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Joan ISN 63446

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

PROGRAM ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

EGYPT, FY 1977 COMMODITY IMPORT PROGRAM LOAN

AID DLSC/P-2215

UNCLASSIFIED

EGYPT: U.S. FY 1977 CIP LOAN

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February 12, 1977

CLASSIFICATION

PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	PAAD NO. NE 77-6 (263-K-038) COUNTRY: Arab Republic of Egypt CATEGORY: Commodity Financing Standard Procedure DATE: February 1977

TO: John Murphy
Administrator, AID (Acting)

OYB CHANGE NO.: Not applicable

OYB INCREASE: Not applicable

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

TO BE TAKEN FROM:

APPROVAL REQUESTED FOR COMMITMENT OF: $440,000,000

APPROPRIATION - ALLOTMENT: 72-1171006
756-62-298-00-57-71 Supporting Assistance

TYPE FUNDING	LOCAL CURRENCY ARRANGEMENT	ESTIMATED DELIVERY PERIOD	TRANSACTION ELIGIBILITY DATE
X LOAN GRANT	INFORMAL FORMAL NONE	6/1/77 - 6/1/79	Date of Agreement

COMMODITIES FINANCED

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

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

SUMMARY DESCRIPTION

Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake development programs. During 1976, Arab OPEC assistance in the form of grants was substantially less than in 1975, and increased bilateral aid was insufficient to offset the current account deficit without a small reduction in imports and some increase in arrears in payments. During 1977, after accounting for known Arab and other bilateral assistance, a balance of payments deficit still remains. Egypt will continue to require large capital flows to achieve its development objectives, while at the same time providing for improving the standard of living in the country, and maintaining political stability.

The proposed loan will assist Egypt with its balance of payments deficit during the coming two years. The loan proceeds will finance imports of food, agricultural and industrial machinery, equipment, spare parts and other essential commodities and related services. The loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and for new industrial expansion and to provide agricultural inputs essential to increase agricultural production. The timing and magnitude of this loan are in specific response to an urgent request for increased balance of payments support to enable a needed program of economic reform (cont'd p. i

CLEARANCES | DATE

REG DP	B. Langmaid
REG GC	G. Bisson
AA/PPC	P. Birnbaum
A/CONT	T. Blacka
NE/CD	S. A. Taubenblatt

ACTION: APPROVED DISAPPROVED

AUTHORIZED SIGNATURE | DATE

to be begun while at the same time maintaining domestic stability.

It is recommended that you authorize a loan to the GOE of $440 million $440,000,000) for financing imports of selected commodities on the following terms:

1. Interest and Terms of Repayment

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

2. Other Terms and Conditions

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

(b) The terminal date for disbursement shall be twenty-four months following the satisfactory meeting of Conditions Precedent.

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

I. BACKGROUND

A. Political Background and U.S. Objectives

A major objective of United States foreign policy is to facilitate a just and lasting peace in the Middle East. The cooperation of Egypt, principal Arab country, is essential for this purpose. Under the leadership of President Sadat, Egypt has embarked on a policy of moderation at home and abroad. It has rejected the once dominant Soviet influence and has worked closely with the United States in seeking to bring a new era of peace to the Middle East. President Sadat, personally, has demonstrated courage and statesmanship in signing the Sinai I and II disengagement agreements with Israel and in seeking to promote further progress toward a just and lasting peace. The continuing ability and willingness of Egypt to proceed toward this goal will depend on (1) domestic political stability and the strength of the moderate Sadat Government; (2) avoiding short-term deterioration in the standard of living of the population; and (3) obtaining sufficient foreign assistance to permit an accelerated development effort.

As stated in the 1977 submission to the Congress, 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 permenent peace.

The overriding short-term U.S. policy objective in Egypt is to provide the support necessary to the Sadat Government to enable it to continue in power and to be a force in the Middle East for moderation and a source of area leadership in achieving a permanent, just peace settlement between the Arab countries and Israel. 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.

To a large extent, continued domestic political support for the moderate policies followed by the Sadat Government will depend on its ability (1) to meet the basic economic and social needs of the population which, among other things, will require a more rapid expansion of productive employment opportunities than has been occurring, (2) to assure the continued availability, at relatively stable prices, of basic foodstuffs and other essential consumer goods, and (3) to demonstrate a greater movement toward economic and social goals than has occurred recently.

Egypt is suffering from a critical foreign exchange shortage, and, consequently, is unable to meet its import requirements without a high level of external financing. With severe limitations on its borrowing ability on the private international money market, Egypt has become increasingly dependent on balance of payments assistance form foreign governments. Failure to provide such assistance probably would force the GOE to take drastic economic measures which could have politically dangerous domestic consequences, such as causing a shortage of basic consumer needs or a sharp rise in the price level. 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. Thus, it is clearly in the interest of the U.S. to provide substantial balance of payments assistance to Egypt and to encourage other donors to do so, in order to forestall a balance of payments crisis which would not only constitute a threat to political stability, but would render impossible the implementation of the program of economic reform that is essential for satisfactory longer-term economic and social development.

The sharp increase proposed in the U.S. FY 1977 CIP program is a reflection of these objectives. In January 1977, on IMF and USG urging, the GOE announced an accelerated program of economic reform - one element of which resulted in increases in some food prices. The widespread urban rioting that resulted on January 18-19 forced the GOE to adopt a more gradual approach to reform. This loan will demonstrate our support to the GOE leadership in its continuing commitment to economic reform and permit greater steps than it would otherwise be prepared to attempt.

The U.S. assistance program is based not only on the short-term objective of promoting economic and political stability, but also the longer-term objective of encouraging sound, moderate, development-oriented Egyptian Government policies. Therefore, U.S. assistance to Egypt must also assist the government in its efforts to reduce its dependence on short-term foreign borrowing and balance of payment assistance and to lay the economic foundations for long-term economic growth and political stability. In line with this objective, the U.S. is supporting a major program of capital project investments that will assist in laying the base for more rapid future economic growth. Although the FY 1977 U.S. capital project program has been reduced to enable us to respond to the GOE's urgent request for additional CIP financing, the GOE and the U.S. have agreed this is an exceptional situation and should be reversed next year.

B. <u>Economic Background and U.S. Objectives</u>

In the long run, Egypt's economic potential has promise. Egypt, with a population of 38 million, has a large internal market, a reasonably skilled population compared with other LDC's, low wages, 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, now that the canal has been reopened, are estimated to reach at least $500 million by 1980; petroleum production is already contributing over $300 million annually to the BOP, with significant growth likely in the near term, tourism contributed almost $250 million in 1976 and considerably more is anticipated for the future as new hotels are completed; considerable potential exists for higher returns from existing agricultural lands; and there is a flow of remittances from some 500,000 Egyptians working in the richer Arab countries of the region that provided a major portion of the financing for the "own exchange" imports that totalled $450 million in 1976.

The most severe constraints on Egyptian development are: (a) the heavy defense burden estimated at 25% of government expenditures; (b) the pressing shortage of foreign exchange; (c) the external debt burden; (d) a poorly organized economic decision-making process; (e) an overwhelmingly large and inefficient public sector; and (f) the rapid population growth, increasing the problems of food supply, unemployment, underemployment, and urban congestion. The first three of these factors, directly, and the last three indirectly, limit the funds available for the development effort. Domestic savings have been substantially less than 10 per cent of GDP. Until 1974, the modest level of foreign resources available and the low level of domestic savings permitted gross investment levels only slightly in excess of 10 per cent of GDP. As a result the economy stagnated. However, since 1973 the rapid increase in foreign assistance has directly and indirectly permitted the investment level to jump to 25 per cent of GDP. The foreign financing has directly increased the resources available for investment and, through the higher rates of growth in production that foreign-financed raw materials have made possible, has expanded domestic production and the amount of this production that can be allocated to investment.

The realization of Egypt's long-term potential and the allocation of greater domestic resources to the development effort hinges upon a number of complex factors, some of which are not entirely within Egypt's control. The most important of these is a definite movement towards an equitable and permanent peace settlement in the Middle East. Moreover, the attainment of Egypt's prospects requires the transfer in the medium term of large amounts of capital from abroad; this, in turn, must be preceded by a considerable investment in the necessary infrastructure and careful work in preparing a portfolio of projects suitable for the consideration of potential investors (whether private or official). And finally, it requires fundamental changes in economic policies and institutions.

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

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

b. achievement of a lower need for foreign resource inflows over the medium and long run through expansion of Egypt's productive capacity and the relaxation of tensions in the Middle East.

The U.S. assistance strategy is to support the priority objectives of Egypt's medium- and long-term development program through capital project financing and the short-term economic and political requirements through commodity import financing. As is discussed in more detail later, U.S. assistance is only one element in the foreign support Egypt is receiving. Major commitments have been made by other Western bilateral donors, by multilateral organizations, and, in particular, by other Arab countries. At the present time the U.S. is supporting the establishment of an IBRD sponsored consultative group.

Given the current and projected high levels of economic assistance to Egypt and, more specifically, the substantial proportion of that assistance earmarked for balance of payments support, it is only reasonable to ask whether provision of such assistance should be linked to GOE commitments to take specific measures directed at improving the critical balance of payments situation. When assessing the amount of leverage afforded by U.S. assistance to Egypt, one should keep in mind the fact that the high level of U.S. assistance is intended primarily to demonstrate our support for the moderate foreign and domestic policies followed by the Egyptian Government. This, of course, has not precluded us from encouraging the GOE to implement specific measures required for the success of their own domestic policies (e.g., liberalization of the economy), but since the annual Supporting Assistance and PL 480 Title I levels are politically determined, it is obviously difficult to link these levels directly to specific GOE economic policy commitments.

In the past year, the GOE has taken measures which constitute partial implementation of the economic reforms advocated by the IMF and supported by the U.S. and other donors (for instance, raising the parallel market exchange rate, shifting a major share of the Government's foreign exchange expenditures from the official to the parallel rate of exchange, raising import duties on luxury goods, etc.). In addition, the GOE is studying the revision of the investment code governing foreign investment to make it more attractive (and less bureaucratically cumbersome) for foreign private firms to invest in Egypt. However, it is clear from the January disturbances that the economic measures required to cope with the critical balance of payments situation (such as major exchange rate adjustments and reduced domestic subsidies) have the potential for serious political repercussions on the domestic scene and must be introduced carefully and gradually. Despite the disturbances, the GOE appears committed to reform and now appears to understand better the nature and magnitude of its economic problems. The availability of the $500 million U.S. assistance package ($60 million in PL 480 Title I and $440 million in CIP) is intended to make it possible for the GOE to go as far as it can on reform without provoking public reaction that could threaten the moderate Sadat regime.

The proposed program loan in conjunction with an increase of $60 million in the Pl 480 program responds directly to the prime objectives of the U.S. in Egypt. First it will provide a direct and immediate support response by the U.S. Government to an urgent request by the GOE. Second, it will enable the GOE to better obtain critically needed consumption imports (needed for short-term domestic stability and popular support for current moderate GOE policies) and production imports (needed to support the economic development effort). Third, it will better enable the GOE to proceed with a program of economic reform necessary to achieve Egypt's medium- and long-term development goals.

C. Status U.S. Assistance Programs

i. Commodity Import Program

The FY 1975 commodity import program was funded with $150 million. This is 100 per cent committed and is 54 per cent disbursed. AID provided $250 million in FY 1976. This is now 30 per cent committed, and 3 per cent disbursed. A $65 million Transitional Quarter loan, signed September 30, 1976, is currently being committed. Thus to date (February 1, 1977) a total of $465 million has been obligated of which $181 million is in issued letters of credit to U.S. suppliers and of that $91 million has been disbursed (12/31/76 data). An additional $47 million in purchases have been announced and are nearing completion. The remaining $237 million has been allocated by the Egyptian Government to several essential sectors and preliminary purchasing effort is underway by many different Egyptian authorities. Thus, the CIP funds obligated to date have been fully allocated.

Program status is summarized in the following table:

PROGRAM LOAN STATUS
($ Millions)

	CY 1974	CY 1975	CY 1976	CY 1977*	TOTAL TO DATE*
Obligated	-	250.0	215.0	-	465.0
Allocated	-	250.0	215.0	-	465.0
Committed	-	102.7	123.3	97	323.0
Disbursed	-	10.0	81.2	-	91.2**

*as of 2/7/77. **as of 12/31/76.

ii. Capital Projects

From FY 1975 through the 1976 Interim Quarter, AID obligated $541 million to the GOE to support eleven rather large capital projects. Four of these (totalling $233 million) were on a grant basis to the GOE, destined to assist the reconstruction of the war-torn Suez Canal area, including two (involving $44 million) which are being handled largely as commodity loans. Seven other projects ($308 million) are loans to the GOE aimed generally at increasing either basic infrastructure or industrial production. In accordance with our Congressional Presentations, AID is financing only the foreign exchange costs associated with these projects. A detailed project listing is provided in Annex Table I.

Disbursements under these projects total about $23 million as of the end of CY 1976. This relatively low figure is a reflection of the newness of the program and the inherent time involved in implementing major capital investments.

The FY 1977 capital assistance program, prior to the increase in the CIP program from $250 million to $440 million proposed in this loan paper, was to have consisted of seven capital projects totalling $420 million.

While the reallocation of funds available for capital projects must still be discussed with the Egyptian Government, it is anticipated that this reduction of $190 million will be accomplished by:

a. Deferring the proposed Suez Power Plant to FY 78 ($100 million);

b. Reducing the planned FY 77 project for electrical distribution equipment from $80 to $40 million ($40 million);

c. Reducing the Grain Storage II Project from $65 to $55 million ($10 million);

d. Reducing the planned Urban Water/Sewage Program in FY 77 from $60 to $40 million ($20 million);

e. Reducing the Irrigation Canal Dredging/Pump Equipment Program from $60 to $40 million ($20 million).

By their nature, each of these last four projects can be expanded or contracted by a substantial amount according to the availability of funding; there is no obvious "lumpiness" making technical or financial feasibility dependent on a certain scale of investment.

iii. Technical Assistance Projects

From FY 1975 to date, AID has obligated about $40 million available to the GOE to support seven non-capital grant projects of rather diversified natures.

ERRATA

Egypt, FY 1977 Commodity Import Program Loan Paper

1. Page 2. Delete the words "and USG" from the second sentence of the first full paragraph.

2. Page 25. Delete the second paragraph.

3. Page 27. Under paragraph VI, Recommendations, delete sub-paragraph e.

ERRATA

Egypt, FY 1977 Commodity Import Program Loan Paper

The following paragraph is added on page 27 of the loan paper as paragraph VI and the existing paragraph VI (Recommendations) is renumbered as paragraph VII.

VI. Use of CIP Generated Local Currency

Egyptian pounds generated by this loan will be utilized for general GOE expenditures. As a matter of policy, AID does not plan to involve itself in the Egyptian Governments budgetary process by participating in the programming of the local currency proceeds. AID looks to the IMF and IBRD with respect to recommending corrective monetary and fiscal measures. Egypt is an excess currency country and sufficient funds are available for local USG requirements. To date, the availability of local currency to support AID projects and programs has been met by the Government of Egypt. In recognition of budgetary constraints, AID is working closely with the GOE to assure that local currency requirements for projects will be provided on a timely basis.

Included are three special direct transfers ($18.4 million) to the Department of Defense for clearance of the Suez Canal and of Port Said harbor and for the transfer to Egypt of a Presidential helicopter.

Technical assistance activities have expanded considerably as project development has progressed. The FY 1975 projects for technology transfer and feasibility studies (later extended beyond FY 1975) were used to support project identification and development. Disbursements on these projects are proceeding normally. Two major projects in rural health and in irrigation water management and utilization were initiated late in 1976, and both are expected to lead to projects of amplified scope and geographical coverage

The stated expansion of technical assistance projects to $30 million in FY 1977 is not affected by the realignment of the capital assistance program. Major new activities are expected in several high priority fields, as shown in Table I.

iv. PL 480 Title I

Since 1974 the U.S. has obligated $510 million dollars in PL 480 Title I financing. The major portion of this assistance has been for wheat grain and flour. Some financing has also been provided for tobacco. The wheat provided has been a critically important element in meeting the demand for this basic foodstuff by the growing Egyptian population. The $60 million in additional Title I assistance that was recently agreed to, in combination with this $440 million CIP loan, is in response to the GOE's urgent request for assistance following the January 1977 urban disturbances.

II. ECONOMIC JUSTIFICATION

A. General Economy

i. Production

Available GDP data indicate that, after exceeding 4% during the two years ending June 1972, the real growth rate of the economy dropped to about 3% in 1973 and 1974. In 1975 this decline was reversed, with provisional estimates indicating that a substantial jump in the real growth rate occurred. This rise was caused mainly by the recovery of industrial, petroleum and construction activity. The 1975 growth in agricultural production, although greater than in 1974, at 2.4% only kept pace with population growth. Complete data are not yet available on production trends in 1976. Preliminary information indicates that real growth of industrial production in 1976 was below that of 1975. This is in line with what one would expect, given the one-time nature of the jump in capacity utilization in 1975. The sectorial composition of GDP is given in Annex Table II.

(a) Agriculture

Agriculture accounts not only for upward of 30 per cent of GDP, but also for about 45 per cent of total employment and over half of earnings from exports. During the last three years real value added in agriculture has grown by less than 3 per cent per annum, a rate which is only slightly higher than the rate of population growth. This relatively poor performance was due partially to the high level of yields already obtained and to the physical constraints on the expansion of the cultivable area, which at present totals about 5.7 million feddans (5.5 million acres). While yields on the old land of the Nile Valley are, on many crops, among the highest in the world, this is due largely to highly favorable conditions of perennial irrigation and climate. When compared to productivity in other parts of the world with similar physical conditions, there remains scope for increasing Egyptian productivity, although this requires more complex innovation than would be true in countries of lower overall productivity. Problems of development of the "new lands," being brought under cultivation as a result of the High Dam, are even more complicated, given the extremely high cost of reclamation and the long periods required for preparation of these lands. However, the building of the High Dam at Aswan eliminated both drought and flood, permitted the conversion of an additional 10 per cent of the cultivable area to perennial irrigation, and allowed more flexibility in the distribution of water. On the other hand, it also blocked the annual deposit of soil-nourishing silt, raised water tables, and increased soil salinity. As a consequence, heavier applications of chemical fertilizers - many of which have had to be imported from abroad - have been required and it has been necessary to develop improved water distribution and drainage systems. Moreover, while some 12,500 feddans of existing farmland are being absorbed into urban areas annually, efforts to reclaim new land have encountered recurring difficulties and delays.

In addition, incentives to farmers to increase production have been adversely affected by the government's policy of maintaining basic food prices at a constant level during a period when other prices have risen appreciably. As a result, it can be estimated that the agricultural sector is providing something of the order of a LE 900 million annual subsidy, in the form of low prices, to the non-agricultural sectors. This figure can be compared with 1976 gross value added in agriculture of about LE 1,500 million. The GOE recognizes the importance of reversing this trend so as to adequately encourage agricultural production. The problems in doing so, however, are obvious - as the January 1977 urban riots following an increase in some food prices demonstrated. The financing provided through the U.S. CIP program is directed, in part, toward both encouraging and supporting the GOE in undertaking a politically realistic program of economic reform that includes rationalizing the price system.

(b) Industry and Mining

Industry and mining account for in the neighborhood of 20 per cent of GDP, and for about one eighth of total employment. In addition, industrial products are the source of over one third of export earnings, if exports of semifinished products, such as cotton yarn, are included. During the past three years real value added in industry has fluctuated considerably, declining by 9 per cent in 1973 and then rising by 13 per cent in 1974 and by a similar amount in 1975.

Foremost among the factors accounting for the improved performance of the industrial sector in 1974 and 1975 was the increased availability of foreign exchange. The Ministry of Industry was allocated a total of LE 403 million under the Foreign Exchange Budgets for 1974 and 1975, as compared with only LE 132 million in 1973. Furthermore, foreign exchange from exports through the parallel market, which was established in September 1973, began to be received; this exchange could be used freely to import necessary production inputs. Also imports financed under own exchange procedures have increased rapidly - totalling about $450 million in 1976. With the greater availability of foreign exchange and improvements in import procedures, imports of raw materials and spare parts increased substantially. This allowed a reduction in the level of slack industrial production capacity, which had been estimated at about 30 per cent at the end of 1973.

For the medium term, the continued provision of concessional commodity import financing is an essential requirement for continued growth in industrial production for two reasons. First, such financing directly ensures the adequate availability of raw and intermediate materials and spare parts that are necessary for greater industrial production. Second, in the absence of U.S. CIP loans and other similar financing, the Egyptian economic situation would be sufficiently grim that the GOE would probably hesitate to initiate the reforms that are necessary for future industrial 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.

ii. Investment

Gross domestic savings have stagnated at about 8 per cent of GDP. Gross investment hovered at around 13 per cent of GDP until 1974, when its share began to shoot up. It is clear that the increase in the share of investment in GDP that has taken place was financed from abroad, as there was no concurrent rise in the domestic savings ratio. The importance of the increased inflows of foreign resources to the development effort is discussed in more detail below.

The proportion of gross fixed investment carried out by the public sector has risen steadily in recent years, and reached over 90 per cent of the total in 1975. GOE projections for 1977 indicate that private sector investments may now be increasing as a per cent of total investments. If so, this would be in keeping with recent GOE policy statements that the government will concentrate on infrastructure and leave industrial investment to the non-governmental sector.

As regards the sectoral distribution of investment to date, while the commodity sectors received the largest proportion, the percentages going to the distribution and service sectors increased. Among the commodity sectors, the share of agriculture fell rapidly and now accounts for less than 10 per cent of the total, while that of industry remained more or less the same (32-37 per cent of the total). The larger investments in the distribution and service sectors occurred mainly in transportation and housing.

The poor performance of gross domestic savings in recent years is concencentrated in the public sector, where dissaving increased rapidly. The inability of the public sector to generate an investable surplus is the result of two main factors. First, and most importantly, the costs of direct and indirect subsidies have increased abruptly; by 1975 these outlays amounted to approximately 14 per cent of GDP. In large measure, the growth of the subsidy bill has been due to the higher prices of imported foodstuffs and fertilizers. However, there has also been an increasing reliance on higher-priced imports relative to domestic supplies, a tendency for selling prices to rise even more slowly than domestic procurement prices, and some widening of the subsidy base (until this policy began to be reversed in 1976). Second, there have been major deficits in the Emergency Fund, from which a large part of national defense expenditure is financed.

The Egyptian authorities recognize that a continuation of past trends would jeopardize economic and social stability and damage the long-term growth potential of the economy. Therefore, efforts are being undertaken to raise domestic savings and strengthen the balance of payments. Within this context, the groundwork is being prepared for a five-year development plan to provide a framework for economic policies to be followed between now and 1980.

The GOE is also making a major effort this year to reduce the budgetary deficit (as is discussed later), which, if successful would have a major beneficial impact on domestic savings.

iii. Public and Private Consumption

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

Eighty per cent of the countries with per capita incomes between $200 and $300 in 1974 (the most recent year for which data are available) had higher shares of GDP going to private consumption than Egypt.

The information that is available on the distribution of private consumption in Egypt indicates that the Egyptian income distribution is quite egalitarian by developing country standards, and has not deteriorated noticeably over time. Annex Tables III and IV present preliminary estimates of the Egyptian income distribution and the composition of private consumption at different income levels. At the same time, however, there are indications that the absolute level of well-being of the bulk of the population has not appreciably improved in recent years. Absolute levels of average per capita consumption of various commodities is given in Annex Table V. This latter phenomenon presumably is a reflection of both the relatively low past level of investment and the capital intensive, long gestation nature of much of recent investments.

iv. External Financing Requirement

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

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

Egyptian Resource Availabilities and Utilization[1/]
(in % of GDP)

	1970/71	1971/72	1973	1974	1975
Resources:					
GDP	100.0%	100.0%	100.0%	100.0%	100.0%
Net Imports of Goods amd Services	4.7	4.9	5.2	12.4	20.6
Total Resources Available	104.7	104.9	105.2	112.4	120.6
Utilization:					
Consumption	(91.7)	(92.0)	(91.9)	(94.6)	(91.1)
Public	25.7	27.1	28.6	28.9	25.7
Private	66.0	64.9	63.3	65.7	65.4
Investment	(13.0)	(12.9)	(13.3)	(17.8)	29.5
Gross Fixed Investment	11.1	10.7	12.3	15.8	25.6
Stock Increases	1.9	2.2	1.0	2.0	3.9
Total Utilization	104.7	104.9	105.2	112.4	120.6
(Gross Domestic Savings)*	(8.3)	(8.0)	(8.1)	(5.4)	(8.9)

*(Equals GDP less consumption or, alternatively, investment less net imports)

1/ Based on recent GOE and IMF data.

As can be seen from the above table, between 1973 and 1975, the portion of GDP going to private consumption increased only slightly while that going to public consumption decreased slightly. It has been possible to increase fixed investment very substantially as a result of the sharp increase in net foreign resource inflows. Although complete data are not yet available, it is thought that resource allocations in 1976 were similar to those of 1975. For 1977 the government is seeking to make a major effort to hold down consumption. However, the political ramifications are such that changes in the short-term must be handled cautiously.

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

For the next few years it is clear that substantial foreign donor financing will be necessary (1) to ensure that a substantial investment program continues to be possible while domestic stability is maintained, and (2) so that Egypt will be able to allocate enough of its own resources to retiring short term, very expensive foreign debt. The effect of both of these actions will serve to reduce the future gross need for foreign assistance.

B. Balance of Payments

i. General

Recent developments in the Egyptian balance of payments and projections for 1977 are shown in Annex Table VI.

Between 1973 and 1976, exports increased by 80% and imports more than doubled, in current prices. Although a significant portion of these increases is a reflection of price increases, there has also been substantial real growth in imports and, to a lesser extent, in exports as well. Overall, 32% of the increase in the import bill was for greater payments for basic food imports (wheat, corn, fats and oils, and sugar), 11% of the increase was for other consumer imports, and the remaining 57% was for other primary, intermediate, and capital imports required more directly for the development effort. The detailed composition of Egyptian imports is given in Annex Table VII for 1975 - the last year for which statistics are available. This table read in conjunction with the statistics on U.S. CIP utilization in Section IV would indicate that no insurmountable problems will exist in the timely utilization of the proposed $440 million FY 1977 CIP loan.

The net inflow of commodities (imports less exports) increased from $668 million in 1973 to $2,460 million in 1976. The IBRD has projected a further increase to $2,700 million in net commodity imports in 1977. As discussed above, it is this massively expanded availability of foreign commodities that has permitted Egypt to increase the level of investment from 12% of GDP in 1973 to 25% currently.

With the reopening of the Suez Canal in July 1976, and a substantial increase in tourism earnings, Egypt has been able to dramatically increase its own financing of this net commodity inflow. Net earnings from services and transfers (excluding own exchange transactions) increased from $13 million in 1973 to $844 million in 1976. For 1977 a further increase to $950 million is projected. In addition to this, approximately $450 million in "own exchange" imports were financed largely through workers' remittances.

ii. Foreign Financing

Although Egypt increased its own financing of net commodity imports, the major portion of the increased inflow was made possible by large increases in net foreign financing availabilities. This latter financing increased from $655 million in 1973 to $1,616 million in 1976 (excluding financing for military equipment). A further increase to $1,770 million has been projected by the IBRD for 1977.

Because Egypt has made substantial use of relatively short-term and, in several instances, expensive commercial financing to cover part of the cost of increased imports, debt servicing has increased substantially.

This has increased the gross need for foreign financing above what would have been the case had more medium- and long-term financing been available in the early 1970's. The 1976 gross repayment of suppliers credits equaled $311 million, while the net repayment of bank credits equaled $300 million, for an outflow on these accounts of $611 million, compared with 1973 outflow of $56 million. In contrast, between 1973 and 1976 amortization of medium- and long-term debt (excluding debt repayment under clearing accounts) increased from $131 million to $186 million. Overall, payments on this account increased from $187 million in 1973 to $797 million in 1976. For 1977 the World Bank has projected debt servicing at $1.55 billion[1/], which presumably includes a substantial reduction in the arrears in commercial payments that developed in 1976. Whether this total debt payment of $1.55 billion will be possible, or whether some of the outstanding shorter term credit will have to continue to be rolled over, will be dependent on the amount of longer term foreign financing that is available - particularly from the Arab countries.

The net result of the above was an increase in gross foreign financing from $842 million in 1973 to $2.4 billion in 1976. An increase to $3.3 billion will be necessary in 1977 if a substantial reduction in commercial debt and arrearages is to be accomplished at the same time that a large inflow of foreign imports is maintained.

iii. Need for Balance of Payments Assistance

As discussed above, Egypt needs substantial foreign financing for the imports needed to support the development effort while at the time maintaining domestic stability. It is informative to review foreign financial commitments to Egypt on the basis of currently active official loan agreements.

Outstanding Loans from Foreign Governments
and International Organizations*

	Disbursed	Undisbursed
Arab	$ 875	$ 420
U.S.	452[2/]	733[2/]
Non-U.S. Bilateral	400	784
Multilateral	160	451
Total	$1887	$2388

*Data from IMF report.

1/ Carried forward from 1976

2/ Includes both AID and PL 480.

It is clear from this table, read in conjunction with the earlier balance of payments table (which also includes grants and bank deposits from Arab countries), that the major source of foreign financial support to Egypt has come from the Arab countries. In addition, the Arab financing has been of a nature to have immediate impact on Egypt's balance of payments. Although financing from non-Arab sources is substantial and growing, with the exception of the U.S., only a small portion of this financing has been for general import financing.

As discussed above, in 1977 there is a need for a sharp increase in commodity import financing to enable Egypt (i) to import the consumer and intermediate commodities required to assure domestic stability, (ii) to maintain the large inflow of imports required to support the development effort, and (iii) to reduce the arrears in import payments that developed in 1976, as well as reducing the level of expensive short-term commercial credits currently outstanding. In addition, there are indications that in 1976 the GOE was forced to cut back somewhat on planned imports of industrial raw materials and spare parts because of shortfalls in expected financing. This means that in 1977 industry is starting from a weakened stockpile position. This too contributes to the need for CIP financing in 1977.

Although the situation in 1978 can not be projected with any quantitative precision, the broad elements of the balance of payments can be qualitatively outlined. Commodity exports and imports should grow in a fashion similar to that projected for 1977. Therefore, the net inflow of commodities in 1978 is likely to be only slightly greater than in 1977. Net service earnings should also continue to grow, with the result that the net foreign financing requirement in 1978 should be about the same as in 1977. However, debt servicing should be sharply down following the one-time need to reduce arrears and commercial bank credit that is projected for 1977. As a result gross foreign financing needs in 1978 should be down sharply from the level projected for 1977 - possibly somewhat above the $2.4 billion gross foreign financing estimated for 1976.

It is clear that the increase in U.S. CIP financing projected for 1977 and 1978 from this proposed loan will only be sufficient to help finance the growth in net commodity imports needed for development and stability. The desired reduction in commercial payment arrears and outstanding bank credits will only be possible if the Arab countries in particular, as well as the industrial countries, increase the level of their assistance substantially in 1977. The GOE is making a major effort to obtain this financing. Following the January disturbances there are probably improved prpspects for their obtaining more of such financing than they did in 1976.

C. GOE Domestic Budget

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, and a consolidated summary presentation of the State Budget, including the Emergency Fund, was attempted by the IMF in its August 1976 report for the period 1973-1976. This information has been supplemented by recent GOE statements on the 1977 budget and used in the discussion below. The 1976 data and the projections for 1977 in particular must be considered tentative at this time.

In spite of the fact that the GOE has very successfully mobilized domestic resources for government programs (Central Government tax revenues are about 22% of GDP), 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 of 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 LE 11 million in 1972 to LE 419 million in 1975. A separate Special Fund for Subsidies was established in 1975 to consolidate all direct subsidies in one fund; in that year the cost of these subsidies was LE 523 million. If the deficits of the public authorities and Public Economic Organizations (the "public economic sector") are also treated as subsidies, subsidization can be said to have absorbed 30 per cent of tax revenue in 1973, 71 per cent in 1974 and 66 per cent in 1975. The increasing requirement for subsidies has been a major factor in the growth of the overall deficit from 15 per cent of GDP in 1973 to 19 per cent in 1974 and to perhaps 24 per cent in 1975.

Despite the problems caused by the war situation, there has been a progressive increase in public investment expenditure in recent years. Expenditure in 1974 exceeded that of 1973 by 25 per cent and preliminary figures for 1975 indicate a further increase of 17 per cent. Moreover, it is reported that an additional LE 184 million was utilized from the Emergency Fund in 1975 for reconstruction and development in the Suez Canal area. In 1975, as in previous years, the main thrust of the investment program was in the manufacturing sector with the very substantial investment in the petroleum industry being to a large extent financed directly by foreign oil companies. Priority was given to the completion of major projects such as the extension of the steel complex at Helwan, the fertilizer plant at Talkha and the aluminum complex at Nag Hamady. The 1976 investment program was reviewed and revised in light of the overall financial situation. The original budgetary estimate was for investment expenditure of LE 1,252 million of which LE 530 million was to be deferred pending the outcome of negotiations for concessional external financing. In May 1976, however, it was decided to approve allocations of a maximum of LE 1,000 million subject to the availability of adequate external financing on favorable terms. Actual investment expenditures in 1976 are estimated at LE 950 million.

In 1976 the provisional sectoral allocations give greater emphasis than previously to housing, where the main requirements are for the rebuilding of the towns in the Suez Canal area, and to the transportation sector which includes the oil pipeline from the Gulf of Suez to the Mediterranean and the continuing development of the Suez Canal.

Despite the substantially increased provision for investment expenditure and the higher budgeted deficit of the Emergency Fund, it proved possible to prepare a financial program in 1976 which reversed the recent trend toward increasing reliance on domestic bank financing of the budgetary deficit. The budget as revised in May contains a bank financing requirement of LE 561 million, which is 22 per cent less than the 1975 level of LE 715 million.

In January 1977, the GOE announced further measures to reduce the government deficit through increased tax collection efforts, tighter restrictions on general expenditures, a further shift of imports to the parallel exchange rate, and substantial reductions in price subsidies. The price increases resulting from the subsidy reductions led to widespread urban rioting. The GOE has temporarily rescinded several of the subsidy cuts and is preparing a revised set of measures directed toward reducing the public sector budget deficit without adversely affecting those in society least able to afford it. Although the government's commitment to dealing with its budgetary problems is clear, the problems in doing so are equally clear.

III. SUMMARY OBJECTIVES FOR PROPOSED CIP LOAN

The objectives for the proposed $440 million program loan can be categorized among short and medium-term political and economic objectives.

The short-term political objectives are (1) to demonstrate U.S. support to the moderate GOE leadership by responding promptly to an urgent GOE request for increased foreign financial aid, and (2) to help assure domestic political stability through increasing the financing available for commodity imports. The medium-term political objective is to support a continuation of moderate, forward looking actions by the GOE as regards a just and lasting peace settlement in the Middle East.

The economic objective of the CIP loan is to provide a portion of the foreign financing that is necessary to permit a substantial Egyptian development program to be mounted. Private consumption is already low (65% of GDP) and cannot further be compressed. Public consumption levels are dictated by the unsettled Mid-East situation and the need to provide essential government services to the population. Egypt has recently been able to mount an investment program that totals about 25% of GDP - largely as a result of increased foreign financing that has permitted a net inflow of foreign goods and services equal to about 20% of GDP. Significant balance of payments financing, like that provided under the U.S. CIP program, will be necessary until domestic savings can be substantially increased. This latter development will be made possible by progress toward a settlement in the Mid-East (permitting lower defense expenditures) and by more rapid economic growth (which in turn is being made possible by the currently high level of B/P financing and capital project assistance).

IV. LOAN IMPLEMENTATION

A. CIP Setting

The public sector dominates the economy. It accounts for about 90 percent of total investment and 75 percent of industrial production. The government either owns or shares ownership in nearly all financial intermediaries, trading and wholesale firms, transportation and communications assets. The government is the main determinant of resource allocation and domestic prices, using administrative controls and direction with an emphasis more to income distribution and resource mobilization for specifics than achieving short term economic efficiency.

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

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

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

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

B. Past Experience

A summary of CIP commitments and disbursement on previous loans is shown in the following table:

EGYPT PROGRAM LOANS AS OF JANUARY 31, 1977

(In Millions of U.S. Dollars)

LOAN NO. (date Agmt signed)	AMOUNT	L/COMs	L/Cs	DISBURSED 12/31/76	UNLIQUI-DATED (UNEXPENDED BALANCE)	UNCOM-MITTED	TOTAL
263-K-026 (2/13/75)	80.0	80.0	74.5	51.1	28.9	-	28.9
263-K-027 (6/30/75)	70.0	70.0	38.6	30.9	39.1	-	39.1
263-K-029 (12/18/75)	100.0	100.0	61.6	9.2	91.8	-	91.8
263-K-030 (5/22/76)	150.0	73.0	6.4	-	73.0	77.0	150.0
263-K-036 (9/30/76)	65.0	-	-	-	-	65.0	65.0
Total	465.0	323.0	181.1	91.2	232.8	142.0	374.8

L/COM

COMMODITY	VALUE (Millions)
Tallow	94.5
Wood Pulp	11.0
Graphite Electrodes	3.0
Acetate Tow	12.0
Kraft Paper/Line	9.0
Herbicides	.7
Tinplate	5.9
Synthetic Rubber	1.0
Plastics	2.0
Buses	52.3
Marine Diesel Engines	3.7
Scientific Equip. (sens.)	1.1
Heavy Duty Construct. Equip.	15.0
Spare Parts (Electronic)	1.7
Microwave Equip.	.6
Cement Plant Equip.	5.0
Cranes/Dredgers	2.5
Broadcasting Equip.	10.0
Farm Tractors	10.0
High Voltage Elect.Cables	18.5
Grain Unloaders	3.0
Electrification Equip.	2.0
Refuse Collection Equip.	2.5
Printing Press Equip.	10.0
Medical Equip.	6.5
Spare Parts (Transportation)	7.1
Compressors/Mining/Welding Equip.	10.0
Tire Making Equip.	5.0
Other	17.4
	$323.0

Progress under the CIP program has been good and is improving as both AID and the Egyptians become more familiar with each other's operations and procedures. Progress has been handicapped by four factors: the autonomous nature of the individual buyers, the vast difference in AID procedures from those being applied by other major sources of foreign exchange and the Egyptians' own procedures; the type of commodities being programmed; and finally, the inherent drawbacks of a massive, layered Egyptian civil service with fragmented authority and responsibility.

These handicaps are being overcome. To date there have been 35 separate organizations participating in CIP, purchasing either as the ultimate user or as a buying authority for several satellite members. Each loan has had the major portion allocated to the same Ministries, but the purchases have often been by new end users unfamiliar with AID procedures. For example: the recent CIP Loan 263-K-036; $40 million of the $65 million loan is allocated to end users that have never participated in AID-financing.

An AID procedure that has worked to inhibit loan utilization in the past is the routine application of the formal bid requirement for public sector buyers - a procedure that requires mutually agreeable detailed purchase contract terms and a step-by-step bid analysis permitting no deviation from published bid invitations. This procedure was being applied to each GOE purchaser because each purchaser was a government owned entity. As AID became familiar with the situation in Egypt, it became obvious that we had large segments of the "public sector" that behaved and operated exactly as private commercial entities in other parts of the world and the U.S.

Industrial concerns that had established supply contracts with U.S. firms, and distributor/wholesaler concerns that had agency agreements to promote, distribute and service a U.S. manufacturer's product were unable to participate. Organizations charged with the responsibility of maintaining a supply of resale commodities, such as office machines, ink and other non-luxury items, were unable to negotiate for brands acceptable to the buying public. It is anticipated that with recent reanalysis of the public sector's make up, these public-commerical organizations will have greater opportunity to participate and additional users of this loan will evolve in raw materials and distributorship type product imports such as spares, trucks, tractors and machine tools, etc.

Further, other major foreign exchange sources, the GOE owned FX, Saudi credits and Arab nation contributions, simply fund the results of a normal GOE procurement. Thus, the individual Ministries and their suborganizations routinely purchase their requirements using long established practices, then issue purchase payment documents. This, of course, does not mesh well with AID procedures that are designed both to notify the U.S. businessmen well in advance of a purchase and establish formal contract terms that are acceptable to both AID and the U.S. business community as a whole. An effort is being implemented to brief organizations receiving their first AID allocations and alert them to the preliminary work required under AID regulations.

C. Proposals for New Loan

Emphasis will be on funding of large volume consumables and raw material purchases to effect a more rapid disbursement of the bulk of this loan to provide foreign exchange budgetary support in the near term. Food staples and raw materials generally require less preliminary procurement lead time, are purchased in large quantities and have short (3-6 months) delivery items. A small portion of the loan is expected to flow into capital goods such as plant machinery and construction equipment. It is anticipated that there will be some procurements of equipment that will require extension of residual portions of the loan. This delay is inherent in any CIP program where a large loan is spread over a large number of buyers with diverse requirements.

Their remains some differences of opinion within the GOE on whether the overall emphasis in utilizing this CIP loan should be directed toward consumable food products or industrial raw materials, spare parts and other equipment needed to revitalize and stimulate overall industrial production. USAID will take all necessary steps to close this gap prior to loan negotiation so that firm allocations to purchasing Ministries can then be promptly made. Pending that resolution, we are estimating that the commodity composition under the proposed CIP loan will be approximately the following:

a.	allocations for consumer requirements, including vegetable oil, corn, and tobacco	$170 million
b.	industrial raw materials and spare parts such as tallow, kraft paper, wood pulp, iron and steel, machinery spares, coking coal, etc.	$170 million
c.	capital goods of a relatively simple variety, for which procurement can be readily expedited, including trucks, electrical cables, construction machinery, compressors, welding equipment, etc.	$ 75 million
d.	allocations to private sector, primarily for building materials and industrial spare parts	$ 25 million
		$440 million

This loan, which is almost equal in size to the entire previous CIP program, will put emphasis on funding a large volume food staples and raw materials and will make increased use of negotiated procurement procedures where feasible. Furthermore, although there will be continuing need to fund some long lead-time capital goods, we intend to minimize long duration capital goods purchasing by emphasing, where possible, repeat purchases of equipment already defined and successfully purchased, thus cutting procurement leadtimes. However, the terminal disbursement date for this loan should be established 24 months from the date Conditions Precedent are met in order to give sufficient time to procure the capital goods which will be bought. One of the most difficult drawbacks to procurement of capital equipment has been that equipment needed to improve production in almost any sector has a long procurement production delivery leadtime. Much is custom manufactured or produced only on order. Buyers with a need for equipment that requires 18 months for delivery are precluded from participating because the initial purchase preparation leadtime, coupled with suppliers' delivery times, exceed loan terminal dates. Although terminal dates are later extended, this additional time often is provided too late to initiated long leadtime purchases or use residuals when a planned purchase has to be cancelled and reallocated.

Our initial review of food staples that may be imported include frozen/canned meat, fish and poultry, since continuing scarcities of fresh/frozen local and imported meats have resulted in a national restrictive sales program limiting meat sales to three days a week. Since these items normally are ineligible except with preapproval by AID, we may request that frozen and canned beef, mutton, poultry and fish be given approval at the PAAD stage for inclusion in order to gain time at the implementation stage.

Previous loan restrictions limiting application and commodity eligibility will be eliminated, thus broadening this loan to allow all AID Commodity Eligibility List commodities to be routinely eligible.

Under the last commodity loan, Loan 263-K-036, the GOE began an effort to make AID-financing available to the private sector. $10 million has been allocated directly to the private sector for commodity imports, and procedures are being restablished to provide the greatest possible latitude to the private sector consistent with AID Regulations.

The GOE indicates increasing interest in providing additional funding for the private sector. Future allocations are being contemplated and we anticipate that $25 million of this loan will be allocated solely for private sector use. Discussions with the GOE point to a positive and practical attitude among officials to furthering private sector participation. Entrepreneurs indicate needs for dealer stocks of spare parts, off-the-shelf equipment, tools, raw materials, and industrial machinery. The GOE advises that allocations should include construction materials and hardware necessary to assist the expansion of the private sector industrial and service facilities. The principle GOE guideline for private sector loan usage will be development of production and essential services with a marked interest in assuring allocations do not stimulate luxury imports.

Initial planning on private sector implementation is that AID letters of commitment will be established through normal commercial banking channels. Purchase proposals will be reviewed by a central office within the GOE and when the buyer receives GOE approval the purchase will be conducted along normal AID Regulation I procedures with prepurchase advertisement, solicitation, selection of a supplier and issuance of an AID financed letter of credit. Subject to the normal controls and requirements of AID eligibility and price review at the Form 11 stage a minimum of $10,000 per transaction will be maintained.

D. Required Steps to Expedite Utilization

It is estimated that $100-200 million can be disbursed and have substantial effect by December 1977.

Anticipated utilization of this loan and prior CIP loans (on a letter of credit basis) is projected in the following table:

	CY 1977	CY 1978	CY 1979
Prior Loans	$150 million	$174 million	$ 50 million
This Loan	$150 "	$225 "	$ 65 "
Total	$300 million	$399 million	$115 million

This utilization and its budgetary support effect will not be possible if the loan itself or its preliminary approval by AID and the GOE are slowed by lengthy administrative procedures. Thus,

a. the loan paper and PAAD require immediate approval;

b. the GOE must sort out its priorities and should allocate the loan prior to implementation to enable users to begin processing purchases;

c. the GOE must speed ratification of the loan by the People's Assembly, a GOE requirement prior to completing Conditions Precedent, must be accomplished;

d. the GOE must establish a system to review all applications for foreign exchange to assure that imports are financed through the CIP wherever possible;

e. USAID must expand the Eligible Commodity List to include all AID eligible commodities; and

f. AID must expedite purchase requests and waivers, especially relative to new classes of purchases requiring clearances and approvals from other U.S. Government Agencies.

V. Impact on U.S. Balance of Payments

The long-term impact on the U.S. balance of payments will be favorable because this loan will be spent on U.S. goods and services. This loan will continue to permit U.S. suppliers/exporters to re-establish old trade relationships and create new ones for industrial raw materials and 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.

As an indication of the potential impact, Egyptian imports from the U.S. in 1976 (net of PL 480) were about $650 million. The provision of this loan for $440 million will enable U.S. exporters to expand significantly the range and magnitude of commodities exported to Egypt.

VI. Recommendations

It is recommended that a loan to the GOE of $440 million ($440,000,000) be authorized for financing imports of selected agricultural, industrial, and consumption commodities and related services on the following terms:

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

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

c. Procurement with loan funds from the United States.

d. The terminal date for disbursement shall be twenty-four months following the satisfactory meeting of Conditions Precedent.

e. Frozen and canned beef, mutton, poultry and fish, in addition to the items appearing on the AID Commodity Eligibility Listing, Schedule B, shall be eligible for financing.

	FY 1975	FY 1976	Interim Quarter	FY 1977 Proposal
SUPPORTING ASSISTANCE				
Technical Assistance Projects				
Technology Transfer & Manpower Development	1.0	2.0		2.5
Technical and Feasibility Studies	1.0	8.0	7.0	12.0
Water Use and Management		1.5		1.0
Improvement of Rural Health Services		1.8		2.1
Development of Rural Villages				1.0
Integrated Social Work Training Center				1.0
Family Planning				3.0
Suez Canal Clearance	14.5			
Port Said Minefield Sweep		2.7		
Scientific Research Mgmt.				3.9
Ag. Development Systems				2.5
Poultry Development				0.6
Rice Research				0.4
Helicopter Transfer	1.2			
TOTAL	17.7	16.0	7.0	30.0
Capital Assistance Projects				
Ismailia Power Plant (G)		99.0		
Suez Cement Plant (G)		90.0		
Heavy Road Construction Equipment (G)	10.0		4.0	
Electric Power Distribution Equipment (G)	30.0			40.0
Grain Storage and Distribution	44.3			
Grain & Vegetable Oil Storage & Distr.				55.0
Accelerated Tile Drainage		31.0		
Cargo Handling Equipment (Port of Alex.)		31.0		
Gas Turbine Power		50.0		
Bank of Alexandria (Industrial Credit)		32.0		
Mahalla Textile		96.0		
Water and Sewage Systems				40.0
Irrigation Canal Maintenance Equipment				40.0
Synthetic Fiber Production (Rayon)				15.0
Synthetic Material Production (DMT)				40.0
National Energy Control Center			24.0	
TOTAL	84.3	429.0	28.0	230.0
Commodity Import Program	150.0	250.0	65.0	440.0
TOTAL SUPPORTING ASSISTANCE PROGRAM	252.0	695.0	100.0	700.0

I. PL 480 PROGRAM

	FY 1975	FY 1976	Interim Quarter	FY 1977 Proposal
A. Title I	112.0	173.1	28.6	197.2

TABLE II. GROSS NATIONAL PRODUCT AT CURRENT PRICES BY KIND OF ECONOMIC ACTIVITY

(In millions of Egyptian pounds)
(Current Prices)

	1973	1974	1975[1/]
Commodity Sectors:	1914.8	2305.7	2704.1
Agriculture	1062.4	1280.0	1406.9
Industry, Petroleum and Mining	689.5	842.8	994.8
Electricity	44.8	48.0	71.9
Construction	118.1	134.9	230.5
Distribution Sectors:	507.9	633.9	762.7
Transportation, Communication and Storage	158.6	167.4	224.2
Trade and Finance	349.3	466.5	538.5
Service Sectors:	992.3	1050.8	1143.1
Housing	124.0	127.1	130.0
Public Utilities	16.1	17.4	17.8
Other Services	852.2	906.3	995.3
GDP at factor cost:	3415.0	3990.4	4609.9
Net indirect taxes:	341.8	78.4	43.5
GDP at market prices:	3756.8	4068.8	4653.4
Net factor income:	-27.9	-35.0	+16.2
GNP at market prices:	3728.9	4033.8	4669.6

1/ Provisional estimates.

TABLE III. EGYPTIAN INCOME DISTRIBUTION
SHARE IN INCOMES RECEIVED BY DIFFERENT
INCOME STRATAS

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

TABLE IV. PATTERNS OF CONSUMPTION FOR EGYPTIAN HOUSEHOLDS

	Twenty-Fifth Percentile		Seventy-Fifth Percentile	
	Rural	Urban	Rural	Urban
rains and Starches	22.3%	13.4%	17.1%	7.5%
ther Food	41.4	41.4	41.1	38.2
lothing	10.2	12.9	10.7	14.0
ousing & Consumer Durables	14.5	17.9	12.2	17.4
ealth, Education & Culture	1.7	3.2	2.2	10.2
ther	9.9	11.2	16.7	12.7
Total	100.0%	100.0%	100.0%	100.0%

TABLE V.

ESTIMATES OF STAPLE FOOD CONSUMPTION PER CAPITA

(Kilograms)

Items	63/64	64/65	65/66	66/67	67/68	68/69	69/70	70/71	71/72	1973	1974	1975
Wheat	117.7	115.5	106.1	109.4	107.2	110.3	111.3	118.2	120.3	114.1	115.3	119.9
Flour										15.4	11.3	17.7
Nili Maize	74.8	71.5	69.7	76.4	68.3	70.1	63.7	67.5	64.0	69.3	77.4	80.3
Maize	24.0	18.8	25.4	26.5	26.2	25.1	12.3	23.2	22.2	21.6	20.4	20.5
Barley	1.7	2.0	1.3	1.5	2.3	2.6	1.8	1.4	2.0	1.5	1.3	1.3
Rice	31.1	35.2	25.6	20.8	22.1	25.0	18.4	31.4	30.6	33.5	35.3	36.2
Beans	7.5	8.4	7.4	9.6	3.5	4.8	6.4	4.6	7.3	6.9	7.9	9.2
Lentils	1.5	1.6	1.9	1.4	1.1	1.1	1.1	1.7	1.5	2.2	1.8	2.2
Sesame	.1	.1	.1	.06	.06	.03	.1	.1	.1	.1	.2	.2
Meat & Chicken	10.3	6.3	6.5	7.6	7.5	7.2	10.9	10.9	11.0	12.6	13.8	13.3
Fish	5.0	5.5	5.5	5.5	4.5	2.9	3.4	3.3	3.2	3.5	3.7	4.1
Eggs	1.3	1.2	1.2	1.2	1.2	1.3	1.4	1.4	1.5	1.6	1.7	1.7
Vegetables	104.9	140.6	147.5	135.5	133.5	153.5	148.9	140.3	137.0	153.4	158.8	158.1
Fruits	31.2	25.2	25.6	24.0	27.7	24.9	26.6	21.1	34.9	37.0	39.3	39.9
Tea	9.0	1.1	1.0	1.1	.7	.7	.7	.7	.7	.7	.7	1.0

TABLE VI.

Balance of Payments
($ Million)

Financing Requirement	1973	1975	1976	1977 3/
Trade Balance	-668	-2,768	-2,460	-2,700
Exports, fob	1,010	1,523	1,840	2,300
Imports, cif 1/	-1,678	-4,341	-4,300	-5,000
Net Services and Transfers	13	370	844	930
Service Receipts 1/	424	1,080	1,664	1,975
Service Payments	-417	-800	-896	-1,120
Net Private Transfers	6	90	76	75
Current Account	-655	-2,398	-1,616	-1,770
Debt Servicing	-187	-911	-797	-1,550
Long Term Amortization	-131	-287	-186	
Suppliers Credit	-279	-280	-311	
Credit Lines (net change)	+223	-344	-300	
Financing Need	-842	-3,309	-2,413	-3,320

1/ Does not include own exchange imports or their financing - largely through workers' earnings abroad.

2/ Both Arab and non-Arab loans are included under non-Arab assistance in 1973.

3/ Based largely on recent IBRD estimates.

TABLE VI. (Cont.)

Balance of Payments
($ Million)

I. Financing Available	1973	1975	1976	1977 3/
Arab Financing	785	2,850	1,250	2,060
Direct Grants	730	986	580)	
Bank Deposits	55	1,366	200)	1,810
Loans to Government and Central Bank	2/	498	100)	
GODE Loans and Guarantees	-	-	250	250
Other/Unaccounted For	-	-	120	
Non Arab Financing	217 2/	306	531	860
AID		16	115	350
PL-480		55	182	200
IMF		-30	144	150
IBRD		30	40	85
Other		235	50	75
Commercial Credit	161	363	703	400
Suppliers Credit	161	363	339	
Other			64	
Increase in Arrears			300	
Other	-311	-233	-88	0
Total Financing Available	852	3,286	2,411	3,320
Errors and Omissions	-10	+23	+3	0

1/ Does not include own exchange imports or their financing - largely through workers' earnings abroad.

2/ Both Arab and non-Arab loans are included under non-Arab assistance in 1973.

3/ Based largely on recent IBRD estimates.

TABLE VII.

COMMODITY COMPOSITION OF IMPORTS*

(in millions of dollars)

	1975
Fuels	$266
Crude petroleum	183
Petroleum products	8
Coke and coal	75
Primary commodities	$738
Wheat	543
Tobacco	52
Maize	69
Wool	16
Sesame	6
Other	51
Intermediate commodities	$1578
Animal fats and vegetable oils	345
Chemicals, n.i.c.	253
Unwrought, waste and scrap metals	39
Iron and steel	260
Dyestuffs and coloring	47
Wood	117
Paper and paper products	140
Fertilizers	95
Electrical products	53
Rubber and rubber products	35
Oils and wax	23
Other	163
Capital commodities	$664
Automobiles	247
Other transportation	33
Textile machinery	49
Electrical products	66
Earth moving equipment	38
Other	230
Consumer commodities	$680
Durables	126
Automobilies and motorcycles	(77)
Radio and television	(15)
Other	(34)
Nondurables	554
Wheat flour	(119)
Sugar	(105)
Tea	(32)
Coffee and cocoa	(10)
Meat, fish and poultry	(58)
Beans and lentils	(37)
Medicines	(17)
Disinfectants and insecticides	(85)
Paper and paper products	(34)
Other	(57)
Total	$3,925

*These data are based on customs records, and hence differ from the balance

6C(1) - COUNTRY CHECKLIST

below are, first, statutory criteria applicable generally to FAA funds, and then criteria able to individual fund sources: Development Assistance and Security Supporting Assistance

NERAL CRITERIA FOR COUNTRY

FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?	Not all conter ated assistance will directly benefit .ne needy. The Department of State has made no determination that the GOE has engaged in a gross violation of human rights.
FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	No instance of any such present course of conduct is known.
FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	The Secretary of State has so determined.
FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	None of the known claims of any US citizen asserted against the GOE meets the criteria of this section. In any event, Egypt participated with the USG in a joint commission to discuss debts of Egypt to US citizens and has agreed with the USG on an amount which the GOE will pay to settle these debts.
FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	The Secretary of State has determined that Egypt's agreement to establish a Joint Commission to discuss compensation of American nationals constitutes taking appropriate steps for the purpose of this section.

A

7. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?	Egypt is not a communist country
8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	The President has not determined tha the recipient country is involved in such conduct.
9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	The President, in accordance with th requirement of section 620(j), has considered terminating assistance to Egypt and has determined that no suf reason exists not to furnish the ass
10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	Egypt has reactiviated its Investmen Guaranty Agreement with the U.S.
11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,	No instance of any such seizure or imposition of such penalty or sanction is now known.
a. has any deduction required by Fishermen's Protective Act been made?	Not applicable.
b. has complete denial of assistance been considered by AID Administrator?	Not applicable.
12. FAA Sec. 620(q); App. Sec. 504. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?	No such default exists. Reconciliati taking palce between the books of AI the Government of Egypt in regard to very minor amounts.
13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	The President has taken into account of the listed considerations as to c military expenditures by the GOE and determined that these do not inhibit aid to Egypt but rather that the pro program contributes to the underlyin of the FAA which seeks to reduce arm and to stimulate economic developmen

ERRATA

Egypt, FY 1977 Commodity Import Program Loan Paper

The following paragraph is added on page 27 of the loan paper as paragraph VI and the existing paragraph VI (Recommendations) is renumbered as paragraph VII.

VI. Use of CIP Generated Local Currency

Egyptian pounds generated by this loan will be utilized for general GOE expenditures. As a matter of policy, AID does not plan to involve itself in the Egyptian Governments budgetary process by participating in the programming of the local currency proceeds. AID looks to the IMF and IBRD with respect to recommending corrective monetary and fiscal measures. Egypt is an excess currency country and sufficient funds are available for local USG requirements. To date, the availability of local currency to support AID projects and programs has been met by the Government of Egypt. In recognition of budgetary constraints, AID is working closely with the GOE to assure that local currency requirements for projects will be provided on a timely basis.

ERRATA

Egypt, FY 1977 Commodity Import Program Loan Paper

1. Page 2. Delete the words "and USG" from the second sentence of the first full paragraph.

2. Page 25. Delete the second paragraph.

3. Page 27. Under paragraph VI, Recommendations, delete sub-paragraph e.

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

Egypt severed diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.

15. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

Egypt has paid all of its outstanding U.N. obligations.

16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No.

17. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No.

18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safequards, etc.?

No.

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?

No.

FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.

Not applicable.

b. FAA Sec. 201(b)(5), (7) & (8); Sec. 208; 211(a)(4), (7). Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

1b

(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?

d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this Section?

(1) No.

(2) Yes.

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

Yes.

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not applicable.

6C(2) - PROJECT CHECKLIST

ted below are, first, statutory criteria applicable generally to projects with FAA funds, and n project criteria applicable to individual fund sources: Development Assistance (with a sub-egory for criteria applicable only to loans): and Security Supporting Assistance funds.

OSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

GENERAL CRITERIA FOR PROJECT.

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

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure plus 10%)?

(a) An "Advice of Program Change" has been furnished Congress for this Loan. No obligation of funds will occur priot to passage of Congressional waiting period.
(b) Amount to be obligated is within FY 77 funding levels for Egypt.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

The necessary plans and cost estimates are completed and included within the loan paper.

3. 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 than action ratifying the signed project agreement.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

Not applicable. Project is not for water or water-related land resource construction.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Not applicable. Not a capital assistance project.

FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Not applicable.

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

a) The program loan will be used to finance the import of commodities with the long-term objective of increasing Egypt's ability to engage in international trade. b) Under A.I.D. Reg. 1 procedures, private initiative and competition will be fostered. c) No direct impact. d) No direct impact. e) The purpose of the loan is to encourage industrial and agricultural production which involves improvement of technical efficiency of industry, agriculture and commerce. f) No direct impact.

FAA Sec. 601(b). Information and conclusion on how project 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).

Reg. I ensures that there will be maximum private participation in transactions financed under the loan.

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 U.S. are utilized to meet the cost of contractual and other services.

Inapplicable.

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

Inapplicable.

ING CRITERIA FOR PROJECT

Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and other

Inapplicable.

B1

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 source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(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;

(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;

(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) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(b) to help alleviate energy problem;

(c) research into, and evaluation of, economic development processes and techniques;

(d) reconstruction after natural or manmade disaster;

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

(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to

B1

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

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

f. 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.

B1

g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. 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.

2. Development Assistance Project Criteria (Loans only)

Not applicable.

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

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 U.S.) of lending and relending terms of the loan.

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. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

e. 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?

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

This assistance will promote ec stability by providing vital fo exchange required for Egypt's e development, thus promoting eco and social stability.

4. Additional Criteria for Alliance for Progress

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

Not applicable.

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

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

6C(3) - STANDARD ITEM CHECKLIST

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

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

. 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 goods and services will be pursuant to established AID regulatio

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

   Yes.

3. 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 U.S. on commodities financed?

   Yes.

4. 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?

   There will be no such procurement.

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

   Not applicable.

6. 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.

   Yes.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,

   Not applicable.

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. 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?

. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? — Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — No construction is to be financed.

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? — Not applicable.

. Other Restrictions

1. 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? — Not applicable.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — Not applicable.

3. 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 U.S.? — Yes. Necessary determinations under 620(h) will be issued.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction? — Financing is not permitted to be used for such purposes.

5. Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions?	Yes.
b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes.
d. FAA Sec. 662. for CIA activities?	Yes.
e. App. Sec. 103. to pay pensions, etc., for military personnel?	Yes.
f. App. Sec. 106. to pay U.N. assessments?	Yes.
g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending).	Yes.
h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes.