PD-AAJ-528

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UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

# EGYPT: FY 1981 Commodity Import Program



AID Grant No. 263-K-603 (FY 79 Supp ESF)
AID Loan No. 263-K-055 (FY 18 ESF)

UNCLASSIFIED

CLASSIFICATION:

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|---|---|---|
| AID 1120-1 (8-66) PAAD | DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT | 1. PAAD NO. NE-81/5 AID Grant 263-K-603 ($230.0) AID Loan 263-K-055 ($ 70.0) |
| | | 2. COUNTRY Arab Republic of Egypt |
| | | 3. CATEGORY Commodity, Standard Financing Procedure |
| | | 4. DATE May, 1981 |

5. TO:
Mr. Peter McPherson
A/AID

6. OYB CHANGE NO.
Not Applicable

7. FROM:
Mr. Alfred D. White
AA/NE (Acting)

8. OYB INCREASE
TO BE TAKEN FROM:
Not Applicable

10. APPROPRIATION - ALLOTMENT
Grant:
72-1111037 137-62-298-00-59-11
Loan:
72-11X1037 967-62-298-00-57-11

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 300,000,000

| 11. TYPE FUNDING | 12. LOCAL CURRENCY ARRANGEMENT | 13. ESTIMATED DELIVERY PERIOD | 14. TRANSACTION ELIGIBILITY DATE |
|---|---|---|---|
| X LOAN X GRANT | ☐ INFORMAL X FORMAL ☐ NONE | 6/1/81 - 6/1/84 | PAAD Authorization Date |

15. COMMODITIES FINANCED

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

| 16. PERMITTED SOURCE | 17. ESTIMATED SOURCE |
|---|---|
| U.S. only: $300,000,000 | U.S.: $300,000,000 |
| Limited F.W.: | Industrialized Countries: |
| Free World: | Local: |
| Cash: | Other: |

18. SUMMARY DESCRIPTION

Although Egypt's balance of payments performance improved markedly in 1980, the overall foreign exchange situation indicates that Egypt is still in need of balance of payments assistance. During 1980, Egypt's current account deficit declined sharply and together with moderate growth in medium and long term capital inflows, Egypt was able to marginally strengthen a still weak position in official holdings of foreign exchange reserves. These reserves currently cover only about two months' imports. USAID is in agreement with both the IMF and IBRD on the desirability of strengthening the reserve position to a more prudent level. In part, this reflects our concern that Egypt's mid-term balance of payments prospects are likely to depend heavily on developing supplements to foreign exchange earnings from petroleum at some point in the mid-1980s.

The CIP grant/loan from FY 1981 funding is requested at a level of $300 million. The total of $300 million consist of a $230 million grant from current year

| 19. Clearances | Date |
|---|---|
| GC:JBolton | 6/10/81 |
| NE/PD:SATaubenblatt | 5/23/81 |
| NE/EI:GKamens | 5/28/81 |
| GC/NE:JKessler | 5/27/81 |
| SER/COM/NE:RLoopez | 28 May 81 |
| A/FM/C:TMcMahon | 5-29-81 |
| NE/DP:BLangmaid | 6/1/81 |
| A/AA/PPC:CPaolillo | 6/5/81 |

20. ACTION
X APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE    DATE June 22, 81

TITLE

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funding and a $70 million loan from the FY 1979 supplemental appropriation. The $230 million from FY 81 funding represents a $30 million increase over the previously planned level and these funds will be used for the Trade Financing Facility and additional allocations to the Egyptian Private Sector. A maximum of $25 million will be used by the Government of Egypt (GOE) to offer parallel financing with other financial institutions for internationally competitive imports from U.S. sources at a package of credit terms which compares favorably with the credit terms offered by foreign financing facilities for imports from foreign sources.

The proposed FY 1981 CIP will assist Egypt with its development effort during the next three years by providing means for financing public and private sector imports of raw materials, semi-finished products, industrial machinery, equipment, spare parts as well as other essential commodities (including some food items), and related services. The CIP will supplement other A.I.D. project activities aimed at assisting Egypt in its program to utilize full producton capacity of existing industrial enterprises and for new industrial expansion, and it will provide inputs essential to increase infrastructure, transportation, agriculture, social services, private sector development and production. The GOE allocated 10% of FY 1980 CIP funds to the private sector ($33.5 million) and has agreed to increase the amount reserved for the private sector to $35 million in FY 1981. This represents 12% of the proposed FY 1981 CIP as compared with 10% of the FY 1980 CIP.

It is recommended that you authorize a grant to the GOE of $230 million (230,000,000 dollars) from current year funding. In addition, it is recommended you authorize a loan of $70 million (70,000,000 dollars) from FY 1979 supplemental funding. The total of $300 million (300,000,000 dollars) will be utilized for financing imports of selected commodities and commodity related services.

A. Interest and Terms of Repayment

Borrower shall repay the $70 million loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest at the rate of two percent (2%) per annum for ten (10) years following the date of first disbursement and at the rate of three percent (3%) per annum thereafter on the oustanding balance of the principal and on any due and unpaid interest.

B. Other Terms and Conditions

1. Conditions Precedent to Initial Disbursement

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

2. Additional Condition Precedent to Initial Disbursement For Trade Financing Facility

Prior to any disbursement or to the issuance of any Letter of Committment or any other authorization for the disbursement under the Grant for the Trade Financing Facility, the Grantee and A.I.D. shall agree in writing to the procedures that will govern the use of the Grant funds for the Facility. Twenty-five million dollars ($25,000,000) of the grant funds shall be used for this purpose.

3. Covenants

a. Periodically, but no less than annually, the Borrower/Grantee and A.I.D. will meet to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to these concerns.

b. The Borrower/Grantee covenants to continue to support appropriate participation by the private sector in transactions for which financing is provided under the CIP. A minimum of $35 million of the FY 1981 CIP funds will be allocated to the private sector.

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

4. General Terms

a. Unless A.I.D. otherwise agrees in writing, any set asides or extraordinary allocation of funds shall be agreed to by A.I.D. and set forth in Implementation Letters.

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

c. Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty-six (36) months following the satisfactory meeting of the Conditions Precedent.

d. In addition to the items appearing of the A.I.D. eligibility listing approval is given for the financing of frozen fish, frozen poultry, and other products which shall be open to private sector importers.

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

f. The Grantee agrees to consult periodically with A.I.D. regarding the implementation of the FY 1980 CIP fertilizer importation program to determine if special arrangements shall be instituted to resolve the problems associated with the fertilizer program

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

# EGYPT: U.S. FY 1981 CIP ASSISTANCE

Table of Contents — Page No.

SUMMARY OBJECTIVES FOR THE PROPOSED BY 1981 CIP ASSISTANCE

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

The economic objective of U.S. CIP assistance is to provide a portion of the foreign financing that is necessary to permit a substantial Egyptian development program to be mounted. Egypt has recently been able to mount an investment program that totals about 26% of GDP as a result of increased foreign financing and greater levels of national savings. Although Egypt's balance of payments situation in 1980 improved, and it is likely that this improvement will continue into 1981, the sustainability of the improvement into the mid-1980s remains problematic (see Part II). Significant balance of payments financing, like that provided under the U.S. CIP program, will continue to be necessary until sustainable improvements in the balance of payments can reasonably be foreseen.

We had earlier planned (as reflected in the Congressional Presentation) that the FY 1981 CIP level would be $270 million and would consist of a $200 million grant from the regular A.I.D. program and a $70 million loan from the $300 million supplemental appropriation. This would have been $65 million less in CIP funding than in FY 1980. However, as a result of discussion with the Deputy Prime Minister for Economic and Financial Affairs, we believe that additional CIP funding of $30 million ($25 million for the Trade Financing Facility and $5 million for purchases of spare parts for the Ismailia Power Plant) in FY 1981 would enable the GOE to improve its ability to finance purchases of internationally competitive imports from U.S. sources and meet requirements for purchasing spare parts for the Ismailia Power Plant. (See Appendix C for details.)

As a result of the above, we are proposing that FY 1981 CIP assistance total $300 million rather than the earlier planned level of $270 million.

## II. BACKGROUND AND CIP JUSTIFICATION

### A. U.S. Objectives and Recent Economic Developments

1. U.S. Objectives: A major objective of United States foreign policy is the achievement of a comprehensive peace in the Middle East. With the realization of the Egyptian-Israeli Peace Agreement, the cornerstone of a comprehensive peace has been laid. Over the longer term, our policy aims at a satisfactory evolution of political and economic relations among all countries in the region. The cooperation of Egypt, the principal Arab country, is essential for these purposes. The GOE has demonstrated by its actions that it shares our desire to seek peaceful resolution of Middle East differences and an end to the state

of tension which has adversely affected the well being of the people throughout the region. The continuing ability and willingness of Egypt to proceed toward this ultimate goal will depend on (a) domestic political stability; (b) avoiding short-term deterioration in the standard of living of the population; and (c) obtaining sufficient foreign resources to permit a continuing development effort. The overall objective of U.S. assistance to Egypt is to foster economic and social development which will facilitate and encourage the establishment of a permanent comprehensive peace. The critical importance of this objective, together with the fragile state of the Egyptian economy and its dependence on foreign assistance, at least over the next few years, justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt.

2. Recent Economic Developments: It is useful to review Egypt's recent macro economic performance in terms of a set of traditional performance indicators: growth, investment, inflation, employment and international developments. In terms of all these indicators, the Egyptian economy is performing very well.

a. Growth

While per capita income at U.S. $460 remains quite low, real GDP growth averaged in excess of 9% per annum between 1977 and 1979. Preliminary, unofficial estimates place the 1980 GDP growth rate above 8%. Virtually all sectors have participated in this growth.

In terms of sectoral contributions to total growth, 43% of the growth that occurred between 1977 and 1979 was generated in the commodity producing sectors, of which 14% was contributed by industry and 13% by petroleum. Agriculture, at 6%, registered a relatively weak contribution to total growth. Thirty-seven percent of the total growth was generated in the distribution sectors of which the sector comprising Trade, Finance and Insurance generated 23%, the Suez Canal 6% and Transport 8%. The services sector generated 19% of total growth. Within the sector, other services (mainly government) generated 15% of the growth, tourism generated 1% and housing generated 3%.

In terms of the growth rates of individual sectors as distinct from sectoral contributions to total growth, outstanding performance was registered in the petroleum, construction and Suez Canal sectors. The growth rate in each of these sectors averaged in excess of 15% between 1977 and 1979. Relatively strong growth rates were also rgistered in the electricity, transport and trade, finance and insurance sectors. Agriculture and industry registered the weakest individual growth rates, with agriculture at about 5% and industry at about 8%.

b. Investment

Since 1977 fixed investment has averaged a highly respectable 23% of GDP. This investment has not only contributed to the

GDP growth rate directly but has also reduced bottlenecks to growth itself. Electricity generating capacity has increased, telecommunications have improved substantially, the capacity of the Suez Canal has increased, new hotels and tourism facilities have been built and capacity additions and improvements have been made in both public and private sector industrial enterprises. Social investments have not been neglected. Schools have been built, sanitation facilities have been improved and health related investment has been substantial.

c. Inflation and Employment

In consequence of Egypt's ability to finance large imports and a large surplus of imports over exports, these favorable investment levels have not been bought at the expense of a cut-back in living standards or, until 1980, at the expense of disquieting inflation rates. As measured by the growth rates of per capita real private consumption, living standards have risen perceptibly. There is tenuous evidence which suggests that growth in employment has exceeded the growth in the labor force in recent years.

In 1980, the official consumer price index registered an inflation rate of about 18% following inflation rates averaging about 10% in the two preceding years. (See Annex E for a detailed discussion of the use of the official consumer price index as a measure of inflation.) While low income households were largely protected from the rate of inflation in 1978 and 1979, the record is less clear for 1980. The surge in inflation to about 18% in 1980 reflected two principal phenomena: normal aggregate demand/supply pressures and administered price increases for a number of heavily subsidized products subject to price controls and important consumption items in the budgets of all household income classes. On balance, low income households may have experienced a rate of inflation which exceeded the rate of growth of their nominal incomes. Unfortunately, this cannot be verified because data on household income is neither collected on an annual basis nor capable of being derived from data currently available.

As suggested above, inflation control in Egypt is complicated by the fact that many of the items under price control are heavily subsidized and provide substantial income equivalents to all income classes. Thus, price subsidy elimination poses a dilemma for inflation control as well as for social equity policy. The GOE is increasingly aware of the problem and it is one of the points in our continuing dialogue with the GOE on a broad range of macro economic and sectoral issues.

d. International Developments

Sharp increases in foreign exchange earnings from petroleum, workers' remittances, the Suez Canal and tourism combined with substantial increases in capital account revenues from direct foreign investment and foreign aid have enabled Egypt to register strong improvements in virtually all international performance indicators. Since 1977 Egypt has been able to reduce the debt service ratio and current deficit to much more manageable proportions; liberalize the import and foreign exchange regimes; sustain a steady rise in imports essential for maintaining growth; and in 1980, marginally strengthen a weak position in official holdings of foreign exchange reserves. At the end of 1980, official holdings of foreign exchange reserves were equal to somewhat less than two months' imports. The debt service ratio was about 15% in 1980 as compared with double this figure in the mid-1970s. The current account deficit in 1980 fell to about $500 million from about $1.5 billion in 1979. Between 1978 and 1980, direct foreign investment more than doubled, rising from about $300 million in 1978 to an estimated $700 million in 1980. On a gross disbursements basis, medium- and long-term foreign aid flows rose to almost $1.5 billion in 1980 from $1.1 billion in 1978. Over half of these flows derived from U.S. project and non-project assistnce.

B. Current Balance of Payments Situation and Economic Justification

Egypt's balance of payments performance in 1979 and 1980 was dominated by rapidly increasing oil export revenues. Foreign exchange earnings from petroleum exports doubled to approximately $1.4 billion in 1979 and almost doubled again to an estimated value of $2.7 billion in 1980. As indicated in the Annex of Tables, total exports increased by 26% in 1979 and by 33% in 1980.

As noted above, Egypt registered a current account deficit of about $500 million in 1980, an improvement of almost $1 billion over the 1979 current account deficit of $1.5 billion. Amortization payments on external debt were $1.3 billion, thus resulting in total external capital requirements of about $1.8 billion. Total external capital inflows were $2.4 billion. The resulting excess of total external inflows over requirements of about $600 million enabled Egypt to increase official foreign exchange holdings from about $500 million in 1979 to about $1.1 billion in 1980.

A continuation of relatively favorable balance of payments performance is in prospect for 1981. Egypt's current account deficit for 1981 is projected at $625 million, marginally weaker than the 1980 figure of about $500 million. Amortization payments are projected at $1.4 billion, giving total external capital requirements of about $2 billion in 1981 as compared with $1.8 billion in 1980. Assuming an FY 1981 CIP program of $300 million, total external capital inflows are projected at about $2.4 billion. As in 1980, therefore, the net result will be a further marginal increase in Egypt's official foreign exchange reserves of about $400 million. On the basis of these projections, total official foreign exchange reserves would be about $1.5 billion at end 1981.

These projected improvements in the balance of payments will assist Egypt in maintaining official foreign exchange reserves at a marginally prudent level. At the 1980 level of foreign exchange reserves, Egypt's reserves were less than two months' commodity imports; at the projected 1981 level of reserves, they will cover a little more than two months' imports. USAID is in agreement with both the IMF and IBRD in encouraging Egypt to raise reserves to even more prudent levels. In the absence of a continuation of balance of payments support through the CIP, there is a danger that Egypt could attempt to achieve satisfactory reserve levels through a cutback in imports essential for maintaining the growth process -- a reversal of a desired trend toward liberalization of the trade and payments regime -- or an increase in short-term borrowing at unfavorable terms. These alternatives need to be avoided.

Our concern with building up Egypt's reserve position reflects the strong possibility that Egypt will need to supplement foreign exchange earnings from petroleum with increased commodity exports at some point in the mid-1980s.

Essentially, the improvement in Egypt's current account performance in 1980 and in prospect for 1981 rests on the fortuitous coincidence of sharp price increases for petroleum beginning in 1979 and the bringing into production of new petroleum fields. The sustainability of the improvement into the mid-1980s is problematic at best. At current production rates of 600-650 thousand barrels per day, proven reserves will be depleted in 10 years. Compounding the problem, domestic petroleum consumption is rising rapidly. Toward the mid-1980s, falling petroleum production, combined with rising domestic consumption, may reduce the exportable surplus. Under these circumstances, it would be inappropriate to say that the gains registered in the balance of payments in 1980 represent a fundamental improvement in external performance and that a relaxation in needs for balance of payments assistance should be contemplated. Anticipatory planning for a possible, if not likely, worsening in balance of payments prospects suggests that it would not be prudent to shift U.S. assistance efforts away from balance of payments support at this time.

In addition, however, to a continued balance of payments justification for the FY 1981 CIP, there are other strong justifications. These relate to the character of the CIP program itself.

Egypt is currently mounting an investment program exceeding 26% of GDP. Foreign exchange costs of this investment are estimated at about one-half of the total. Only about 50% of the foreign exchange component is projectizable in a form suitable for finance by international donors. In the absence of availability of finance from international donors, Egypt would have to finance the investment through recourse to supplier and bank credits. Given the long gestation period of investment, it is questionable whether much of it should be or even is capable of being financed on bank and supplier credit terms. This is especially true in view of the recent sharp rise in international interest rates and the hardening of such associated credit terms as maturity and grace periods.

10

The CIP is a uniquely suitable instrument for financing under these circumstances. It will directly provide financing for some of the non-projectizable components of the GOE's investment plans -- those, for example, that involve small equipment and intermediate goods purchases in industry, transport, health and education. Additionally, it will free up Egypt's own foreign exchange earnings for use in meeting other foreign exchange investment costs.

The CIP is uniquely supportive of Egypt's investment efforts indirectly as well. Most of the commodities purchased under the CIP generate counterpart funds. The import and sale of the commodities simultaneously restrain inflationary pressures and provide non-inflationary local currency requirements of project investments. Given the likelihood of relatively large GOE fiscal deficits, it is essential that non-inflationary sources of local currency finance be maintained and developed through the CIP. No less important, if somewhat less tangible, it is the uniqueness of the CIP in developing and maintaining a continuing dialogue with the Egyptian government on all aspects of the economy. Virtually all ministries, public sector enterprises and economic authorities have been and continue to benefit from the CIP program. The transactions undertaken through the CIP, their continuing character and relative speed with which results are achieved provide a unique opportunity to influence overall and sectoral policies as well as complement project investments. Finally, the very substantial size of the U.S. assistance program in Egypt makes it incumbent that we try to economize on the managerial requirements of project implementation. One way to do so is to continue to use the CIP as a way to influence overall policymaking.

C. <u>Impact on U.S. Balance of Payments</u>

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

The GOE five year investment plan for 1980/81 - 1984/85 indicates that total aggregate investment during the five years will equal $28.6 billion in 1979 prices. Approximately 50% of the planned investment will be imported. Although part of the capital goods imports will be tied to donor countries, much will be financed by the GOE and opened to international competitive bidding. As a result of trade relationships developed under the CIP, it is expected that U.S. suppliers should be able to win a substantial share of the bidding. In the past, there were cases where U.S. suppliers, particularly equipment manufacturers, were competitive against other foreign suppliers in terms of prices, but were by-passed by the GOE due to lack of attractive financing packages offered by U.S. sources. In this connection, the proposed FY 1981 CIP assistance includes $25 million which will enable the GOE to offer parallel financing with other financial institutions for competitive imports from U.S. sources.

## III. STATUS OF U.S. NON-PROJECT ASSISTANCE

### A. Commodity Import Program

The Commodity Import Program for Egypt was initiated in FY 1975 at a level of $150 million. Through FY 1980 about $1.87 billion have been obligted, an average of over $300 million a year. Over 1,400 transactions have been completed and supply contracts consummated. Letters of Credit issued to U.S. suppliers now total approximately $1.5 billion and about $1.4 billion have been disbursed.

STATUS OF FUNDS BY YEAR OF OBLIGATION
Data as of December 31, 1980
(in millions of dollars)

| Fiscal Year | Obligated | Allocated | Issued | Disbursed | Undisbursed |
|---|---|---|---|---|---|
| GRAND TOTAL | 1,874.8 | 1,874.8 | 1,475.8 | 1,368.6 | 506.2 |
| 1975* | 149.8* | 149.8* | 149.8* | 149.8* | -- |
| 1976 | 250.0 | 250.0 | 248.1 | 244.7 | 5.3 |
| TQ** | 65.0 | 65.0 | 64.4 | 58.3 | 6.7 |
| 1977 | 440.0 | 440.0 | 397.2 | 381.0 | 59.0 |
| 1978 | 300.0 | 300.0 | 285.4 | 260.6 | 39.4 |
| 1979 | 335.0 | 335.0 | 295.7 | 251.3 | 83.7 |
| 1980 | 335.0 | 335.0 | 35.2 | 22.9 | 312.1 |

*Original obligation for FY 1975 was $150.0 million. This figure reflects net obligation after deobligation of undisbursed funds.
**Transitional Quarter.

### B. PL-480 Title I, II and III

Since 1974, the U.S. has financed over $1.1 billion for PL-480 Title I commodities. In FY 1981 an agreement for $313 million was reached. The major portion of this assistance has been for wheat grain and flour. The wheat provided has been a critically important element in meeting the demand for this basic foodstuff by the growing Egyptian population.

Title II grant obligations since 1974 have totaled about $65.5 million and have been used to support feeding and MCH programs in Egypt. Title III grant agreement will be amended to provide wheat valued at approximately $30 million to date.



12

While PL-480 is very large, it only meets the GOE's wheat and wheat flour import needs. There remains a need for the importation of other commodities such as corn, vegetable oil, etc., which would ordinarily be eligible for PL-480 financing. However, because of inadequate PL-480 funds, we anticipate that the CIP will be used to finance these goods normally eligible for PL-480.

## IV. CIP IMPLEMENTATION

### A. CIP Setting

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

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

For non-A.I.D. financed transactions, the majority of public sector organizations utilize formal competitive bid procedures, similar in appearance to A.I.D.'s procedures. The essential difference is the method of post bid negotiations entered into by buyers to obtain the most advantageous price for Egypt. Many routine repeat orders, especially by public sector industrial concerns, are in accordance with normal commercial practice for that commodity market, and a simple solicitation of offers by telex or public announcement and negotiated pricing, delivery, etc., may be utilized.

B. Past Experience

Utilization of CIP funds continues to expand substantially as evidenced by a much broader range of imports, a larger number of different buyers, and an acceleration in the private sector program. As Egyptians have become more familiar with regulations and procedures governing A.I.D. procurement, and USAID has developed a closer working relationship with its many local counterparts, the broad application of loan proceeds has escalated markedly. (See Annex of Tables, Table IV, that summarizes the historical and current status of the CIP: (1) Egypt CIP -- allocations by sectors; (2) Pattern of CIP; (3) Status of agreement under CIP; (4) Summary of CIP financing by Ministry/Agency; (5) Commodities financed under CIP; (6) Commodities financed under CIP by category.) To date, there are over 120 separate public sector organizations participating in CIP, purchasing either as the ultimate user or as a buying authority for several satellite members. Each loan/grant has had its major portion allocated to the same ministries, but the purchases have often been by new end users, unfamiliar with A.I.D. procedures. Over 250 Egyptian private sector importers have utilized CIP credits.

Other major foreign exchange resources, such as GOE-owned foreign exchange and other donors' aid, are used to fund regular GOE procurements. Thus, the individual ministries and their sub-organizations routinely utilize their foreign exchange using long established practices. GOE procurement practices do not mesh well with A.I.D. procedures that are designed to promote competition and to establish formal contract terms that are acceptable to both A.I.D. and the U.S. business community as a whole. USAID has ongoing programs to brief organizations receiving their first A.I.D. allocations and alert them to the preliminary work required under A.I.D. regulatins. These steps did, at first, inhibit procurement and delayed disbursements in the initial phase of the CIP program. However, continued use of CIP funds by the same organizations, familiarity with each other's (A.I.D. and GOE) procedures, trends toward purchasing fast disbursing large volume commodities, in lieu of long leadtime capital goods, and greater A.I.D. flexibility on negotiated procurement have all contributed to an accelerated CIP utilization. Thus, in the period January through December 1980, $351.9 million in Letters of Credit were opened, and total disbursements amounted to $388.9 million.[1/]

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[1/]Total disbursements are higher than the L/C amount due to prior year L/Cs disbursed in 1980.

C. Use of CIP Loan/Grant

The emphasis in funding a large volume of capital equipment, with respect to on-going CIP activities, has decreased in the past year. Approximately 59 percent of the FY 1979 CIP was allocated for food staples and industrial raw materials. It is anticipated that a substantial portion of this FY 1981 CIP will be used to finance fast moving bulk commodities which generally require less preliminary procurement lead time and short (3-6 months) delivery terms. The remainder of the FY 1981 CIP is expected to flow into capital goods, such as plant, machinery, transport and communications items, construction equipment and spare parts that would enable existing production facilities to operate closer to full capacity. Subject to established procedural safeguards (Sec. E. Review of CIP Transactions) which permit capital equipment purchases to be reviewed on the basis of technical, economic, financial and user-capability criteria, the CIP will continue to be used on a limited basis to finance equipment purchases where the review provides adequate assurances that the safeguards provided by the projectizing process would be redundant.

It is anticipated that there will be some procurements of long lead-time equipment that may require extension of residual portions of the loan/grant. This type of delay is inherent in any CIP where the fund is utilized by a large number of buyers with diverse requirements.

While our intention is to minimize purchase of long duration capital goods by emphasizing, whenever possible, repeat purchases of replacement equipment already defined and successfully purchased, we nevertheless plan to finance imports of some capital equipment goods that are either follow-on items to purchases already made under the previous CIP or in new areas. The terminal disbursement date for this loan/grant should be established 36 months from the date Conditions Precedent are met in order to give sufficient time for delivery of capital goods which will be purchased. One of the most difficult drawbacks to procurement of capital equipment has been long procurement, production and delivery lead-time. Much of the equipment is custom manufactured or produced only on order. Buyers with a need for even small value equipment that requires 18 months for delivery are precluded from participating because the initial purchses preparation lead-time, coupled with suppliers' delivery times, exceed terminal dates. Although terminal dates are later extended, this additional time often is provided too late to initiate long lead-time purchases when a planned purchase has to be canceled and reallocated.

A major consideration is any attempt to increase the financing of short lead-time commodities is the overall difference in price between U.S. sources and other world sources. The U.S. has not compared favorably in price for items such as steel and certain types of heavy machineries. Ocean transportation costs are substantially higher from the U.S. in comparison to shipments from European sources. GOE buyers are naturally sensitive to these cost differences. Therefore, the U.S. can be used essentially for those commodities where the U.S. is competitive worldwide rather than the full range of items normally purchased by the GOE from all sources.

In recognition of these problems, the GOE established credit incentives for users of the CIP in an effort to familiarize purchasers with CIP procedures and U.S. sources. Now that familiarization has been established and also in view of the concessionary nature of the initial interest rates established, we now believe that financing costs can be raised to more realistic levels. As noted further on, credit terms to the private sector users of the CIP have recently been hardened. While we have not fully resolved CIP credit terms to the public sector users, the GOE has expressed willingness to review credit terms prior to signing of the 1981 CIP agreement.

Under the last three commodity loans and grants, the GOE began an effort to make CIP funds available to private sector importers. A total of $102 million has been allocated for the import of industrial equipment, raw materials and spare parts. There was initially some delay in establishing procedures and incentives as this was a new area of GOE activity. Formal agreement was subsequently reached to streamline private import formalities. The initiation of this essential aspect of the CIP program got underway with the establishment of credit incentives effectively providing private importers with nearly the same benefits received by public importers. With this adjustment, the private sector utilization of the CIP fund rose rapidly. Particularly the traders who import for resale were quick to take advantage of the concessionary loans. About 70% of the private CIP fund was used by the traders as opposed to the end-users. In an effort to encourage more active participation by the end-users, and to reduce unintended effects of the program in favor of traders, the GOE introduced several important program changes in 1980. Under the new regulation, while the end-users pay 6% interest, the traders are now required to pay 10%. Furthermore, the traders' import eligibility list is restricted to only 16 categories of goods (see Appendix D) while no such restrictions were imposed on the end-users. Even with these changes, the private sector importers have continued to show their strong interest and resulted in opening of more than 382 letters of credit to date.

The GOE has expressed a continuing interest in providing additional funding for the private sector. In FY 1981, $35 million of this loan/grant will be allocated for private sector use. Discussions with the GOE point to a positive and practical attitude among government officials in furtherance of private sector participation. These allocations are expected to have substantial impact both in fostering greater private sector development and in more rapid disbursement of CIP funds. There exists a strong demand for dealer stocks of spare parts, off-the-shelf equipment, tools, raw materials, and industrial machinery. The GOE has encouraged imports of construction equipment and materials necessary to assist the expansion of the private sector industrial and service facilities. The principal GOE guideline for private sector loan/grant utilization is geared to the development of production and production services, with built-in safeguards to insure allocatoins do not stimulate import of luxury goods.

D. Conditions Necessary to Expedite Utilization

Cumulative utilization of prior CIP loans and grants (on a Letter of Credit basis) and projected disbursements of this loan/grant are given in the following table:

| | FY 1981 (millions) | FY 1982 (millions) | FY 1983 (millions) |
|---|---|---|---|
| Prior Loans & Grant | $1,474 | $ 400 | $ 0 |
| FY 1981 CIP Loan/Grant | 40 | 160 | 100 |
| | $1,514 | $560 | $100 |

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

1. Speedy approval of the loan/grant paper and PAAD.

2. Use of previously used standard agreement and initial Implementation Letter terms.

3. Allocation of loan/grant funds by GOE prior to meeting of the initial conditions Precedent.

4. Allocation of a majority of CIP funds to repetitive, previously purchased volume supply and raw materials purchases.

5. Earmark major portion of loan/grant for use by previous CIP volume purchasing organizations.

6. Rapid ratification of loan agreement by the People's Assembly.

A few of the actions USAID has taken to expedite all CIP loans/grants, thus improving utilization, have been: review of existing allocations and identification of non-starters or slow users; recommendations to GOE to reallocate slow moving allocations; identifying sensitive or difficult procurements at the initial allocation stage and recommending reallocation; identifying commodities where the U.S. is not competetive with non-U.S. sources and recommending reallocation or alternative purchases. These actions, together with GOE's prompt meeting of the Conditions Precedent, should measurably increase effective utilization of the FY 1981 CIP to current budget needs.

E. Review of CIP Transactions

USAID will continue to review CIP transactions to assure they are not inconsistent with A.I.D.'s program strategy and/or detrimental to the overall program. The steps taken in the course of this review are:

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

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

3. All individual purchase proposals, from any sub-sector allotee, are reviewed by the Office of Commodity Management and Trade for identification of ineligible items, sensitive commodity issues and availability of funds.

4. All purchase proposals are summarized weekly and presented to the Assistant Director for Industry and Trade for approval and/or recommendation to proceed, cancel or conduct further review/research prior to determining that a given proposal is acceptable Copies of the weekly summary of purchase proposals are forwarded to the Mission Director and Deputy Director for their information..

5. The A.I.D. Commodity Eligibility Listing (1978), as amended, is an integral part of each CIP, and the standard reference for determining (a) basic initial acceptance and, (b) required prior approvals or special conditions.

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

7. With respect to equipment and material purchases in excess of $1 million for use in construction expansion, equipping, or alteration of a physical facility, USAID reviews the transaction in order to satisfy

itself that the activity is reasonably sound and that the expansion or construction can effectively be carried out by the end-user, either directly or with appropriate technical services. Purchases in excess of $10 million require review and determination by AID/W.

F. Local Currency Special Account

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

Deposits into the Special Account are only generated by sales and imports financed under the Grant portion of the CIP. In cases where credit terms are provided to importers under the CIP, deposits to the Special Account are made in accordance with the debt service schedule associated with these credit terms. In all other cases, deposits to the Special Account occur directly with the sales. The Special Account was established in conjunction with the FY 1979 Supplemental Commodity Import Program Grant. Funds in the Special Account may be used for such purposes as mutually agreed upon by A.I.D. and the Government of Egypt. Agreement on general areas of use have been reached and specific uses of funds are mutually agreed upon as specific uses are proposed. In FY 1981, most of the funds in the Special Account will be used to provide part of the local cost financing requirements for Egypt's public sector investment budget. The local currency generated through the sale of CIP financed imports provides a non-inflationary source of finance for the public sector investment budget. The remaining amount, as yet undetermined, will be used for mutually agreed purposes which are currently under discussion.

There will be no accrual of counterpart deposits from those portions of the FY 1981 CIP grant that correspond to the (up to) $25 million set aside for the purposes of educational materials purchases, the $15 million set aside for equipment purchases by the five urban governorates and the $25 million trade financing facility. The FY 1981 CIP grant will therefore generate deposits of the local currency equivalent to approximately $165 million. USAID representatives will meet with GOE representatives to agree upon specific uses of funds in the Spcial Account and to conclude a separate trust fund agreement.

G. Issues Raised in Recent CIP Audits

An extensive examination of the CIP operations has been conducted by the Office of the Area Auditor General. Five audit reports have been issued since August 1980 and two more are scheduled to appear soon. The main areas in which the auditors expressed concern are Private

Sector allocations (one report), Financial Procedures and Controls (one report), and Internal Operating Procedures (three reports).

As suggested below, USAID has taken under advisement the recommendations and issues raised in the Audit Reports. Some have been acted upon. Others are currently under internal review. Still others will be subjects of negotiation between the GOE and USAID.

To restrict possible abuse of private sector CIP allocations by traders, the loan rate to traders has been raised to 10% a year from 2.5%. Moreover, traders' access to CIP financing has now been restricted to 16 categories of goods designated by the GOE. New procedures have been established to monitor more effectively private sector access to CIP financing. In particular, the participating banks have agreed to accept the responsibility for determining most of the pro forma requirements for eligibility of importers and transactions for CIP financing in addition to evaluating applications on the basis of creditworthiness considerations. These new procedures will permit USAID staff to focus greater attention to avoiding possible unintended results/abuses within the private sector CIP allocations.

On the Financial Procedures and Controls, USAID has already issued a new Cash Management Procedures on January 20, 1981 (Order No. 19-7) instructing use of direct Letter of Commitment as a primary financing method for all Host Country Services Contracts financed with A.I.D. funds. Similarly for certain large bulk commodity procurements, the direct L/Com financing will be utilized under the new Mission Order.

In their audits, certain CIP transactions were characterized as "project-like." While certain kinds of transactions were cited as such and questions were raised on whether CIP funds should be used for such transactions, no adequate definition of what was meant was provided. USAID continues to believe that the project format is not an end in itself but a means to better ensure that technical, economic, implementing capacity questions, etc., are adequately addressed. As such, and subject to the safeguards noted in Section E. above, USAID will continue to use the CIP to finance activities of the type questioned by the Area Auditor General.

## V. RECOMMENDATIONS

It is recommended that you authorize a grant to the GOE of $230 million (230,000,000 dollars) from current year funding. In addition, it is reecommended you authorize a loan of $70 million (70,000,000 dollars) from FY 1979 supplemental funding. The total of $300 million (300,000,000 dollars) will be utilized for financing imports of selected commodities, commodity related services and other services as described below.

A. Interest and Terms of Repayment

Borrower shall repay the $70 million loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest at the rate of two percent (2%) per annum for ten (10) years following the date of first disbursement and at the rate of three percent (3%) per annum thereafter on the oustanding balance of the principal and on any due and unpaid interest.

B. Other Terms and Conditions

1. Conditions Precedent to Initial Disbursement

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

2. Additional Condition Precedent to Initial Disbursement For Trade Financing Facility

Prior to any disbursement or to the issuance of any Letter of Committment or any other authorization for the disbursement under the Grant for the Trade Financing Facility, the Grantee and A.I.D. shall agree in writing to the procedures that will govern the use of the Grant funds for the Facility. Twenty-five million dollars ($25,000,000) of the grant funds shall be used for this purpose.

3. Covenants

a. Periodically, but no less than annually, the Borrower/Grantee and A.I.D. will meet to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to these concerns.

21

b. The Borrower/Grantee covenants to continue to support appropriate participation by the private sector in transactions for which financing is provided under the CIP. A minimum of $35 million of the FY 1981 CIP funds will be allocated to the private sector.

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

4. General Terms

a. Unless A.I.D. otherwise agrees in writing, any set asides or extraordinary allocation of funds shall be agreed to by A.I.D. and set forth in Implementation Letters.

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

c. Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be thirty-six (36) months following the satisfactory meeting of the Conditions Precedent.

d. In addition to the items appearing of the A.I.D. eligibility listing approval is given for the financing of frozen fish, frozen poultry, and other products which shall be open to private sector importers.

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

f. The Grantee agrees to consult periodically with A.I.D. regarding the implementation of the FY 1980 CIP fertilizer importation program to determine if special arrangements shall be instituted to resolve the problems associated with the fertilizer program

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

ANNEX OF TABLES

TABLE I

BALANCE OF PAYMENTS - CURRENT ACCOUNT

(In Millions of Current Dollars)

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Trade Balance | -3,151 | -3,719 | -2,878 | -3,330 | -4,735 |
| Exports | 2,132 | 2,963 | 4,692 | 5,465 | 5,480 |
| Imports | -5,283 | -6,682 | -7,570 | -8,795 | -10,215 |
| Non-Factor Services, Net | 536 | 467 | 420 | 515 | 595 |
| Receipts | 1,541 | 1,561 | 1,700 | 1,950 | 2,200 |
| Payments | -1,005 | -1,094 | -1,280 | -1,435 | -1,605 |
| Factor Services, Net | 1,342 | 1,644 | 1,778 | 2,040 | 2,550 |
| Receipts | 1,905 | 2,520 | 2,975 | 3,480 | 4,070 |
| Payments | - 563 | - 876 | -1,197 | -1,440 | -1,520 |
| Current Acct. Deficits | -1,273 | -1,608 | - 608 | - 775 | -1,580 |
| Unrequited Transfers | 345 | 89 | 120 | 150 | 150 |
| Current Acct. Deficits Plus Transfers | - 928 | -1,519 | - 560 | - 625 | -1,440 |

November 17, 1980

7

## TABLE I (Continued)

### BALANCE OF PAYMENTS - CAPITAL ACCOUNT
(In Millions of Current Dollars)

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Current Acct. Deficits Plus Transfers | - 928 | -1,519 | - 560 | - 625 | -1,440 |
| Amortization Payments | - 899[a] | -1,063 | -1,313 | -1,345 | -1,320 |
| (Official Loans[b]) | (-250) | (-436) | (-455) | (-535) | (-610) |
| (Suppliers' Credits) | (-585) | (-557) | (-782) | (-725) | (-625) |
| (IMF Repayments) | (- 50) | ( -70) | ( -76) | (- 85) | ( -85) |
| Total Requirements | -1,827 | -2,582 | -1,873 | -1,970 | -2,760 |
| Total Available | 2,300 | 2,235 | 2,655 | 2,860 | 2,410 |
| Internat'l Assistance | 1,100 | 1,158 | 1,455 | 1,860 | 2,060 |
| U.S., Total | 550 | 658 | 855 | 1,110 | 1,260 |
| (C.I.P.) | ( 300) | ( 263) | ( 405) | ( 300) | ( 300) |
| (PL-480) | ( 200) | ( 245) | ( 250) | ( 310) | ( 310) |
| (Project) | ( 50) | ( 150) | ( 200) | ( 500) | ( 650) |
| Others (3rd Country, IBRD, IMF, etc.) | 550 | 500 | 600 | 750 | 800 |
| Supplier's Credits | 385 | 477 | 500 | 300 | 300 |
| Direct Investment | 315 | 600 | 700 | 700 | 650 |
| GODE | 500 | - | - | - | - |
| Basic Balance | 473 | -347 | +782 | +890 | -350 |
| Other Capital Movements | -414 | +384 | -258 | -400 | 400 |
| ST Bank Facilities, Net | -379 | 53 | -258 | -400 | +400 |
| (Loans) | | (778) | (600) | | |
| (Repayments) | | (-725) | (-858) | | |
| Errors and Omissions | - 35 | 331 | - | - | - |
| Changes in Reserves (-=Inc.) | - 59 | - 37 | -524 | -490 | -50 |
| Official Intern'l Reserves Excluding Gold | 492 | 529 | 1,053 | 1,543 | 1,593 |

a/ Based on IBRD estimates for 1978.
b/ Based on USAID/Cairo projections on future loans.

Sources: Central Bank of Egypt, E/C and USAID/Cairo, IBRD and IMF publications

November 18, 1980

# TABLE II

## U.S. ECONOMIC ASSISTANCE TO EGYPT: FY 1975-1980
(Millions of Dollars)

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 | FY 1979 | FY 1980 |
|---|---|---|---|---|---|---|---|
| I. GENERAL ECONOMIC SUPPORT | | 250.0 | 518.1 | 647.1 | 500.85 | 576.0 | 710.3 |
| A. Balance of Payments (Sub-Total) | | 248.1 | 501.1 | 620.7 | 476.5 | 561.0 | 670.0 |
| Commodity Import Program | L | (150.0) | (315.0) | (440.0) | (300.0) | (250.0) | (280.0) |
| Commodity Import Program | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 85.0) | ( 55.0) |
| Decentralization Support Fund | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 50.0) |
| PL-480 Title I | L | ( 93.1) | (186.1) | (180.7) | (176.5) | (226.0) | (285.0) |
| B. Development Planning | | 1.9 | 17.0 | 26.4 | 24.35 | 15.0 | 40.3 |
| Technical & Feasibility Studies | G | ( 0.9) | ( 15.0) | ( 18.0) | ( 12.0) | ( 5.0) | ( 6.0) |
| Technology Transfer & Manpower Development | G | ( 1.0) | ( 2.0) | ( 4.5) | ( 4.0) | ( 10.0) | ( 6.0) |
| Applied Science & Technology Research | G | ( - ) | ( - ) | ( 3.9) | ( 4.2) | ( - ) | ( 16.3) |
| Development Planning Studies | G | ( - ) | ( - ) | ( - ) | ( 3.8) | ( - ) | ( 12.0) |
| Review of U.S. Assistance to Egypt | G | ( - ) | ( - ) | ( - ) | ( 0.35) | ( - ) | ( - ) |
| Summary: Loan Component | | 248.1 | 501.1 | 620.7 | 476.5 | 476.0 | 565.0 |
| Grant Component | | 1.9 | 17.0 | 26.4 | 24.35 | 100.0 | 145.3 |

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 | FY 1979 | FY 1980 |
|---|---|---|---|---|---|---|---|
| II. INFRASTRUCTURE | | 30.0 | 173.0 | 123.01 | 221.0 | 305.8 | 193.1 |
| Electric Power Distribution Equipment for Suez Canal Cities | G | (30.0) | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) |
| Ismalia Electric Power Plant | G | ( - ) | ( 99.0) | ( 42.0) | ( - ) | ( - ) | ( - ) |
| Establishment of National Energy Control Center | L/G | ( - ) | ( 24.0) | ( - ) | ( 17.0) | ( - ) | ( 2.5) |
| Gas Turbines for Electric Power at Talka & Helwan | L | ( - ) | ( 50.0) | ( 19.0) | ( - ) | ( - ) | ( - ) |
| Electric Power Distribution Equipment for Cairo, Alexandria, Shibin El Kom and Beni Suef | L/G | ( - ) | ( - ) | ( 17.01) | ( 29.0) | ( - ) | ( 10.0) |
| Expansion & Modernization of Cairo Water Systems | L | ( - ) | ( - ) | ( 30.0) | ( - ) | ( - ) | ( - ) |
| Expansion & Modernization of Alexandria Sewage Systems | L/G | ( - ) | ( - ) | ( 15.0) | ( - ) | ( 87.3) | ( - ) |
| Expansion & Modernization of Cairo Sewage Systems | G | ( - ) | ( - ) | ( - ) | ( 25.0) | ( - ) | ( - ) |
| Expansion & Modernization of Suez Canal Cities Water & Sewage Systems | L/G | ( - ) | ( - ) | ( - ) | ( 60.0) | ( 36.0) | ( - ) |
| Expansion & Modernization of Telecommunications Systems | L/G | ( - ) | ( - ) | ( - ) | ( 40.0) | ( 80.0) | ( 80.0) |
| Design & Construction of Low-Cost Housing & Community Upgrading | G | ( - ) | ( - ) | ( - ) | ( 50.0) | ( - ) | ( 28.1) |
| Shoubra Electric Generating Plant | G | ( - ) | ( - ) | ( - ) | ( - ) | (100.0) | ( - ) |
| Sinai Planning Studies | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 2.5) | ( 2.5) |
| Basic Village Services | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 70.0) |
| Summary: Loan Component | | - | 74.0 | 81.01 | 146.0 | - | - |
| Grant Component | | 30.0 | 99.0 | 42.0 | 75.0 | 305.0 | 193.1 |



27

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 | FY 1979 | FY 1980 |
|---|---|---|---|---|---|---|---|
| III. TRANSPORTATION, INDUSTRY, COMMERCE & FINANCE | | 35.0 | 255.6 | 21.0 | 180.9 | 54.0 | 70.8 |
| Suez Canal Rehabilitation | G | ( 22.0) | ( 2.6) | ( - ) | ( - ) | ( - ) | ( - ) |
| Heavy Road Construction Equipment | G | ( 10.0) | ( 4.0) | ( - ) | ( - ) | ( - ) | ( - ) |
| Cargo Handling Equipment for Alexandria Port | L | ( - ) | ( 31.0) | ( - ) | ( - ) | ( - ) | ( - ) |
| Suez Cement Plant | G | ( - ) | ( 90.0) | ( - ) | ( - ) | ( - ) | ( 10.0) |
| Expansion & Modernization of Textile Facilities | L | ( - ) | ( 96.0) | ( - ) | ( - ) | ( - ) | ( - ) |
| Support for Development Industrial Bank | L/G | ( - ) | ( 32.0) | ( - ) | ( 2.0) | ( - ) | ( - ) |
| Hydrographic Survey for Suez Canal | G | ( - ) | ( - ) | ( 8.0) | ( - ) | ( - ) | ( - ) |
| Port Said Salines (Salt Refinery Facilities) | G | ( - ) | ( - ) | ( 13.0) | ( - ) | ( - ) | ( - ) |
| Port Suez Development | L | ( - ) | ( - ) | ( - ) | ( 30.0) | ( - ) | ( - ) |
| Industrial Production Sub-Loans | L | ( - ) | ( - ) | ( - ) | ( 46.4) | ( - ) | ( [illegible]) |
| Technical Assistance for Industrial Development | G | ( - ) | ( - ) | ( - ) | ( 7.5) | ( 16.0) | (25.0) |
| Quattimiya Cement Plant (1 Million Tons/Year) | L | ( - ) | ( - ) | ( - ) | ( 95.0) | ( - ) | ( - ) |
| Private Investment Encouragement Fund | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 33.0) | ( - ) |
| Private Sector Feasibility Studies | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 5.0) | ( - ) |
| Vehicle Maintenance Training | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 4.5) |
| Management Development for Productivity | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 8.5) |
| Mineral, Petroleum & Groundwater Assessment | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 20.7) |
| Tax Administration | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 2.1) |
| Helicopter Transfer | G | ( 3.0) | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) |
| Summary: Loan Component | | - | 159.0 | - | 171.4 | - | - |
| Grant Component | | 35.0 | 96.6 | 21.0 | 9.5 | 54.0 | 70.8 |



28

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 | FY 1979 | FY 1980 |
|---|---|---|---|---|---|---|---|
| IV. FOOD AND AGRICULTURE | | 44.3 | 32.5 | 83.84 | 13.8 | 105.5 | 190.8 |
| Grain Storage Silos in Cairo & Alexandria | L | ( 44.3 ) | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) |
| Equipping of PVC Pipe Production Facilities | L | ( - ) | ( 31.0) | ( - ) | ( - ) | ( - ) | ( - ) |
| Improvement of Irrigation Water Use & Management | G | ( - ) | ( 1.5) | ( 0.8) | ( 1.5) | ( 3.2) | ( - ) |
| Canal Dredging & Maintenance Equipment | L/G | ( - ) | ( - ) | ( 26.0) | ( - ) | ( 5.2) | ( - ) |
| Grain Handling Equipment & Fats & Oils Storage in Alexandria; Grain Storage Facilities in Safaga | L | ( - ) | ( - ) | ( 42.0) | ( - ) | ( - ) | ( - ) |
| Re-Equipping & Provision of New Irrigation Pumps at 34 Locations in Upper Egypt | L/G | ( - ) | ( - ) | ( 11.0) | ( - ) | ( - ) | ( 8.0) |
| Agricultural Development Systems | G | ( - ) | ( - ) | ( 1.2 ) | ( 3.8) | ( 7.9) | ( - ) |
| Poultry Development | G | ( - ) | ( - ) | ( 0.47) | ( 3.5) | ( 0.6) | ( - ) |
| Rice Research Center & Training | G | ( - ) | ( - ) | ( 2.37) | ( 1.5) | ( 5.9) | ( - ) |
| Aquaculture Development | G | ( - ) | ( - ) | ( - ) | ( 3.5) | ( - ) | ( 24.0) |
| Major Cereals Production | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 30.0) | ( 17.0) |
| Small Farmer Production | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 25.0) | ( - ) |
| Agriculture Cooperative Development | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 5.0) | ( - ) |
| Small Scale Agricultural Activity | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 1.7) | ( - ) |
| Agricultural Mechanization | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 21.0) | ( 19.0) |
| Agricultural Management Development | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 5.0) |
| Agricultural Data Collection | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 5.0) |
| Summary: Loan Component | | 44.3 | 31.0 | 79.0 | - | - | - |
| Grant Component | | - | 1.5 | 4.84 | 13.8 | 105.5 | 190.8 |



29

| | L/G | FY 1975 | FY 1976* | FY 1977 | FY 1978 | FY 1979 | FY 1980 |
|---|---|---|---|---|---|---|---|
| V. SOCIAL SERVICES | | 12.6 | 7.4 | 17.0 | 17.2 | 33.7 | 190.8 |
| Rural Health Delivery System | G | ( - ) | ( 1.8) | ( - ) | ( 1.8) | ( 4.2) | ( - ) |
| Family Planning Program | G | ( - ) | ( - ) | ( 4.0) | ( 6.0) | ( 6.5) | ( 10.0) |
| Integrated Social Work Training Centers | G | ( - ) | ( - ) | ( 1.0) | ( 1.5) | ( 1.5) | ( - ) |
| Development Decentralization | G | ( - ) | ( - ) | ( - ) | ( 1.4) | ( 2.5) | ( 7.3) |
| Urban Health Delivery System | G | ( - ) | ( - ) | ( - ) | ( - ) | ( 5.0) | ( 20.3) |
| Peace Fellowship Program | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 30.0) |
| Suez Community Health Personnel Training | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 2.7) |
| University Linkages | G | ( - ) | ( - ) | ( - ) | ( - ) | ( - ) | ( 27.5) |
| PL 480 Title II a/ | G | ( 12.6 ) | ( 5.6) | ( 12.0) | ( 6.5) | ( 14.0) | ( 15.0) |
| Summary: Loan Component | | - | - | - | - | - | - |
| Grant Component | | 12.6 | 7.4 | 17.0 | 17.2 | 33.7 | 190.8 |
| TOTAL A.I.D. ASSISTANCE (Excluding PL-480 Program) | | 261.2 | 794.9 | 699.25 | 750.75 | 835.0 c/ | 865.0 c/ |
| PL-480 PROGRAM | | 110.7 | 191.7 | 192.7 | 183.0 | 240.0 | 300.0 |
| GRAND TOTAL U.S. ECONOMIC ASSISTANCE B/ | | 371.9 | 986.6 | 891.25 | 933.75 | 1,075.0 | 1,165.0 |

* Includes Interim Quarter
L - Loan; G - Grant
a/ Includes Estimated Ocean Freight Costs
b/ Does Not Include Egyptian Pound Grants
c/ Includes $85 Million FY 1979 Supplemental Peace Allotment and $55 Million FY 1980 Supplemental Peace Allotment

TABLE III

COMMODITY COMPOSITION OF IMPORTS* 1977, 1978 and 1979
(in millions of dollars)

| | 1977 | 1978 | 1979 |
|---|---|---|---|
| Fuels | $ 84.2 | $ 73.4 | $ 37.3 |
| Crude Petroleum | - | - | - |
| Petroleum Products | 13.8 | 19.6 | 10.7 |
| Coke and Coal | 70.4 | 53.8 | 26.6 |
| Primary Commodities | $ 645 | $ 784 | $ 840.2 |
| Wheat | 329.2 | 433.9 | 444.6 |
| Tobacco | 86.3 | 117.7 | 154.6 |
| Maize | 76.8 | 97.0 | 80.0 |
| Wool | 40.2 | 26.6 | 19.5 |
| Sesame | 15.3 | 11.3 | 13.6 |
| Other | 97.2 | 95.7 | 127.8 |
| Intermediate Commodities | $1,583.1 | $2,078.7 | $2,284.3 |
| Animal Fats & Vegetable Oils | 87.5 | 171.7 | 235.9 |
| Chemicals, n.i.c. | 185.6 | 211.2 | 286.4 |
| Unwrought, waste and scrap metals | 15.4 | 30.4 | 20.9 |
| Iron and steel | 201.2 | 271.4 | 502.8 |
| Dyestuff and coloring | 38.6 | 57.6 | 61.8 |
| Wood | 273.9 | 279.0 | 253.0 |
| Paper and paper products | 97.3 | 116.5 | 95.1 |
| Fertilizers | 38.9 | 58.6 | 35.0 |
| Electrical products | 65.5 | 118.3 | 69.0 |
| Rubber and rubber products | 36.6 | 69.6 | 38.4 |
| Oils and Wax | 23.5 | 26.1 | 36.8 |
| Other | 519.1 | 668.3 | 649.2 |
| Capital Commodities | $1,451 | $2,199.0 | $2,104.0 |
| Buses, Trucks & Other Vehicles | 222.7 | 408.6 | 601.5 |
| Textile Machinery | 103.4 | 172.3 | 122.5 |
| Electrical Products | 85.4 | 224.2 | 263.2 |
| Earth Moving Equipment | 91.6 | 157.2 | 172.4 |
| Other | 947.9 | 1,236.7 | 944.4 |
| Consumer Commodities | $1,058.5 | $1,602.5 | $1,598.6 |
| Durables | $ 325.1 | $ 442.8 | $ 432.8 |

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

| | | | |
|---|---|---|---|
| Automobiles and Motorcycles | ( 141.6) | ( 195.3) | 222.3 |
| Radio and Television | ( 69.1) | ( 81.9) | 58.8 |
| Other | ( 114.4) | ( 165.6) | 151.7 |
| Non-durables | $ 733.2 | $1,157.1 | $1,165.8 |
| Wheat Flour | 126.5 | 195.5 | 174.7 |
| Sugar | 42.7 | 104.0 | 89.0 |
| Tea | 66.5 | 112.6 | 118.3 |
| Coffee and Cocoa | 14.3 | 1.8 | 6.4 |
| Meat, fish and poultry | 69.12 | 112.6 | 176.0 |
| Beans and Lentils | 13.6 | 12.8 | 10.7 |
| Medicines | 35.8 | 51.2 | 50.0 |
| Disinfectants and Insecticides | 49.4 | 73.7 | 104.7 |
| Paper and Paper Products | 35.6 | 24.3 | 32.2 |
| Other | 279.7 | 472.6 | 403.7 |
| Total | $4,822 | $6,737.6 | $6,864.4 |

TABLE IV

B. CIP Import Statistics

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

1. Egypt CIP - Developmental Aspects (Graph)

2. Pattern of CIP (Graph)

3. Status of Agreements under CIP

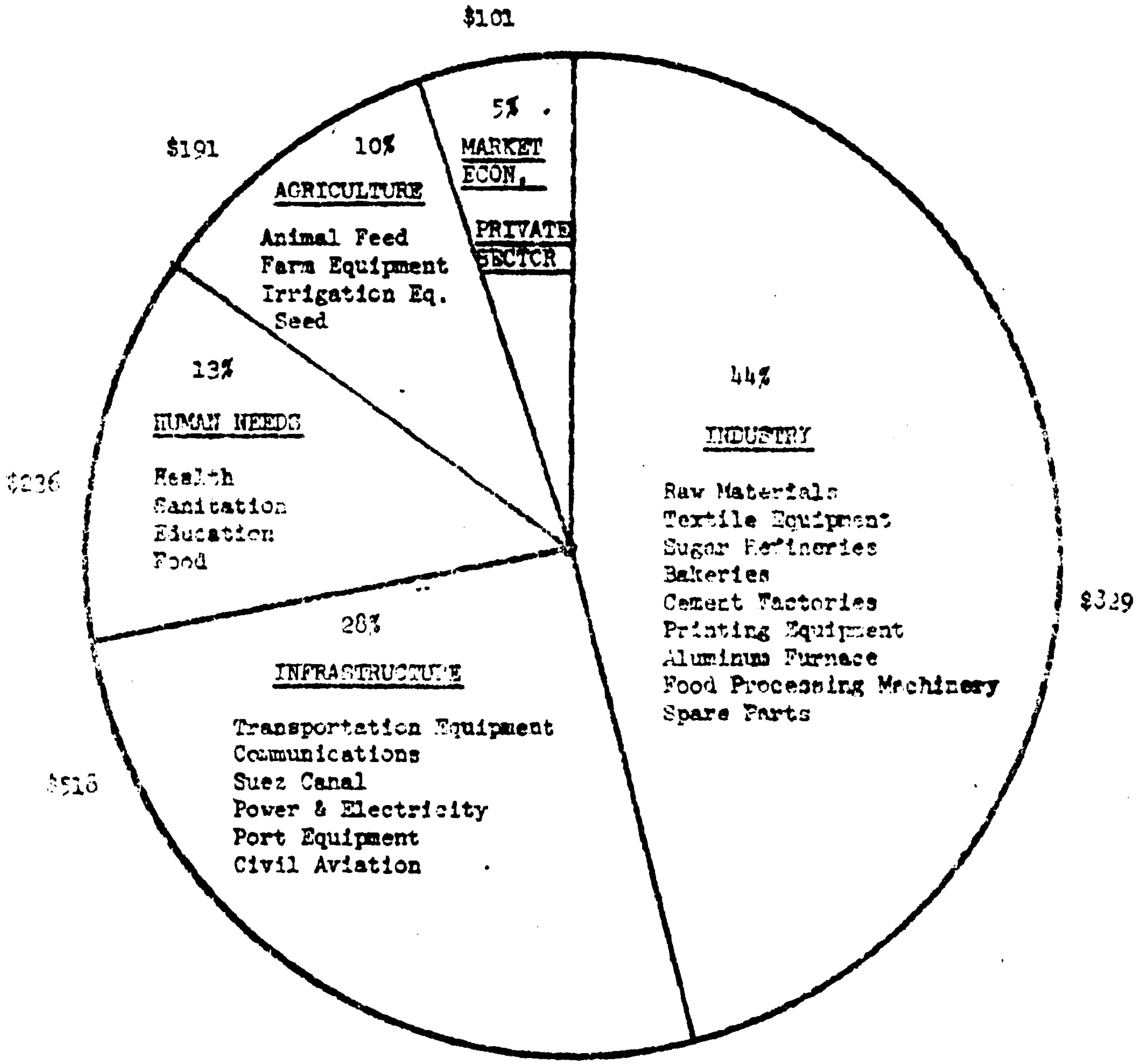
4. Summary of CIP Financing by Ministry/Agency

5. Commodities Financed Under CIP

6. Commodities Financed Under CIP by Category

EGYPT COMMODITY IMPORT PROGRAM - DEVELOPMENTAL ASPECTS
FY 1975 thru FY 1980

ALLOCATIONS BY SECTORS IN MILLION DOLLARS




TOTAL: $1,875 MILLION

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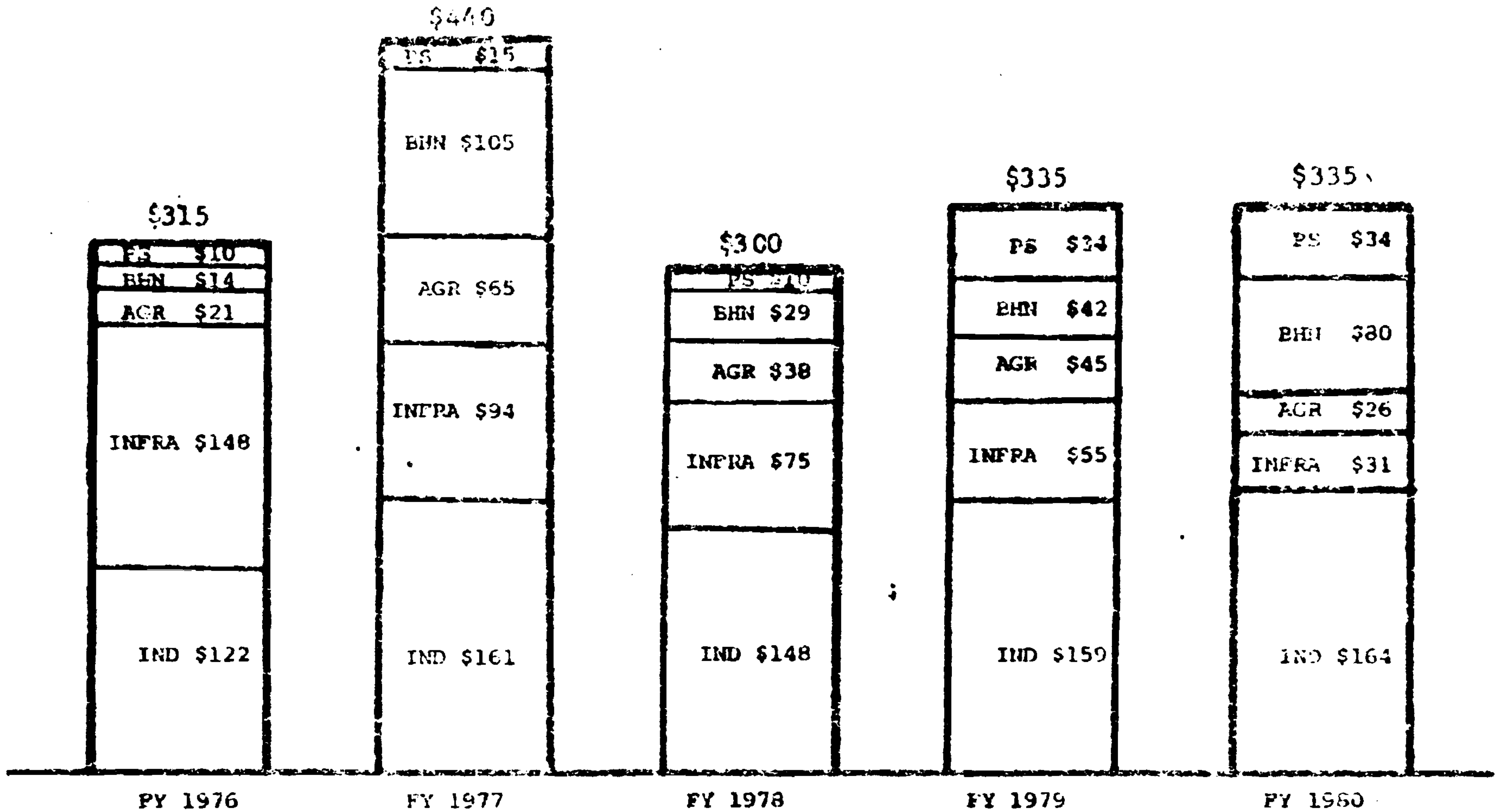
34

PATTERN OF COMMODITY IMPORTS FINANCED UNDER EGYPT CIP: FY 1976 Thru FY 1980
(In Millions of Dollars)




PS - Private Sector (Market Economy)
BHN - Basic Human Needs (Health, Sanitation, Education, Food, etc.)
AGR - Agriculture (Animal Feed, Farm Equipment, Irrigation, Equipment, Seeds, etc.)
INFRA - Infrastructure (Transportation Eq., Communication Eq., Power, Electricity, Port, & Civil Aviation Eq.)
IND - Industry (Raw Materials, Textile Eq., Sugar Refineries, Bakery Eq., Cement Factories, Printing Eq., Aluminum Furnace, Food Processing Machine, etc.)

STATUS OF AGREEMENTS UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
By Agreement Number a/
FY 1975 thru FY 1981 (1st Quarter)

(In Millions of Dollars)

| Agreement No. & Agreement Date | Obligated | L/C or Equivalent Issued | Available or In Process | Disbursed | Undisbursed |
|---|---|---|---|---|---|
| GRAND TOTAL | 1,874.8 | 1,474.4 | 400.4 | 1,338.6 | 536.2 |
| 263-K-026 (2-13-75) | 79.9 b/ | 79.9 | - | 79.9 | - |
| 263-K-027 (6-30-75) | 69.9 c/ | 69.9 | - | 69.9 | - |
| 263-K-029 (12-18-75) | 100.0 | 100.0 | - | 99.3 | .7 |
| 263-K-030 (5-22-76) | 150.0 | 148.1 | 1.9 | 145.1 | 4.9 |
| 263-K-036 (9-30-76) | 65.0 | 64.4 | .6 | 57.9 | 7.1 |
| 263-K-038 (3-06-77) | 440.0 | 397.8 | 42.2 | 380.2 | 59.8 |
| 263-K-045A (2-27-78) | 226.0 | 211.5 | 14.5 | 195.2 | 30.8 |
| 263-K-045B (2-27-78) | 74.0 | 72.8 | 1.2 | 64.7 | 9.3 |
| 263-K-052 (5-19-79) | 250.0 | 232.0 | 18.0 | 190.0 | 60.0 |
| 263-K-601(G) (8-29-79) | 85.0 | 62.8 | 22.2 | 42.6 | 42.4 |
| 263-K-053 (6-30-80) | 30.0 | - | 30.0 | - | 30.0 |
| 263-K-054 (6-30-80) | 250.0 | 35.2 | 214.8 | 13.8 | 236.2 |
| 263-K-602(G) (6-30-80) | 55.0 | - | 55.0 | - | 55.0 |

a/ Program Loan unless designated (G) which denotes Program Grant.
b/ Initial loan was \$80.0 Mil. Less than 0.1 was deobligated when loan expired.
c/ Initial loan was \$70.0 Mil. Less than 0.1 was deobligated when loan expired.

## SUMMARY OF CIP FINANCING FY 1975 thru FY 1981 (1st Quarter)
## By Ministry/Agency

(In Millions of Dollars)

| MINISTRY/AGENCY | Total Amount Allocated | Percent of Total | L/C or Equivalent Issued | Available or In Process | As of November 30, 1980 Disbursed | Undisbursed |
|---|---|---|---|---|---|---|
| GRAND TOTAL | $1,874.8 | 100.0% | 1,474.4 | 400.4 | 1,338.6 | 536.2 |
| Ministry of: | | | | | | |
| Agriculture | 25.0 | 1.3% | 22.0 | 3.0 | 18.9 | 6.1 |
| Civil Aviation | 2.5 | 0.1% | 0.6 | 1.9 | - | 2.5 |
| Communications | 46.9 | 2.5% | 36.5 | 10.4 | 33.3 | 13.6 |
| Education | 32.9 | 1.8% | 16.3 | 16.6 | 5.5 | 27.4 |
| Electricity | 86.6 | 4.6% | 73.0 | 13.6 | 63.6 | 23.0 |
| Health | 13.7 | 0.7% | 9.9 | 3.8 | 9.0 | 4.7 |
| Industry | (499.9) | (26.7%) | (375.4) | (124.5) | (353.5) | (146.4) |
| Excluding GOFI | 445.3 | 23.8% | 357.1 | 88.2 | 339.1 | 106.2 |
| GOFI | 54.6 | 2.9% | 18.3 | 36.3 | 14.4 | 40.2 |
| Information | 65.7 | 3.5% | 42.5 | 23.2 | 31.9 | 33.8 |
| Irrigation | 5.6 | 0.3% | 4.0 | 1.6 | 3.9 | 1.7 |
| Reconstruction & New Communities | 12.0 | 0.6% | 11.8 | 0.2 | 11.7 | 0.3 |
| Supply | 722.5 | 38.5% | 595.4 | 127.1 | 540.2 | 182.3 |
| Trade | 9.3 | 0.5% | 9.3 | - | 9.3 | - |
| Transport | 173.6 | 9.3% | 167.1 | 6.5 | 128.9 | 44.7 |
| Suez Canal Authority | 58.4 | 3.1% | 32.5 | 25.9 | 25.2 | 33.2 |
| Governorates | 18.2 | 1.0% | 13.2 | 5.0 | 12.5 | 5.7 |
| Private Sector | 102.0 | 5.5% | 64.9 | 37.1 | 57.2 | 44.8 |
| Undistributed Disbursement * | | | | | 34.0 * | -34.0 * |

* Some disbursement detail not available by Ministry for Grant 601. Therefore, unspecified amount is reported here.

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15

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FY 1975 thru FY 1981 (First Quarter)
(In Thousand Dollars)

| COMMODITIES | QUANTITY | DOLLAR VALUE |
|---|---|---|
| GRAND TOTAL | | $1,474,121 |
| 1. Acetate Tow | 12,029 MT | 22,580 |
| 2. Aluminum Refractory Bricks | 5,220 MT | 1,210 |
| 3. Ambulances & Medical Items | - | 5,960 |
| 4. Automatic Bakeries | 39 EA | 18,126 |
| 5. Batteries for Trucks | 1,800 EA | 54 |
| 6. Beds, Hospital (EX-PROP) | 5,745 EA | 613 |
| 7. Binding & Stitching Machinery | - | 3,037 |
| 8. Buses(City,Inter-City, & Other) | 1,677 EA | 53,730 |
| 9. Cable & Accessories | - | 24,456 |
| 10. Carpenter Workshop Equipment | - | 297 |
| 11. Caustic Soda | 2,300 MT | 1,000 |
| 12. Chains, Shackles, Bolts, etc. | 1,550 MT | 422 |
| 13. Chemicals | 819 MT | 828 |
| 14. Chickens, Frozen | 35,500 MT | 44,365 |
| 15. Cigarette Paper | 1,399 MT | 2,000 |
| 16. Circuit Breakers | 40,000 EA | 123 |
| 17. Coking Coal | 1,262,602 MT | 94,971 |
| 18. Communications System & Telecom. | - | 3,502 |
| 19. Computers | - | 399 |
| 20. Construction Eq., Unspecified | - | 10,492 |
| 21. Condensers & Compressors | 7,158 EA | 2,677 |
| 22. Corn, for Animal & Human Consump. | 1,075,885 MT | 124,306 |
| 23. Cotton, (Short Staple) | 6,800 MT | 9,710 |
| 24. Cotton Seed Oil | 162,400 MT | 96,579 |
| 25. Cranes | 60 EA | 9,959 |
| 26. Dozers, Wheeled | 11 EA | 1,113 |
| 27. Dredgers | 2 EA | 3,989 |
| 28. Drills & Bench Grinders | - | 501 |
| 29. Dumpers, Rear | 18 EA | 1,405 |
| 30. Educational Material | - | 7,780 |



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6

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FY 1975 thru FY 1981 (First Quarter)
(In Thousand Dollars)

| COMMODITIES | QUANTITY | DOLLAR VALUE |
|---|---|---|
| 31. Electrical & Workshop Eq. | - | 7,225 |
| 32. Elevated Dry Dock | 1 EA | 1,150 |
| 33. Engines, Diesel Marine | 247 EA | 3,770 |
| 34. Fishmeal (For Animal Production) | 7,000 MT | 4,101 |
| 35. Food Processing Machinery | - | 1,699 |
| 36. Forklifts & Spares | 62 EA | 1,582 |
| 37. Freight | - | 24,086 |
| 38. Generators | 100 EA | 7,055 |
| 39. Geophysical Equipment | - | 120 |
| 40. Grain Unloaders | 96 EA | 3,000 |
| 41. Graphite Electrodes & Nipples | 7,010 MT | 8,857 |
| 42. Grinding Media | - | 368 |
| 43. Hand Jacks & Elec. Springs | - | 132 |
| 44. Herbicides | 587 MT | 1,571 |
| 45. Hydrogenating Oil Line | - | 1,040 |
| 46. Industrial Safety Equipment | - | 171 |
| 47. Insulators, Washers | 7 EA | 1,105 |
| 48. Iron, Scrap | 22,000 MT | 2,272 |
| 49. Irrigation Equipment | - | 137 |
| 50. Kraft Paper & Liner | 42,316 MT | 8,982 |
| 51. Lentils | 5,700 MT | 6,118 |
| 52. Loaders, Front-End (Wheel-Type) | 17 EA | 984 |
| 53. Loader & Trailer (EX-PROP) | 11 EA | 647 |
| 54. Machine Tools | - | 632 |
| 55. Matchboard | 2,460 MT | 995 |
| 56. Match Making Machinery | - | 1,114 |
| 57. Mattresses (EX-PROP)(for Hospital) | 3,473 EA | 200 |
| 58. Micro-Buses & Vans | 94 EA | 925 |
| 59. Microwave Equipment | - | 36,908 |
| 60. Metallic Goods | 21,800 MT | 1,395 |

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FY 1975 thru FY 1981 (First Quarter)
(In Thousand Dollars)

| COMMODITIES | QUANTITY | DOLLAR VALUE |
|---|---|---|
| 61. Motorgraders | 55 EA | 2,840 |
| 62. Navigation Control System | - | 16,610 |
| 63. Plastics | 3,090 MT | 1,827 |
| 64. Printing Machine | - | 21,333 |
| 65. Radar Surveillance System | - | 600 |
| 66. Railwaycars (EX-PROP.) | 1,112 EA | 2,206 |
| 67. Refrigerated Railcars | 15 EA | 2,591 |
| 68. Refrig. Units & A/C Components | - | 1,422 |
| 69. Refuse Collection Equipment | - | 13,230 |
| 70. Remote Sensoring Equipment | - | 1,192 |
| 71. Road Markers | 2 EA | 36 |
| 72. Road Rollers | 33 EA | 1,168 |
| 73. Rotary Hearth Furnace & Spares | - | 6,675 |
| 74. Rotary Thermoformer | 2 EA | 282 |
| 75. Salt Harvesters | 5 EA | 567 |
| 76. Scientific & Medical Eq. | - | 5,361 |
| 77. Sedans | 50 EA | 281 |
| 78. Shovels, Diesel Power | 2 EA | 504 |
| 79. Soybean Meal | 55,000 MT | 10,646 |
| 80. Soybean Seeds & Innoculants | 3,310 MT | 1,996 |
| 81. Spare Parts, Bus | - | 21,687 |
| 82. Spare Parts, Cranes & Dredgers | - | 1,145 |
| 83. Spare Parts, Electronic | - | 1,533 |
| 84. Spare Parts, Locomotives | - | 4,539 |
| 85. Spare Parts, Railroad Cars | - | 5,183 |
| 86. Spare Parts, Truck Tractor/Trailer | - | 6,258 |
| 87. Spare Parts, Water Pumps | - | 663 |
| 88. Sprayers, Agricultural | 800 EA | 1,990 |
| 89. Street Lighting Equipment | - | 2,283 |
| 90. Synthetic Rubber & Carbon Black | 731 MT | 2,937 |

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT *
FY 1975 thru FY 1981 (First Quarter)
(In Thousand Dollars)

| | COMMODITIES | QUANTITY | DOLLAR VALUE |
|---|---|---|---|
| 91. | Sulfur Ore | 36,500 MT | 5,021 |
| 92. | Tallow | [illegible] | 255,354 |
| 93. | Telephone Cables & Equipment | - | 2,438 |
| 94. | Telephone Exchange Lines | 2,000 Lines | 817 |
| 95. | Television Broadcasting Eq. | - | 17,829 |
| 96. | Textile Supply Eq. & Dyestuffs | - | 8,827 |
| 97. | Tin Dressing Plant Equipment | - | 216 |
| 98. | Tinplate for Food Canning | 102,200 MT | 62,681 |
| 99. | Tire Plant Machinery | - | 3,349 |
| 100. | Tires | 4,200 EA | 115 |
| 101 | Tobacco Leaf | 23,334 MT | 85,412 |
| 102 | Tobacco Processing Machines | - | 1,245 |
| 103 | Traction Motor (Rebuilt) | 250 EA | 5,271 |
| 104 | Tractors, Construction | 172 EA | 7,162 |
| 105 | Tractors, Farm | 2,403 EA | 17,247 |
| 106 | Traffic Control System(Railroad) | - | 21,450 |
| 107 | Training Material | - | 200 |
| 108 | Transformers | 1,046 EA | 4,991 |
| 109 | Trucks, Pick-Up | 1,200 EA | 6,928 |
| 110 | Trucks, Fire-Fighting | 8 EA | 905 |
| 111 | Truck Tractor/Trailer | 399 EA | 23,764 |
| 112 | Trucks & Trailers | 315 EA | 13,394 |
| 113 | Trucks, Water | 5 EA | 106 |
| 114 | Turbine & Spares | - | 10,163 |
| 115 | Utility Vehicles | 439 EA | 2,929 |
| 116 | VTMS Spare Parts | - | 1,567 |
| 117 | Water Pumps | 532 EA | 2,687 |
| 118 | Welding Electrode & Eq. | 264 EA | 487 |
| 119 | Woodpulp | 72,358 MT | 25,456 |
| 120 | Private Sector Commodities ** | - | 65,882 |
| 121 | Misc. & Non-Enumerated Products | - | 6,198 |

* "Commodities Financed" is defined as transactions for which L/C or other financing document has been issued. Spare Parts shipped with original equipment are generally not listed separately. However, Spare Parts shipped separately are listed under spare parts.

** Private Sector Commodities may include any item listed as eligible in the "A.I.D. Commodity Eligibility Listing".



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41

9

# COMMODITIES FINANCED UNDER A.I.D. COMMODITY IMPORT PROGRAM TO EGYPT
## FY 1975 thru FY 1981 (1st Quarter)
## BY CATEGORY
## (In Million Dollars)

| SUMMARY | $ MILLION | PERCENTAGE % |
|---|---|---|
| Capital Equipment | 506.6 | 34 |
| Raw Material | 598.3 | 41 |
| Food Items | 303.3 | 21 |
| Private Sector | 65.9 | 4 * |
| Total: | $1,474.1 | 100 |

| CAPITAL EQUIPMENT | AMOUNT | CAPITAL EQUIPMENT (Cont'd) | AMOUNT |
|---|---|---|---|
| Computer | 0.4 | Refuse Collection Eq. | 13.2 |
| Industrial Safety Eq. | 0.2 | Air Conditioning Comp. | 1.4 |
| Remote Sensing | 1.2 | Telecommunications System | 3.5 |
| Electronic Spares | 1.5 | Telephone Cables & Eq. | 2.4 |
| Marine Diesel Engines | 3.8 | Salt Harvesters | 0.6 |
| Spare Parts | 1.0 | Traffic Control System | 21.5 |
| Trucks & Trailers | 13.4 | Railcars (EX.PROP.) | 2.2 |
| Tractors, (Farm) | 17.2 | Tobacco Processing Machine | 1.1 |
| Tractors, (Construction) | 7.2 | Furnaces | 6.7 |
| Buses | 53.7 | Match Making Machinery | 1.1 |
| Bus Spare Parts | 21.7 | Refrigerated Railcars | 2.6 |
| Construction Eq. | 10.5 | Mattresses | 0.2 |
| Grain Unloaders | 3.0 | Locomotive Spare Parts | 4.5 |
| Microwave System | 37.0 | Hyd. Oil Line | 1.0 |
| Med./Dental Eq./Ambulances | 5.0 | Radar Surveillance System | 0.6 |
| Educational Material | 7.8 | Street Lighting Eq. | 2.3 |
| Railroad Spare Parts | 5.2 | Elevated Dry Dock | 1.1 |
| Broadcasting Eq. | 17.8 | Scientific & Medical Eq. | 5.4 |
| Food Machinery | 1.7 | Traction Motors (Re-built) | 5.3 |
| Tools, Machinery | 6.0 | Navigation Control System | 16.6 |
| Dredger, Crane | 5.1 | Utility Vehicles | 2.0 |
| Cranes | 10.0 | Truck Tractor | 1.3 |
| Textile Equipment | 8.8 | Telephone Exchange | 0.6 |
| Generators, Transf. & Related. | 50.7 | Training Material | 0.2 |
| Mining, Welding, Tire Plant Eq. | 5.7 | Hospital Beds | 0.6 |
| Water Pumps, Spares | 3.3 | Truck Tractors & Trailers | 28.9 |
| Micro-Buses, Sedans | 1.2 | Automatic Bakeries | 18.1 |
| Pick-Up Trucks | 6.9 | Sprayers, Agricultural | 1.9 |
| Printing Equipment | 21.3 | VTMS Spare Parts | 1.5 |
| Non-Enumerated Products | 28.6 | Tin Dressing Plant Eq. | 0.2 |
| | | Total Capital Equipment | $506.6 |

* Private Sector Allocation is ten percent of the current program. However, Loans 026, 027, 029, and 030 included no allocation to the private sector. Therefore, the cumulative percentage of private sector financing appears somewhat low.

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.70

# COMMODITIES FINANCED UNDER A.I.D. COMMODITY IMPORT PROGRAM TO EGYPT
FY 1975 thru FY 1981 (1st Quarter)
BY CATEGORY
(In Million Dollars)

| RAW MATERIAL | AMOUNT |
|---|---|
| Tallow Inedible | 258.8 |
| Cotton, Raw | 9.7 |
| Kraft Paper | 8.9 |
| Tinplate | 62.7 |
| Coking Coal | 95.0 |
| Graphite Electrode | 8.9 |
| Woodpulp | 25.5 |
| Tobacco | 85.4 |
| Acetate Tow | 22.6 |
| Cigarette Paper | 2.0 |
| Rubber/Plastics | 4.8 |
| Herbicides | 1.6 |
| Matchboard | 1.0 |
| Caustic Soda | 1.0 |
| Sulfur Ore | 7.0 |
| Scrap Iron | 3.4 |
| Total Raw Materials | $598.3 |

| FOOD ITEMS | AMOUNT |
|---|---|
| Edible Oil | 96.6 |
| Corn | 139.5 |
| Frozen Poultry | 44.4 |
| Soybean Meal (for Chicken) | 10.6 |
| Soybean Seed | 2.0 |
| Lentils | 6.1 |
| Fishmeal | 4.1 |
| Total Food Items | $303.3 |

PRIVATE SECTOR** $65.9

** Any commodity listed as eligible in the A.I.D. Commodity Eligibility Listing may be financed by Private Sector funds.



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43

ANNEX A

SECTORAL UTILIZATION OF CIP

1. Agriculture

Since 1975, the GOE has designated nearly 11%, or $164 million, of the total A.I.D. assistance program to the Agriculture sector. The percentage of the total CIP devoted to this sector has amounted to 8% of the program for FY 1980. Some of the commodities financed under the CIP for the Agricultural sector include animal feed, farm machinery, irrigation equipment, improved seeds and inoculant, herbicides, and special purpose vehicles.

Approximately 1.2 MT of yellow corn have been imported from the United States under CIP financing. Roughly 900,000 MT of this yellow corn have been used as animal feed which is a major factor in the production of beef and poultry in Egypt. Although in earlier years CIP financing was also utilized to import $10 million of soybean meal to upgrade poultry feed and $1 million of soybean seed and inoculant, recent improvements in the yield of soybean in Egypt, partly attributable to this assistance, has produced a surplus of soybean meal this year, and the GOE shifted FY 1980 CIP allocation to the importation of 4,800 MT of fishmeal to provide additional nutrients in chicken feed.

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

2. Infrastructure Development

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

a) Power

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

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

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

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

b) <u>Transport</u>

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

Utilizing approximately 174 million dollars of the CIP loan funds during the priod 1975-1980, the GOE purchased much of the equipment needed to improve the GOE transportation system. Approximately 34 million dollars was utilized to purchase railroad equipment, i.e., freight cars (various types) purchased through the AID Excess Property program, refrigerated rail cars to transport meat and fish from port areas to the regions of Upper Egypt; repairs and spare parts and assemblies for locomotive; maintenance and ship equipment and allied equipment.

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

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

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

c) Telecommunications

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

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

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

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

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

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

3. Private Sector

In response to the Government of Egypt's policy to expand the role of the private sector in Egypt's economic development, A.I.D. has funded specific programs to assist their efforts. A.I.D. is currently providing $102 million in CIP funds for financing eligible commodities and related services for private Egyptian importers. In FY 1980, the GOE allocated 10% of its CIP ($33.5 million) to the private sector and will set aside 12% of CIP ($35 million) from the FY 1981 CIP. Approximately 382 letters of credit to U.S. suppliers have been issued through five public sector Egyptian banks, totaling over $66 million. With the signing of the FY

46

1980 agreements, the GOE introduced several significant program changes in August 1980. The participating banks have accepted responsibility for determining the importers' and a transactions' eligibility, in addition to their role of evaluating the importers' financial standing and credit worthiness. A more significant change has been the effect of discouraging participation by traders (importers of items for resale), who previously utilized roughly 70% of the funds. Under the new regulation, the traders are allowed to utilize the CIP funds for importation from a list of 16 categories of goods (excluding reinforcing iron bar which has been their favorite import item) and their interest payment is raised to 10% from 2.5% per annum. By these increases, the GOE intends to encourage more active utilization of the fund by the end-users and discouraging uses by the traders who had often taken advantage of the concessionary loan terms to accumulate inventories excessively, to take early profits, and to import goods on speculation rather than on end-user demand. Even given these dramatic program adjustments, and the fact that new funds have been in place only 90 days, the banks have approved and USAID has concurred in transactions totaling an additional $9.2 million. USAID is responsible for verifying the commodity eligibility and monitoring the proposed transaction for compliance with good commercial practice. Under current terms, the fledgling Egyptian private sector has better access to capital imports, such as replacement machinery, spare parts, industrial raw materials, resale stock items, etc. The minimum size of an A.I.D. financed transaction is $10,000. A single Egyptian importer is not allowed to utilize more than $500,000 in CIP financing for like commodities in a 12-month period without the approval of the GOE. The GOE has excluded Law 43 (joint venture) companies, but will consider approving their participation if they are producing goods of an import substitution nature.

In addition to CIP financing for the more immediate needs of the private sector, A.I.D. has established several other programs to assist the private sector. Through the Development Industrial Bank (DIB), A.I.D. is providing medium-term financing of investment projects. A total of $31.5 million in sub-loans has been provided for the establishment or expansion of business activities in Egypt. The DIB makes its own detailed evaluation of projects and heavy emphasis is placed upon economic benefits of the projects to Egypt's developmental goals. DIB has approved approximately $28 million in loans for business investment. Additionally, A.I.D. is providing $30 million to establish a new fund to co-finance, with designated participating banks, the expansion or renovation of industrial and other projects with total cost of at least $1 million. The Private Sector Encouragement Fund is directed toward medium-term financing of larger sized investment projects and is available to Egyptian and joint venture companies. The Fund will provide loans and, in exceptional cases, equity participation for the procurement of U.S. equipment and service. This Fund is expected to be operational in early 1981, after completion of detailed arrangements with the Ministry of Economy and participating banks, which are expected to be a wide range of public and private sector banks. In addition to the major private sector programs outlined above, A.I.D. is providing $5 million for private sector investment studies, which will reimburse qualified U.S. firms up to 75% of the cost of producing pre-investment feasibility studies. It is expected that procedures for this project will be in place by mid-1981. A.I.D. is currently exploring the desirability of an Industrial Free Zone project and a project to strengthen the information and promotion efforts of the Egyptian Investment Center.

4. Basic Human Needs

About 13 percent ($236 million) of CIP funds has been allocated so far by the GOE to meet a number of basic needs, e.g., health, sanitation, education, and food. The CIP has financed 30,000 MT of frozen poultry (approximately 30 million birds) resulting in market price stabilization and incentive for the private sector to expand cold storage facilities. Approximately 1.2 million tons of corn have been imported from the U.S., of which two-thirds was used for animal feed thus contributing to an increase in local production of poultry and beef. Another significant input has been the financing of 160,000 MT of edible oil which constitutes an affordable nutritional substitute for expansive animal fats among the low-income population. In the field of health, the CIP has financed 140 ambulances for a newly created emergency medical service, and 6,000 hospital beds acquired under A.I.D. Excess Property Program. Worth mentioning in this context are the 480,000 MT of CIP-financed tallow which have gone into the production of 2.4 billion soap bars and practically eliminated previous periodic shortages. Also, the CIP has financed the purchase of 170 refuse collection trucks and 12,000 refuse containers and bins which are having a significant impact on the clean-up campaigns in the two major cities of Greater Cairo and Alexandria.

Under the FY 1979 CIP supplemental grant, $15 million was earmarked in support of education ($5 million for universities, $3 million for a textbook production system and $7 million for basic education). This is additional to the $2.6 million allocated to 11 universities under a previous CIP loan. Under the FY 1980 CIP supplemental grant, $10 million was earmarked in support of education.

Approximately $7.8 million of the first CIP set-aside for education was used to purchase packages of 13 different kinds of basic education commodities including workshop tools, vocational agricultural equipment, audio visual materials, and science teaching labs. The initial shipment of these commodities is expected to arrive on/or about March 1, 1981. Another $2.2 million was used to finance the U.S. component of a book production system which will be used to produce all texts used throughout the school system. (The equipment is in country but not yet set up for operation.) In university commodities, impact will be achieved through procurement of cafeterias, hostel furniture, library furnishings, copying machines, microscopes, and microfilm equipment, journals and indexes.

## ANNEX B

## FERTILIZER - CIP

The 1980 Commodity Import Program (CIP) fund was increased by \$50 million to permit the Government of Egypt (GOE) to use its own foreign exchange resources to increase the level of fertilizer imports. The importation of an additional 850,000 MT of 15.5% nitrogen fertilizer, divided into three categories described below, was sought. These additional imports were aimed at: (a) filling a gap between supplies from domestic production/regular imports and distribution targets; (b) enabling the original distribution targets to be exceeded as a stimulus to agricultural production; (c) raising fertilizer use closer to levels which analysis indicated should be profitable; and (d) changing the perceptions that fertilizers were scarce and must be rationed.

Simultaneously, it was recognized that the existing GOE policy of providing fertilizer to farmers at relatively low, subsidized prices meant the proposed increases in imports and sales would result in additional GOE subsidy costs of \$140 million. This led to the conclusion that some efforts to raise fertilizer prices, if only to test farmer response, would be justified. Lowering subsidies and simultaneously raising output prices would have been the first choice method of maintaining farm income and reducing subsidy costs. However, this was acknowledged to be a complex undertaking and attainable only in the longer run. Therefore, as a first step USAID and the GOE agreed that out of the 850,000 MT, 550,000 MT would be imported for sale at a one-half subsidy price and the remaining 300,000 MT would be sold at the fully subsidized price. Under this alternative, the increse in subsidy costs to the GOE under this alternative would amount to about \$90 million rather than \$140 million.

Closely related to and supporting rationale for the indicated split between fully subsidized and less than fully subsidized imports was an interest in expanding the number of organizations handling fertilizer and increasing possible sources of supply for farmers. Thus it was agreed that the Principal Bank of Development and Agriculture Credit (PBDAC), the nearly monopoly supplier, would handle the 300,000 MT of fully subsidized fertilizer in its normal manner while the 550,000 MT to be sold at one-half subsidy would be imported by the private sector (400,000 MT) and semi-private sector organizations (150,000 MT).

The GOE agreed to provide the necessary subsidy amounts for the 300,000 MT of fully subsidized fertilizer and the 550,000 MT of 50% subsidized fertilizer. The GOE also committed itself to supply official foreign exchange resources for 450,000 MT of imports and to authorize the importation of up to 400,000 MT by the private sector using "own" foreign exchange. Finally, the GOE agreed to ensure that adequate Egyptian L.E. credit would be available for the private sector importers to permit them to obtain foreign exchange necessary for the 400,000 MT of importations.

The extent varies to which these multiple objectives for the fertilizer offset program have been met. The GOE did arrange for the importation of the 300,000 MT to be handled by the PBDAC. The entire quantity was ordered and has been received. As of December 31, 1980, the total amount has been distributed. The subsidies for the total amount were allocated by the Ministry of Finance.

In August, two semi-private sector organizations, the Egyptian Agricultural Organization (EAO) and the Horticultural Union (HU), were officially notified that they would be allowed to handle 150,000 MT of fertilizer and it was announced in the Cairo press that the private sector would be allowed to import 400,000 MT of nitrogen fertilizer. Both quantities would be for sale at one-half of the normal subsidy price. The GOE confirmed that funds for subsidy amounts had been allocated.

Progress by the private and semi-private sectors following this encouraging beginning has been slow. The GOE did authorize the payment of one-half the regular subsidy amount on 5,000 MT which a private sector firm had imported just prior to the finalization of the CIP agreement. But the private sector has proved reluctant to engage in further fertilizer imports. There were several applications for authority to import fertilizer but to date only 25,000 MT are actually under procurement. Reasons for the reluctance, as indicated by a USAID survey, include: (a) initial uncertainty over the size and timing of the subsidy payment; (b) new requirement for an advance deposit of 40% imposed on "own" exchange imports (according to the GOE this cannot be reduced, and means that importers must have sizable cash resources or credit availability); (c) uncertainty over the length of time the program will be continued -- importers indicate that participation would not be worth the effort if the program is to be discontinued after a short time or a few transactions; (d) difficulty in establishing relationships with exporters -- related to (c) above; (e) complexity of managing fertilizer importation and distribution -- anticipated problems in port clearance, obtaining necessary storage and arranging retail outlets; (f) inadequate information on the market -- the private sector does not have basic information on price structure and possible demand given balck market and fully subsidized quantities available; and (g) need to obtain foreign exchange on open market at higher than official rate -- again relates to market uncertainty and profit margins.

Attempts by the semi-private sector organizations to import the 150,000 MT have not yet been forthcoming. This seems to be the result of three factors: (a) the EAO was designated to handle all imports for itself and the HU because of previous import experience and because it would qualify for an exception to the deposit requirement -- the HU thus is dependent on the EAO for supplies; (b) the EAO had previously imported 30,000 MT of fertilizer for sale at less than the full subsidy, but because of distribution and types of fertilizer problems, it has been unable to dispose of the entire quantity. The EAO does not wish to import any additional amounts until on-hand stocks are sold; and (c) the need to clarify that the GOE would provide official foreign exchange for the importation rather than only facilities -- the provision of foreign exchange would allow a reduction in procurement costs and consequently a sale price of roughly L.E. 100/ton or down to a level where the EAO feels sales would be forthcoming for the types of fertilizer being considered. The EAO has agreed to proceed with a 10,000 MT procurement once the foreign exchange is provided but the final arrangements remain to be worked out with the Ministry of Finance and the Central Bank.

In retrospect, it appears that the overall slowness in implementation stems from inadequate USAID and GOE staff work on the feasibility of the program combined with the multiple objectives involving several organizations, each with a slightly different perspective. Additional staff work could have perhaps determined some of the constraints to private sector participation allowing additional measures to alleviate these constraints to be developed. Similarly, it is not clear that the relevant levels of the GOE were fully aware of the magnitude of the costs if the fertilizer import programs were fully implemented. The cost in foreign exchange would exceed $150 million and the subsidy would total roughly $90 million. For an additional $50 million in CIP funding this is perhaps a high price to pay. More staff work might have clarified this point.

The multiple objectives involving several organizations also make some additional slippage almost inevitable. Certainly the complex package increased the possibility that questions or activation difficulties would arise delaying or slowing the entire program. Many of the difficulties seem to reflect the narrow perspectives of the individual organizations indicating a lack of an original consensus. The Ministry of Agriculture (MOA) was interested in additional fertilizer to boost production but not to the extent that they were willing to push the EAO or the Ministry of Finance (MOF) very hard once problems became evident. This caution probably reflected disagreements in the MOA and a sensitivity to the "bigger" picture with both the MOF and the Egyptian farmers over the actual market for higher priced fertilizer. The EAO is understandably concerned with the sale of its existing fertilizer stocks before importing new quantities. As long as the EAO does move to import fertilizer, they hold a bargaining chip for additional GOE assistance in moving the old fertilizer, perhaps in the form of additional subsidy payments. The MOF is concerned with the costs of the program to the GOE, and perhaps the political implications of higher priced fertilizer, and therefore is not unhappy if the program moves slowly.

Recently, in a further effort to stimulate the program, agreement with the MOA has been reached that fertilizer imported under the fertilizer understandings will be sold at 50% above the regular subsidized price. The effect of the new agreement would be to lower the sales prices of fertilizer under the program by 10-20%. This modification to the original one-half subisdy agreement would retain the multiple objectives thereof while addressing the concern raised by both private and semi-private sector organizations that only limited demand exists for fertilizer at the one-half subsidy price. Whether this change will be implemented depends on the willingness of the MOF to go along with the proposal. These negotiations are under way.

In this situation there seems to be several options for 1981. The most obvious would be to abandon further efforts to obtain any of the multiple objectives originally sought. A second would be to continue to press for compliance with the 1980 agreement for an additional time period or at last until some significant quantity of half-subsidy fertilizer was placed on the market. A third would be to provide additional resources to continue the fertilizer program to reflect the continuing USAID belief that the original objectives are worth pursuing and that additional fertilizer use is an effective means to a higher production.

We rcommend the third option with more limited objectives than were a part of the 1980 agreement. Specifically, we would focus on a modest level of cooperative and semi-private sector imports for sale at a lower subsidy level. We would continue to press for compliance with the 1980 understanding regarding private sector imports but with less vigor.

## ANNEX C

### TRADE FINANCING FACILITY

An amount of $25 million of grant funds authorized under the FY 1981 CIP will be set aside to provide parallel financing with other financial institutions for internationally competitive imports of U.S. source and origin in order to provide a package of credit terms which compare favorably with credit terms offered by foreign financing facilities for commodities of other than U.S. source and origin.

The Government of Egypt (GOE) will be requested to survey prospective international procurements to determine whether U.S. suppliers can offer the desired commodity. If it is determined that the U.S. is an appropriate source, the GOE may consider, with USAID approval, use of the CIP trade financing facility.

Because the decision to utilize funds under this set aside program will be determined only after completion of international evaluation, the procedures of procurements will come from normal GOE Procurement Procedures in lieu of the A.I.D. Regulation 1 procedures followed under the normal CIP program. This principle will be set forth in the Project Agreement.

Detailed Procedures for utilization of this trade financing facility will be determined by agreement between the GOE and USAID and will cover, at a minimum, the following:

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

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

Arab Republic of Egypt
Deputy Prime Minister
for Economic and
Financial Affairs

ANNEX D

August 20, 1980

Circular # 14 of 1980
Amending Circular # 8 of 1978
Covering Use of U.S. Commodity Loans
By the Private Sector

1. In order to encourage the Egyptian private sector to contribute to the boosting of the development in conformity with the priorities set by the State, the Egyptian private sector is allowed to use sums of money of the U.S. Commodity Loans allotted to the private sector engaged in the following fields:

a. Production (foodstuffs - agriculture - irrigation- industry).

b. Production services (transportation - means of communication - housing - rehabilitation - construction - utilities - roads).

c. Trade (commodities designed to participate in development as per the attached list)

d. Production societies - production cooperatives- private hospitals.

e. Private entrepreneurs (e.g., doctors, engineers, accountants, agriculturists, etc.)

2. The said loans finance the import of capital and intermediary commodities (raw materials and spare parts, minor capital goods). They do not finance luxury or consumer goods or foodstuffs or complete projects, nor do they finance goods for re-exportation in their same condition but they must form components of the final product.

3. The importer must have a commercial register number and a taxation card, and the letter shall suffice in the case of private entrepreneurs.

4. The Public Sector's commercial and specialized banks which are alloted sums of money of the U.S. Commodity Loans as well as Egyptian and joint banks (through the Public Sector's commercial banks), are authorized to re-loan them to their cleints in the Private Sector referred to above. These loans are used for financing those commodities which play an active role in boosting development.

5. The public sector commerical and specialized banks shall be indebted to the Ministry of Finance for the amount used of such loans advanced to their Private Sector clients and they shall be obligated to pay the Ministry of Finance account with the Central Bank 25% of the amount of the letters of credit opened against the U.S. commodity loans in accordance with the posted rates of exchange on that

date, and the client shall also be obligated to settle this percentage as a deposit instalment in Egyptian currency and on the strength of the said rates of exchange.

6. The Public Sector commercial and specialized banks shall settle the outstanding balance (75%) of the cost of each shipment to the Ministry of Finance account with the Central Bank. Likewise, the client shall settle the outstanding balance of the cost of every shipment to the said banks with a maximum of three (3) years with respect to commodities and services imported by the production sector for its own use, and two (2) years with respect to the commodities imported for re-sale, provided that settlement be effected by equal annual instalments.

7. The Public Sector commercial and specialized banks shall remit interest payments to the Ministry of Finance account with the Central Bank with respect of the outstanding balance at the rate of 6% per annum for commodities and services imported by the production sector for its own use, and 10% per annum for commodities imported for re-sale, on condition that banks charge their clients upon re-advancing loans the same interest rate that the Ministry of Finance receives plus banking commissions in accordance with tariff prices of the banking services of commercial banks established by the Central Bank.

8. In the event of such banks providing credit facilities to clients for settling the down payment or the instalments on their due dates, they shall charge interest according to the interest rate chart valid at the time. Banks have the discretion to grant this facility or not in the light of their evaluation of the clients financial position, provided that it shall have no bearing on the commercial and specialized banks commitment to the Ministry of Finance.

9. The validity of the interest and the fixing of the first instalment as well as the following instalments of the outstanding balance shall start effective the date of USAID's settlement of the commodities cost by debiting same to the loan's account. This is in respect of the interest due by the banks to the Ministry of Finance or by the client to the bank. The interest and the instalments shall be calculated in Egyptian currency on the basis of the posted rates of exchange on the date of settlement by USAID of the cost of commodities by debiting same to the loan's account. The commercial and specialized banks shall ask the banks abroad and USAID/Cairo representative to advise them immediately of the dates of settlement of the letters of credit by debiting same to the loan's account. This is carried out in order to enable fixing the dates on which the interest and instalments shall fall due without delay.

10. The public sector commercial and specialized banks shall authorize the Central Bank to debit their accounts for the amount of interest and instalments due thereby to the Ministry of Finance. And also, supply the latter (the General Administration for Financing and Loans) with a copy of the authorization showing the details related to the letter of credit and the amount of the Bill of Lading debited thereto (to the letter of credit) and the date of this debiting to the loan's account.

11. The U.S. commodity loans are not generally available to companies established under Law 43 of 1974, except for those companies which produce import substitutes and obtain the agreement of the Ministry of Economy

12. Those wishing to utilize the U.S. Commodity Loans for the private sector shall apply directly to banks for financing their imports. The banks should secure the Ministry of Economy's consent (The International Cooperation Sector) in the event the sum of money requested exceeds $500,000.

13. No single client may be allowed to use sums of money exceeding $500,000 for financing the purchase of one commodity.

14. No single client shall be allowed to use sums of money exceeding $1,000,000 within 12 months from the date of opening the first letter of credit.

15. Each of the following shall be considered one client when calculating the maximum of the sums of money to be advanced to a client under clauses 13 and 14 of this circular whether either or both of them apply for benefiting by such loans:

A. Natural person who is member of a partnership and the company itself.

B. A partnership and another partnership of which the former is a member.

C. Natural person and members of his family up to the fourth kin.

16. The bank shall ask the client to present three (3) offers, at least, by (3) U.S. suppliers of the commodities to be imported, and a statement showing such offers and the clients recommendation, unless the USAID Regulation 1 allows for otherwise.

17. The bank shall forward a copy of such offers and of the statement referred to, to USAID./Cairo

18. USAID/Cairo shall furnish banks with a list of the U.S. Commdoties allowed to be exported abroad (outside the

USA) through USAID financing, and with any amendments to be introduced thereto, and the banks shall be bound not to open credits for the importation of commodities against the U.S. Commodities Loans for the private sector other than those included in the said list. A copy of the relevant form shall be forwarded to USAID/Cairo for checking and approval prior to opening the Letter of Credit.

19. Approvals issued by the Ministry of Economy or the banks, for financing commodities to be imported for the private sector, should be executed in a maximum period of two (2) months from the date of approval. However, their renewal may be considered according to each case with the consent of the issuing parties provided that the importer submits such a request at least fifteen (15) days before the expiration date.

20. The public sector commercial and specialized banks may not issue a letter of credit for any person other than the one in whose name the proforma invoice is issued by the U.S. supplier. The banks are not authorized to amend any letter of credit in a manner contrary to the proforma invoice except within the limits of the minor technical instructions which might be expedient to facilitate the importation process already approved, which may not be transferred to a third party.

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21. Credit opened for the importation of raw materials and intermediary commodities shall be valid for a period of time not exceeding six (6) months, but the credits opened for the importation of capital goods shall be valid for a period of time not exceeding one (1) year. Both time-limits are not renewable.

22. The bank shall supply the Ministry of Economy (International Cooperation Sector) monthly with a statement showing the credits already opened during the previous month. Also, a copy thereof shall be forwarded to the Ministry of Finance (The General Administration for Financing and Loans).

23. The bank shall not issue Form (A) addressed to the Customs Department except verifying that the item stated in the Bill of Lading is identical to the item mentioned in the letter of credit.

24. All formalities and contacts required for use of US Commodity Loans by the private sector shall be carried out in conformity with the rules set by this circular and the regualtions of USAID through the bank concerned.

25. In the events of the client's established violation of any of the rules set out in this circular the bank shall oblige him to settle the cost of the shipments received on the strength of the opened credits from his own resources,

and reimburse the cost to the loan's account, advising the Ministry of Economy to look into depriving him of benefiting by such loans in future.

26. The banks which opened the letters of credit covering these loans shall be responsible in following the rules and regulations spelled out in this circular without breaching of the standing rules and regulations of the import operations.

27. The rules set forth in this circular shall apply to the letters of credit to be opened after the date of its issuance and all contrary rules are hereby abrogated in respect to such credits.

Deputy Prime Minister
for Economic and Financial
Affairs (Sgd.)
Dr. Abdel Razig Abdel Meguid

Translator: F. Grace.



62

List of the Commodities Suitable for Financing

From the U.S. Commodities Loans For Trading

1. Lumber for construction and light carpentry industry.
2. Vegetables seeds.
3. Wood pulp.
4. Ingredients of animal fodder.
5. Steel rails, except reinforcing iron bar - steel from 37 and steel 52 - dimensions 16 to 78 mms.
6. Cold storage equipment and its spare parts.
7. Hand, electric or diesel operated Tools.
8. Irrigation pumps or sprinkler irrigation equipment.
9. Equipment for electronic computers.
10. Welding equipment.
11. Cranes and lifts.
12. Telephone switch-boards.
13. Construction equipment for digging and leveling the soil, as well as road construction, and their spare parts (Earth Moving Equipment).
14. Medical and laboratory equipment.
15. Measuring, testing and control instruments.
16. Rubber tires other than the Private Cars Sizes.

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## ANNEX E

### ANALYTICAL NOTE ON INFLATION IN EGYPT

It should be emphasized that the inflation rates discussed in the text measure inflation on the basis of the 1966/67 official consumer price index (CPI). In this index, about one-third of the total commodity weights represent products which are subject to official price controls. These products include foodstuffs, rents, most energy products and many non-food consumer products. The existence of price controls creates problems for measuring, interpreting and reporting on inflation in Egypt.

These problems cannot be solved simply by replacing the 1966/67 consumer basket with a more up-to-date representation of typical consumer purchases. Even a more up-to-date basket would still include within it an approximately similar percentage of commodity weights covering price controlled items. Nor, can the problems be resolved simply by measuring the inflation rate only for those commodities not subject to official price controls. This would be incorrect because it would not be representative of the basket of goods the consumer does in fact purchase. Finally, the problems cannot be resolved by substituting, for price controlled items in the CPI, "black" or free market determined prices. In this connection there are two considerations. The first and primary consideration is that there are many price controlled items for which a black market does not exist because the government can ensure that all demand will be met at the controlled prices. Energy and bread prices are two cases in point in Egypt. Second, even where black market prices exist for some price controlled commodities, their formal incorporation into the CPI would require estimates or knowledge of the volumes sold to final consumers at black market prices relative to the volumes sold to final consumers at the controlled prices.

Essentially, previous reporting on inflation has focused less attention on actual recorded inflation as determined from the CPI than on what the inflation rate would have been, given appropriate corrections for the factors outlined above. In fact, most weight has been given to adjusting the CPI to incorporate what would have been price increases for controlled commodities if the controls had not been effective. The latter, however, is a combined measure of inflation and repressed inflationary pressures. The CPI itself is a measure of price increases in Egypt. As a measure of price increases in Egypt, it can only be criticized on three grounds. The commodity weights are not proper. The price increases sampled don't reflect the actual price increases paid for a substantial proportion of the volumes sold. There has been quality deterioration in the commodities/services represented in the index. The important point is that the official CPI cannot be faulted because it does not register price increases for commodities whose prices do not increase. Certainly, inflation is a problem in Egypt. But the problem is less with how the CPI measures actual inflation rates than with the growing repression of inflationary pressures through increasing gaps between controlled prices and what these prices would be in the absence of effective price controls.

All of this boils down to a few observations. Price inflation, by definition, is a rise in the general price level. It is a useful concept in an economy where prices are determined in competitive markets. In a partially non-market, controlled economy such as Egypt, it remains a useful concept. After all, one does need to know the effect on the price level of the price increases that are actually taking place. Are, for example, consumers better or worse off on average? Is the real rate of interest positive or negative? At the same time, however, in an economy characterized by price controls which are effective, a clear distinction needs to be made and reported between the recorded inflation rate and the "shadow" inflation rate. The former tells you what the inflation rate is. The latter tells you that pressures to increase prices are growing. By analogy, these pressures are somewhat like the tensions that build up along a fault line before an earthquake occurs. We know that pressures are building. The size of the quake, its timing and associated aftershocks are not predictable with any reasonable degree of confidence. Obviously, the analogy isn't perfect. The gap between what the price level is and what it would be in the absence of controls can be purposively reduced through price increases for price-controlled commodities at rates which exceed the rates which would have prevailed, over the same period, in a competitive economy. To some extent, this is what Egypt did for some controlled price commodities in the first quarter of 1980. The high, overall inflation rate of about 18% registered in 1980 was a joint reflection of large administered price increases for some price controlled commodities and inflation generating phenomena more typical of a market economy. Once 1980 data is fully assembled, it might be possible to provide a defensible estimate of that component of the 1980 inflation rate that did represent "administered price adjustment" phenomena.

ANNEX F

STATUTORY CHECKLISTS

-- Country Checklist

-- Non-Project Assistance Checklist

-- Standard Item Checklist

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. 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 a consistent pattern of gross violations of internationally recognized human rights?

Not all will directly benefit the needy. The Department of State has made no such determination.

2. FAA Sec. 481. Has it been determined that the government of the 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.

3. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not dominated or controlled by the International Communist movement?

The Secretary of State has so determined.

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

None of the known claims meet these criteria. The GOE-USG Joint Commission have reached agreement on such debts.

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5. 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 forming the Joint Commission constitutes taking such steps within the meaning of this section.

6. FAA Sec. 620(a), 620(f), 620D; FY 79 App. Act, Sec. 108, 114, and 606; FY 80 App. Act. Sec. (511, 512 and 513.) Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos or Vietnam? Will assistance be provided to Afghanistan or Mozambique without a waiver?

NO.

NO.

N/A.

7. 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 so determined.

8. 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?

Under 620 (j) the President has not so determined.

9. 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 reactivated an OPIC Agreement with the U.S.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,

There is no known instance of such acts.

a. has any deduction required by the Fishermen's Protective Act been made? N/A

b. has complete denial of assistance been considered by AID Administrator? N/A

11. FAA Sec. 620; FY 79 App. Act, Sec. 603; FY 80 App. Act Sec. (518.) (a) Is the government of the recipient country in default for more than six months 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?

No such default exists. AID and GOE are reconciling the books on minor amounts.

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, and the President has determined that the listed considerations do not inhibit aid to Egypt but that our aid seeks to reduce arms costs and to stimulate economic development.

13. 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?

Yes, in 1967; relations were resumed in 1974. New agreements have been made since resumption.

14. 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 UN obligations.

15. FAA Sec. 620A, FY 79 App. Act, Sec. 607; FY 80 App. Act, Sec. (521.) Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? NO.
Has the country granted sanctuary from prosecution to any individual or group which has committed a war crime? NO.

16. 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.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? NO.
Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty? NO.

FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

N/A

a. FAA Sec. 102(b) (4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

b. FAA Sec. 104(d) (1); IDC Act of 1979. If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development,

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assistance to urban poor and through community-based development programs which give recognition to people motivated to limit the size of their families?

2. Economic Support Fund Country Criteria.

a. FAA Sec. 502B. Has the country (a) engaged in a consistent pattern of gross violations of internationally recognized human rights or (b) made such significant improvements in its human rights record that furnishing such assistance is in the national interest? NO.

b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Angola, Mozambique, Tanzania, or Zambia? If so, has President waived prohibition against the assistance by determining that such assistance will further U.S. foreign policy interests? N/A.

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? YES.

d. FY 79 App. Act, Sec. 113; FY 80 App. Act Sec. (510) Will assistance be provided for the purpose of aiding the efforts of the government of such country contrary to the Universal Declaration of Human Rights? NO.

e. FAA Sec. 620B, P.L. 96-329 Sec. 406. Will ESF be furnished to Argentina or Chile? N/A.



71

## NON-PROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(B); 634A

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

(a) The FY 81 Congressional Presentation notified the Committee of AID's plans to allocate $ 270 million for CIP activities.

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

(b) The intended obligation for the program is within the level of funds appropriated for Egypt for FY 81. An "Advice of Program Change" will be transmitted to the appropriate Congressional Committee to cover the additional $ 30 million.

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

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

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

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

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

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

(b) A portion of the program assistance is earmarked for the Egyptian Private Sector, thus tending to foster private initiative and competition.

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

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

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

(f) No perceptible impact.

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

To the extent that trade patterns between Egypt and the U.S. continue to grow and expand, we forsee this program as having a positive effect.

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

Not applicable. Program provides foreign exchange assistance for commodity imports. No contractual or other services are being financed under the CIP.

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

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

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## B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

### 1. Nonproject Criteria for Security Supporting Assistance

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

(a) 1. It will promote economic stability by providing vital foreign exchange required for Egypt's economic development.

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

b. FAA Sec. 531c Will assistance under this chapter be used for military or paramilitary activities?

NO.

STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

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

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

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

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

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

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

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

Not applicable under this loan.

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

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

6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

See question 3. of item 3A(3), above.

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

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

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| 8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? | Efforts will be made to utilize excess property to the maximum extent possible in public sector procurement under the loan. |
| 9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. | A.I.D. Reg. 1, which is incorporated into this loan, will cover this requirement. |
| 10. International Air Transport. Fair Competitive Practices Act, 1974<br>If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? | Yes. |
| **6. OTHER RESTRICTIONS** | |
| 1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States? | Yes. Additionally, any necessary determinations under 620(h) will be issued. |
| 2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States? | Financing is not permitted to be used for such purposes. |
| 3. Will arrangement preclude use of financing: | |
| a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? | Yes. |
| b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? | Yes. |
| c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? | Yes. |
| d. FAA Sec. 662. for CIA activities? | Yes. |

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

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

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

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

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

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

Yes.

B. OTHER RESTRICTIONS

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

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

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

Financing is not permitted to be used for such purposes.

3. Will arrangement preclude use of financing:

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

Yes.

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

Yes.

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

Yes.

d. FAA Sec. 662. for CIA activities?

Yes.

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