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

Proposal and Recommendations For the Review of the Development Loan Committee

ARAB REPUBLIC OF EGYPT - PROGRAM LOAN

AID-DLC/P- 2868

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

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AID-DLC/P- 2068

December 20, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Arab Republic of Egypt - Program Loan

Attached for your review are recommendations for authorization of a loan to the Government of the Arab Republic of Egypt, in an amount not to exceed ($80,000,000) eighty million dollars to finance imports of agricultural and industrial machinery, equipment, spare parts, and other essential commodities and related services. The loan is needed to assist the GOE in its program to utilize the full production capacity of existing industrial enterprises and to provide agricultural inputs essential to increase agricultural production.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Monday, December 30, 1974; please note your concurrence or objection is requested at the meeting. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES 1 - 7

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EGYPT: BASIC IMPORT AND PRODUCTION LOAN

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

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

(c) Procurement with loan funds from the United States.

(d) Such other terms and conditions as AID may deem advisable.

Loan Committee

Chairman :	S. A. Taubenblatt, NESA/CD
Loan Officer:	J. Evans, NESA/CD
Country Desk:	J. Roberts, NESA/MEA
Program :	S. Levine, NESA/DP
Legal :	M. Kitay, GC/NESA
Legal :	T. Carter, GC/SER
Procurement :	R. Richardson, SER/COM

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AID 1120-1 (8-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.

2. COUNTRY: Arab Republic of Egypt

3. CATEGORY: Commodity Financing Standard Procedure

4. DATE

5. TO: Daniel Parker
Administrator, AID

6. OYB CHANGE NO.: Not applicable

7. FROM: Robert H. Nooter
Assistant Administrator
Bureau for Near East and South Asia

8. OYB INCREASE: Not applicable

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 80,000,000

10. APPROPRIATION - ALLOTMENT: Supporting Assistance

11. TYPE FUNDING: [x] LOAN [ ] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [x] INFORMAL [ ] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: 1/1/75 - 6/30/76

14. TRANSACTION ELIGIBILITY DATE: PAAD Authorization Date

15. COMMODITIES FINANCED

Agricultural and industrial machinery, equipment, spare parts and other commodities to be specified in Implementation Letters/Commodity Procurement Instruction (CPI)

16. PERMITTED SOURCE

U.S. only: Code 000
Limited F.W.:
Free World:
Cosh:

17. ESTIMATED SOURCE

U.S.:
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The 1973 war and the coincident rise in international prices for food and other commodities left Egypt in a very difficult balance of payments and debt service situation. In effect, they were forced to increase short term borrowings and reduce imports of capital goods and industrial raw materials. In 1974, despite an increase in commitments of official foreign assistance and increased interest by foreign investors, sufficient foreign exchange is still not available to permit: (1) the maintenance of food imports, (2) a higher level of imports for investment and reconstruction and (3) importation of raw materials and other inputs to permit fuller utilization of existing capacity.

The proposed loan is to finance imports of agricultural and industrial machinery, equipment, spare parts, and other essential commodities and related services. The loan is needed to assist the GOE in its program to utilize the full production capacity of existing industrial enterprises and to provide agricultural inputs essential to increase agricultural production.

It is recommended that you authorize a loan to the GOE of $80 million ($80,000,000) for financing imports of selected commodities on the following terms:

19. CLEARANCES

	DATE
REG/DP	
REG/GC	
AA/PC	
A/CONT	
AA/MR	
AA/DFPE	

20. ACTION

[ ] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE DATE

TITLE

CLASSIFICATION:

I. EGYPT: ECONOMIC BACKGROUND

Over the past decade, the Egyptian economy has encountered considerable economic disruption. The mid-1960's through the early 1970's was a period of stagnation in economic growth. The period was marked first by the economic impact of the Yemen Civil War, then by that of the 1967 war. There has been some economic recovery in the late 1960's, but since 1970 growth slowed down again as defense and debt burdens mounted, unemployment and underemployment grew and net capital inflows declined to nearly zero. The imbalance in Egypt's external account has also been a dominant constraint in recent years. The balance of payments problem resulted from rapidly growing import requirements in the face of slow growth in the volume of exports, heavy debt service requirements, and inadequate foreign exchange reserves.

The Egyptian economy emerged from the October 1973 war with relatively little physical damage, except for the Suez Canal area. Agricultural production was little affected and the diversion of industrial production towards military needs was apparently marginal. There was a temporary drop in tourism, but the principal dislocation to economic activity appears to have been due primarily to the slowdown in commercial shipping traffic.

Despite a 25% increase in export earnings (due primarily to improved cotton prices) and large new grants in aid from oil exporters, Egypt has been unable to import the volume of non-food imports it has imported in the past. In 1973 imports of wheat alone were $400 million, nearly treble wheat imports a year earlier, permitting a rise in other imports of only 4%. Import prices rose 25-30% in 1973. Thus Egypt has been able to import less of the capital goods and raw materials necessary to sustain current agricultural and industrial production, let alone to permit economic growth.

During the past year, the Government has taken a number of measures to improve the economic climate. In particular, steps were taken to improve the prospects for development of Egypt's private sector, to rationalize allocation decisions in the public sector, and to improve the investment climate for potential foreign investors. The environment of uncertainty in which the limited private sector had been operating has been changed by both words and deeds of the Government, giving rise to a new sense of optimism among private sector entrepreneurs. There is a new awareness of the need to overhaul and simplify the structure of administrative regulations and procedures, and to make greater use of market forces (rather than direct controls) in the allocation of resources. The institution of the

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parallel market in September 1973 has helped to provide private as well as public sector enterprises with convertible currency imports, and is clearly a step in the direction of rationalizing the allocation of foreign exchange resources. The passage of a liberalized foreign investment law in the Spring of 1974 was an important step in implementing the Government's "open door" policy. Other measures in the direction of liberalization have been taken (e.g., the abolition of exit visas), and others are contemplated. The "October Paper," presented by President Sadat and approved in a national referendum, set forth a new statement of principles to guide Egyptian development.

An Interim Development Program for 1975 and a development plan for 1976-80 are now being prepared. In large part, the investment program budgeted for 1974 and envisaged for 1975 is limited to continuing carryover public sector projects. However, private sector investment and foreign participation in joint ventures are expected to increase substantially. The investment program for the coming year emphasizes fertilizers, cement, tourism and petroleum and pipeline development--all high-priority projects. Investment priorities in agriculture also seem generally appropriate to the country's needs. Programs to renovate or improve the infrastructure (e.g., railways, ports, telecommunications) are clearly urgent because of years of under-investment.

Egypt presently appears to be on the threshhold of a new stage in its economic history. It has considerable economic assets and a large absorptive capacity which should permit the economy to develop rapidly if these encouraging trends are maintained. However, as of the end of 1974 the economy remained in a difficult position. Despite large new commitments of official foreign aid and increased interest from foreign private investors, the actual inflow of foreign exchange was still inadequate to permit simultaneously maintenance imports of food and capital equipment, equipment and raw material imports to permit more effective utilization of existing capacity and expansion and debt service. The problem has been intensified because of the continued rise in international prices of many necessary imports, which is also contributing to domestic inflation despite extensive price controls.

A detailed assessment of the Egyptian economy is set forth in the IBRD Report "The Egyptian Economy in 1974: Its Position and Prospects" September 25, 1974. The above economic summary and sections below on balance of payments, trade and debt services and the annex on the Agricultural and Industrial Sectors have been based on this recent IBRD assessment.

II . U.S. ASSISTANCE OBJECTIVES

A. Political and Economic Considerations

Egypt has a decisive role in Middle East affairs. Thus, the approach Egypt takes towards the resolution of the conflicts that have kept the area unsettled for many years is critical to the U.S. interest in achieving a just and permanent peace settlement between the Arab states and Israel. Egypt clearly wishes to refocus its attention on reconstruction, economic stability and growth. The objective of U.S. assistance is to support that effort in a way which will permit Egypt to meet the aspirations of her people through peaceful means.

The ultimate success of U.S. efforts to achieve a just and lasting peace in the Middle East will depend to a great extent on the continuing development of a U.S.-Egyptian relationship which produces mutual confidence. President Sadat and the Egyptian Government have been highly responsive to U.S. diplomatic efforts thus far. This responsiveness has been reflected in Egypt's acceptance of such major U.S.-backed initiatives as the October 22, 1973 ceasefire, the November 11, 1973 Six-Point Agreement between Egypt and Israel, the convening of the Geneva Middle East Peace Conference in December 1973, and the Egyptian-Israeli agreement of January 18, 1974 on disengagement and separation of forces along the Suez front. President Sadat was also a leading advocate in Arab circles on behalf of the lifting of the oil embargo by Arab oil producers. The Egyptian Government has continued to play a constructive role in support of progress toward disengagement between Syrian and Israeli forces. The United States and Egypt resumed diplomatic relations on February 28, 1974 following a six and one-half year break.

President Sadat's position domestically within Egypt and his leadership role in the Arab world in general will be closely linked with the success or failure of his dual policy of Middle East accommodation and friendship with the United States. Any setbacks to this policy are likely to be seized upon by extremists in the Arab world opposed to peace and an increased U.S. role in the area.

In an effort to support U.S. diplomacy with respect to Egypt and a Middle East settlement in a concrete manner, the U.S. announced on March 18 that it had agreed to assist Egypt in sweeping mines from the Suez Canal and in providing training and technical advice to Egyptian personnel engaged in removal of other unexploded ordnance The U.S. also agreed to finance removal of sunken wrecks from the Canal. The reopening of the Canal is viewed as a logical sequel to the Egyptian-Israeli military disengagement and separation of forces, which has now been implemented. It will contribute to development of normal civilian activities, including encouraging reconstruction of the cities along the Canal. Progress along these lines will augment the stake in peace.

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The needs for social and economic development are extensive and far beyond the capacity of any one foreign donor. Thus, Egypt must rely on broad external support. In this situation, it is in the U.S. interest to demonstrate its serious concern for Egypt's development as well as our conviction that such development is of major interest to others, hopefully leading in due course to the formation of a coordinated approach to Egypt's needs.

B. Proposed FY 1975 U.S. Assistance Program

Against the above background, A.I.D. has proposed a $250 million SA program for Egypt in FY 1975, which consists of three main elements: (A) Suez Canal Clearance ($20 million), (b) reconstruction of the Suez area and general development activities ($150 million), and (C) a Commodity Import Program ($80 million), which is the subject of this loan proposal.

Reopening of the canal is a priority objective of the Egyptian Government. Not only will a functioning canal provide needed foreign exchange earnings and be a symbol of the desire for Middle East peace, it will also have a profound and beneficial impact upon world wide commerce.

United States Navy and Army groups, which arrived in April of this year, continue to work with Egyptians in clearing the canal of unexploded ordnance and of wrecks. British and French units are also involved and clearance of the canal is expected to be completed soon. In addition to actual clearing operations, U.S. units have provided training of Egyptian personnel involved in the project.

The principal canal cities of Port Said, Ismailia, and Suez City have been almost totally demolished during the years of war and their populations have fled. The agricultural areas bordering the canal have suffered similar damage, particularly to irrigation works, roads, agro-industry plant, and farmers' homes. Much of the rural population has also been dislocated. The Government of Egypt has assigned priority to the reconstruction of the Suez Area to resettle the former inhabitants and stabilize the area to provide adequate services to the Suez Canal operation; to increase Egypt's agricultural production; and to re-establish viable industry. Total costs of the overall reconstruction effort and other developmental activities throughout Egypt will be large and beyond the capacity of an individual donor. IBRD has undertaken a detailed assessment of immediate reconstruction needs and also is studying developmental possibilities and requirements in other areas.

The $150 million for FY 1975 is considered a fair share for U.S. involvement in reconstruction and development in the Suez area. Significant participation by the United States is necessary if we

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are to seek active, co-ordinated support from other donors in the postwar assistance to Egypt.

There have been lengthy discussions with the Government of Egypt on possible areas of assistance. There are major reconstruction requirements in the cities along the canal which will need new systems for water, sewage, power, transportation, schools, hospitals and other public utilities. Housing, city streets, roads, railway and communications also must be rebuilt, and the port facilities of the Suez cities, long in disuse,will need repair and improvement. Fertilizer, paper, cement, and lime plants, as well as an oil refinery, will need to be restored or replaced.

Within these priorities, A.I.D. has been discussing with the GOE assistance for transmission and distribution equipment, construction equipment, a cement plant, prefabricated housing and feasibility studies.

Finally, an $80 million Commodity Import Loan will assist the GOE in financing essential requirements for agricultural and industrial development.

The U.S. has also provided PL 480 assistance in the amount of $52.5 million for 300,000 M.T. of wheat and currently is considering additional PL 480 assistance.

The justification for the $80 million loan is set forth in Section III.

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III. LOAN JUSTIFICATION

A. Proposed Commodity Import Loan. The proposed $80 million loan will be used for the import of raw materials, machinery and spare parts to support industrial and agricultural production. Egypt has asked for U.S. assistance to finance priority requirements in these sectors.

The 1973 war and the coincident rise in international prices for food and other commodities left Egypt in a very difficult balance of payments and debt service situation. In effect, they were forced to increase short term borrowings and reduce imports of capital goods and industrial raw materials. In 1974, despite an increase in commitments of official foreign assistance and increased interest by foreign investors, sufficient foreign exchange is still not available to permit: (1) the maintenance of food imports, (2) a higher level of imports for investment and reconstruction and (3) importation of raw materials and other inputs to permit fuller utilization of existing capacity.

The worsening shortage of foreign exchange resulting from the tight balance of payments situation, exacerbated by price increases, is the major reason for underutilization of capacity in industry. Underutilization of industrial capacity increased sharply in 1974 (to about 35% of available capacity), even though official allocations of foreign exchange for meeting "maintenance" imports have been unchanged. There are a number of reasons for the growing underutilization of capacity. The unit cost of imported materials increased by 50% in 1973 and has further increased by 60% in early 1974. Prices of individual key agricultural and industrial commodities have, in some cases, more than doubled in the past year. As a result, a unit of foreign exchange buys a much smaller quantity of material, thus rendering it difficult for industrial enterprises to maintain even a workable level of inventories. Some plants may have to close down temporarily, or at least close down some production lines. These effects are likely to be felt throughout industry and particularly become severe in chemicals and metallurgy. It is estimated by IBRD that an increase of allocations for imports of about $200 million would produce additional production valued at about $1.5 billion. Increasing the rate of capacity utilization has received the highest priority in Egyptian Government policy.

In industry substantial increases in foreign exchange will, therefore, be needed to finance the equipment, materials, and spares required to activate idle industrial capacity as well as to maintain existing capacity. In agriculture, the immediate GOE priority over the next two years is to acquire critical agricultural inputs which would yield increased production from existing acreages of those commodities which would

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have the highest net foreign exchange impact on the economy. A considerable increase in agricultural output could be realized in the short term with attractive economic returns through a high level of imported inputs, particularly in the following areas: (a) fertilizer needed for high yielding varieties of wheat and maize; (b) spare parts for tractors, irrigation pumps and instruments to allow adequate preparation and cultivation of irrigated land; (c) plant protection chemicals such as pesticides and insecticides to increase crop yields; and (d) various types of agricultural equipment to increase agricultural productivity.

Egypt will require considerable supplies of all types of industrial and agricultural machinery for which orders would have to be placed now for deliveries from the United States 12-18 months in the future.

Annex 2 discusses the current status of Egypt's industrial and agricultural sectors, and related import requirements. Annex 3 lists Commodity Composition of Imports, 1968-73; and Annex 4 lists Imports by Country, 1968-73.

B. Balance of Payments and Debt Service

1. Balance of Payments. The period 1971-73 witnessed a widening of the trade deficit from less than $400 million to nearly $600 million. Exports, after having dropped in 1972, rose by about 25 percent in 1973, reflecting mainly improved cotton prices. Similarly, the level of imports changed only slightly in 1972, but the value of imports rose by 24 percent in 1973, reflecting almost entirely a change in prices rather than in the volume of trade. With more than one-third of Egypt's total imports consisting of foodstuffs (in particular wheat and flour), the rise in the international prices of these basic commodities was in large part responsible for the overall increase in imports and for the higher trade deficit. In 1972, wheat imports (including wheat flour), had cost about $115 million. Preliminary figures for 1973 indicate that the cost of wheat imports was between $400-$500 million. And in 1974, the cost is likely to be between $500-$600 million. Consequently, Egypt's capacity to purchase the imports needed for growth has been severely constrained. Capital goods imports, for example, amount to little more than $200 million in 1973, or just over 2 percent of GDP. And the importation of intermediate goods imports in 1973 was not sufficient to prevent an increase in the level of unutilized productive capacity in both industry and agriculture.

The following table summarizes Egypt's balance of payments in the period 1971-73.

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BALANCE OF PAYMENTS SUMMARY
($ million)

	1971	1972	1973
Exports	850	813	1,014
(Cotton)	(404)	(373)	(438)
Imports	1,244	1,286	1,593
(Wheat)	(144)	(142)	(400)
Trade balance	-394	-473	-579
Services, net	- 92	7	7
(Receipts)	(182)	(308)	(426)
(Payments)	(274)	(301)	(419)
Transfers (including grants from Gov'ts)	279	295	649
Current Balance	-207	-171	+77
Medium- and Long-Term Capital net	147	145	-5
(Disbursements)	(297)	(358)	(328)
(Repayments)	(150)	(213)	(333)
Other Capital	-93	-5	-86
Overall Balance	-153	-31	-14
Memo Items			
Debt Service, medium and long term	187	258	379
(Official)	(144)	(182)	(220)
(Suppliers)	(43)	(76)	(159)
Debt Service Ratio 1/	18.6	25.4	28.7

1/ Excludes outstanding banking facilities.

Egypt's gross foreign exchange reserves grew $289 million in 1973 to total $442 million. This was accomplished through an increase in short-term liabilities in the form of bank deposits by OPEC oil producers and borrowing from foreign banks. Egypt's net reserves declined in 1973.

The expected large current deficits in 1974 and 1975 together with heavy debt service requirements, call for very substantial amounts of foreign capital in the short-run. As the existing pipeline of projects suitable for foreign financing is still relatively narrow, much of this assistance will have to be made available in the form of program aid. The commitments already made by foreign donors, including this proposed loan, should go a long way to meet these short-term requirements, and to enable increased utilization of capacity in the economy.

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EGYPT LOAN PAPER

Insert for page 9, after the 1st paragraph:

The IBRD's estimate for 1974 and projections for 1975 are as follows ($ millions):

	1974	1975
Exports	+1,309	+1,544
(cotton)	(772)	(865)
Imports	-2,532	-2,808
(wheat)	(602)	(617)
Trade Balance	-1,223	-1,264
Services, net	+ 24	+ 67
(interest on debt)	(-77)	(-116)
Transfers (including grants from govts.)	635	302
Current Balance	- 564	- 895
Medium and Long-term Capital (net)	+ 452	+ 538
(Disbursement)	(+900)	(+873)
(Repayments)	(-448)	(-335)
Other Capital	50	70
Overall Balance	- 62	- 287

The IBRD assumed the canal would reopen in late 1975 and the Sinai oilfields would not return before 1976. Capital (loan and grant) estimates were based on known commitments made before June 1974. The Rabat Conference has changed this radically. The OAPEC States pledged $1 billion per annum in grants to Egypt over the next four years. Thus the deficit projected by the IBRD is more than wiped out. However, Egypt has been very drastically underimporting and there is serious question whether the imports projected by the IBRD could sustain an adequate rate of growth. It could be wiser, given this large increase in aid, for Egypt to move now to the $3.5-4.0 billion rate projected by the IBRD for the final years of this decade.

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In the medium- and longer-run, the outlook for Egypt's balance of payments is much more promising. According to IBRD estimates, foreign exchange earnings are expected to grow from a level of some $1.7 billion in 1974 to about $4.7 billion in 1980, because of the reopening of the Suez Canal, operation of the Sumed pipeline, rapidly rising exports of petroleum and petroleum products, a doubling of manufactured exports, increased workers' remittances, and the development of tourism. Imports of goods and services, on the other hand, can be expected to grow at a slower pace after the drastic increase of import levels over the next 3 to 4 years. As a result, the deficit on external trade and services is projected to progressively narrow in the latter part of the decade, significantly reducing the required net inflow of foreign capital.

The IBRD's estimate for 1974 and projections for 1975 are as follows ($millions):

	1974	1975
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Other Capital	50	70
Overall Balance	- 62	- 287

The IBRD assumed the Canal would reopen in late 1975 and the Sinai oilfields would not return before 1976. Capital (loan and grant) estimates were based on known commitments made before June 1974. The Rabat Conference has changed the picture considerably in that substantial additional resources are being made available by the OAPEC states. This includes an OAPEC pledge of $1 billion per annum in grants to Egypt over the next four years. It is not clear what the composition of the grant will be (e.g., military versus economic assistance, project or program assistance), nor how disbursements will take place and over what time periods. Despite this caveat, it appears that the deficit projected by IBRD would be reduced considerably. However, Egypt has been very drastically underimporting and, as noted

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above, there are considerable import requirements to restore capacity, now idle, for maintenance imports and for further growth; there is serious question whether the imports projected by the IBRD could sustain an adequate rate of growth. We believe that there is much scope, given this large increase in aid, for Egypt to move now to the $3.4-4.0 billion import rate projected by the IBRD for the final years of this decade.

2. Debt Service. Egypt's estimated medium and long-term debt (disbursed only) was $1,709 millions as of December 31, 1973. In addition, Egypt had an estimated $441 million in short-term suppliers' credits and $498 million in short-term debt due foreign banks. Sixty percent (60%) of the medium and long-term debt and all of the bank and suppliers' credit were repayable in convertible currency.

Egypt's repayments burden on medium and long-term debt and on suppliers' credits has risen rapidly in recent years. Despite payments of $333 million in 1973, Egypt continued in default for about $23 million due Japan, Canada and European creditors. The IBRD estimates its 1974 debt service burden at $450 million, 31% of earnings (compared to $379 million, or 29%, in 1973).

In view of Egypt's heavy debt burden and future uncertainties, A.I.D.'s normal concessional loan terms are proposed--40 year maturity including a 10-year grace period, with interest at 2% during the grace period and 3% thereafter. With these terms, particularly the 10-year grace period, the repayment prospects for this $80 million loan appear reasonable.

C. Other Donor Assistance

According to IBRD, the total capital inflow required to cover the current account deficits for 1974 and 1975 is projected at $1,450 million. Assuming net disbursements of $990 million on loans committed as of mid-1974, private capital inflows of $120 million, IMF financing of $48 million and a reduction of $600 million in the use of short-term foreign financing, the financing gap for the two-year period was projected at $900 million. Also given the high absorptive capacity of the economy, and the low level of investments over the past decade, the need for external aid commitments in the succeeding years is expected to remain at a high level.

Substantial Arab aid was received in 1973 and is continuing. Six hundred million dollars ($600 million) assistance from Saudi Arabia was reported in November 1974, and large aid offers have been made by Kuwait and other Gulf States. Commitments of non-Arab foreign aid have also been considerable. In addition to the proposed $250 million from the United States, including this $80 million program loan, five countries have either firmly committed new loans to be used over periods varying from two to five years (Iran $850 million,

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Germany $225 million, Denmark $9 million) or have announced their intention to do so (Japan $100 million). In addition, the Government has concluded two Euro-dollar loans totalling $180 million and is currently negotiating a third ($100 million). Also, in August 1974 the IMF extended a credit (first tranche) of $48 million. A large share of new loans is for unidentified projects and will disburse only gradually over the next few years. Of the agreements noted above, "program aid" will be provided by Iran ($100 million), Japan ($50 million), Germany ($25 million), IBRD/IDA ($70 million), and the USA ($80 million).

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IV. LOAN ADMINISTRATION

A. GOE Procedures - General Background

In considering GOE/AID commodity import procedures, it is important to recognize that the Egyptian economy is dominated by the public sector. Most industrial firms (accounting for 75 percent of industrial production), all financial intermediaries, foreign trading, and wholesale firms, most of the transport sector and some of the retail sector are publicly owned. Although more than 90 percent of Egyptian farmland is either in private hands or owned by small-scale cooperatives, Government controls of agriculture are also pervasive. Ownership of dwellings remains largely in private hands, and private sector activity is significant in the construction, woodworking, leather, textile, and food industries, though firms are generally small scale. The petroleum industry is characterized by partnerships between the state and foreign oil companies. Sectoral bodies and controls are exercised mainly by public organizations (usually called General Organizations) which supervise plants, other productive units and major trading bodies. The predominant role of the public sector is also reflected by the fact and public investment accounts for 90 percent of total investment. In such a centrally directed economy, the Government plays a major role in fiscal pricing and wage policies, with the foreign exchange budget being the major instrument for allocating scarce foreign exchange to the public and private sectors.

1. Parallel Market Mechanism

In September 1973, the Government announced the creation of a parallel foreign exchange market, where a premium of 50 percent for buying and 55 percent for selling free currencies is paid over the prevailing "official" rate of $2.56 for £E 1 (see Annex 5). The parallel market replaced the restricted system of multiple exchange rates, including a 50 percent premium rate for some transactions, which existed since 1969 and were modified in May 1972. The two primary objectives for its creation were to: (i) increase the inflow of free foreign currency resources, particularly by tapping assets held by Egyptians overseas, and by encouraging exports to free currency areas; and (ii) make these resources available primarily to industry and selected service sectors for increasing production, tourism and exports. Since the creation of the parallel market, the availability of free foreign exchange for recurrent needs of the private sector has substantially increased. While the policy was designed to use parallel market resources primarily for meeting import needs of the tourism industry and the private sector, since April 1974, given the extreme shortage of foreign exchange funds for recurrent imports for public sector industrial enterprises, $50 million have been provided to them through the parallel market after a case-by-case review.

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Foreign exchange scarcity is the dominant constraint to Egypt's growth, and an important step towards improving the process of allocation of foreign exchange will be to further extend the parallel foreign exchange market, as recommended by the IMF, i.e., to include virtually all transactions with convertible currency countries, excepting exports of petroleum, cotton and rice, and imports of certain basic "supply" (mainly food) items. This is clearly a step towards rationalizing the exchange system. The Government has undertaken a policy of expanding the scope of the parallel market and in particular, as far as the industrial sector is concerned, steps have already been taken to channel parallel market funds for imports. A.I.D. will be discussing with the GOE the applicability of the parallel market rate of exchange to private and public sector transaction under this loan. It is A.I.D.'s intention to propose that the parallel rate apply to private and public sector imports. This arrangement already has been agreed to by the GOE in the recent IBRD/IDA loan and credit (total $70 million). Procurement of imports financed under this loan at the parallel market rate will help to ensure that the proceeds are allocated in agriculture and industry on the basis of highest priority, and within industry to the most competitive subsectors and to those with maximum potential for generating export earnings or substitution of imports. We understand that the GOE is considering using the parallel market rate for all donor program assistance.

2. Import Procedures

Foreign Exchange for recurrent import needs is provided from three main sources: (a) Foreign Exchange Budget (FEB) allocations, (b) a part of the enterprise's retained export earnings made available for this purpose; and (c) special allocations through the parallel market. Of these, the FEB allocations are by far the most importance source--particularly for public sector. The parallel market has been the main source for the private sector. (A description of the process of allocation is given in Annex 6.) Public sector applications for imports are forwarded by enterprises through the General Organizations for approval by the Ministry of Industry or Agriculture. Industrial private sector applications are subject to approval by the Industrial Control Board of the Ministry of Industry.

Determination Committees are the key organization units in the current import procedures and are attached to the respective General Organizations. Each Determination Committee is responsible for the import of a number of commodities. The Committee decides on all import applications for the commodities under its jurisdiction. A separate Committee also makes recommendations concerning all recurrent imports by the private sector. Each Committee is authorized to approve import applications within the overall foreign exchange allocations from the Ministries for various commodities. Their approval of an

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application is treated as final for imports and is equivalent to the import licenses granted in the past. Frequently, imports needs of several enterprises are bulked together to obtain better prices. For free currency imports, the Committee invites bids, on the basis of advertisements, from foreign suppliers, and Government-owned trading companies and, after evaluation of prices, delivery and quality selects the "best" bid. For the clearing area imports, it requests bids through the trading companies. The offer accepted is transmitted to the recipient enterprise, trading company and the banking system to enable them to proceed with the actual import.

Under the Government's present regulations, all imports, private or public sector, are channeled either through one of the ten Government-owned trading companies or directly to the foreign exporter. The Trading Company performs a control function to crosscheck that the imports are effected at competitive terms. A.I.D. will use the established GOE procedure, whereby the public or private enterprise, either directly or through the Trading Company, will invite bids, evaluate them and make final recommendation for contract award. Importers will be able to invite bids through the trading companies and directly through suppliers and be able to compare competitiveness of price and other factors.

B. Eligible Commodity List

Items eligible for financing under this loan will consist of commodities and equipment as defined in the A.I.D. Commodity Eligibility List 1/ dated January 1, 1972. This list will be provided as an attachment to the Commodity Procurement Instruction (CPI) which will be transmitted to the Borrower with the first implementation letter. In discussions with the Egyptian Government officials, A.I.D. was asked to finance various essential imports, such as industrial and agricultural machinery and raw material inputs such as fertilizer and pesticides, other chemicals, wood and wood products, newsprint and paper. Further discussions with the GOE will have to continue to further refine specific GOE priority import interests, both for the private sector and state enterprises.

C. A.I.D. Commodity Import Procedures

There has been no A.I.D. program in Egypt in recent years and thus there presently are no established AID/GOE procedures for the administration of a commodity import program. However, a preliminary

1/ The broad "positive" list.

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A.I.D. review of the Egyptian foreign exchange allocation and procurement procedures indicatesthat it should not be difficult to mesh A.I.D. requirements with GOE procedures. Further A.I.D. discussions will be necessary to familiarize the GOE with A.I.D. requirements. It is recognized that a number of changes in the GOE procurement system may be desirable but can only be developed over time. It may be necessary in the short order to permit rapid implementation, to work with the GOE system as it now exists with minimum change.

As in the case of all A.I.D.-financed commodity import programs, A.I.D.'s standard commodity financing procedures, as set forth in Regulation 1, shall apply.

Public sector procurement shall be eligible for financing only if procured through formal competitive bid procedures in accordance with Section 202.22 of A.I.D. Regulation 1. The so-called "Colombia System" of Small Business Notification will apply to private sector procurement. The main difference between the "Colombia System" and standard small business system is that the former involves a single small business advertisement for all goods and services to be purchased rather than an advertisement and waiting period for each procurement action. Under the "Colombia System", the Borrower compiles a list of primary importers by product and list of products by importer. These lists are published in a Small Business Notification Bulletin and made available to interested U.S. suppliers and the host country. As A.I.D. becomes familiar with the state enterprises it may wish to consider applying the "Colombia System" to non-subsidized state enterprises (i.e. enterprises that do not receive budgetary support).

Individual transactions financed shall not be under $10,000 in amount, but individual items valued at less than $10,000 may be combined and treated as one transaction if they involve procurement from the same supplier.

It is our understanding that the State Trading Company normally receives a sales commission payment as well as commissions for handling commodity clearance from the supplier. A.I.D. Regulation 1, Section 201.65 precludes the financing of such payments. This matter also will be a subject to be discussed with the GOE.

Under Section 640(c) of the FA Act, A.I.D. is authorized to finance from funds not chargeable to an assistance agreement the higher cost, if any, of transportation on U.S. flag ships as compared with foreign

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flag ships. This section has been applied to bulk cargo shipments under charter and may also be applied to shipments of open-rated commodities on liners. The purpose of this authority is to relieve the importing country and the end-user of the added cost of shipping on U.S. flag vessels to the extent required by the Cargo Preference Act. Funds are not specifically and separately appropriated to finance this freight differential. Therefore, such funds, when used for this purpose, must be taken from appropriation(s) "earmarked" but not obligated for other purposes.

Depending on the proposed mix of commodities which the GOE may request A.I.D. to finance and the availability of grant funds for the Egypt Program, A.I.D. anticipates the possibility of providing added funds to finance the freight differential. This determination will be made at that point in time when the funding status and composition of the program has been firmed up.

D. Disbursement

The proceeds of this loan are expected to be fully disbursed within 18 months of the date of the loan agreement signing. Because of possible delays in delivery by manufacturers of specific items of equipment and spare parts, the terminal disbursement date (TDD) of the loan will be set about two years after the date of the Loan Agreement, by which time the entire proceeds of the loan should be fully disbursed.

V. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The long-term impact on U.S. Balance of Payments will be favorable because this loan will be spent on U.S. goods and services. This loan will permit U.S. suppliers/exporters to reestablish old trade relationships and create new ones for industrial raw materials, and machinery and commodities essential for increased agricultural production, and will greatly enhance the expansion of the U.S. export market in Egypt. Furthermore, future follow-up orders for machinery and spare parts will result in additional U.S. exports on a commercial basis.

B. Use of U.S. Government Excess Property

Because of the nature of the assistance being provided--raw materials, machinery and spares to assist the agricultural and industrial production, it is unlikely the U.S. Government excess property would be appropriate for this loan. However, given the large amounts of U.S. Government excess property available, SER/COM is being asked to look at possibilities for using such excess property.

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VI. RECOMMENDATIONS

It is recommended that you authorize a loan to the GOE of $80 million ($80,000,000) for financing imports of selected commodities on the following terms:

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

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

C. Procurement with loan funds from the United States.

D. Such other terms and conditions as AID may deem advisable.

Annex 1. Egypt - Economic Indicators

AID-DLC/P-2067
December 1974

AREA
1,002,000 km²

POPULATION
35.6 (1973 - Estimated)
Rate of Growth: 2.2%

DENSITY
35.5 per km²
Over 1000 per km² of inhabited area

POPULATION CHARACTERISTICS (1971)

Crude Birth Rate (per 1,000)	35.1
Crude Death Rate (per 1,000)	13.2
Infant Mortality (per 1,000 live births)	119.0 (1970)

HEALTH (1973)

Population per physician	1,700
Population per hospital bed	435

NUTRITION

Calorie intake as % of requirements:	103.0% (1970)
Per capita protein intake (grammes):	83.5% (1969)

EDUCATION

Adult literacy rate:	40% (1971)
Primary school enrollment:	70% (1970)

GNP PER CAPITA IN 1972: US$240

GROSS NATIONAL PRODUCT IN 1973

	US $ Mln.	%
GNP at Market Prices	9,281	100.0
Gross Domestic Investment	1,143	12.3
Gross National Savings	593 1/	6.4 1/
Current Account Balance	-549 1/	-5.9 1/
Exports of Goods, NFS	1,329	14.3
Imports of Goods, NFS	1,830	19.7

ANNUAL RATE OF GROWTH (%, constant prices)

	1960-65	1965-70	1973 3/
GNP at Market Prices	6.3	2.3	3.9 4/
Gross Domestic Investment	-14.9	-3.9	6.7
Gross National Savings	-	-	-
Current Account Balance	-	-	-
Exports of Goods, NFS	5.7	- 2/	14.7
Imports of Goods, NFS	11.2	- 2/	10.2

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1973

	Value Added		Employment		Value Added Per Worker	
	US$ Mln.	%	Mln.	%	US $	%
Agriculture	2,607	31	4.18	47	624	67
Industry	1,806	22	1.16	13	1,557	167
Services	2,335	28	1.97	22	1,185	127
Other	1,617	19	1.67	18	968	104
Total/Average	8,365	100	8.98	100	932	100

GOVERNMENT FINANCE

	Central/Federal Government		
	(US $ Mln.)	% of GDP	
	1973 (Est.)	1973	1969-71
Current Receipts	1,892	20.3	21.3
Current Expenditure	1,944	20.8	20.7
Current Surplus (excluding Emergency Fund)	-52	-0.5	0.6
Emergency Fund	1,027	11.0	9.2
Capital Expenditures	979	10.5	11.7
External Assistance (net)	76	.1	-0.4

MONEY, CREDIT AND PRICES

	1968/69	1969/70	1971	1972	1973
		(millions LE outstanding end-period)			
Money and Quasi Money	1,005	1,106	1,166	1,345	1,637
Bank Credit to Public Sector	1,028	1,133	1,038	1,164	1,336
Bank Credit to Private Sector	435	456	549	553	560
		(Percentages or Index Numbers)			
Money and Quasi Money as % of GDP	37.3	37.2	..	39.7	44.9
Consumer Price Index (1966/67 = 100) 5/	106.1	109.2	113.6	116.3	119.5
Annual percentage changes in:					
Consumer Price Index	4.0	2.9	4.0	2.4	2.8
Bank Credit to Public Sector	5.2	10.2	..	12.1	14.8
Bank Credit to Private Sector	7.4	4.9	..	0.7	1.3

1/ Excluding unrequited transfer receipts.
2/ Accurate account price growth rate are not available due to insufficient information concerning trade deflators. Moreover, the export growth rate for this period is biased by the drop in Suez revenues after 1966/67. Between [illegible], exports (in current prices) rose on the average by 12.5 percent annually, imports by 10.6 percent annually.
3/ All figures except for GDP at 1972 factor cost.
4/ Figure relates to GDP at factor cost.
5/ Due to non-availability of data on calendar year basis for 1971, 1972 and 1973, data refers to "fiscal" years [illegible], [illegible] and 1972/73.

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BALANCE OF PAYMENTS

	1971	1972	1973
		(Million US $)	
Exports of Goods	850	913	1,014
Imports of Goods	1,244	1,386	1,593
Trade Balance (deficit = -)	-394	-473	-579
Services, net	-92	7	7
Transfers, net	279	295	649
Balance on Current Account	-207	-171	77
Net MLT Borrowing			
Disbursements	(297)	(358)	(328)
Amortization	(150)	(213)	(333)
Subtotal	147	145	-5
Other Capital (net)	-93	-5	-86
Overall Balance (deficit -)	-153	-31	-14
Reserve Position, end of			
Gross Reserves	289	263	551
Net Reserves	-722	-697	-613

MERCHANDISE EXPORTS (AVERAGE 1972-1973)

	US $ Mln.	%
Raw cotton	432	47.2
Rice	50	5.4
Petroleum, net	.	.
Manufactured goods	343	37.5
All other commodities	90	9.9
Total	915	100.0

EXTERNAL DEBT, DECEMBER 31, 1973

	US $ Mln.
Public Debt Outstanding & Disbursed	2139
(of which Medium and Long-Term)	(1698)

DEBT SERVICE RATIO FOR 1973[1/]

	%
Public Debt Outstanding & Disbursed	28.7

RATE OF EXCHANGE

Through - January 1973	From February 1973
US$1.00 = ME 0.435	US$1.00 = ME 0.390
1.00 = US $2.30	1.00 = US $2.56

IBRD/IDA LENDING, JULY 31, 1974 (Million US $):

	IBRD	IDA
Outstanding and Disbursed	2.7	30.9
Undisbursed	-	100.0
Outstanding Including Undisbursed	2.7	130.9

1/ Ratio of Debt Service to Exports of Goods and Non-Factor Services.

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Annex 2. Agricultural and Industrial Sectors [1/]

1. Agriculture

Agriculture, the most dominant sector in the economy contributes about 30 percent to GDP and provides about 50 percent of the total employment and, including processed agricultural products, over 50 percent of total export revenues. The agricultural growth rate during the decade prior to the 1967 hostilities averaged about 3-3.5 percent per annum; it has since decreased to 2-2.5 percent. Agricultural output is dominated by field crops, which are estimated at more than half of the total value of the agricultural production consisting mainly of cotton, maize, wheat, rice and berseem. These crops cover some three quarters of the total arable land. Fruits and vegetables account for less than one fifth of the total output, while animal production accounts for about one quarter.

Yields for cotton and rice are high by international standards, but others are relatively low. Cotton and processed cotton products are the major export items and they provide over 65 percent of national export revenue; the next largest export crop, rice, accounts for 6-7 percent of export earnings. The completion of the Aswan Dam permitted emphasis on expansion and led to a massive new reclamation program totalling some 910,000 feddans (945,000 acres) of land by early 1973. The most significant achievement in the sixties has been the increase in yield of maize by the introduction of perennial irrigation in Upper Egypt and early planting.

Despite the increase in acreage, cotton production has stabilized at about 1.4 million tons, but for a slight decline in 1973, mainly caused by bad weather during harvest. One of the most significant developments in output performance is the increase achieved in wheat yields in recent years mainly through the introduction of a new variety. The total wheat output grew from 1.50 million tons in 1970 to 1.84 million tons in 1973. The area planted with new varieties in 1974 is estimated at 685,000 feddans, as compared with 67,000 feddans (out of the total wheat area of 1,248,000 feddans) in 1973. The 1974 wheat output is expected to reach over 2.1 million tons. Introduction of a new variety of sugarcane has also been initiated. Expansion in the livestock subsector is limited by the shortage of feed, despite the rapidly growing demand for meat. The Government's poultry production drive has not been as successful as planned, although the 1974 output is expected to be more than double the 1971-72 output of 12 million chickens.

The basic picture of Egypt's agricultural trade, dominated by cotton exports and wheat imports, has not changed, except that a sharp

1/ Source: IBRD

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increase in international prices of certain commodities resulted in an adverse change in Egypt's agricultural trade balance in value terms. The cotton export/wheat import dominance of the agricultural trade structure is unlikely to change for some time because of the growing population and the attendant increases in food consumption. Since the 1970-71 season, annual cotton exports stabilized at about 0.95 million tons, except for a slight decline in the 1971-72 season. However, during the 1973-74 season, cotton export revenues doubled over the previous season to some $800 million, solely due to price increases. On the import side, the average annual wheat and flour import since 1972 has been about 2.8 million tons of wheat equivalent. However, because of increased wheat prices between 1972 and 1973, the wheat import bill tripled to over $500 million, and is expected to remain at this high level for 1974. Recently there has been a noticeable change of direction in Egypt's trade, away from the USSR and some East European countries, reflected in part in the increasing cotton sales to convertible currency countries.

One important feature of the agriculture sector in Egypt over the last decade, has been a high degree of central control. These controls were designed to organize agriculture so as to satisfy the various, and sometimes conflicting, demands placed on the sector, such as generation of foreign exchange revenue for the economy as a whole (including for financing industrial growth) and provision of essential food items to consumers at low and stable prices, while ensuring certain levels of agricultural income and employment. Although policy measures adopted in the sixties continued, the Government has not prepared a comprehensive plan for the development of agriculture since 1967.

There are indications that the Government is willing to reexamine the basic philosophy which has for so long determined the role and pattern of development of the agricultural sector. It is widely accepted that higher farmgate prices for food grains and cotton are needed, not only to increase farm production incentives, but also in the interests of social equity. In 1974 farm prices for cotton, wheat, rice and sugarcane were increased by an average of about 95 percent over the 1973 levels, which seem to be a reflection of this belief. A growing emphasis is also being placed on decentralization of public sector agricultural organizations, as well as on limiting the creation of state farms to areas where such farms have a clear advantage in terms of size of investment and managerial efficiency.

The Government is considering a two-stage agricultural policy at this time: immediate measures and longer-term strategy. The immediate task, during the next two years, would be to identify those

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critical agricultural input and investment needs which would yield increased production from existing acreages of those commodities which would have the highest net foreign exchange impact on the economy (either through export earnings or import substitution). They could typically include increased application of inputs such as fertilizer crops, which have high output response. They could also include the provision of spare parts and agricultural equipment. For the longer term, the Government has not yet pronounced an explicit strategy to be followed, except that it expects to maintain the current level of cotton exports, and, by increasing productivity in cotton growing, to free some land for additional wheat production to maintain a positive agricultural trade balance.

Considerable increase in agricultural output could be realized in the short-term, with attractive economic returns, through a higher level of imported inputs particularly fertilizer for maize and wheat, pesticides and insecticides, spare parts for tractors, irrigation pumps, implements and farm machinery.

Over the longer run, Egypt will continue to require considerable supplies of all types of agricultural machinery for which orders would have to be placed now for deliveries from the U.S. twelve to eighteen months from now.

2. Industry

The industrial sector accounts for over 20 percent of the GDP, 35 percent of total exports, and about 13 percent of total employment. Thus, it ranks second after agriculture in its importance in the economy. However, industry is expected to play the leading role in Egypt's future development because of serious limitations on the expansion of the arable land. As a result of the nationalization of industry in the early 1960s, most of the large- and medium-scale enterprises are in the public sector. The public sector consists of approximately 200 enterprises, that account for 75 percent of the value added in industry and for employment of over 500,000 workers. Of these, 123 companies belonging to the Ministry of Industry cover the main subsectors and are managed through six "General Organizations: food processing; textiles; chemicals; engineering; building materials; and metallurgical." Most of the public sector companies have over 500 workers and, indeed, average 4,100 workers per company. The private sector has about 450,000 employees scattered over some 150,000 establishments, of which only 4,000 are considered to be factory-type operations.

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The growth rate in the industrial sector in 1971-72 fell to 5.8 percent in current prices and to 2.9 percent in calendar 1973. In real terms, aggregate industrial output in calendar 1973 did not increase at all and it seems likely that 1974 will also show no growth in real output. The primary reason for this is the severe shortage of foreign exchange for import of raw materials, intermediate goods, spare parts and necessary equipment required to utilize existing productive capacity more fully. For 1974, utilization of capacity in industry was estimated at some 65 percent. If the foreign exchange constraint is removed, it is estimated that output with the existing industrial capacity and operating practices (viz. shifts) could be increased by as much as 32 percent and permit close to full utilization. This implies an increase in industrial output valued at nearly £E 600 million. The increases in output could potentially be realized in 1975, within a short period.

In 1973, about 9 percent of industrial output (from both the public and private sector) was exported; the target for 1974 is the same; however with the foreign exchange presently available, this figure could drop to 5 percent. It should also be pointed out that in 1973, 64 percent of manufactured exports went to East European countries under trade agreements (the "clearing" area) and hence did not produce freely-usable foreign exchange. Now, however, the Government is shifting the direction of trade towards convertible currency areas, and a progressively increasing share of exports are expected to be sold in convertible currency markets.

The 1973-77 investment plan for public sector manufacturing, prepared in 1972, set a target of investment of £E 1,520 million ($3.496 million) for the five years. Actual investments however fell short of the target; in 1973, investment amounted to £E 70 million and are budgeted at £E 78 million for 1974. The shortfall between expectations and realization is mainly attributable to the lack of foreign exchange. As a result, more restrictive criteria have had to be applied to determine priority investment. This has, in general, led to favoring the completion of on-going projects, a postponement of new ones, and some neglect of maintenance and replacement of equipment in the key industrial subsectors.

The total amount and distribution of capacity/underutilization among various subsectors of industry were evaluated in two Government studies, one in July 1973 to guide budget allocations later in the year, and a second in February 1974 which was undertaken because of a rapidly deteriorating position. The distribution of potentially

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idle capacity in 1974 varied among public industrial subsectors as shown below:

Target Production, Idle Capacity, and Imports

Industry Group	(1) Target Production	(2) Idle Capacity	(3) (Additional) Imports Needed	(4) (3)/(2) (%)
	(LE million)			
Food Processing	453	133	13	10
Textiles	440	102	9	9
Chemicals	135	57	19	33
Engineering	134	65	13	20
Metallurgical	117	60	18	30
Building Materials	59	14	3	21
Miscellaneous	-	-	2	-
Total	1,338	431	77	13

Substantial increases in foreign exchange will be needed to finance the equipment and spares required to activate idle industrial capacity. Net import requirements are the difference between the levels required to meet the production targets, which the Ministry of Industry determines annually as a realistic maximum, and the amounts already provided under the budget. The physical volume of imports was translated into value terms by determining the import prices of goods in February 1974. Thus the total foreign exchange required for import of raw materials and intermediate goods was estimated at LE 238 million, to support the 1974 production target of LE 1,813 million; this figure includes the private sector's target production level of LE 475 million. The Foreign Exchange Budget (FEB) provides LE 161 million, leaving net import requirements of LE 77 million ($199 million equivalent). The average import coefficient is 13 percent (i.e. LE 238 divided by LE 1,813). On that basis the output value of the idle capacity is estimated at LE 590 million ($1,510 million equivalent), or about 32 percent of output capacity. In sharp contrast to 1974, the July 1973 report estimated idle capacity in that year as 14 percent.

The worsening shortage of foreign exchange resulting from the tight balance of payments position, exacerbated by price increases and the breakdown in clearing area deliveries is the major reason for severe underutilization of capacity in industry. As a result, the levels of available inventories of needed imports have been declining below

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acceptable levels at the plants. Some plants may have to close down temporarily within a few months, or at least may have to close down key production lines, while work in process in other areas accumulates. These effects are likely to be felt throughout industry, but may become most severe in chemicals and metallurgy.

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Annex 3. Commodity Composition of Imports, 1968-73

(in LE millions)

	1968	1969	1970	1971	1972	1973
Fuels	19.6	20.2	28.2	28.0	21.1	7.0
Crude petroleum 1/	8.6	6.7	7.2	13.0	11.1	3.6
Petroleum products 1/	7.7	9.7	17.4	11.0	9.7	3.1
Coke and coal	5.3	3.8	3.6	4.0	0.3	0.3
Primary commodities	63.5	53.8	45.8	79.9	66.6	80.6
Wheat	41.4	31.9	20.6	58.6	41.8	53.1
Tobacco	7.0	7.4	7.4	8.0	9.8	11.0
Wool	2.4	4.5	4.9	3.2	5.2	4.4
Jute	2.9	2.5	2.3	1.9	1.2	1.1
Sesame	1.1	1.0	3.3	1.1	1.7	1.5
Maize	3.5	1.2	1.9	1.1	2.4	2.5
Hides and skins	0.8	1.2	2.3	2.7	1.3	2.7
Other	4.4	4.1	3.1	3.3	3.2	2.3
Intermediate commodities	82.4	89.6	128.6	150.0	169.5	131.8
Animal fats and vegetable oils	12.5	11.6	16.3	23.0	30.7	16.5
Chemicals, organic and inorganic	10.1	14.1	15.6	20.3	23.4	19.5
Unwrought, wasts and scrap metals 2/	6.0	4.9	7.0	9.9	6.3	4.5
Iron and steel products 3/	11.5	11.2	19.2	21.1	23.5	20.3
Dyestuffs and coloring 4/	4.0	6.2	6.1	5.2	5.2	3.9
Wood 5/	2.5	3.0	11.0	10.3	21.7	11.3
Paper and paper products 6/	10.6	9.7	10.3	11.1	11.8	10.2
Fertilizers	7.0	5.1	3.6	5.7	3.8	9.1
Electrical products 7/	2.1	2.1	2.2	3.0	3.1	2.6
Rubber and rubber products	2.1	2.6	2.6	4.4	5.8	4.5
Oils and wax	2.2	2.5	4.2	3.0	4.8	2.2
Wadding and textile fabrics	2.1	2.7	2.9	3.6	2.9	2.9
Pig and cast iron	2.0	1.2	1.4	1.8	2.9	1.3
Other	7.9	12.7	25.9	27.6	23.6	23.0
Capital commodities	64.9	58.1	79.9	81.7	77.8	79.2
Automobiles and parts	14.6	17.1	20.7	25.8	27.1	19.3
Other transportation 8/	15.1	9.8	10.2	7.9	6.9	15.2
Textile machinery 9/	2.7	5.1	10.6	8.9	10.9	11.5
Electrical products 10/	9.1	6.2	8.5	8.9	7.8	8.2
Liquid and air pumps	4.0	3.5	3.4	2.5	3.1	2.7
Other	19.4	16.4	26.5	26.7	22.0	20.8
Consumer commodities	59.3	55.5	59.5	60.4	55.8	62.5
Durables	4.0	6.7	10.8	15.2	9.2	11.7
Automobiles	(1.7)	(2.5)	(5.3)	(8.3)	(3.3)	(6.2)
Radio and television	(0.5)	(2.0)	(2.5)	(3.4)	(2.8)	(2.4)
Other	(1.8)	(2.2)	(3.0)	(3.5)	(3.1)	(3.1)
Nondurables	55.3	48.8	48.7	45.2	46.6	50.8
Wheat flour	(17.9)	(6.7)	(8.0)	(11.0)	(7.6)	(10.6)
Tea	(6.0)	(1.7)	(10.4)	(4.4)	(5.2)	(5.3)
Coffee and cocoa 11/	(1.1)	(2.0)	(1.1)	(1.8)	(0.3)	(0.0)
Meat, fish and poultry 12/	(2.2)	(3.3)	(4.6)	(5.5)	(6.9)	(5.7)
Medicines	(3.0)	(3.2)	(4.1)	(2.7)	(3.6)	(2.7)
Disinfectants and insecticides	(3.8)	(6.7)	(6.4)	(7.3)	(10.2)	(12.4)
Jute products 13/	(1.7)	(2.1)	(4.0)	(2.8)	(2.3)	(4.2)
Lentils	(1.2)	(1.8)	(1.8)	(0.5)	(1.0)	(0.7)
Other	(18.4)	(21.3)	(8.3)	(9.4)	(9.3)	(8.9)
Total	289.6	277.3	342.0	399.9	390.8	361.1

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Sources: Central Agency for Public Mobilization and Statistics, Monthly Bulletin of Foreign Trade, June 1970 and August 1972, and data supplied to the mission (based on customs statistics; the table above is adjusted for the different commodity classifications used in the Bulletins).

1/ Petroleum imports as reported by the Egyptian General Petroleum Corporation differ substantially from the customs statistics. They are as follows:

	1968	1969	1970	1971	1972	1973
	(In millions of Egyptian pounds)					
Crude petroleum	--	10.6	13.6	17.8	19.0	16.9
Petroleum products	--	28.0	30.4	30.3	22.4	19.0
Total	30.1	38.6	44.0	48.1	41.4	35.9

2/ Includes iron and steel, copper, aluminum lead, zinc and tin, and unroasted iron pyrites.

3/ Includes billets, rods, bars, angles and shapes, hoops, strips, sheets, plates, noninsulated wire, alloy and high carbon steel, seamless pipes and tubes, tube and pipe fittings, casks and containers, cylinders, chains and parts, nails and others.

4/ Includes tanning extracts of vegetable oils, synthetic organic and other dyestuffs, pigments, varnishes, enamels (etc.) and printing ink.

5/ Includes wood squared and lengthwise, plywood, cork and products.

6/ Includes all paper and papermaking materials except thin paper, paperboard, etc. for ordinary consumption.

7/ Includes insulated wire, electrical parts and carbon articles for electrical use, electrical starting and ignition equipment and insulators.

8/ Includes locomotives, aircraft, vessels and nonmotorized vehicles and parts thereof (excludes private passenger vehicles).

9/ Includes machinery for manmade textiles, weaving, knitting and sewing machines (not for private use) and textile dyeing, drying and washing machines.

10/ Generators (etc.), rectifiers, primary cells and batteries, electrical furnaces and ovens, heating resistors, wireless accessories, traffic control equipment, etc.

11/ Cocoa beans included in primary commodities' (raw materials) class in the Monthly Bulletins for 1970 and 1971.

12/ Includes chilled or frozen meat and fish, meat and fish preparations, dairy produce, eggs and honey.

13/ Includes sacks, bags and fabrics of jute.

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Annex 4. Imports by Country, 1968-73

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(in LE millions)[1/]

	1968	1969	1970	1971	1972	1973
Convertible currency areas	129.0	139.7	163.7	233.6	216.7	215.6
Arab League countries	2.4	2.3	2.3	14.3	11.3	9.6
Lebanon	0.9	1.1	3.9	3.5	9.2	7.8
Libyan Arab Republic	0.5	0.1	0.1	3.6	0.4	1.1
Saudi Arabia	0.4	0.1	0.6	0.5	0.4	0.2
Kuwait	0.5	1.0	0.7	1.7	1.3	0.5
Bahrein	--	--	--	--	--	--
Western Europe	92.8	95.8	115.4	119.7	118.8	122.0
Germany, Federal Republic of	19.1	19.3	26.8	28.1	25.8	20.3
Italy	14.5	16.3	22.6	22.2	13.9	17.0
United Kingdom	8.0	12.1	13.5	14.1	15.4	13.6
France	33.9	28.5	25.3	22.7	28.5	30.7
Switzerland	4.2	6.5	7.3	10.4	8.1	6.1
Belgium	1.0	1.3	1.6	1.8	2.0	4.0
Netherlands	4.9	5.2	6.2	5.5	8.6	10.9
Sweden	2.7	3.2	4.3	4.6	3.7	1.5
Yugoslavia[2/]	--	--	3.0	6.2	1.7	2.2
Other[3/]	4.4	3.4	5.0	7.6	8.1	4.7
Asia (non-Arab)	8.9	8.9	9.1	8.9	6.9	7.2
Japan	4.5	2.5	5.2	5.1	4.8	5.5
Other	4.4	6.4	3.9	3.8	2.1	2.3
Africa (non-Arab)	4.2	2.9	3.4	3.9	2.8	3.5
Western Hemisphere	17.7	21.1	23.6	38.0	36.9	46.5
United States	16.2	19.6	20.9	22.2	33.9	43.2
Canada	0.5	0.9	1.5	13.5	0.9	0.2
Other	1.0	0.6	1.2	2.3	2.1	1.1
Oceania and other[4/]	3.0	5.7	6.9	38.8	40.6	26.2
Bilateral agreement areas[5/]	160.5	137.9	178.5	176.8	174.1	145.5
Arab League countries	9.8	11.2	15.5	13.8	23.5	14.3
Sudan	2.7	3.6	7.5	4.5	9.6	6.8
Syria	2.3	2.4	3.7	3.1	2.9	2.1
Iraq	1.6	3.0	2.5	4.3	6.1	4.3
Jordan	--	0.1	0.1	0.3	1.0	0.4
Algeria	3.1	1.7	1.2	0.9	3.0	0.4
Other	0.1	0.4	0.5	0.7	2.6	0.5
Western Europe	17.1	16.3	16.6	13.7	12.9	14.3
Spain	13.0	13.3	12.2	8.1	4.1	3.5
Other[6/]	4.1	3.0	4.4	5.6	8.8	10.8
Asia (non-Arab)	20.9	23.5	39.0	30.7	26.5	21.8
India	11.3	16.1	27.2	19.2	12.8	10.0
Mainland China	8.9	5.6	6.7	7.7	11.2	10.2
Sri Lanka	0.6	1.5	4.5	3.1	2.0	1.2
Other	0.1	0.3	0.6	0.7	0.5	0.4
Africa (non-Arab)[8/]	0.6	1.2	1.2	0.6	0.8	0.6
Western Hemisphere (Cuba)	0.7	0.3	0.1	0.1	--	--
Eastern Europe	111.4	87.4	106.1	117.9	110.7	94.5
U.S.S.R.	46.2	37.6	41.5	54.0	51.9	25.6
Eastern Germany	14.1	12.2	15.5	15.8	16.5	18.0
Czechoslovakia	10.4	8.9	13.6	17.7	13.0	11.9
Poland	7.6	6.0	9.9	8.6	6.6	9.3
Romania	18.6	5.5	11.3	9.9	12.9	16.4
Hungary	2.5	4.8	4.7	5.5	4.6	5.7
Bulgaria	4.9	4.0	3.5	5.1	5.0	7.5
Yugoslavia[2/]	7.0	6.2	5.9	--	--	--
Other	0.1	0.2	0.2	1.3	0.2	0.1
Grand total	289.6	277.3	342.0	399.9	390.8	361.1

Sources: Central Agency for Public Mobilization and Statistics, Monthly Bulletin of Foreign Trade, June 1970 and August 1972, and data provided to the mission.

1/ A dash (--) indicates that the figure is zero or less than LE 0.1 million.
2/ Trade with Yugoslavia is in convertible currencies since July 1970.
3/ Includes Finland and Cyprus which are under Eastern Europe at the source cited.
4/ Data refer mainly to Australia ; includes also New Zealand and sundry imports such as sales to ships and aeroplanes, passengers' dutiable luggage, and other.
5/ Bilateral trade and payments agreement **countries.**
6/ Includes Turkey and Greece which are included under Eastern Europe at the source cited.
7/ Includes North Vietnam, North Korea and Mongolia.
8/ Includes Somalia, Mali, Ghana and Guinea.

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Annex 5. The Parallel Foreign Exchange Market [1/]

1. The parallel market was created in September 1973 by the Government of Egypt in order to encourage the inflow of free foreign currency resources and to improve the process of allocation of foreign exchange by levying a premium of 50 percent above the official rate for buying and 55 percent for selling free currencies.

Sources of Funds

2. The major sources of funds for the parallel market, are: (i) remittances by Egyptians working abroad (expected to be around 50 percent of total in 1974); (ii) receipts from foreign tourists (about 35 percent of total); (iii) exports of non-traditional items (i.e. excluding cotton, yarn, textiles, rice, fresh onions, garlic, potatoes, cement, and re-exports) both from public and private sector; (iv) 50 percent of yarn and textile exports in excess of official export targets; (v) transfers by Arabs and other foreign nationals, except for those related to investments.

3. The major usages are: (i) imports of industrial raw materials and intermediary goods, essentially for the private sector at least in 1974 (forecast to total 70 percent of all uses); (ii) import of tourism-related goods and materials; (iii) other invisibles, including commercial and financial expenses, patent fees, royalties, etc. but excluding shipping, insurance and government account transactions.

Organization and Procedures

4. The primary responsibility for policy-decision, recommending changes, and reviewing the operations of the parallel market lies with the Parallel Market Committee, which works under the general direction of the Higher Committee for Planning of Foreign Trade.

5. The day-to-day banking operations concerning the parallel market are supervised by the Central Bank, as in the case of all foreign exchange transactions. The Central Bank has designated four commercial banks for handling all banking transactions in this field: Bank Misr, Bank of Alexandria, Banque du Caire and National Bank.

6. The government has nominated the Misr Import and Export Company for handling all applications, or public sector, concerning imports through the parallel market. All special cell, Commercial Agency for Parallel Market Operations (CAPMO), in the Misr company created to perfom this function, works under the general directions given by the Parallel Market Committee.

Import Procedures

7. Private Sector. The procedures applicable to the private sector have recently been streamlined to expedite the processing of applications. It is hoped that the time between the submission of application and opening

1/ [illegible] IBRD

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of letter of credit will be reduced from 2-3 months to 15 days. These measures are also designed to increase the demand on parallel market resources.

8. The major reform concerns the role of the Industrial Control Board. Now the Board prepares a list of authorized imports for each private sector enterprise at the beginning of the year. This list is sent to the Misr Company. As a result, the Misr Company no longer refers individual import applications to the Ministry of Industry. Instead, it directly approves applications by referring to the lists of approved imports. Other steps in the procedure remain the same.

9. So far, private enterprises submit their import requests twice a year. To simplify the procedures, it is planned that in future enterprises submit their applications for annual import needs at one time. This will reduce the red tape and permit the enterprises to plan their production on an annual basis.

10. Public Sector. Public sector applications are approved as a special case by a special Determination Committee when the allocations under the Foreign Exchange Budget are considered inadequate and the imports of inputs through the parallel market are not expected to adversely affect the end product prices to the consumer. Thus the Determination Committee not only studies the prices (as in the case of the private sector) but also determines the desirability of the import.

Recent Changes in the Parallel Market

11. On June 1, 1974, the effective rate in the parallel market became subject to change by a committee established for this purpose. However, the Egyptian authorities have indicated that the rate will not be reduced from its present level in the near future. In addition a substantially larger list of commodities was established which could be imported through the parallel market. The commodities are mainly for "productive" purposes but include items like frozen and canned meat and television sets of sizes not produced in Egypt.

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Annex 6. Foreign Exchange Allocation and Imports Licensing System [1]

Foreign Exchange Budget: Allocation Process

1. For the past few years, the formulation of the FEB has been the basic mechanism through which foreign exchange allocations are made to enterprises.

2. Around June of the preceding fiscal year, each public sector enterprise prepares estimates for its import need for the succeeding year; the estimates are broken down by free currency and clearing account needs. Request from the enterprises are reviewed by the concerned General Organization, and then forwarded to the Ministry. The Ministry, in turn, discusses these estimates with the General Organization in light of the preceding year's performance, production targets for the next year, actual inventory levels, prices, relative priorities, etc., and then submits its request to the Ministry of Foreign Trade. The allocations of foreign exchange by this Ministry are approved by the Cabinet.

3. The allocations to the Ministry are then allocated among organizations and/or commodities by the Minister concerned. The General Organization concerned in turn allocates funds to individual enterprises. Each General Organization has its own criteria for allocating foreign exchange amongst enterprises. For example, the General Organization for Textiles gives higher priority to the import of raw materials over import of spare parts and accessories in order to keep its factories running in this period of severe foreign exchange shortages. It also uses input/output coefficients to determine the areas/enterprises which can maximize increases in production with the limited allocated resources.

4. For the clearing account imports, the allocations are released for the full year at the beginning of the year. However, for free currency imports, allocations are released every quarter. The FEB is amended every quarter according to the latest developments in Egypt's balance of payments situation and the changes necessitated by variations in world prices of commodities (e.g. food) which must be imported in pre-determined quantities.

Financing Recurrent Imports for Private Sector

5. Since the creation of parallel market, no provision for recurrent imports needs of the private sector is made in the FEB, but the availability of foreign exchange to the private sector has increased substantially. Private enterprises now have two main sources for financing their imports: (i) proceeds from own exports, (ii) allocations from the parallel market. Private enterprises are authorized to use their export earnings for importing approved raw material, spares and equipment within six months of receipt of their export

[1] Source: IBRD

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earnings. After this period, an unused export earnings are sold to the parallel market (i.e., at 50 percent premium over the official exchange rate). Private enterprises, both exporters and non-exporters, are in a position to purchase foreign exchange in the parallel market for importing approved materials.

6. Before the beginning of a fiscal year, private sector enterprise file their import requests to the Industrial Control Board in the Ministry of Industry. After reviewing the validity of their request, the Board consolidates the total import needs of the private sector and submits them to the Ministry. The Ministry reviews this request and, as in the case of General Organizations, makes its own recommendations to the Ministry of Foreign Trade. On receipt of its total allocation from the Cabinet, the Ministry decides the allocation for the private sector — both for free currency and clearing agreement imports. Within this allocation, the Import Control Board then determines the quantity of various commodities to be imported by the individual firms during the year. The list is further broken down by free currency and clearing agreement imports. The former list is sent to the Determination Committe for the private sector while the Board itself determines imports authorized for the full year from clearing agreement countries.

Import Procedures

7. Since September 1973, the decision-making process for granting import licenses has been decentralized. Instead of a central import licensing office, imports are now authorized at the sector level: coordination between different sectors at the national level is achieved primarily through the FEB.

8. Determination Committee are the key organizational units in the current import procedures. Presently, there are 23 such committees attached to various ministries. Under the changes now being considered, their number will increase to 46, each attached to a General Organization.

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ANNEX 7

AID 1240-2 (5-74)

AID-DLC/P-2067
December 1974

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. *FAA § 103; § 104; § 105; § 106; § 107. Is loan being made*

The loan is being made under the authority of the Middle East Assistance section of the FAAct of 1974 and chapter 4 of part two of the act and is intended (1) to support the general economy of Egypt by assisting the GOE in its programs to utilize the full productive capacity of existing industrial enterprises and (2) to provide agricultural inputs to increase agricultural production.

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a, for agriculture, rural development or nutrition;	Not applicable.
b. for population planning or health;	Not applicable.
c. for education, public administration; or human resources development;	Not applicable.
d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;	Not applicable.

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e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.	Not applicable.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA §§201 (b) (5), (7) & (8); § 208

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	There are indications that the GOE is willing to reexamine its basic agricultural philosophy. A growing emphasis is also being placed on decentralization of public sector agricultural organizations, as well as on limiting the creation of state farms to areas where such farms have a clear advantage in terms of efficiency. The increased availability of external monetary resources should result in increases in food production and eventually improved means of food storage and distribution.

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

Efforts to develop an "open door" policy for private investment, both foreign and domestic, including establishment of a new Agency for Arab and International Cooperation to furnish centralized supervision of foreign investment and relations with international financial operations, reactivation of the Investment Guaranty Agreement with the United States and development of a new foreign investment law containing major new investment incentives. Law No. 43 of 1974 concerning Arab and Foreign Capital Investment Free Zones covers a broad range of activities giving special priority to projects designed to generate exports, encourage tourism or reduce the need to import basic commodities. The investment incentives available to foreign and domestic investors compare favorably to those available from other developing countries.

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

New economic programs will have a beneficial impact upon thepublic's role in the developmental process by encouraging development of industrial and agricultural production and developing broad-based programs such as promoting tourism which, taken together, inherently require increased public participation. The projected foreign exchange earnings from such programs should soon provide an investment base for the rest of the economy.

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

Efforts to marshall available budgeting resources to encourage increased industrial and agricultural production are underway which in 1973 included reforms in Egypt's trade and foreign exchange control system and consultation with the IMF and IBRD to strengthen Egypt's efforts to tap external sources of foreign exchange for future development. The GOE has expressed its intention to increase foreign exchange allocations for imports in order to increase industrial production, which in turn will result in increased tax revenues which will have a significant impact on the economy when devoted to reconstruction and development activities. (b) Egypt is not diverting its resources for unnecessary military expenditures, nor is it engaged in a course of conduct of intervention in the affairs of other free and independent nations.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)

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

Egypt has embarked on a program which emphasizes reconstruction and revitalization of industry which should increase domestic tax revenues especially from industry. A land reform program in the early 1960's remade the agricultural economy in the direction of aiding the poorest rural population. During the years of Middle East conflict the thrust of Egypt's domestic policies was toward economic, political and social stability and little reform was accomplished; however, with the end of the October war, the GOE has evidenced a desire to move ahead in these areas

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(6) Willing to contribute funds to the project or program.	Egypt is willing to contribute funds and other resources to the contemplated commodity import program in order to assure the success thereof.
(7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	Egypt is seeking to lessen tensions between itself and other Middle East nations and in embarking upon a broad program to increase industrial and agricultural production thereby improving the quality of life in all sectors of the economy, is responding to the vital economic, political and social concerns of its people and is clearly embarking upon a course of effective self-help measures in this regard.
B. Are above factors taken into account in the furnishing of the subject assistance?	Each of the above factors has been taken into account in developing the plan for the furnishing of the contemplated assistance.

Treatment of U.S. Citizens and firms.

3. *FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*	None of the known claims of any U.S. citizen asserted against the COE meet the criteria of Section 620(c). In any event, Egypt has now agreed to participate in proceedings of a Joint Commission (USG-GOE) which will consider outstanding debts of Egypt to U.S. citizens and will seek to negotiate settlement of such debts.
4. *FAA § 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?*	Egypt in the past has taken action which without appropriate action on their part would call for institution of Section 620(e) sanction. However, Egypt is now participating in proceedings of a Joint Commission especially established to consider and negotiate claims arising out of past conduct of Egypt. The Secretary of State has determined that the Egypt's agreement to establish a Joint Committee to discuss compensation of American nationals constitutes appropriate steps to discharge Egypt's obligations under Section 620(e). See 3 above.

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5. *FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*	No instance of any such seizure or imposition of such penalty or sanction is now known.
a. has any deduction required by Fishermen's Protective Act been made?	Not applicable.
b. has complete denial of assistance been considered by A.I.D. Administrator?	Not applicable.

Relations with U.S. Government and Other Nations

6. *FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*	No instance of any such present course of conduct is known.

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FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the International Communist movement?	The Secretary of State has determined that Egypt is not controlled by the international communist movement.

5. FAA § 620(o); Fishermen's Protective Act, § 5. If country has seized, or imposed any penalty or sanction against U.S. fishing vessels or fishing production enterprise within its waters, with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

No instance of any such seizure or imposition of such penalty or sanction has been known. The contemplated program is not to assist the conduct or operation of a productive enterprise within the meaning of Section 620(d).

b. has any deduction required by Fishermen's Protective Act been made?

Not applicable.

FAA § 620(f). Is recipient country a Communist country?

The recipient country is not a communist country.

b. has complete denial of assistance been considered by A.I.D. Administrator?

Not applicable.

FAA § 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 sub-

The President has not determined that the recipient country is involved in such conduct.

Relations with Recipient Government and Other Nations

5. FAA § 620(j). Has the recipient country furnished or permitted ships or aircraft under its flag to carry cargoes to or from Cuba?

No instance of any such present course of conduct is known.

The President, in accordance with the requirement of Section 620(j), has considered terminating assistance to Egypt and has determined that no sufficient reason exists not to furnish the contemplated assistance. There is no reason to believe that Egypt will fail to take adequate measures to prevent the recurrence of mob action which may result in damage or destruction to United States property within Egypt. Additionally negotiations pertaining to settlement of old claims pertaining to damage of U.S.G. property are due to take place in the near future at the meeting of the Joint Commission. See 3 and 4 above

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12. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*	Egypt has recently reactivated its Investment Guaranty Agreement with the United States.
13. FAA § 620(n). *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?*	The recipient country is not known to be engaged in such a course of conduct.
14. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*	Egypt is not in default on interest or principal of any A.I.D. loan to the country.
15. FAA § 620(t). *Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*	Egypt severed diplomatic relations with the United States in 1967. Diplomatic relations have now been resumed . The bilateral agreements between the U.S. and the GOE have never been revoked and thus remain in full force and effect.
16. FAA § 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 A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?*	The country has paid all of its outstanding U.N. obligations.

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17. *FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic 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?*

The President has made no determination under Section 481 that Egypt has failed to take the enumerated steps.

18. *FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?*

There is no military base in Egypt encompassed within the definition of Section 29.

Military Expenditures

19. *FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)*

The President has taken into account each of the listed considerations and has determined that considerations as to current military expenditures by the GOE do not inhibit economic aid to Egypt but rather that the projected program contributes to the underlying intent of the FAA which seeks to reduce arms costs and to stimulate economic development.

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CONDITIONS OF THE LOAN

General Soundness

20. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.*	The rate of interest is not excessive or unreasonable for the borrower. The borrower has the capacity to repay the loan as provided in the loan agreement. The loan is for a term of 40 years, including a 10-year grace period, with interest rate of 2% during the grace period and 3% thereafter. The rate of interest on the loan is not higher than the country's applicable legal rate of interest nor the legal rates of interest allowable under the FAAct for Supporting Assistance loans.
21. FAA § 201(b)(2); § 201(c) *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*	The program is economically and technically sound. According to information and assurances which A.I.D. has received, the funds will be used in an economically and technically sound manner. An application has been made to A.I.D. for such assistance. A.I.D. Regulation 1 procedures will be applied in the program.
22. FAA § 201(b)(2) *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*	It is reasonable to expect based upon projections of foreign exchange earnings as contrasted to debt repayment obligations that Egypt will have the capacity to repay the loan.

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23.	FAA § 201(b)(1) *Information and conclusion on availability of financing from other free world sources, including private sources within the United States.*	Expected large current deficits in 1974 and 1975 together with heavy debt service requirements, call for very substantial amounts of foreign capital, in the short-run. Much of this assistance will have to be made available in the form of program aid. The proposed loan represents a portion of foreign aid required from several foreign sources both public and private.

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24. FAA § 611(c)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?*	The necessary plans and cost estimates are completed and included within the Capital Assistance paper.
25. FAA § 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 loan?*	No further legislative action is required to implement the program other than confirmation action pertaining to the signed loan agreement.
26. FAA § 611(e). *If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*	Not applicable.

Loan's Relationship to Achievement of Country and Mission Goals

27. FAA § 207; § 113 *Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;*	The major purpose of this loan and the Middle East package is to show our commitment to help in the resolution of the Middle East dispute by encouraging increased development and thus promoting peace. This loan fulfills the Congressional mandate for assistance under the Middle East Assistance package.

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FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

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

25. FAA § 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 loan?

No further legislative action is required to implement the program other than confirmation action pertaining to the signed loan agreement.

26. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

This project is not so suceptible.

27. FAA § 611(e). If loan is for Capital Assistance, and all other important areas in economic, political, and social development, including industry; labor unions, cooperatives and voluntary agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

Not applicable.

28. FAA § 201(b)(8). Information and conclusion on activity's relationship to and consistency with other development activities, and its contribution to realizable long-range objectives.

The program activity by financing commodity imports in the industrial and agricultural sectors has a direct relationship to and consistency with other development activities and will contribute to realizable long-range objectives of increasing the level of industrial and agricultural productivity in Egypt and assisting the GOE in refocusing its attention on growth, economic stability and reconstruction.

Loan's Relationship to Achievement of Country Development Goals

29. FAA § 201(b)(9). Information and conclusion whether or not the activity to be financed will contribute to the achievement of self-sustaining growth, development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet shortcomings in health needs; encourage regional development programs.

The planned program activity by providing foreign exchange necessary to finance the importation of equipment and assisting Egypt to increase agricultural production enable the Egyptians to progress toward economic growth and the attainment of a self-sustaining economy.

The major purpose of this loan and the Middle East package is to show our commitment to help in the resolution of the Middle East dispute by encouraging increased development and thus promoting peace. This loan fulfills the Congressional mandate for assistance under the Middle East Assistance package. This loan is not directed at a p[illegible] or an opportunity that is regional in nature.

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32.	FAA §Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.	See Paragraph7. The loan, by assisting in the financing of industrial and agricultural commodities and machinery needed to maintain and increase industrial and agricultural production, will result in increased employment and utilization of the urban and rural poor of Egypt thereby increasing their role in their country's development. No direct impact is foreseen on the development of cooperatives, however.
33.	FAA § 201(f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.	Not applicable. The planned assistance is not project assistance.
34.	*FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*	Although Egypt's economy is dominated by the public sector Egypt has been taking steps to improve private sector trade through greater access to foreign exchange reserves. Aid is exploring with the GOE means whereby the proceeds of the loan will be used for the direct procurement of items thus strengthening both the public and private sector through the elimination of red tape and administrative delays ordinarily found in imports, only thru trading companies. The loan foresees a number of self-help activities on the part of Egypt including (1) effective administration of a new foreign investment law which should contribute to the liberalization of the Egyptian economy and (2) reform in the "Parallel Market in Foreign Exchange" which should result in improved access to foreign exchange for private sector interests.

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35. *FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*

The program by assisting in two critical sectors of the Egyptian economy recognizes the particular needs, desires, and capacities of the people of the country as Egypt undertakes to refocus its attention on growth, economic stability and reconstruction. In its emphasis upon self-help measures, including improvement in existing institutions related to investment activities, budget formulation, and allocation of foreign exchange, the program requires utilization of Egypt's intellectual resources to maximize the effects of the loan.

36. FAA §201(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

Through the importation of needed capital equipment and raw materials, the country's production capacities and economic resources will be increased.

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37. *FAA § 601(a). Information and conclusions whether loan 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.*

See. 35. (a) The program loan will be used to finance the import of commodities with long-term objective of increasing Egypt's ability to engage in international trade. (b) Under A.I.D. Regulation 1 procedures, private initiative and competition will be fostered to the maximum extent possible. (c) No direct impact, (d) no direct impact, (e) the purpose of the program is to encourage industrial and agricultural production which, of necessity in financing commodities for industrial and agricultural production, involves improvement of the technical efficiency of industry, agriculture and commerce, (f) no direct impact.

38. *FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*

Egypt is not a newly independent country.

Loan's Effect on U.S. and A.I.D. Program

39. *FAA § 201(b)(6) Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

The procurement under this loan will be from the United States (Code 000) incorporating Regulation 1 procedures. The loan will have a significant impact in reintroducing Egyptian industry and agriculture to U.S. sources for a broad variety of industrial raw materials and should develop an increasing orientation toward U.S. production with beneficial effects on the United States balance of payments.

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40.	FAA § 202(a) *Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.*	Procurement as stated in the loan paper will be from the United States.

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41.	FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*	See Paragraph 39. Regulation 1 ensures that there will be maximum private participation in transactions financed under the loan.
42.	FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*	This assistance is not a capital project activity.
43.	FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.*	Procurement of commodities and services under the loan will be according to established A.I.D. Regulation 1 procedures.
44.	FAA § 620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*	NO.
45.	FAA § 621. *If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on*	Technical assistance is not financed by the loan.

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whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

46.	*FAA § 110(a); § 208(c).* In what manner has or will the *recipient country provide* assurances that it will provide *at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?*	Section 110(a) is not applicable to this loan. The program loan contemplated is far less that 25% of Egypt's agricultural and industrial import requirements for FY 75.
47.	*FAA § 112. Will loan be used to finance police training or related program in recipient country?*	The loan will not be used to finance police training.
48.	*FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?*	NO.
49.	FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?	Not applicable. The funding source is not development loan.
50.	FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?	YES.
51.	FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	The assistance is not a project loan.
52.	FAA §604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?	YES. The loan authorizes procurement from the United States.
53.	FAA § 604 (b) What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?	A.I.D. Regulation 1 will be incorporated in the Loan Agreement to enforce statutory pricing restrictions.

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54.	FAA § 604(d). *If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?*	Egypt does not discriminate against U.S. marine insurance companies.
55.	FAA § 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 Paragraph 53.
56.	FAA § 604(f). *If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?*	YES. A.I.D. Regulation 1 will be applied.
57.	FAA § 608(a). *Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.*	A.I.D. Regulation 1 applies except to public sector procurement, wherein efforts will be made to utilize excess property to the maximum extent possible. In the private sector, the procurement of such property may not be financed under A.I.D. Regulation 1.
58.	FAA § 611(b); Ann. § 101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*	Not applicable.

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59.	FAA § 611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*	Not applicable.
60.	FAA § 612(b); § 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.*	No contractual or other services are being financed under the loan.
61.	App. § 113. *Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?*	NO.

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62.	FAA § 612(d). Does the United States own excess foreign currency and, if os, what arrangements have been made for its release?	Endeavor is being made for negotiation of agreement for release of U.S.-owned, non-P.L. 480 Rupees.
63.	FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?	The scope of the loan project coupled with the restrictions of A.I.D. Regulation 1 serve to prohibit expenditure of the loan assistance for any such purpose.
64.	FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the Unites States exceed $100 million?	Not applicable.
65.	FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?	No.
66.	App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel?	No.
67.	App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?	The loan is not for a capital project.
68.	App. § 107. Will any loan funds be used to pay UN assessments?	No.

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69.	App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).	Not applicable.
70.	App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209(d)?	No.
71.	App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.	The Committee on Appropriations of the Senate and House will have been notified prior to obligation of funds for this program assistance in accordance with A.I.D. policy implementing Section 114 of the Foreign Assistance and Related Programs Appropriation Act of 1974.
72.	App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?	No.
73.	MMA § 901.b; FAA § 640.	
	(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 with funds made available under this loan 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. Regulation 1, which incorporated into this loan, covers this requirement.
	(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?	

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74. Section 30 and 31 of PL 93-189 (FAA of 1973).
Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? No.

75. Section 37 of PL 93 - 189 (FAA of 1973).
Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? No.

76. App. § 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? No.

77. App. § 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? No.