

UNCLASSIFIED

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

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

EGYPT - Basic Import and Production Loan (V)

AID-DLC/P-2201

UNCLASSIFIED

PDAA 0616

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

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AID-DLC/P-2201
September 15, 1976

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: EGYPT - Basic Import and Production Loan (V)

Attached for your review is the recommendation for authorization of a loan to the Arab Republic of Egypt of not to exceed Sixty-five Million United States Dollars (\$65,000,000) to assist Egypt with its balance of payments deficit. The loan proceeds will finance imports of U.S. agricultural and industrial machinery, equipment, spare parts and other essential commodities and related services. The loan will assist Egypt in its program to utilize full productive capacity of existing industrial enterprises and for new industrial expansion and to provide agricultural inputs essential to increased agricultural production.

No meeting has been scheduled for this project; however, if any member wishes to have a meeting, please advise immediately and one will be scheduled.

Please note that your views are requested by close of business on September 23, 1976. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review
and Evaluation

Attachment:

Summary and Recommendations
Project and Analysis
Annexes

CLASSIFICATION:

AID 1120-1 (8-66) 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: Dan: _____ Adm: _____, AID		6. OYB CHANGE NO. Not applicable 8. OYB INCREASE Not applicable TO BE TAKEN FROM:
7. FROM: Robert M. Nooter Assistant Administrator Bureau for Near East		10. APPROPRIATION - ALLOTMENT 656-62-298-00-57-51 Supporting Assistance 72-1161006
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$65,000,000		
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 9/30/76 - 8/31/79
14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date		
15. COMMODITIES FINANCED Industrial and agricultural machinery and equipment, spare parts, industrial raw and semi-finished materials and other commodities to be specified in Implementation Letters and Commodity Procurement Instructions.		
16. PERMITTED SOURCE U.S. only: \$65,000,000 Limited F.W.: _____ Free World: _____ Cash: _____		17. ESTIMATED SOURCE U.S.: \$65,000,000 Industrialized Countries: _____ Local: _____ Other: _____
18. SUMMARY DESCRIPTION Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake development programs. During 1976, after accounting for known Arab and other bilateral assistance, a balance of payments deficit still remains. Egypt will continue to require large capital flows to achieve its development objectives and at the same time provide for improving the standard of living in the country. The proposed loan will assist Egypt with its balance of payments deficit. The loan proceeds will finance imports of U.S. agricultural and industrial machinery, equipment, spare parts and other essential commodities and related services. The loan will assist Egypt in its program to utilize full productive capacity of existing industrial enterprises and for new industrial expansion and to provide agricultural inputs essential to increased agricultural production.		
19. CLEARANCES REG/DP _____ DATE _____ REG/GC _____ AA/PC _____ A/CONT _____ AA/MR _____ AA/DFPE _____		20. ACTION <input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED _____ AUTHORIZED SIGNATURE DATE _____ TITLE

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Preface

On June 30, 1976, the Congress enacted and the President signed into law Security Supporting Assistance which provided \$695 million for Egypt for FY 1976 and \$100 million for the transitional quarter starting July 1 through September 30, 1976. To date, A.I.D. has obligated the full \$695 million, including \$205 million for Suez reconstruction and development funded on a grant basis; \$240 million for national development programs funded by concessional loans; and \$250 million in loans for commodity import assistance.

The following program assistance paper provides the justification for a \$65 million commodity import loan being funded during the transitional quarter. The remainder--\$35 million--will finance projects on a loan and grant basis.

Since the previous CIP loan (AID-DLC/P 215) was just authorized on June 28, 1976, this CIP loan justification will update the various sections, including Egypt's balance of payments, but will not duplicate much of the data in the previous loan paper.

It is recommended that you authorize a loan to the GOE of \$65 million (~~\$5,000,000~~) for financing imports of selected commodities on the following terms:

1. Interest and Terms of Repayment

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

2. Other Terms and Conditions

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

(b) The terminal date for disbursement shall be September 30, 1979.

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

Loan Committee

Chairperson: Selig A. Taubenblatt, NE/CD
Desk: James Roberts, NE/ME
GC: Gary Bisson, CC/NE
Procurement: Robert Richardson, SER/COM/NE
Economist: Thomas Miller, NE/ME
CD: Steven Kinsley, NE/CD

I. U.S. Assistance Programs to Egypt

A. Political and Economic Considerations

U.S. economic assistance to Egypt is in support of the Government's policy aimed at seeking a negotiated settlement of a permanent nature which will permit Egypt to turn her energies toward economic development. Egypt has demonstrated its desire and willingness to work toward a negotiated peace by playing a key role in the two interim settlements--a negotiated disengagement of forces between Egypt and Israel in early 1974 and a second-step agreement in September 1975. The successful implementation of these agreements as well as further progress toward a permanent peace will depend in large part on a willingness of the Egyptian people to support a permanent peace settlement and an economic and social atmosphere within Egypt conducive to growth, development and peace.

The objective of U.S. assistance is to foster economic and social development within Egypt and thereby to create the preconditions to a continued and more permanent peace. The willingness of the United States to assist Egypt is seen by other moderate Arab countries as an important indication of the credibility of our interest in the Arab world. Domestic economic progress resulting from U.S. and other bilateral assistance will strengthen Egypt's leadership role and the moderate forces in the Middle East.

During recent years, Egypt's economic growth has been severely retarded by a shortage of foreign exchange, which has affected every facet of the economy. Raw materials and spare parts have been in short supply, and domestic investment in industry and agriculture has been much too low to stimulate meaningful growth. Much of these difficulties are due to large defense expenditures which have drained resources from development purposes. Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake economic development programs. Shortages of raw materials and spare parts for domestic industry have resulted in scarcity of basic consumer items. The low levels of domestic investment in industry, agriculture and related infrastructure have slowed Egypt's real growth in per capita gross domestic product to under one (1) percent annually over the past ten years.

Egypt will continue to require substantial assistance to achieve its development objectives and at the same time provide for improving the current standard of living of its people. Egypt's economic recovery requires resources far beyond its own or any other single donor's ability to provide. Substantial Arab economic assistance and assistance from other bilateral donors have been provided in the past and are expected to continue in the future to assist overcoming

the country's balance of payments problems. United States economic assistance also is needed urgently to bring Egypt through this critical period in its post-war recovery and development.

B. Status of U.S. Assistance Programs to Egypt

U.S. economic assistance to Egypt was resumed in 1975 following the renewal of U.S./Egyptian diplomatic relations in 1974. Since then, significant progress has been made in developing and implementing an effective assistance program in Egypt.

In FY 1975, A.I.D. provided \$251.0 million, including \$53.5 million for Suez area reconstruction and development; \$47.5 million for national development programs, including storage facilities in Cairo and Alexandria; and \$150 million for commodity import program loans. In addition, the United States provided \$120 million in PL 480 Title I assistance during FY 1975. Projects and programs financed during FY 1975 are in various stages of implementation.

In FY 1976, A.I.D. authorized \$695 million in assistance, which as of September 4, 1976, was fully obligated. The \$695 million includes: \$205 million for Suez area reconstruction and development, funded on a grant basis; \$240 million for national development programs funded by concessional loans; and \$250 million for commodity import assistance. In FY 1976, PL 480 Title I assistance is estimated to have amounted to \$175 million, mostly for wheat, wheat flour, and a small quantity of tobacco.

On June 30, 1976, the Congress enacted and the President signed into law an additional \$100 million in Security Supporting Assistance for Egypt for the Transitional Quarter, which A.I.D. proposes to fund as follows: \$65 million in commodity import financing (being justified herein); \$24 million loan for an electric energy control center; a \$7 million grant to finance feasibility studies; and a \$4 million grant to finance cost increases associated with the FY 1975 \$10 million construction equipment grant.

For FY 1977, the President has proposed for Egypt \$750 million in Security Supporting Assistance (the same as FY 1976) as follows: Suez reconstruction and development, \$180 million; national development program, \$320 million; and commodity import program, \$250 million. In addition, PL 480 Title I, primarily wheat, is estimated at \$150 million at current prices (availabilities permitting).

II. Loan Justification

A. Proposed Commodity Import Loan

The proposed \$65 million commodity import loan will be used for imports of raw materials, equipment and spare parts to support industrial and agricultural production. Egypt has asked for such assistance to finance priority requirements in these areas.

In industry, substantial foreign exchange continues to be required to finance equipment, materials and spare parts to maintain and expand existing productive facilities and to permit the installation of new plant and facilities. In agriculture, GOE priority is the acquisition of agricultural capital inputs that will yield increased production from existing acreage. This would produce maximum foreign exchange impact on the economy. During the coming years, Egypt will need substantial imports of electrical and telecommunications equipment, transportation equipment including rail, trucks, and buses, hospital and laboratory equipment, tractors and spares, chemical products, paper products, and tinplate. Egypt is particularly interested in purchasing these and other types of commodities in the United States and the proposed \$65 million loan will be used for that purpose.

B. Balance of Payments

Egypt continues to experience major B/P problems. These problems would quickly become unmanageable without continued high levels of assistance from the Arab oil producer states and other bilateral donors. We currently expect the 1976 balance of payments to be similar to 1975 in many respects. Exports and imports are likely to experience offsetting increases leaving the overall trade deficit in the \$2.6 to \$2.7 billion range. An increase of half a billion dollars in net services will offset a sharp drop in Arab transfers. On the basis of current commitments, it appears that net medium and long term borrowing will rise by about \$100 million during 1976. It is possible that both concessional borrowing and transfers will increase above the amounts given above, but at this time there is no assurance of this. The net result is that the overall 1976 deficit should drop slightly--perhaps by \$200 million--from last year's \$1 billion deficit. The 1974 deficit was covered largely with short term borrowing which was rolled over in 1975 and should again be rolled over in 1976. The 1975 deficit was covered largely by Arab OPEC country banking deposits with the Egyptian Central Bank. The extent to which these extraordinary funding sources can again be utilized for this year's deficit is uncertain. Accordingly, the uncovered 1976 deficit which we now project at \$800 million represents a major problem. Currently a major effort is being made by Egypt and others to increase the level of balance of payments assistance from the Arab OPEC and western nations.

In 1975, merchandise exports fell by roughly \$100 million. This slight decrease is attributable to small decreases in both the price and quantity of cotton shipped. Petroleum exports rose slightly to about \$130 million. For 1976, increased exports of petroleum and manufactured items together with slightly higher commodity prices should boost export earnings to just under \$2 billion.

Imports continued to rise in 1975, up 25 percent over 1974's level. Available data suggest that the increases were spread over the entire range of import items. For 1976, the GOE expects that the various changes in the import system--particularly the wider applicability of the parallel market exchange rate system and increases in effective tariff rates--should restrain the growth of imports to around six percent.

Increases in tourism, worker remittances and Suez Canal dues have generated sharp increases in net services revenues for 1974 and 1975. This trend should continue with even sharper increases in the intermediate future.

Little comprehensive information is available for 1976 on other donor assistance, particularly on composition and on annual disbursements. The IBRD is currently in the process of forming a consultative group for Egypt which should not only serve as a vehicle to increase assistance but also provide definitive information on other donor assistance. Recently four Arab countries--Saudi Arabia, Kuwait, UAE and Qatar--formed the Gulf Organization for Development in Egypt (GODE) to which they pledged \$2 billion over a five year period. The amounts involved, however, fall short of Egypt's expectations and on an annual basis are below the usual amounts forthcoming from these states in recent years.

The Government of Egypt will continue to require sizable amounts of concessional financing if it is to avoid a precipitous decline in income, employment and living standards. The GOE recognizes the need to bring its foreign payments into better balance and has undertaken a wide range of measures to deal with the balance of payments problem and to improve economic efficiency in general. The government has formulated an economic management program. Its main elements are: (1) improved coordination of economic policy making; (2) improved public sector efficiency through decentralization; (3) rationalization of consumption subsidies and increased national savings; (4) better management of external debts; (5) raising basic interest rates.

The GOE has also made progress in restructuring its exchange rate system. Specifically, since the start of the year, over one billion dollars worth of imports (at projected annual rates) have been transferred from the official rate to the parallel market exchange rate system. During the same period, the parallel market

rate has twice been devalued for a cumulative adjustment of 17 percent. Effective May 1, 1976, the parallel rate became the customs base for parallel market import items. This procedural change should increase customs duties on applicable items by as much as 75 percent. A program for reducing cost of living subsidies was initiated with the elimination of subsidies on such less essential items as coffee and sesame. Perhaps most important, Egypt is collaborating with the IMF in the design of a broadly based structural reform package.

Egypt's economic problems are of major proportions and will, even under the best of circumstances, require years to correct. The steps undertaken in the program relative to the balance of payments are constructive but modest relative to the magnitude of the problem. More substantive structural reforms will have to be introduced to achieve sustained improvements on balance of payments account in the medium term period.

The short-term outlook is serious. Egypt is currently projected to have an unfunded (as yet) 1976 deficit of some \$800 million and the 1977 balance of payments deficit is not expected to show much change. It is hoped that the Arab OPEC donor states will increase their assistance to help meet this need but at this point the OPEC states are masking their intentions. To the extent that a shortfall still exists after other donor contributions, it will have to be met by extraordinary means--additional short-term borrowing, further reserve drawdowns, and import curbs.

However, over the medium term, Egypt's balance of payments prospects actually look promising if the necessary reforms can be accomplished. One particularly bright element is the expectation of substantial petroleum earnings. Some knowledgeable observers now expect that Egypt will be exporting upwards of one million barrels per day by 1980. Moreover, Suez Canal revenues should continue to rise and the potential for tourism is good.

EGYPT: Balance of Payments Summary 1/
(1973-76)
(In million U.S. dollars)

	<u>1973</u>	<u>1974</u>	<u>1975</u> (Est.)	<u>1976</u> (Proj.)
Exports FOB	1,013	1,671	1,566	1,980
Imports CIF	<u>1,681</u>	<u>3,469</u>	<u>4,322</u>	<u>4,600</u>
Trade Balance	-668	-1,798	-2,756	-2,620
Services Net	7	169	280	768
Net Transfers	<u>739</u>	<u>1,304</u>	<u>1,077</u>	<u>512</u>
Balance on Current account	78	-325	-1,399	-1,340
Net MIF Borrowing				
Disbursements	333	471	906	1,000
Amortization	<u>411</u>	<u>630</u>	<u>567</u>	<u>500</u>
Sub-Total	-78	-159	+339	500
Other Non-Monetary Capital (Net)	-4	-40	+65	+40
Errors & Omissions	10	-12	+27	--
Overall Balance (Deficit -)	-14	-536	-1,022	-800
Debt Service	283	786	758	725
Debt Service Ratio	20	33	29	20

1/ Estimates based on balance of payments data for 1973-76 based on Egyptian Central Bank and Ministry of Finance, IBRD, IMF and AID estimates.

2/ IMF estimates based on amount known to be committed as of July 1.

C. Debt Service Capacity

Egypt's external civil debt (as reported by the IMF) amounted to \$6.3 billion at the end of 1975. Of this, roughly one-third was on commercial terms. The \$6.3 billion figure is somewhat incomplete as it does not include a substantial military debt. The figure does, however, include almost \$2 billion in deposit liability of the Egyptian Central Bank to the various Arab OPEC countries.

It is estimated that about \$725 million in principal and interest will be due in 1976. An additional amount estimated at \$1.8 billion will be owed on bank credit facilities and on official deposits. With regard to the \$1.8 billion, it is expected that almost all of it can be rolled over.

Debt service requirements depend heavily on the extent to which short term debt can continue to be rolled over. Over the near term, we expect the debt service ratio (including short term debt) to move between 20 and 35 percent of export and service earnings.

In view of Egypt's heavy debt burden, A.I.D.'s normal concessional loan terms are proposed--40 years, including a 10-year grace period, with an interest rate of 2 percent per year during the grace period and 3 percent per year thereafter. With these terms, particularly the 10-year grace period, repayment prospects for this \$65 million CIP loan appear favorable.

III. Loan Administration

A. GOE Import Procedures

Foreign exchange for recurrent import needs is provided from three main sources: (1) Foreign Exchange Budget (FEB) allocations, (2) an enterprise's retained earnings, and (3) special allocations through the parallel market. FEB allocations are by far the most important source, particularly for the public sector. The parallel market has been the main source for the private sector. Control over the allocation of FEB funds, of which CIP funds are a part, rests with the Ministry of Economy and Economic Cooperation.

Since September 1973, the private sector has been expected to obtain its foreign exchange resources from the parallel market, particularly for recurring imports. The two primary objectives of the parallel market were to increase the flow of free foreign currency resources, and to make these resources available to industry and selected service sectors for increasing production, tourism and exports. Under the present parallel market mechanism, a premium of 75 percent for buying and 80 percent for selling free currency is paid over the prevailing official rate of \$2.56 for LE 1. Since the establishment of the parallel market, there has been no allocation for the private sector in the government's Foreign Exchange Budget.

At present, the official exchange rate applies to official financing of commodity imports, including A.I.D. CIP loans. However, the GOE with IMF assistance has been considering an exchange rate reform package which would introduce a commercial rate (similar to the parallel rate) for various commodities and sectors of the economy. When decreed, such exchange rate will accordingly apply to the A.I.D. CIP loan.

Public sector applications for imports, including applications from semi-independent organizations and national industrial corporations, are forwarded through the general authorities by the Ministry of Industry or Agriculture. These general authorities act as an umbrella for many of these organizations. Each separate organization receives a direct FEB allocation of loan funds to cover budgeted foreign exchange costs for import of specific items. Each organization within the authority handles its own procurement, prepares and submits financing requests, issues tenders, etc.

Determination committees are the key organization units in the current import procedures and are attached to the respective general authorities. 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 makes recommendations concerning 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 application is treated as final for imports and is equivalent to the import licenses granted in the past. Frequently, import needs of several enterprises are bulked together to obtain better prices.

Under the government's present regulations, all imports, private or public sector, are channelled through either one of the government-owned trading companies or directly from the foreign exporter. The imports are effected at competitive terms. Importers invite bids through the trading companies and directly through suppliers and thus are able to compare competitiveness of price and other factors.

B. AID Commodity Import Procedures

As in the case of the first four CIP's (loan 263-K-026, 263-K-027, 263-K-029 and 263-K-030), commodities and commodity-related services financed from the proceeds of this loan will be of U.S. source and origin. Items eligible for financing will consist of commodities and equipment as defined in the A.I.D. Commodity Eligibility List dated December 16, 1974 (the broad "positive list"). This list is provided as an attachment to the Commodity Procurement Instruction (CPI) which is transmitted to the Borrower with the first implementation letter under the loan. A.I.D.'s standard commodity financing procedures as set forth in Regulation I shall apply, except in special situations, where procedures under Handbook 11, "Country Contracting", are more appropriate.

A considerable portion of CIP procurement for Egypt consists of long lead time capital goods. CIP procurement also utilizes formal competitive bidding including the associated small business advertising/notification procedures as specified in A.I.D. Regulation I. These factors make the procurement process very time consuming; and while the GOE has become more familiar with A.I.D. procedures, the current rate of disbursements, approximately \$8 million per month, will not permit complete disbursement of CIP loan proceeds by the present loan terminal dates. Egypt's critical balance of payments difficulties also argue for more rapid disbursement of CIP loans. Accordingly, A.I.D. is investigating various ways to streamline the procurement process to achieve faster disbursement.

C. Utilization of Previous CIP Loans

Since February 13, 1975, A.I.D. has signed loan agreements for \$400 million in commodity import loans as follows:

<u>Loan No.</u>	<u>Signature Date</u>	<u>Amount</u> (Million)
263-K-026	Feb. 13, 1975	\$ 80.0
263-K-027	June 30, 1975	70.0
263-K-029	Dec. 18, 1975	100.0
263-K-030	May 22, 1976	50.0
263-K-030(Amendment 1)	July 23, 1976	<u>100.0</u>
TOTAL		\$400.0

To date, \$160.0 million of that \$400 million total has been committed in disbursing authorizations; an estimated additional \$50 million will be committed shortly, and allocations have been made by the GOE to the various ministries for commitment of a further \$40.0 million. The GOE and A.I.D. are currently identifying commodity requirements for allocation of the remaining \$150 million under the Egypt Basic Import and Production Loan IV (263-K-030). That latest \$100 million loan amendment will become effective with the imminent satisfaction of conditions precedent.

These CIP loans are intended to assist Egypt to fund part of its large balance of payments deficit and to permit importation of critical industrial and agricultural commodities necessary for the maintenance of economic growth and development. The \$65 million CIP loan discussed herein represents a continuation and augmentation of this type of assistance.

The status of CIP loans as of July 31, 1976, is shown in the following table:

<u>Agreement Number</u>	<u>Loan Amount</u>	(Millions U.S. \$)		
		<u>Allocated</u>	<u>Committed</u>	<u>Disbursed</u>
263-K-026	\$ 80.0	\$ 80.0	\$ 80.0	\$36.3
263-K-027	70.0	70.0	70.0	22.2
263-K-029	100.0	100.0	10.0	-
263-K-030	50.0	-	-	-
263-K-030 (Amend. 1)	<u>100.0</u>	-	-	-
TOTALS	\$400.0	\$250.0	\$160.0	\$58.5

A further breakdown of commodity import program activity by commodity groups is shown in Annex 1.

Despite initial delays in drawing down previous commodity import loans, the GOE is now proceeding more expeditiously with orders and purchases of equipment and commodities. Procurement actions are well under way under loans 026, 027 and 029. Loan 030 will also start moving as soon as conditions precedent are satisfied.

IV. Other Considerations

A. Impact on the U.S. Balance of Payments

The long-term impact on the U.S. balance of payments will be favorable. This loan will be spent on U.S. commodities and commodity-related services that will permit U.S. suppliers and exporters to re-establish old trade relationships and create new ones. Future follow-up orders for machinery and spare parts will produce 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--new materials, industrial machinery and spares, etc., it is unlikely that U.S. Government excess property would be appropriate for this loan. However, given the large amounts of U.S. Government excess property available, the GOE will be encouraged to examine possibilities for substituting such used excess property for new equipment.

C. Programming Local Currency Generations

A.I.D./NE does not plan to involve itself in the Egyptian Government's budgeting process by participating in the programming of the local currency proceeds. As a matter of policy, A.I.D. looks to the IMF and IFRD with respect to self-help, including budget policy and allocations. To date, the availability of GOE local currencies to support A.I.D. projects and programs has not been a problem for A.I.D.

V. Recommendations

It is recommended that you authorize a loan to the GOE of \$65 million (\$65,000,000) for financing imports of selected agricultural and industrial commodities and related services on the following terms:

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

B. Interest in U.S. dollars of two 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. Prior to any disbursement or to the issuance of any Letter of Commitment or other authorization of disbursement under the loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

1. An opinion or opinions of the Minister of Justice of the Arab Republic of Egypt that this Agreement has been duly authorized and/or ratified by and executed on behalf of the Borrower and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

2. A statement of the names of the persons holding or acting in the office of the Borrower and a specimen signature of each person specified in such statement.

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

A N N E X E S

1. Egypt: Procurement Progress under CIP Loans as of July 31, 1976.
2. Checklist of Statutory Criteria.

EGYPT: Procurement Progress under CIP Loans as of July 31, 1976

Loan NO. 203-K-026 (\$80,000,000)

Commodities Shipped (Amount-Millions U.S. \$)
or
Pending Shipment

1. Tallow	23.8
2. Kraft Liner & Fluting	9.0
3. Plastics	2.0
4. Synthetic Rubber	1.0
5. Acetate	2.0
6. Cig. Paper	2.0
7. Dissolving Wood Pulp	3.25
8. Graphite Electrodes	3.0
9. Dye	1.75
10. Power Plant Spares	2.0
11. Remote Sensing Equipment	<u>1.2</u>
Subtotal	\$57.0 Million

Procurements Pending

1. Grain Handling Equip.	3.0
2. Trucks and Trailers	<u>20.0</u>
Subtotal	\$23.0

Total \$80.0 Million

Loan No. 263-K-027 (\$70,000,000)

<u>Commodities Shipped</u> or <u>Pending Shipment</u>	(Amount-Millions U.S. \$)
1. Tallow	26.1
2. Paper Pulp	<u>6.0</u>
Subtotal	32.1

Procurements Pending

1. Electrical Equipment	12.9
2. Machine Tools & Wood Working Equip.	1.0
3. Transport Equipment	2.5
4. Metallic Goods	1.3
5. Chemical	1.2
6. Stationary Equipment	.3
7. Packing Materials	.8
8. Construction Equipment	2.0
9. Refractories	2.0
10. Microwave Equipment	.4
11. Herbicides	3.5
12. Marine Engines	.3
Subtotal	28.2

Allocated - No Procurement
Action

Ministry of Housing & Reconstruction- Equipment Spares	1.0
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<u>Unallocated</u>	8.7
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Total \$70,000,000

Loan No. 263-K-029 (\$100,000,000)

Procurements Pending

1. Tallow	10.0
2. Buses	46.0
3. Electrical Equipment	<u>10.0</u>
Subtotal	66.0

Allocated -- No Procurement
Action.

Ministry of Industry	
Tire Plant Equipment	
Can Making Machinery	
Construction Equipment	
Welding Sets	
Plastic Molding Presses	
Refrigeration Compressors	25.0
Ministry of Health (unspecified)	6.5
Ministry of Education (unspecified)	<u>2.5</u>
Subtotal	34.0
Total	\$100,000,000

Loan 263-K-030 (\$150,000,000)

Unallocated \$150,000,000

Summary

All Loans

(Million U.S. \$)

Commodities Shipped or Pending Shipment	89.1
Procurement Pending	117.2
Allocated No Procurement Action	35.0
Unallocated	<u>158.7</u>
Total	400.0

CHECKLIST OF STATUTORY CRITERIA

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

ISAA, 1976 - International Security Assistance and Arms Export Control Act of 1976.
App. - Foreign Assistance and Related Programs Appropriation Act, 1976, and the period ending September 30, 1976.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105; § 106; § 107. Is loan being made
 - a. for agriculture, rural development or nutrition; Inapplicable.
 - b. for population planning or health; Inapplicable.
 - c. for education, public administration, or human resources development; Inapplicable.
 - d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development; Inapplicable.
 - e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations. Inapplicable.

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 Inapplicable.

increase food production and
improve means for food storage
and distribution.

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

Inapplicable.

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

Inapplicable.

- (4) (a) Allocating available budgetary resources to development. Inapplicable.
- (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. Inapplicable.
- (6) Willing to contribute funds to the project of program. Inapplicable.

(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. **Inapplicable.**

B. Are above factors taken into account in the furnishing of the subject assistance? **Inapplicable.**

Treatment of U.S. Citizens and firms.

3. FAA § 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? **None of the known claims of any U.S. citizen asserted against the GOE meets the criteria of this section. In any event, Egypt has agreed to participate in a Joint Commission to consider debts of Egypt to U.S. citizens and 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 or nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? **The Secretary of State has determined that Egypt's agreement to establish a Joint Commission to discuss compensation of American nationals constitutes taking appropriate steps for the purpose of this section.**
5. FAA § 620(o); Fisherman'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.
7. 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.
8. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States 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?
- The assistance is not for any such productive enterprise.
9. FAA § 620(f). Is recipient country a Communist country?
- No.
10. 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 subversion or aggression?
- The President has not determined that the recipient country is involved in such conduct.
11. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?
- The President, in accordance with the requirement of section 620(j) has considered terminating assistance to Egypt and has determined that no sufficient reason exists not to furnish the assistance.

12. FAA § 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the the A.I.D. administration within the past year considered denying assistance to such government for this reason?
- Egypt has reactivated its Investment Guaranty Agreement with the U.S.
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.
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 U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.
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?
- Egypt has paid all of its outstanding U.N. obligations.
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?
- No.

18. FAA § 659. 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 within the definition of this section.

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 as to current military expenditures by the GOE and has determined that these 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.

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.

Inapplicable.

21. FAA § 201(b)(2); § 201(e). 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? Inapplicable.
22. FAA § 201(b)(2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects. Inapplicable.
23. FAA § 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. Inapplicable.
24. 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 loan 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 the purpose of the/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 Regional 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; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy. **Not applicable.**
28. FAA § 209. Is project susceptible of execution as part of regional project? If so, why is project not so executed? **Not applicable.**
29. FAA § 201(b)(4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to reliable long-range objectives. **Not applicable.**
30. FAA § 201(b)(9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth. **Not applicable.**
31. FAA § 209. Information and conclusion whether assistance will encourage regional development programs. **Not applicable.**

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. **Not applicable.**
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.**
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. **Not applicable.**
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. **Not applicable.**
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? **Not applicable.**

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.
- a) The program loan will be used to finance the import of commodities with the long-term objective of increasing Egypt's ability to engage in international trade. b) Under A.I.D. Reg. I procedures, private initiative and competition will be fostered. c) No direct impact. d) No direct impact. e) The purpose of the loan is to encourage industrial and agricultural production which involves improvement of technical efficiency of industry, agriculture and commerce. f) No direct impact.
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.
- Inapplicable.
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.
- Inapplicable.
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).
- Regulation I 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. Reg. I 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 whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs. Technical assistance is not financed by the loan.

Loan's Compliance with Specific Requirements

46. FAA § 110(a) ; § 208(e). 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? Not applicable.

47. FAA 5660. Will loan be used to finance police training or related program in recipient country? No.
48. FAA 5 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No.
49. FAA 5 201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year? The funding source is Supporting Assistance.
50. FAA 5 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Not applicable.
51. FAA 5 201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? Not applicable.
52. FAA 5 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? The loan authorizes procurement from the U.S.
53. FAA 5 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? A.I.D. will be incorporated in the Loan Agreement to enforce statutory pricing restrictions.

54. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will the 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 Question 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. Reg. I 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. Reg. I applies except to public sector procurement, wherein efforts will be made to utilize excess property to the maximum extent possible.
58. FAA § 611(b), App. § 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.
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? No such contracts are to be financed by the loan.
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 No contractual or other services are being financed under the loan.

owned by the United States are utilized to meet the cost of contractual and other services.

61. 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.
62. Section 37 of PL 93-189 (FAA of 1973); App. § 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? No.
63. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? Endeavor is being made for negotiation of an agreement for the release of U.S.-owned non-P.L. 480 pounds.
64. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? The loan will not permit such use.
65. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? Not applicable.
66. 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.
67. FAA § 502B.(a) Has it been determined that the recipient country has been engaged in a consistent pattern of gross violations of internationally recognized human rights? No.
(b) If so, have resulting statutory provisions been complied with?

68. FAA § 620 A. Has the recipient country aided or abetted international terrorists by granting them sanctuary from prosecution? No.
69. FAA §669. Has the recipient country received or delivered nuclear reprocessing or enrichment equipment, materials or technology not subject to multilateral and International Atomic Energy Authority controls? No.
70. ISAA, 1976 §404. Does the assistance have the purpose or effect of promoting or augmenting the capacity of any nation, group, organization, or individual to conduct military or paramilitary operations in Angola? No.
71. ISAA, 1976 §406. Does the assistance furnish military or security supporting assistance, military education or training, or credits or loan guarantees under the Arms Export Control Act to Chile? No.
72. ISAA, 1976 §607. Has information been received which substantiates that officials of the recipient country have received illegal or otherwise improper payments from U.S. corporations, or extorted or attempted to extort money or other things of value in return for permitting a U.S. corporation or citizen to conduct business in that country? No.
73. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? No.
74. App. § 106. Will any loan funds be used to pay UN assessments? No.
75. App. § 107. Will any of loan funds be used to carry out provisions of FAA § 209(d)? No.
76. App. § 108. Does the activity provide assistance to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos? No.

77. App. § 109. Does the activity finance directly or indirectly military assistance to Angola? No.
78. App. § 110. Will the activity finance, directly or indirectly, the planning or carrying out of any assassination, any foreign political activity, or any other action influencing a foreign election in peace time? No.
79. App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress? No.
80. App. § 506. Is the recipient country in default in excess of one year of principal or interest on any loan made by the U.S. pursuant to a program funded under this Act? No.
81. MMA § 901.6; FAA § 640 C. (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. AID Reg. I, which is incorporated into this loan, will cover this requirement.