	CHEMICAL MIXTURES & PREPARATIONS	863,387
435	ALUMINUM, VARIOUS, ETC.	222,116
442	FIBER, IN FINISHED BARS	320,654
444	SYNTHETIC RUBBER & PLASTIC MATERIALS	10,054,740

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984
BY COMMODITY GROUPING

(L/C Values in Dollars)

Schedule "B" No.	Description	Dollar Amount
446	RUBBER	
464	TERRITOL	2,863,572
471	DYEING & TANNING PRODUCTS	80,207
472	PIGMENTS/PIGMENTARY MATERIALS	4,314,947
474	INKS, INKETS, AND RELATED PRODUCTS	1,317,589
		25,153
475	PETROLEUM PRODUCTS	145,480
486	PESTICIDES, SYNTHETIC ORGANIC	1,549,726
487	PLASTICIZERS, PROFO & TEXTILE CHEMICALS	90,721
492	CARBONS, ISOTOPES, WAXES, ETC.	33,284
496	SURGICAL SUPPLIES	94,328
517	GRAPHITE ELECTRODES	8,818,833
521	COOKING COAL & MISC. NONMETALLIC PRODUCTS	182,562,476
523	ELECTROLYTIC CARBONISE ELECTRODE	36,675
531	REFRACTORIES, BRICK	1,051,686
535	IBD. CEMENTS; FIBERGLASS FIBERS, ETC.	1,313,325
540	GLASS PRODUCTS, FILTERS, ETC.	188,840
547	CATHODE/ANODE TANKS, ETC.	44,541
601	PVC, LAMINATED	351,831
607	IRON, PELLETS	2,271,560
608	IRON/STEEL BARS, INGOTS, RODS, ETC.	17,257,156
609	IRON/STEEL STRIPS, COATED OR PLATED	
612	COPIER SHEETS, RODS, WIRE, ETC.	101,737,887
613	COPIER TUBES/TUBES/FITTINGS, ETC.	3,600,786
618	ALUMINUM BARS, SHEETS, TUBES, ETC.	258,868
626	ZINC TUBES	151,616
		98,901
640	METAL CONTAINERS	2,783,338
642	WIRE CLOTHES/SCREENS/NETTING, ETC.	461,118
646	SP. PARTS/HANDLING EQUIP.	101,150
648	HAND TOOLS: SCISSORS, PLIERS, ETC.	236,645
649	INTERCHANGABLE END TOOLS	745,181
651	HEAVY DUTY HAND TOOLS	728,029
652	PREHEATERS, CHAMBERS, SPRINGS, ETC.	4,212,544
653	WELDING ELECTRODE/ARCWELDING TUBES	5,821,291
659	BOILERS/PARTS/TUBES FOR LIQUID, ETC.	48,049,169
661	REFRIGERATION & HEATING EQUIPMENT	19,355,902

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984
BY COMMODITY GROUPING

(L/C Values in Dollars)

Schedule "B" No.	Description	Dollar Amount
662	FOOD PROCESSING MACHINERY	4,546,403
664	ELEVATORS/Cranes/LIFTING EQUIPMENT	50,920,876
666	AGRIC, HORTICULTURAL & FOOD PREP MACH.	53,057,244
668	PRINTING MACHINES	70,531,007
670	TEXTILE MACHINES	4,438,660
672	SEWING MACHINES	70,711
673	SHEARS, SQUARING	34,400
674	MACHINES FOR WORKING METALS	9,633,276
676	DATA PROCESSING/OFFICE MACHINES	10,094,411
678	SORTING/CRUSHING/CINNING MACHINERY, ETC.	24,838,932
680	BEARINGS, BALL OR ROLLER	1,452,497
682	TRANSFORMERS/GENS/MOTORS/BATTERIES	85,100,421
683	HAND-HELD TOOLS W/MOTOR/STORAGE BAT.	5,504,337
684	TELEGRAPH & TELEPHONE APPARATUS	1,906,136
685	RADIO & KAMAR APPARATUS	142,175,522
686	ELECTRICAL FILAMENT LAMPS	329,259
687	ELECTRIC LAMPS & ELECTRONIC TOOLS	120,861
688	TELEPHONE & TELEGRAPH WIRE & CABLE	28,653,498
690	RAILWAY EQUIPMENT & PARTS	23,231,335
692	MOTOR VEHICLES ¹	257,019,326
694	AIRCRAFT, FOR AGRICULTURAL USE	6,200,415
699	SHIPS, BOATS, FLOATING STRUCTURES	4,366,841
703	SAFETY HEADWEAR	40,353
708	IND. SAFETY ARTICLES: GOGGLES, ETC.	2,729,477
709	MEDICAL & SURGICAL INSTRUMENTS	19,029,031
710	MEDICAL & SURGICAL APPARATUS	1,828,720
711	MEASURING/TESTING INSTRUMENTS	8,013,703
712	MEASURING/CONTROLLING INSTRUMENTS	2,435,827
715	PRECISION MACH	18,250
722	PHOTOGRAPHIC EQUIPMENT	2,063,467
723	PHOTOGRAPHIC SUPPLIES	1,960,822
724	COMPUTER TAPES	300,100
727	FURNITURE: LABORATORY & OFFICE	8,178,000
770	RUBBER/ELASTIC PRODUCTS	7,005,534
771	POLYVINYL BUTYRAL	208,240

1. Includes diesel engines, see railway machinery

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984
BY COMMODITY GROUPING

(L/C Values in Dollars)

Schedule "b" No.	Description	Dollar Amount
772	TIRES AND TUBES	
774	JOINT CLOSURES	2,665,109
793	EDUCATIONAL MATERIAL	8,855
797	SP PARTS MISCELLANEOUS	16,324,868
989	PREPARE & RELATED COSTS	3,813,500
991	TECHNICAL SERVICES	75,088,089
		3,228,630

TABLE VII

CONGLOMERATE FINANCED UNDER AID COMMODITY IMPROVEMENT PROGRAM TO EGYPT

FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984

BY Use Category

(L/C Values in Dollars)

COMMODITY DESCRIPTION	Dollar Amount
GRAND TOTAL	2,622,545,854
FOOD ITEMS	550,580,921
CHICKENS, FROZEN	61,699,479
CORN	375,522,982
LEGUMINOUS VEGETABLES	14,300,777
GRNS, VEGETABLE	96,205,373
GRAIN-BEARING SEEDS, EXCL. PEANUTS	776,477
SEEDS, CEREAL & FIELD	15,000
SEEDS, OTHER	9,060,232
RAW MATERIALS	1,977,130,126
ALCOHOLS, AROMATIC, ETC.	223,116
ALCOHOL FREE, SODAS, BEERS, ETC.	151,016
ALUMINUM, IN PLASTIC BAGS	320,654
ANIMAL FEEDS & ADDITIVES	29,811,075
ANTHRACITE, FULL OR HEAVY	1,452,497
ANTHRACITE, LIGHT	111,641
ARTIFICIAL FIBERS, YARNS, ETC.	21,284
ASBESTOS, FIBER, ETC.	44,541
CELLULOSE, ACYCLIC	5,243,192
CELLULOSE, CYCLIC	13,433,749
CELLULOSE FIBERS, INCL. SULFONATED	37,288,799
CELLULOSE FIBERS & DERIVATIVES	802,387
CELLULOSE (WIPED)	8,391
CELLULOSE & KILN. NONCELLULIC PRODUCTS	182,543,476
CELLULOSE FIBERS/FIBRILS/FIBRILS, ETC.	251,868
COFFEE BEANS, ROASTED, ETC.	3,600,780
COTTON	9,700,500
CRUDE & LAMINATED PRODUCTS	4,327,947
DIAPHRAGM MATERIAL	16,524,868
ELECTRIC HARDWARE MATERIAL	30,675
FUELS & RELATED COSTS	75,033,039
GLASS PRODUCTS, TABLES, ETC.	189,840
GRAPHIC PRODUCTS	8,819,833
HAIR, HATS, AND RELATED PRODUCTS	25,153
HIDE, SKIN	2,271,500
IRON/STEEL BARS, BEAMS, ROHS, ETC.	17,237,158
IRON/STEEL SHEETS, COATED OR PLATED	101,737,887
JUTE CLOSURES	8,855
JUTE, SIBING, FLOORING, ETC.	3,399,627
MANGANESE DIOXIDE	184,587

COMMODITY FINANCE PROGRAM - U.S. DEPARTMENT OF COMMERCE
 FISCAL YEAR 1977 THROUGH FISCAL YEAR 1984
 By Dec Category

(L/C Values in Dollars)

COMMODITY DESCRIPTION	Dollar Amount
RAW MATERIALS (Cont'd)	
BARRELS, WHITE	59,393,716
BARRELS, YAKI	26,616,347
BEAN COFFEES	2,783,338
BALE & COFFEES, INCL. AGRIFF	40,126,399
BALANCE/BALE/BALE IN BOUTS/BALES	16,467,592
BALANCE/BALE/BALE, 60-90 SIZE	2,085,649
BANANAS, FRESH, IN CASK	1,549,778
BANANAS, FRESH	145,460
BANANAS, FRESH, IN BASKETS	1,317,589
BARBITURATE, FRESH & TONIC CHEMICALS	96,721
BANANAS, FRESH	201,240
BAC, BANANAS	353,831
BANANAS, FRESH	1,031,616
BANANAS	2,863,572
BANANAS/BALE/BALE PRODUCTS	7,095,534
SODIUM CHLORIDE, TECH. CAUSTIC SODA	1,022,564
SODIUM CHLORIDE, TECH.	3,813,500
SODIUM CHLORIDE, TECH. SODA	101,150
SODIUM CHLORIDE, TECH.	94,328
SODIUM CHLORIDE, TECH. SODA/BALES	10,086,746
SODIUM CHLORIDE, TECH. SODA/BALES	314,289,077
SODIUM CHLORIDE, TECH. SODA	3,228,031
SODIUM CHLORIDE	91,267
SODIUM CHLORIDE, TECH. SODA	94,989
SODIUM CHLORIDE, TECH.	1,001,309
SODIUM CHLORIDE	197,140,571
SODIUM CHLORIDE	311,600
SODIUM CHLORIDE/SODIUM CHLORIDE, ETC.	401,118
SODIUM CHLORIDE	98,903
RAW MATERIALS	999,134,307
ADVIS, EQUIPMENT & TOOL BAGS	58,057,174
ADVIS, EQUIPMENT & TOOL BAGS	6,200,405
EQUIPMENT/TOOL BAGS FOR EQUIP, ETC.	41,049,169
CONSOLE BAGS	300,100
BETA EQUIPMENT/OFFICE EQUIP	10,094,411
EQUIPMENT & ELECTRONIC BAGS	120,860
EQUIPMENT, EQUIPMENT BAGS	329,289
EQUIPMENT/TOOL BAGS/EQUIPMENT EQUIPMENT	50,926,876

COMMITTEE REPORT UNDER THE COMBATED AIR FORCE PROGRAM TO 1945
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1984
By Use Category

(L/C Values in Dollars)

COMMODITY DESCRIPTION	Dollar Amount
CAPITAL EQUIPMENT (Cont'd)	
FOOD PROCESSING EQUIPMENT	4,546,403
FURNITURE: LABORATORY & OFFICE	8,177,000
R/M TOOLS: SWAGERS, Pliers, ETC.	256,045
M/M: ELECTRICAL TOOLS: WIREPLUGS/SCREW DRIVERS	5,506,337
M/L: COINTEGRATED CIRCUITRY: LOGIC, ETC.	1,313,325
M/L: SPECIALTY TOOLS: COINTEGRATED, ETC.	2,775,677
TRUCKS: 1/2 TON: 1971-1975	745,181
MACHINES FOR MANUFACTURING	9,633,276
RESEARCH/DEVELOPMENT EQUIPMENT	2,435,337
MEASUREMENT/TESTING INSTRUMENTS	8,015,403
MEDICAL & SURGICAL EQUIPMENT	1,821,276
BOATS & SUPPLIES: BENTON, MISS.	19,029,021
DISCOUNT STORES: 1971-1975	721,021
POWER GENERATION	257,021,220
BOATS: 1971-1975	2,068,467
BOATS: 1976-1984	1,380,311
BOATS: 1971-1975	31,286
BOATS: 1976-1984	4,112,544
BOATS: 1971-1975	76,331,007
BOATS: 1976-1984	142,171,331
BOATS: 1971-1975	25,211,331
BOATS: 1976-1984	19,318,011
BOATS: 1971-1975	40,331
BOATS: 1976-1984	76,711
BOATS: 1971-1975	30,401
BOATS: 1976-1984	4,331,841
BOATS: 1971-1975	24,331,932
BOATS: 1976-1984	3,901,136
BOATS: 1971-1975	23,015,498
BOATS: 1976-1984	4,438,000
BOATS: 1971-1975	85,100,421
BOATS: 1976-1984	5,821,291

1. Includes Special Agency for Military Acquisitions

ANNEX B

STATUTORY CHECKLISTS

1. Country Checklist (AID/W is requested to insert Country Checklist for 1985)
2. Standard Item Checklist
3. Non-Project Assistance Checklist

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the 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 imposing limits on certain uses of funds.

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

A. Procurement

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

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

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

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

3. FAA Sec. 604(c). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

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

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). 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? (Exception where commodity financed could not reasonably be procured in U.S.)
- No such procurement is contemplated
5. FAA Sec. 604(c). Will construction or engineering services be procured from firms of countries which are direct aid recipients and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?
- No
- N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, 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 such vessels are available at fair and reasonable rates?
- It is not so excluded. A.I.D. Reg. 1, which is to be incorporated in the grant agreement, covers this requirement.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Yes
 If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes

9. FY 1988 Continuing Resolution Sec. 501. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? No such Contract is contemplated. However, if direct contract executed it will contain such a provision.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

2. FAA Sec. 511(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

N/A

2. FAA Sec. 301(1). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

YES, Additionally, any necessary determinations under this section will be made and issued.

4. Will arrangements preclude use of financing:

- a. FAA Sec. 107(f), FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice

YES

abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

- b. FAA Sec. 620(a). To compensate owners for expropriated nationalized property? YES

- c. FAA Sec. 650. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES

- d. FAA Sec. 652. For CIA activities? YES

- e. FAA Sec. 601(1). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES

- f. FY 1955 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? YES

- g. FY 1985 Continuing Resolution, Sec. 505. YES
To pay U.N. assessments, arrearages or dues?
- h. FY 1985 Continuing Resolution, Sec. 506. YES
To carry out provisions of FAA section 209(a) (Transfer of FAA funds to multilateral organizations for lending)?
- i. FY 1985 Continuing Resolution, Sec. 510. YES
To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?
- j. FY 1985 Continuing Resolution, Sec. 511. NO
Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?
- k. FY 1985 Continuing Resolution, Sec. 516. NO
To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

NON-FRONTIER AGRICULTURE OVERSEAS

The criteria listed in part A are applicable generally to FIA funds, and should be used in conjunction with the program's funding source. In part B a classification is made between the criteria applicable to Economic Support Fund and Development Fund. Selection of the appropriate criteria will depend on the funding source for the program.

OTHER INFORMATION: 68 COUNTRIES CHECKLIST UP TO PAGE 1 HAS STANDARD TECH CHECKLIST WITH IT

2. GENERAL CRITERIA FOR NONFRONTIER AGRICULTURE

7. FUND FLOW THROUGH FIA Sec. 401(b), CMA

(1) Budgetary law committees and appropriations of funds and must have been or will be utilized in the past or anticipated in the future.

The NY 95 Congressional Presentation notified the Committee of AIA's plan to allocate \$200 million for CIE activities.

(2) In each year within (fiscal year budget) country or organization a significant allocation reported to the Congress (or not more than \$1 million over that figure for 1995)

NY 95

2. The law (Title 22, 72) further legislative action is required which treatment country, that is basic expectation that such action will be completed in time to permit orderly accomplishment of purpose of the institution?

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

3. FAI Para. 202. As assistance more efficiently and effectively given through regional or multilateral organizations, it is expected that such assistance will encourage regional development programs.

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

4. FAI Para. 201(a). Information and consultation which will encourage adherence of the country to (a) increase the flow of money, (b) reduce public indebtedness, (c) improve the balance of payments, (d) increase the productivity of industry, agriculture, and commerce, and (e) strengthen the labor union.

(a) This program will increase the flow of international trade by providing the necessary foreign exchange for the importation of goods.

(b) The program is designed to foster public initiative and competition by liberalizing export markets.

(c) No perceptible impact on such activities is attributable to this program.

(d) No perceptible reduction of such indebtedness is attributable to this program.

(e) Imports of raw materials and spare parts significantly enhance the productivity of industry, agriculture and commerce.

(f) No perceptible impact.

5. FAI Para. 201 (c). Information and consultation will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs including use of private trade services and the services of U.S. private organizations.

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.

FAR Sec. 612 (f), FAR
636 (b).

Essential steps taken to
conform to the
and, insofar as possible,
the country in
and, where local
currency is used the
cost of contractual and
other services, and
foreign currency owned
by the contractor are
obligated to meet the
cost of contractual
and other services.

Program essentially provides
foreign exchange assistance for
currency in force. Minus short
term contracts or other services
are financed under the OPA.

FAR Sec. 612(f). FAR
636(b). The United States can
execute foreign exchange
and, insofar as
arrangements have been
made for the

Best Available Document

1. FUNDING CRITERIA FOR MONITORING ASSISTANCE

2. Exchange of Information for Economic Support and Development

(a) The program will
aim to provide technical
assistance to political
institutions
to the extent possible,
and to reflect the
policy of the International
Bank for Reconstruction and
Development.

(a) The program will promote economic
stability by providing vital
foreign exchange required for
Economic Development.

Yes, the program reflects the
policy direction of Section 102
to the extent possible.

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ANNEX C
Trade Financing Facility (TFF)

No fixed funding level will be authorized for the TFF in FY 1985. On a case by case basis, existing CIP funds will be set aside to provide mixed financing with other financial institutions for internationally competitive imports of U.S. source and origin in transactions that qualify under the TFF criteria. The set-aside funds will provide acceptable transactions with a package of credit terms that match clearly defined mixed credit terms offered by foreign financing facilities for non-U.S. commodities.

Government of Egypt (GOE) Ministry of Economy circular number 1 of 1982 advises public sector Ministries, authorities and organizations of the availability of the TFF and describes the general situations where the TFF would be applicable. If it is determined that a U.S. supplier in a particular transaction provides an offer that meets the TFF criteria, the GOE may consider, with USMB approval, use of the CIP TFF.

It is current USMB practice to advise U.S. bidders to include in their proposals a statement that use might be available for matching more favorable credit terms offered by non-U.S. bidders. The USMB also provides them with copies in Arabic of the TFF circular to attach to their bids.

Because the decision to utilize funds under this set aside program is determined only after completion of international evaluation, the procedures of procurements are GOE procurement procedures in lieu of A.I.D. regulation 1 procedure followed under the normal CIP program. This principle will be set forth again in the grant agreement.

Detailed procedures for utilization of this trade financing facility are determined by agreement between the GOE and USMB and cover, at a minimum, the following:

1. Initiation of proposals to utilize the facility
2. Notice requirements
3. Requirements of competition
4. Treatment of unsolicited proposals
5. Price tests
6. Contract provisions
7. Commodity eligibility

In addition, the procedures take into account the requirement for coordination with the U.S. Export-Import Bank and other credit sources and obligations the U.S. may have under the Paris Agreement concerning mixed credits.

UNCLASSIFIED

memorandum

DATE: March 7, 1985
REPLY TO
ATTN OF: David W. Carr, DPPE/PAAD
SUBJECT: PAAD for 1985 CIP
TO: SEE DISTRIBUTION

K 6-10

Attached herewith is the approved PAAD for the FY 1985 Commodity Import Program. During implementation of the program this year, we will be concentrating on the following key issues which we expect to be resolved satisfactorily; otherwise, we will recommend the early termination of the program.

- 1) Procedures to assure greater developmental impact from the program must be improved. On page 8, we note our dissatisfaction with previous procedures to assure developmentally sound allocations. We will be working with the MPIC on the criteria they use to screen the Ministry and public sector organization proposals, and will offer our suggestions on detailed commodity procurements before they become final.
- 2) We were surprised to learn in September 1984 that the Ministry of Finance was applying lower interest rates for public sector firms than those agreed upon between the MPIC and USAID (See page 9). We will ensure that the agreed upon 12% interest rate is, in fact, applied.
- 3) Recent negotiations have resulted in raising by 10%, from the "Official Incentive" rate, the exchange rate applicable to counterpart deposits into the Special Account (See page 11). As further changes are made in the GOE exchange regulations of January 5, 1985, this rate may be further increased in subsequent negotiations.
- 4) As noted on page 12, we will continue to monitor the approved accounting systems recently installed by the GOE and USAID to assure adequate accountability for the Special Account and to reconcile outstanding discrepancies. We will continue to work with the MPIC to expedite the full collection of arrears, and, except in rare emergency situations, importers with arrears will be denied access to additional CIP financing.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

Several measures are recommended on pages 9-10 for continuing to alleviate the causes of past delay and to assure a good pace of disbursement.

DISTRIBUTION

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