

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 - COMMODITY IMPORT PROGRAM

AID-DLC/P-2279

UNCLASSIFIED

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

UNCLASSIFIED

AID-DLC/P-2279

February 3, 1978

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Egypt - Commodity Import Program

Attached for your review are recommendations for authorization of a loan to the Government of Egypt in an amount not to exceed Two Hundred Fifty Million United States Dollars (\$250,000,000) for financing imports of selected commodities, commodity related services, and other services.

No meeting is scheduled for this loan proposal. However, please advise us of your concurrence or objections as early as possible, but in no event later than close of business on Friday, February 10, 1978. 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  
Annex of Tables

UNCLASSIFIED

## Table of Contents

	<u>Page Number</u>
Program Assistance Approval Document (PAAD)	Facesheet
I. <u>BACKGROUND</u>	1
A. <u>Political Background and U.S. Objectives</u>	1
B. <u>Economic Background and U.S. Objectives</u>	2
C. <u>Status U.S. Assistance Programs</u>	5
1. Commodity Import Program	5
2. Capital Projects	6
3. Technical Assistance Projects	6
4. PL 480 Titles I and II	7
II. <u>ECONOMIC BACKGROUND AND JUSTIFICATION</u>	7
A. <u>General Economic Background</u>	7
1. Production	7
2. Investment	10
3. Public and Private Consumption	10
4. External Financing Requirements	11
B. <u>Economic Justification</u>	13
1. Balance of Payments	13
2. Public Finance	17
III. <u>SUMMARY OBJECTIVES FOR THE PROPOSED CIP LOAN</u>	19
IV. <u>LOAN IMPLEMENTATION</u>	20
A. <u>CIP Setting</u>	20
B. <u>Past Experience</u>	21
C. <u>Proposals for New Loan</u>	26
D. <u>Required Steps to Expedite Utilization</u>	29
E. <u>Review of CIP Transactions</u>	30
V. <u>IMPACT ON U.S. BALANCE OF PAYMENTS</u>	30
VI. <u>USE OF CIP GENERATED LOCAL CURRENCY</u>	30
VII. <u>RECOMMENDATIONS</u>	31
<u>Annex of Tables</u>	32

AID 1120-1 (8-66)		DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO. NE 78-8	
PAAD		PROGRAM ASSISTANCE APPROVAL DOCUMENT		2. COUNTRY Arab Republic of Egypt	
				3. CATEGORY Commodity Financing Standard Procedure	
				4. DATE February, 1978	
5. TO: John J. Gilligan Administrator, A.I.D.				6. OYB CHANGE NO. Not applicable	
7. FROM: Joseph C. Wheeler Assistant Administrator Bureau for Near East				8. OYB INCREASE Not applicable TO BE TAKEN FROM:	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 250,000,000				10. APPROPRIATION - ALLOTMENT Supporting Assistance	
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 3/1/78-3/1/80	
				14. TRANSACTION ELIGIBILITY DATE PAAD Authorization Date	
15. COMMODITIES FINANCED Items appearing in the A.I.D. Commodity Eligibility Listing, Schedule B, will be eligible for financing under the loan. Priority items are expected to include food commodities, and industrial raw and semi-finished materials. Poultry shall also be eligible for financing.					
16. PERMITTED SOURCE U.S. only: 250,000,000 Limited F.W.: Free World: Cash:			17. ESTIMATED SOURCE U.S.: 250,000,000 Industrialized Countries: Local: Other:		
18. SUMMARY DESCRIPTION <p>Egypt continues to suffer from a serious shortage of foreign exchange with which to sustain its economic recovery and undertake development programs. During 1977, an increase in Arab assistance plus other donor support permitted the virtual elimination of arrears in foreign payments. Available financing was such that it was possible to meet basic import needs. With the elimination of arrears and some anticipated restructuring of foreign debt, the need for balance of payments financing in 1978 should be somewhat below that of 1977. However, after comparing anticipated Arab and other bilateral assistance with preliminary estimates of imports and capital needs, a balance of payments deficit still remains indicating a need for at least \$250 million in the CIP. Further analysis will be required to determine if the Egyptian request for a \$350 million CIP is in fact warranted. Egypt will continue to require large capital flows to achieve its development objectives, while at the same time providing for improving the standard of living in the country, reaching a high level use of production capacity, modernizing capital equipment, and maintaining political stability.</p> <p>The proposed loan will assist Egypt with its balance of payments deficit during the coming two years. The loan proceeds will finance imports of agricultural and</p>					
19. CLEARANCES NE/DP: BLangmaid GC/NE: GBisson AA/PPC: AShakow SER/FM: MDStafford NE/CD: SATaubenblatt NE/EI: GKamens CC/AID: MBall			20. ACTION <input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED AUTHORIZED SIGNATURE _____ DATE _____		

industrial machinery, equipment, spare parts and other essential commodities (including some food items), and related services. The Loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and for new industrial expansion and to provide agricultural inputs essential to increase agricultural production.

It is recommended that you authorize a loan to the GOE of \$250 million (\$250,000,000) for financing imports of selected commodities, commodity related services, and other services as described below.

1. Interest and Terms of Repayment

(a) Borrower shall repay \$74 million of the loan to A.I.D. in United States dollars within thirty (30) 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 per cent (2%) per annum during the grace period and three per cent (3%) per annum thereafter on the outstanding disbursed balance of the loan and unpaid interest.

(b) Borrower shall repay \$176 million of 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 per cent (2%) per annum during the grace period and three per cent (3%) per annum thereafter on the outstanding disbursed balance of the loan and unpaid interest.

2. Other Terms and Conditions

(a) Unless 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) Unless A.I.D. otherwise agrees in writing, the terminal date for disbursement shall be twenty-four months following the satisfactory meeting of Conditions Precedent.

(c) Approval is given for the financing of poultry in addition to the items appearing on the A.I.D. Commodity Eligibility Listing, Schedule B.

(d) Labor services for the rebuilding of railway equipment are authorized to be financed under the loan.

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

I. BACKGROUND

A. Political Background and U.S. Objectives

Major objectives of United States foreign policy are to facilitate a just settlement of the Arab-Israeli conflict in the short-term, and the satisfactory evolution of Arab-Israeli relations over the medium- to long-term. Also, our medium- to long-term objectives include strengthening and maintaining stability in the Middle East while assisting in the development of these countries. The cooperation of Egypt, principal Arab country, is essential for these purposes. Under the leadership of President Sadat, Egypt has pursued a policy of moderation at home and abroad. It has worked closely with the United States in seeking to bring a new era of peace to the Middle East. President Sadat, personally, has demonstrated courage and statesmanship in dealing with Israel and in seeking to promote further progress toward a just and lasting peace. The continuing ability and willingness of Egypt to proceed toward this goal will depend on (1) domestic political stability and the strength of the moderate Sadat Government; (2) avoiding short-term deterioration in the standard of living of the population; and (3) obtaining sufficient foreign assistance to permit an accelerated development effort.

As stated in the 1978 submission to the Congress, the overall objective of U.S. assistance to Egypt is to foster economic and social development which will facilitate and encourage the establishment of a permanent peace. The critical importance of this objective, together with the fragile state of the Egyptian economy and its heavy dependence on foreign assistance, at least over the next few years, not only justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt, but also largely dictates the form and content of this assistance.

Egypt is suffering from a critical foreign exchange shortage, and, consequently, is unable to meet its import requirements without a high level of external financing. With severe limitations on its borrowing ability on the private international money market, Egypt is heavily dependent on balance of payments assistance from foreign governments. Failure to provide such assistance probably would force the GOE to take drastic economic measures which could have politically dangerous domestic consequences, such as a radical devaluation of the Egyptian pound and/or stringent foreign exchange rationing, causing a precipitous rise in the price level. Since priority would be given to the import of food and other

essentials for the low income majority, imports of intermediate goods would be severely curtailed with a consequent cutback in domestic industrial production adding to inflationary pressures. Further, imports of capital goods, necessary to modernize and improve Egypt's productive capacity would be reduced to the extent they were not financed by foreign donors. Lastly, less essential consumer goods would be cut-back fueling middle and upper class discontent with the government. Thus, it is clearly in the interest of the U.S. to provide substantial balance of payments assistance to Egypt and to encourage other donors to do so, in order to forestall a balance of payments crisis which would not only constitute a threat to political stability, but would render even more difficult the implementation of needed programs of economic and social development.

The U.S. assistance program is directed toward not only promoting economic and political stability in the short-term, but also encouraging and supporting a sound, moderate development program. Therefore, while a large portion of U.S. assistance to Egypt, namely the CIP and PL 480 Title I, has been directed at our short-term objective, an increasing portion of our assistance is being utilized to assist the government in its efforts to reduce its dependence on short-term foreign borrowing and balance of payments assistance and to lay the economic foundations for long-term economic growth and political stability. In line with this latter objective, the U.S. is supporting: a) a major program of capital project investments, at a level currently totaling \$756 million, that will assist in laying the base for more rapid future economic growth; and b) an increasing, varied technical assistance program designed to have wide ranging impact on the urban and rural poor through projects in agriculture, health, technology and training. (See Annex Table I for details.)

#### B. Economic Background and U.S. Objectives

In the long run, Egypt has significant economic potential. Egypt, with a population of almost 40 million, has a large internal market, a reasonably skilled population compared with other LDC's, varied raw materials, a key geographic location, and less internal transportation problems than most LDC's, given the concentration of the population along the navigable Nile River. These features make Egypt suitable for industrial development both for the domestic and the growing Arab market. In addition, Suez Canal revenues, now that the canal has been reopened, are estimated to reach at least \$500 million by 1980; petroleum production is already contributing about \$500 million annually to the BOP, with significant growth

likely in the near term, tourism contributed almost \$400 million in 1976 and considerably more is anticipated for the future as new hotels are completed; considerable potential exists for higher returns from existing agricultural lands; and there is a substantial flow of remittances from over one million Egyptians working in the richer Arab countries of the region.

The most severe constraints on Egyptian development are: (a) heavy defense outlays; (b) the pressing shortage of foreign exchange; (c) the external debt burden; (d) a poorly organized economic decision-making process; (e) an overwhelmingly large and inefficient public sector; and (f) rapid population growth, increasing the problems of food supply, unemployment, underemployment, and urban congestion. The first three of these factors, directly, and the last three indirectly, limit the funds available for the development effort. Domestic savings have been substantially less than 10 per cent of GDP. Until 1974 the modest level of foreign resources available and the low level of domestic savings permitted gross investment levels only of around 13 per cent of GDP. As a result the economy stagnated. However, since 1973 the rapid increase in foreign assistance as well as what appears to be growing savings have permitted the investment level to jump to 21 per cent of GDP. The foreign financing has directly increased the resources available for investment and, through the higher rates of growth in production that foreign-financed raw materials have made possible, has expanded domestic production and the amount of this production that can be allocated to investment.

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

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

- a. maintenance of a large net inflow of U.S. and other foreign resources in the short run, and
- b. achievement of a lower need for foreign resource inflows over the medium- and long-run through expansion of Egypt's productive capacity.

The U.S. assistance strategy is to support Egypt's medium- and long-term development program through capital and technical assistance project financing and short-term economic and political requirements through commodity import financing, including PL 480 Title I. As is discussed in more detail later, U.S. assistance is only one element in the foreign support Egypt is receiving. Major commitments have been made by other Western bilateral donors, by multilateral organizations, and, in particular, by other Arab countries. A consultative group under IBRD sponsorship was established in 1977.

Given the current and projected high levels of economic assistance to Egypt, and, more specifically, the substantial proportion of that assistance earmarked for balance of payments support, it is only reasonable to ask whether provision of such assistance should be linked to GOE commitments to take specific measures directed at improving the critical balance of payments situation and assisting economic development. It should be noted that the high level of U.S. assistance is intended primarily to demonstrate our support for the GOE's moderate foreign and domestic policies and to facilitate their continuation. The GOE has taken a number of key steps to strengthen its policy-making and domestic policies overall, which the U.S. supported and encouraged. These include:

- (1) the appointment of a strong "economic team" of Ministers;
- (2) the willingness of this leadership to seek to work out economic reform understandings with the IMF, World Bank, et al;
- (3) the formation of a consultative group and
- (4) the finalization of the Five-Year Plan.

The U.S. is in constant dialogue with the GOE on issues of economic policy and reform related to specific projects and economic policy overall. With respect to Egypt's balance of payments, the U.S. has looked to the IMF as the lead entity in recommending appropriate economic policies. The U.S. has supported such IMF efforts.

In the past year, the GOE has taken significant measures to implement the economic reforms advocated by the IMF and supported by the U.S. and other donors. For instance: interest rates have been raised; a major share of the government's foreign exchange expenditures have been shifted from the official to the parallel rate of exchange; credit ceilings have been set and for the most part met; own exchange imports have been unhampered; ways to stimulate the private sector are being investigated; and the subsidy issue is being publically discussed. In addition, the GOE revised the investment code governing foreign investment to make it more attractive for foreign private firms to invest in Egypt and, in fact, a joint venture with Ford Motors which is on the Arab boycott list was signed recently. These changes are even more noteworthy when compared to the GOE's previous performance in these areas. It was extremely difficult to get the GOE to focus on the harder issues of the misallocation of resources in the economy by large commodity subsidies, negative real interest rates, an over-valued currency and inefficient state industries. It is clear from the January 1977 disturbances over the attempted elimination of some subsidies that some economic measures required to cope with the critical balance of payments situation (such as major exchange rate adjustments and reduced domestic subsidies) have the potential for serious political repercussions on the domestic scene and will need to be introduced carefully and gradually. Despite this past problem, the GOE appears committed to reform and now appears to understand better the nature and magnitude of its economic problems as well as how to go about solving them.

C. Status U.S. Assistance Programs

1. Commodity Import Program

The FY 1975 Commodity Import Program was funded at \$150 million. This is 100 per cent committed and 68 per cent disbursed. AID provided \$315 million in FY 1976 (including the TQ). This is now 100 per cent committed and 12 per cent disbursed. The FY 1977 loan was signed in March 1977 for \$440 million. It is 98 per cent committed and 15 per cent disbursed. Thus to date, December 1, 1977, a total of \$905.0 million has been obligated, of which \$524.7 million is in issued letters of credit to U.S. suppliers and \$252.3 million has been disbursed (10/31/77 data).

Program status is summarized in the following table:

PROGRAM LOAN STATUS  
(\$ Millions)

	<u>FY 74</u>	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77*</u>	<u>TOTAL TO DATE*</u>
Obligated	-	150.0	315.0	440.0	905.0
Allocated	-	150.0	315.0	437.5	902.5
L/Comms	-	150.0	315.0	432.5	897.5
Issued					
L/Credits	-	137.5	226.9	160.3	524.7
Issued					
Disbursed	-	111.6	71.9	68.8	252.3**

\* As of 11/30/77

\*\* As of 10/31/77

While it would appear that total disbursements from existing resources are somewhat low (about 30 per cent disbursed), in fact the current rate of disbursements is very high and the current trend is expected to continue over the coming several months. Actual disbursements between July 1 and October 31, 1977, were \$131.9 million, or an annual rate of disbursements of \$395.7 million. This high rate of current disbursements represents the consolidation of understandings between the GOE and AID on procurement procedures in a manner which has permitted much more rapid utilization of CIP resources than was earlier the case. This is discussed in more detail in subsequent sections of this PAAD.

2. Capital Projects

From FY 1975 through FY 1977 AID obligated \$756 million to the GOE to support eighteen capital projects. Five of these (totalling \$288 million) were on a grant basis to the GOE, including two (involving \$44 million) which are being handled largely as commodity loans. Thirteen other projects (\$468 million) are loans to the GOE aimed generally at increasing either basic infrastructure or industrial production. "New Directional" projects will take on increasing importance in FY 1978. A detailed project listing is provided in Annex Table I.

3. Technical Assistance Projects

From FY 1975 to date, AID has obligated about \$95 million to support fifteen non-capital grant projects of rather diversified natures. Included are three special direct transfers (\$27.6 million) to the Department of Defense for clearance of the Suez Canal and of Port Said harbor and for the transfer to Egypt of a Presidential helicopter.

Technical assistance activities have expanded considerably as project development has progressed. The FY 1975 projects for technology transfer and feasibility studies (later extended beyond FY 1975) were used to support project identification and development. Disbursements on these projects are proceeding normally. Major projects in rural health, water management and irrigation, family planning, scientific research, a range of agricultural efforts, a hydrographic survey, and a special review of U.S. assistance to Egypt have been undertaken, and are expected to lead to activities of amplified scope and geographical coverage. An increasing number of projects are in "new directions" areas. See a detailed listing provided in Annex Table I.

#### 4. PL 480 Titles I and II

Since 1974 the U.S. has financed \$459 million for PL 480 Title I commodities and has just signed an FY 1978 agreement valued at \$170 million. The major portion of this assistance has been for wheat grain and flour. Some financing has also been provided for tobacco. The wheat provided has been a critically important element in meeting the demand for this basic foodstuff by the growing Egyptian population.

Title II grant obligations since 1974 have totalled about \$25 million and have been used to support school feeding and MCH programs in Egypt.

## II. ECONOMIC BACKGROUND AND JUSTIFICATION

### A. General Economic Background

#### 1. Production

Available GDP data indicate that, after exceeding 4 per cent during the two years ending June 1972, the real growth rate of the economy dropped to about 3 per cent in 1973 and 1974. In 1975 this decline was reversed, with a substantial jump occurring in the real growth rate to about 10 per cent. This rise was caused mainly by the recovery of industrial, petroleum and construction activity. The 1975 growth in agricultural production, although greater than in 1974, at 2.4 per cent barely kept pace with population growth. Preliminary information indicates that real

growth of production in 1976 was below that of 1975 and in the range of 6 per cent. This is in line with what one would expect, given the one-time nature of the jump in capacity utilization in 1975 and the restricted amount of import financing that was available in the latter part of 1976. Preliminary 1976 import data show an across-the-board reduction from 1975 with intermediate and capital goods most affected. The sectorial composition of GDP is given in Annex Table III.

(a) Agriculture

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

In addition, incentives to farmers to increase production have been adversely affected by the government's policy of

maintaining basic food prices at a constant level during a period when other prices have risen appreciably. As a result, it can be estimated that the agricultural sector is providing something on the order of a LE 900 million annual subsidy, in the form of low prices, to the non-agricultural sectors. This figure can be compared with 1976 gross value added in agriculture of about LE 1,500 million. The GOE recognizes the importance of adequately encouraging agricultural production. The problems in doing so, however, are obvious - as the January 1977 urban riots following an increase in some food prices demonstrated. Nonetheless, one of the first areas the GOE has requested the AID-supported University of California team to carry out research is price levels and subsidies affecting agriculture. The financing provided through the U.S. CIP program is directed, in part, toward both encouraging and supporting the GOE in undertaking a politically realistic program of economic reform that includes rationalizing the price system.

(b) Industry and Mining

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

Foremost among the factors accounting for the improved performance of the industrial sector in 1974 and 1975 was the increased availability of foreign exchange. The Ministry of Industry was allocated a total of LE 403 million under the Foreign Exchange Budgets for 1974 and 1975, as compared with only LE 132 million in 1973. Furthermore, foreign exchange from exports through the parallel market, which was established in September 1973, began to be received; this exchange could be used freely to import necessary production inputs. Also imports financed under own exchange procedures have increased rapidly - totalling about \$400 million in 1976. With the greater availability of foreign exchange and improvements in import procedures, imports of raw materials and spare parts increased substantially. This allowed a reduction in the level of slack industrial production capacity, which had been estimated at about 30 per cent at the end of 1973.

For the medium term, the continued provision of concessional commodity import financing is an essential requirement for continued growth in industrial production for two reasons. First, such

financing directly ensures the adequate availability of raw and intermediate materials and spare parts that are necessary for greater industrial production. Second, in the absence of U.S. CIP loans and other similar financing, the Egyptian economic situation would be sufficiently grim that the GOE would probably hesitate to initiate the reforms that are necessary for future growth. In addition to a pressing need to restructure institutional relationships, the perverse impact of imbalanced price relationships is as pervasive in the industrial sector as in agriculture.

## 2. Investment

Gross investment hovered at around 13 per cent of GNP until 1974, when its share began to shoot up - reaching 21 per cent in 1975 and 1976. Gross national savings stagnated at about 7-8 per cent of GNP through 1975. The Egyptian Five-Year Plan estimates that national savings increased to about 12 per cent in 1976 and tentatively estimates a further increase occurred in 1977. The March 1977 IBRD report on the Egyptian economy had somewhat lower estimates for 1975 investment and GNP than those more recently presented in the Five-Year Plan. As a result the IBRD estimate for national savings in 1975 was only 3.3 per cent of GNP. Although recent qualitative assessments under the AID-financed MIT contract suggests higher estimates for GNP and savings; there is clearly a need for more analysis in this area.

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

As regards the sectoral distribution of investment to date, while the commodity sectors received the largest proportion, the percentages going to the distribution and service sectors increased. Among the commodity sectors, the share of agriculture fell rapidly and now accounts for less than 10 per cent of the total, while that of industry remained more or less the same (32-37 per cent of the total). The CIP has been utilized, mainly by public sector companies, to import some of its needed capital goods. The larger investments in the distribution and service sectors occurred mainly in transportation and housing.

## 3. Public and Private Consumption

The pattern of resource utilization in Egypt is weighted in

favor of consumption, which in recent years has absorbed about 90 per cent of gross domestic product (GDP). Private consumption, which has been largely shielded from price increases by the policy of subsidizing essential items, has accounted for about 65 per cent of GDP, with the remainder being made up of consumption by the government. Yet, private consumption utilizes a relatively low share of available resources in comparison to other developing countries with the same level of per capita GNP. Eighty per cent of the countries with per capita incomes between \$200 and \$300 in 1974 had higher shares of GDP going to private consumption than Egypt.

The information that is available on the distribution of private consumption in Egypt indicates that the Egyptian income distribution is quite egalitarian by developing country standards, and has not deteriorated noticeably over time. Annex Tables IV and V present preliminary estimates of the Egyptian income distribution and the composition of private consumption at different income levels.

#### 4. External Financing Requirement

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

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

Egyptian Resource Availabilities and Utilization<sup>1/</sup>

(all figures in per cent of GNP)

	<u>1970/71</u>	<u>1971/72</u>	<u>1973</u>	<u>1974</u>	<u>Est. 1975</u>	<u>Est. 1976</u>
<b>Resources:</b>						
GNP	100.0	100.0	100.0	100.0	100.0	100.0
Net Imports of Goods & Services	<u>5.5</u>	<u>4.7</u>	<u>6.9</u>	<u>15.5</u>	<u>19.4</u>	<u>7.4</u>
Total Resources Available	105.5	104.7	106.9	115.5	119.4	107.4
<b>Utilization:</b>						
Consumption	(92.4)	(91.9)	(93.6)	(97.9)	(92.1)	(87.3)
Public	25.9	27.1	28.8	28.7	24.8	24.5
Private	66.5	64.8	64.8	69.2	67.3	62.8
Investment	(13.1)	(12.9)	(13.4)	(17.6)	(27.3)	(20.1)
Gross Fixed Investment	11.2	10.6	12.3	15.7	23.4	19.7
Stock Increased	<u>1.9</u>	<u>2.2</u>	<u>1.0</u>	<u>2.0</u>	<u>3.9</u>	<u>.4</u>
Total Utilization	105.5	104.7	106.9	115.5	119.4	107.4
(Gross National Savings)*	( 7.6)	( 8.1)	( 6.4)	( 2.1)	( 7.3)	(12.7)

\*Equals GNP less consumption or, alternatively, investment less net imports.

<sup>1/</sup> Based on IBRD data for 1970/71 through 1974 and GOE Five-Year Plan for 1975 and 1976. Totals may not add due to rounding of numbers.

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

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

## B. Economic Justification

### 1. Balance of Payments

#### (a) General

Recent developments in the Egyptian balance of payments and preliminary projections for 1978 are shown in Annex Table II. Estimates for 1978 must be considered very tentative as there is a scarcity of good data since the GOE's 1978 budget has not been made public and the IMF and World Bank have not released their most recent reports. These estimates will have to be reviewed at the end of 1977 to determine their accuracy. Imports for 1976-8 were projected in constant 1975 prices by major category utilizing recent trends in the composition of these imports related to the corresponding GDP component (i.e., consumption goods related to private consumption, capital goods imports related to gross fixed investment and intermediate goods related to GDP). These projections were then inflated to current prices and 1976/7 estimates compared with the IMF and World Bank projections to check on the reasonableness of our 1978 projection. This methodology may need to be revised when more data becomes available.

Between 1973 and 1977, exports are expected to increase by about 130 per cent and imports more than triple in current prices. Although a significant portion of these increases is a reflection of price increases, there has also been substantial real growth in imports and, to a lesser extent, in exports as well. Overall, 18 per cent of the expected increase in the import bill between 1973 and 1977 is for greater payments for basic food and consumer imports not including 16 per cent of the increase for own exchange imports, the majority of which are probably for consumer goods, and the remaining 63 per cent for intermediate and capital imports required more directly for the development efforts. The detailed composition of Egyptian imports is given in Annex Table VI for 1975 - the last year for which statistics are available. This table read in conjunction with the statistics on U.S. CIP utilization in Section IV would indicate that no major problems will exist in the timely utilization of the current proposed FY 1978 CIP loan.

The net inflow of commodities (imports less exports) increased from \$668 million in 1973 to \$3,200 million in 1977. The Mission has currently projected a further increase to \$3,600 million in net commodity imports in 1978. As discussed above, it is this massively expanded availability of foreign commodities that has permitted Egypt to increase the level of investment from 12 per cent of GDP in 1973 to over 20 per cent currently.

With the reopening of the Suez Canal in July 1976, and a substantial increase in tourism earnings, Egypt has been able to increase dramatically its own financing of this net commodity inflow. Net earnings from services and transfers (including own exchange transactions) increased from \$13 million in 1973 to an estimated \$1,600 million in 1977. For 1978, a further increase to \$1,700 million is presently projected with approximately \$700 million in "own exchange" financing, largely through workers' earnings abroad.

(b) Foreign Financing

Although Egypt increased its own financing of net commodity imports, the major portion of the increased inflow has been made possible by large increases in net foreign financing availabilities (i.e., after capital outflow requirements are met). This latter financing is anticipated to increase from \$655 million in 1973 to \$1,600 million in 1977 (excluding financing for military equipment). A further increase in the need for this net foreign financing has been tentatively projected at the \$1.9 billion by the Mission for 1978.

Because Egypt has made substantial use of relatively short-term and, in several instances, expensive commercial financing to cover part of the cost of increased imports, debt servicing has increased substantially. This has increased the gross need for foreign financing above what would have been the case had more medium- and long-term financing been available in the early 1970's. The 1977 gross repayment of suppliers credits and net repayment of bank credits is anticipated to equal \$710 million, compared with a 1973 outflow of only \$56 million.

Amortization of medium- and long-term debt between 1973 and 1977 (excluding debt repayment under clearing accounts) increased from \$131 million to an estimated \$840 million. Clearing accounts deficits are expected to reach \$195 million in 1977 compared to \$113 million in 1973. Overall, payments on this account are estimated to have increased from \$520 million in 1973 to \$1,745 million in 1977. The net result of the above was an increase in gross foreign financing from \$1.2 billion in 1973 to \$3.3 billion in 1977.

For 1978 the Mission has provisionally projected debt servicing at \$1.03 billion. Whether this total debt payment of \$1.03 billion will be possible, or whether some of the outstanding shorter term credit will have to be rolled over, will be dependent on the amount of longer term foreign financing that is available - particularly from the Arab countries. With a \$1.9 billion deficit projected for Egypt's 1978 current account deficit, the total financing needed is estimated at \$2.9 billion. The decrease from 1977 is a result of the substantial reduction in commercial debt and arrearages accomplished in that year.

(c) Need for Balance of Payments Assistance

Based on its preliminary assessment of foreign exchange needs over the next couple of years, the GOE has requested a level of \$350 million for the FY 1978 CIP. We have this amount under review but believe it is necessary to review the situation during CY 1978 before making a final decision on this higher level. It is possible that this requested level is in part, based on the GOE's desire not to see a precipitous drop in the CIP from its level of \$440 million in FY 1977, even though this level was originally set at \$250 million and only increased as a result of the January 1977 disturbances. However, the more probable explanation relates to the demand for FX allocations among the various ministries which utilize most of the CIP. We have preliminary

indications that over \$300 million had been requested by these ministries for CY 1978 alone.

As discussed above, our current estimate is that Egypt needs an estimated \$2.9 billion for imports and debt financing to support the development effort while at the same time maintaining domestic stability and meeting its international obligations. It is informative to review foreign financial commitments to Egypt on the basis of currently active official loan agreements.

Outstanding Loans from Foreign Governments  
and International Organizations\*

	<u>Disbursed</u>	<u>Undisbursed</u>
Arab	\$2,545	\$ 850
U.S. <sup>1/</sup>	646 <sup>1/</sup>	1,263 <sup>1/</sup>
Non-U.S. Bilateral	475	1,100
Multilateral	243	600
TOTAL	\$3,909	\$3,813

\*Based on World Bank data as of 9/30/76 adjusted by Mission based on available data to 9/30/76 (excludes rescheduled loans and assumes all Arab financing in 1977 is on a loan basis).

<sup>1/</sup> Includes both AID and PL 480.

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

It is estimated that for CY 1977, Arab countries will provide \$2.1 billion but that in CY 1978 only \$1.6 billion will be forthcoming as GODE loans and guaranties become part of the general Arab assistance. Further, it is entirely unpredictable what effect President Sadat's recent political initiatives regarding a Middle East peace settlement will have on additional Arab financing. We have to assume, given the divergence of Arab opinion in this matter, that the preliminary figure of \$1.6 billion is optimistic. Even with this amount, Egypt's additional FX financial needs in CY 1978 are still at the \$1.3 billion

level. Taking into account commercial credits, GOE bond sales and other monetary movements, exclusive of bilateral and multilateral assistance, our current estimate is that Egypt will need slightly over \$1 billion in assistance. Indications are that about half of this assistance will be forthcoming from non-U.S. bilateral aid and PL 480 Title I. Thus, AID needs to provide the estimated residual amount of \$555 million in CY 1978 (see Annex Table II). In order to meet this requirement we feel that a \$250 million CIP loan is clearly justified now. If our review later in the Fiscal Year indicates a higher level of assistance would be required we will submit a recommendation then for an additional amount.

Although the situation in 1979 can not be projected with any quantitative precision, the broad elements of the balance of payments can be qualitatively outlined. Commodity exports and imports should grow in a fashion similar to that projected for 1978. Therefore, the real net inflow of commodities in 1979 is likely to be only slightly greater than in 1978. Net service earnings should also continue to grow, with the result that the net foreign financing requirement in 1979 should be about the same as in 1978. Debt servicing should be somewhat down as a result of some restructuring of the short-term debt in 1977 and 1978. As a result gross foreign financing needs in 1979 should be down somewhat from the level projected in 1978.

## 2. Public Finance

The Egyptian budgetary system is complex, and substantial double counting due to interbudgetary transfers makes fiscal analysis difficult. The coverage of the various budgets has also changed with the progressive transfers of responsibilities from the central ministries to the public authorities. Moreover, in the interest of security, details are not released on the operation of the Emergency Fund other than global figures for outlays and, in 1976 for the first time, the overall deficit. However, more information is available now than in previous years.

In spite of the fact that the GOE has very successfully mobilized domestic resources for government programs (Central Government tax revenues are about 22 per cent of GNP), the financial situation of the public sector in recent years has been characterized by a serious imbalance between revenue and expenditure. Major problems have been caused by the need for continuing heavy defense expenditure before and after the October 1973 war and the decision to stabilize the prices of essential commodities through subsidies from the budget. The main

costs of subsidization have been met by the General Authority for Supply Commodities, whose commodity trading losses increased from LE 11 million in 1972 to LE 419 million in 1975. A separate Special Fund for Subsidies was established in 1975 to consolidate all direct subsidies in one fund; in that year the cost of these subsidies was LE 523 million. If the deficits of the public authorities and Public Economic Organizations (the "public economic sector") are also treated as subsidies, subsidization can be said to have absorbed 30 per cent of tax revenue in 1973, 71 per cent in 1974 and 66 per cent in 1975. The increasing requirement for subsidies has been a major factor in the growth of the overall deficit from 15 per cent of GDP in 1973 to 19 per cent in 1974 and to perhaps 24 per cent in 1975. Because of the elimination of some subsidies and reduced import prices it was possible to reduce subsidies in 1976 and 1977.

Despite the problems caused by the war situation, there has been a progressive increase in public investment expenditure in recent years. Expenditures in 1974 exceeded those of 1973 by 25 per cent and figures for 1975 indicate a further increase of 17 per cent. Moreover, it is reported that an additional LE 184 million was utilized from the Emergency Fund in 1975 for reconstruction and development in the Suez Canal area. In 1975, as in previous years, the main thrust of the investment program was in the manufacturing sector with the very substantial investment in the petroleum industry being to a large extent financed directly by foreign oil companies. Priority was given to the completion of major projects such as the extension of the steel complex at Helwan, the fertilizer plant at Talkha and the aluminum complex at Nag Hamady. The 1976 investment program was reviewed and revised in light of the overall financial situation. The original budgetary estimate was for investment expenditure of LE 1,252 million of which LE 530 million was to be deferred pending the outcome of negotiations for concessional external financing. Actual investment expenditures in 1976 are estimated at about the same level as in 1975 in constant prices. Preliminary estimates for 1977 contained in the Five-Year Plan show nearly a 20 per cent increase in the real level of investment. The CIP will continue to be utilized by many ministries to import necessary capital goods. This program represents an important element in GOE investment plans.

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

Despite the substantially increased provision for investment expenditure and the higher budgeted deficit of the Emergency Fund, it proved possible to prepare a financial program in 1976 which reversed the recent trend toward increasing reliance on domestic bank financing of the budgetary deficit. A further reduction in the budget deficit is foreseen for 1977. Data for 1978 is not yet available.

### III. SUMMARY OBJECTIVES FOR PROPOSED CIP LOAN

The objectives for the proposed \$250 million program loan can be categorized among short- and medium-term political and economic objectives.

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

The economic objective of the CIP loan is to provide a portion of the foreign financing that is necessary to permit a substantial Egyptian development program to be mounted. Private consumption is already low. Public consumption levels are dictated by the unsettled Mid-East situation and the need to provide essential government services to the population. Egypt has recently been able to mount an investment program that totals about 21 per cent of GDP as a result both of increased foreign financing and greater levels of savings. Significant balance of payments financing, like that provided under the U.S. CIP program, will be necessary until domestic savings can be further increased. This latter development will be made possible by progress toward a settlement in the Mid-East (permitting lower defense expenditures) and by more rapid economic growth (which in turn is being made possible by the currently high level of B/P financing and capital project assistance).

#### IV. LOAN IMPLEMENTATION

##### A. CIP Setting

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

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

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

GOE procedures are nearly identical for all public sector users except for layering and the attendant higher level approval and decision processes required of subordinated entities. The user's central controlling organization initiates the procurement action, turning ongoing details over to the user to resolve. The controlling organization maintains a purchasing committee composed of the member users and controlling organization officials. Separate technical and awards committees are also maintained. Once a purchase is planned, these committees come into action, analyzing supplier proposals,

recommending awards and monitoring the purchase. Final decision to place an order is made by the organization director or the sector's Minister depending upon the nature of the purchase. There are some variations in this procedure. In some areas, the ultimate users form their own buying group with Ministry approval and conduct purchasing similar to a buying association in the United States. In other areas, the buyer is the single industrial user or an authorized distributor, and purchase authority may be delegated directly to the buyer after initial approval of the suballocation.

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

#### B. Past Experience

Utilization of the CIP has increased substantially over the past year. As the Egyptians have become more familiar with regulations and procedures governing A.I.D. procurement, and USAID has developed a closer working relationship with its local counterparts, the drawdown of loan proceeds has accelerated markedly. See the following two tables that summarize the current status of the CIP.

There are still problems that impede implementation of the CIP, but positive steps have been initiated to overcome these handicaps. To date there have been 104 separate organizations participating in CIP, purchasing either as the ultimate user or as a buying authority for several satellite members. Each loan has had the major portion allocated to the same Ministries, but the purchases have often been by new end users unfamiliar with A.I.D. procedures.

An A.I.D. procedure that has worked to inhibit loan utilization in the past is the routine application of the formal bid requirement for public sector buyers -- a procedure that requires mutually agreeable detailed purchase contract terms and a step-by-step

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

EGYPT PROGRAM LOANS AS OF NOVEMBER 30, 1977

(In Millions of U.S. Dollars)

LOAN NO. (date Agmt. signed)	AMOUNT	L/COMs	L/Cs	DISBURSED 10/31/77	UNDISBURSED BALANCE		
					UNLIQUIDATED	UNCOMMITTED	TOTAL
263-K-026 (2/13/75)	80.0	80.0	79.0	65.8	13.2	1.0	14.2
263-K-027 (6/30/75)	70.0	70.0	58.5	45.8	12.7	11.5	24.2
263-K-029 (12/18/75)	100.0	100.0	96.1	34.0	62.1	3.9	66.0
263-K-030 (5/22/76)	150.0	150.0	108.7	37.7	71.0	41.3	112.3
263-K-036 (9/30/76)	65.0	65.0	22.1	.2	21.9	42.9	64.8
263-K-038 (3/6/77)	440.0	432.5	160.3	68.8	91.5	279.7	371.2
<b>Total</b>	<b>905.0</b>	<b>897.5</b>	<b>524.7</b>	<b>252.3</b>	<b>272.4</b>	<b>380.3</b>	<b>652.7</b>

COMMODITY

VALUE (Millions)

Corn	40.0
Edible Oil	92.5
Frozen Poultry	13.0
Tobacco	21.5
Coking Coal	30.0
Soybean Meal	11.0
Soybean Seed and Inoculants	2.0
Tallow	115.1
Wood Pulp	22.0
Graphite Electrodes	6.0
Acetate Tow/Cigarette Paper	17.0
Kraft Paper	9.0
Herbicides	1.7
Tinplate	16.0
Synthetic Rubber	4.3
Plastics	5.0
Buses and Spare Parts	69.5
Marine Diesel Engines	3.7
Scientific Equip. (sens.)	1.1
Heavy Duty Construction Equip.	15.0
Spare Parts (Electronic)	1.7
Microwave System and Equip.	20.6
Cement Plant Equip.	6.0
Cranes/Dredgers	2.5
Broadcasting Equip.	20.0
Farm Tractors (Unassembled for re-sale)	20.3
High Voltage Elect. Cables	18.5
Grain Unloaders	3.0
Electrification Equip.	5.0
Refuse Collection Equip.	6.5
Printing Press Equip.	14.0
Medical Equip (Min/Health)	6.5
Spare Parts (Transportation)	1.0
Compressors/Generators/Power lines	10.0
Railroad Wagons (Excess Prop)	1.0
Railroad Refrigerated Cars	3.0
Railroad Engine Spare Parts	5.0
Railroad Locomotives	30.0
Street Lighting	5.0
Trucks and Trailers	20.0
Farm Equip. (assembled)	5.0
Automatic Bakeries )	
Ice Making Machinery )	31.0
Macaroni Making Machinery)	
Machinery for Processing Agric. Products	2.0
Scientific and Medical Equip. (Min/Education)	2.5
Private Sector	20.0
Port Handling Equip.	6.5
Suez Canal Authority Equip.	25.0

COMMODITYVALUE (Millions)

Shiplist Dry Dock	3.0
Tugboat	.9
Water Pumps and Spares	2.0
Industrial Equip. (GOFI)	29.0
Mining Equip., Welding Equip., Tire Plant Equip, Match Making Mach., Rotary Hearth Furnace, Boilers etc...	
Tools, Trucks, Metals, Electric Equip., (for resale)	8.0
Others	67.6

---

Totals

897.5

bid analysis permitting no deviation from published bid invitations. This procedure was being applied to each GOE purchaser, because each purchaser was a government owned entity. As A.I.D. has become familiar with the situation in Egypt, it is obvious that we have large segments of the "public sector" that behave and operate exactly as private commercial entities in other parts of the world and the United States.

Industrial concerns that had established supply contracts with U.S. firms, and distributor/wholesaler concerns that had agency agreements to promote, distribute and service a U.S. manufacturer's product were unable to participate. Organizations charged with the responsibility of maintaining a supply of resale commodities, such as office machines, ink and other non-luxury items, were unable to negotiate for brands acceptable to the buying public. With recent reanalysis of the public sector's make-up, these public-commercial organizations have had greater opportunity to participate. Systems other than formal competitive bid procedures have been used for approximately 17 percent of the CIP transactions over the past year.

Other major foreign exchange sources, such as GOE-owned FX, Saudi credits, Arab nation contributions and other donor's aid, simply fund the results of a normal GOE procurement. Thus, the individual Ministries and their sub-organizations routinely purchase their requirements using long established practices, then issue purchase payment documents. This, of course, does not mesh well with A.I.D. procedures that are designed both to notify the U.S. businessmen well in advance of a purchase and establish formal contract terms that are acceptable to both A.I.D. and the U.S. business community as a whole. USAID has on-going programs to brief organizations receiving their first A.I.D. allocations and alert them to the preliminary work required under A.I.D. regulations.

All of the above did, in fact, inhibit purchasing and disbursements in the initial phase of the CIP program. However, greater familiarity of both the GOE and AID with each other's procedures; increased repeat business; trends toward fast disbursement, large volume commodities in lieu of long leadtime capital goods and greater AID flexibility on negotiated procurement have all had a major impact on speeding up utilization. Thus, in the period July through October 1977, \$192 million in Letters of Credit were opened, equal to an annual rate of \$576 million and disbursements amounted to \$132 million, equal to an annual rate of \$396 million.

C. Proposals for New Loan

Over the past year, the emphasis on funding a large volume of capital equipment has somewhat lessened. Approximately 60 percent of the FY-77 CIP was allocated for food staples and industrial raw materials. It is anticipated that a substantial portion of this loan will be used to finance food staples and raw materials, thus permitting foreign exchange budgetary support in the near term. Bulk commodities generally require less preliminary procurement lead time, are purchased in large quantities and have short (3 - 6 months) delivery terms. The remainder of the loan is expected to flow into capital goods such as plant machinery, transport and communications items and construction equipment. It is anticipated that there will be some procurements of long lead-time equipment that may require extension of residual portions of the loan. This type delay is inherent in any CIP, where a loan is utilized by a large number of buyers with diverse requirements.

There remains some differences of opinion within the GOE on whether the overall emphasis in utilizing this CIP loan should be directed toward consumable food products or industrial raw materials, spare parts and other equipment needed to revitalize and stimulate overall industrial production. USAID will take all necessary steps to close this gap prior to loan negotiation so that firm allocations to purchasing Ministries can then be promptly made. Pending that resolution, we are estimating that the commodity composition at the \$250 million level will be approximately the following:

- a. allocations for consumer requirements, primarily food, including vegetable oil, corn, poultry and tobacco.....80 million
- b. industrial raw materials and spare parts such as tallow, kraft paper, wood pulp, iron and steel, machinery spares, coking coal, etc.....75 million
- c. capital goods of a relatively simple variety, for which procurement can be readily expedited, including trucks, electrical cables, construction machinery, compressors, welding equipment, etc. ....70 million

- d. allocations to private sector, primarily for building materials and industrial spare parts  
.....25 million

---

250 million

This loan, which is \$190 million less than the last loan, and \$100 million less than preliminary GOE requirements estimates for this loan, will necessitate a close examination of priorities by the GOE. Prior to the \$440 million FY-77 loan, CIP financing could not be used for food. After the broadening of the commodity eligibility list by the inclusion of food items, the Ministry of Supply purchased approximately \$165 million worth of food staples under the CIP. There is a continuing requirement for funding industrial raw materials, replacement machinery and spare parts. We also expect to fund some capital goods such as transport and communications equipment. The GOE will have to substantially reduce CIP allocations to the Ministry of Supply (\$195.5 million, FY-77) and the Ministry of Industry (\$154.5 million, FY-77), in FY-78.

Although there will be continuing need to fund some long lead-time capital goods, we intend to minimize long duration capital goods purchasing by emphasizing where possible, repeat purchases of equipment already defined and successfully purchased, thus cutting procurement lead-times. However, the terminal disbursement date for this loan should be established 24 months from the date Conditions Precedent are met in order to give sufficient time to procure the capital goods which will be bought. One of the most difficult drawbacks to procurement of capital equipment has been that equipment needed to improve production in almost any sector has a long procurement production delivery lead-time. Much is custom manufactured or produced only on order. Buyers with a need for equipment that requires 18 months for delivery are precluded from participating, because the initial purchase preparation lead-time, coupled with suppliers' delivery times, exceed loan terminal dates. Although terminal dates are later extended, this additional time often is provided too late to initiate long lead-time purchases or use residuals when a planned purchase has to be cancelled and reallocated.

One drawback to any massive change to financing short leadtime commodities is the overall consideration of price between U.S. sources and other world sources. The U.S. compares unfavorably in price for items such as steel and plastic and especially ocean transportation costs for distances beyond nearby European sources. These cost differences are important to GOE buyers. Therefore, the U.S. can be used essentially for those commodities where the U.S. is competitive rather than the full range of items normally purchased by the GOE from all sources. This comparative pricing element was significantly affected when CIP loans were shifted from the official to the parallel exchange rate in keeping with the GOE's program of economic reform. This has resulted in some AID financed purchases being cancelled following initial purchase efforts when offered prices are more than the Egyptian buyer can justify in comparison with non-U.S. source prices for the same commodity. In some instances it may be appropriate for the GOE to provide some incentive to the end user of CIP imports. This is being discussed with the GOE.

Under the last two commodity loans, the GOE began an effort to make commodity loan funds available to private sector importers. \$25 million has been allocated for the import of industrial equipment, raw materials and spare parts. There has been some delay in establishing procedures and incentives as this is a new area of GOE activity. Formal agreement has been reached streamlining import formalities. The initiation of this essential aspect of AID is nearing completion as the GOE reviews the need for local currency financing arrangement for private importers.

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

D. Required Steps to Expedite Utilization

It is estimated that \$70 - \$100 million can be disbursed and have substantial effect during the first twelve months after CP's are met.

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

	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>
Prior Loans	\$310 million	\$100 million	\$20 million
This Loan	\$ 70 million	\$120 million	\$60 million
	<hr/>	<hr/>	<hr/>
	\$380 million	\$220 million	\$80 million

The utilization and its budgetary support effect will not be possible if the loan itself, or its preliminary approval by A.I.D. and the GOE, are slowed by lengthy administrative procedures. Thus:

- a. the loan paper and PAAD require immediate approval
- b. the GOE must sort out its priorities and should allocate the loan prior to meeting conditions precedent to enable users to begin processing requirements
- c. the GOE must speed ratification of the loan by the People's Assembly
- d. the GOE must establish a system to review all applications for foreign exchange to assure that eligible imports are financed through the CIP whenever possible
- e. A.I.D. must expedite purchase requests and waivers.

### E. Review of CIP Transactions

USAID will continue to review CIP transactions to assure that they are not inconsistent with A.I.D.'s program strategy and that transactions, if financed, would not be detrimental to the over-all program. However, in order to support CIP objectives to meet Egypt's short-term balance of payments problems and to provide materials and equipment on an expeditious basis, the review and procedures should be as simple as possible.

The USAID review of CIP transactions shall consider the following factors during the review cycle:

1. At the time of the CIP allocation by the Egyptian Ministry of Economy, USAID will discuss with the GOE any development, economic policy and/or implementation issues that may evolve out of the allocations to Ministries, public sector entities or the private sector.

2. For specific procurement actions which are identified following the allocation process, USAID will decide whether developmental review is necessary and the depth of such a review, taking into account such factors as new vs. repeat commodity transactions, private vs. public sector procurement, new vs. replacement equipment, and large vs. small commodity procurement.

3. With respect to equipment and material purchases in excess of \$1 million for use in construction, expansion, equipping, or alteration of a physical facility, USAID will review the soundness of the transaction and will generally satisfy itself that the activity is reasonably sound and that the expansion or construction can effectively be carried out by the end-user either directly or with appropriate technical services.

### V. IMPACT ON U.S BALANCE OF PAYMENTS

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

### VI. USE OF CIP GENERATED LOCAL CURRENCY

Egyptian pounds generated by this loan will be utilized for general GOE expenditures. As a matter of policy, AID does not plan to involve itself in the Egyptian Government's budgetary process by participating in the programming of the local currency proceeds. AID looks

to the IMF and IBRD with respect to recommending corrective monetary and fiscal measures. Egypt is an excess currency country and sufficient funds are available for local USG requirements. To date, the availability of local currency to support AID projects and programs has been met by the Government of Egypt. In recognition of budgetary constraints, AID is working closely with the GOE to assure that local currency requirements for projects will continue to be provided on a timely basis.

VII. RECOMMENDATIONS

It is recommended that a loan to the GOE of \$250 million (\$250,000,000) be authorized for financing imports of selected agricultural, industrial, and consumption commodities and related services on the following terms:

a. repayment in United States dollars in no more than thirty (30) years after the first disbursement for \$74 million of the loan amount and forty (40) years after the first disbursement for the remainder including a grace period of not to exceed ten (10) years.

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

c. unless A.I.D. agrees otherwise in writing, procurement with loan funds from the United States

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

ANNEX OF TABLES

<u>NUMBER</u>	<u>TITLE</u>
Table I	<u>U.S. Economic Assistance Program for Egypt:</u> <u>FY 1975-77</u>
Table II	<u>Egypt: Balance of Payments</u>
Table III	<u>Gross National Product by Kind of Economic Activity</u>
Table IV	<u>Egyptian Income Distribution</u>
Table V	<u>Consumption Patterns for Egyptian Households</u>
Table VI	<u>Commodity Composition of Imports</u>

TABLE I

U.S. ECONOMIC ASSISTANCE PROGRAM FOR EGYPT: FY 1975-77  
(Millions of Dollars: As of October 31, 1977)

	<u>FY 1975</u>	<u>FY 1976*</u>	<u>FY 1977</u>
<b>I. SUPPORTING ASSISTANCE</b>			
<b>A. <u>Technical Assistance Projects</u></b>			
Technology Transfer & Manpower Development	1.0	2.0	4.5
Technical and Feasibility Studies	1.0	15.0	18.0
Suez Canal Clearance	22.0	--	--
Helicopter Transfer	3.0 <sup>a/</sup>	--	--
Improvement of Irrigation Water Use & Management	--	1.5	0.3
Rural Health Service Delivery System	--	1.8	--
Port Said Minefield Sweep	--	2.6	--
Integrated Social Work Training Centers	--	--	1.0
Family Planning Program	--	--	4.0
Applied Science/Technology Research	--	--	3.9
Agricultural Development Systems	--	--	1.2
Poultry Development	--	--	0.47
Rice Research Center and Training	--	--	2.37
Hydrographic Survey for Suez Canal (Port Said)	--	--	3.0
Review of U.S. Assistance to Egypt	--	--	0.75
<b>TOTAL</b>	<u>27.0</u>	<u>22.9</u>	<u>44.99</u>
<b>B. <u>Capital Assistance Projects</u></b>			
<b><u>Grants</u></b>			
Electric Power Distribution Equip. for Suez Canal Cities	30.0	--	--
Heavy Road Construction Equipment for the Suez Canal Area	10.0	4.0	--
Ismailia Electric Power Plant (300 MW)	--	99.0	42.0
Suez Cement Plant (1 million tons/year)	--	90.0	--
Port Said Salines (Salt Refining Facilities)	--	--	13.0
<b>Sub-Total</b>	<u>(40.0)</u>	<u>(193.0)</u>	<u>(55.0)</u>

TABLE I continued

- 2 -

	<u>FY 1975</u>	<u>FY 1976*</u>	<u>FY 1977</u>
<u>Loans</u>			
Grain Storage Silos in Cairo and Alexandria	44.3	--	--
Equipping of PVC Pipe Production Facilities for the Upper Egypt Soil Drainage Program	--	31.0	--
Cargo Handling Equipment for the Port of Alexandria	--	31.0	--
Support for the Development Industrial Bank	--	32.0	--
Expansion and Modernization of Mehalla Textile	--	96.0	--
Establishment of the National Energy Control Center	--	24.0	--
Gas Turbines for Electric Power at Talka and Helwan	--	50.0	19.0
Electric Power Distribution Equipment for Cairo, Alexandria, Shibin el Khayma and Beni Suef	--	--	17.0
Grain Handling Equipment, and Fats and Oils Storage in Alexandria; Grain Storage Facilities in Safage	--	--	42.0
Expansion and Modernization of the Cairo Water Systems	--	--	30.0
Expansion and Modernization of the Alexandria Sewage Systems	--	--	15.0
Re-equipping and Provision of New Irrigation Pumps at 34 Locations in Upper Egypt	--	--	11.0
Provision of Canal Dredging and Maintenance Equipment	--	--	26.0
	<u>Sub-Total</u>	<u>(44.3)</u>	<u>(264.0)</u>
	<u>TOTAL</u>	<u>84.3</u>	<u>215.0</u>
C. <u>Commodity Import Program</u>	150.0	315.0	440.0
<u>TOTAL A.I.D. ASSISTANCE PROGRAM</u>	<u>261.3</u>	<u>794.9</u>	<u>700.0</u>

TABLE I continued

- 3 -

		<u>FY 1975</u>	<u>FY 1976*</u>	<u>FY 1977</u>
II. PL 430 PROGRAM				
A. Title I - Loan		93.1	182.9	197.
B. Title II - Grant <u>b/</u>		11.2	3.6	6.
	TOTAL	<u>109.3</u>	<u>136.5</u>	<u>203.</u>
	GRAND TOTAL ECONOMIC ASSISTANCE <u>c/</u>	<u>370.6</u>	<u>981.4</u>	<u>903.</u>

\*Includes Interim Quarter

a/ Includes \$1.3 million under Contingency Fund. All other A.I.D. figures FY 75-77 are from Security Supporting Assistance appropriations.

b/ Includes the estimated cost of ocean freight.

c/ Does not include Egyptian pound grants.

Best Available Copy

TABLE II EGYPT: BALANCE OF PAYMENTS<sup>1/</sup>  
(Current Prices, US\$ Millions)

	1973	1975	1976	Estimates	
				1977	1978
<b>I. FINANCING REQUIREMENT</b>					
<u>Trade Balance</u>	- 668	-3,255	-2,610	-3,200	-3,600
Exports, fob	1,015	1,717	1,790	2,300	2,700
Imports, cif <sup>2/</sup>	-1,683	-4,972	-4,400	-5,500	-6,300
<u>Net Services and Transfers</u>	13	822	1,420	1,600	1,700
Service Receipts <sup>2/</sup>	426	1,630	2,350	2,775	3,100
Service Payments	- 419	- 898	- 990	-1,225	-1,500
Net Private Transfers	6	90	60	50	100
<b>A. Current Account Balance</b>	<u>- 655</u>	<u>-2,433</u>	<u>-1,190</u>	<u>-1,600</u>	<u>-1,900</u>
<b>B. Capital Outflows</b>	- 520	1,073	- 745	-1,745	-1,025
Medium- & Long-term Debt					
Amortization	- 407	- 568	- 545	- 840	- 650
Net Change in Short-term Debt	--	- 264	--	- 710	- 250
Net Change in Bilateral Agreements	- 113	- 241	- 200	- 195	- 125
<b>C. Total FX Requirements</b>	<u>-1,175</u>	<u>-3,506</u>	<u>-1,935</u>	<u>-3,345</u>	<u>-2,925</u>
<b>II. FINANCING AVAILABLE</b>	1,175	3,506	1,935	3,345	2,925
<b>A. Arab Financing</b>	785	2,850	1,000	2,000	1,600
Grants	730	986	580)	)	)
Deposits	55	1,366	200)	1,475 )	1,475
Loans	3/	498	100)	)	)
GODE Loans & Guarantees	--	--	--	500 )	)
Other	--	--	120	125	125
<b>B. Non-Arab Financing</b>	<u>217<sup>3/</sup></u>	306	531	696	1,052
AID		16	115	248	555
PL 480 <sup>4/</sup>		55	82	180	162
IMF		- 30	144	113	145
IBRD		30	40	80	100
Other		235	50	75	90

Table II Continued

	<u>1973</u>	<u>1975</u>	<u>1976</u>	<u>Estimates</u>	
	<u>161</u>	<u>363</u>	<u>880</u>	<u>1977</u>	<u>1978</u>
C. <u>Commercial Credit</u>				<u>265</u>	<u>250</u>
D. <u>GOE Bonds</u>	0	0	0	<u>200</u>	<u>200</u>
E. <u>Other</u> (includes errors and omissions)	<u>12</u>	<u>- 13</u>	<u>- 276</u>	<u>84</u>	<u>- 177</u>

- 
- 1/ Based on April 1, 1977, IMF Report; March 22, World Bank Report and Mission estimates utilizing recent trends in the commodity composition of imports.
- 2/ Includes own exchange imports and their financing - largely through workers' earnings abroad.
- 3/ Both Arab and non-Arab loans are included under non-Arab assistance in 1973.
- 4/ Represents CCC financing only and does not include Egyptian 5 per cent initial payment.

TABLE III GROSS NATIONAL PRODUCT BY KIND OF ECONOMIC ACTIVITY  
(In millions of Egyptian pounds)  
(Current Prices)

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

<sup>1/</sup> Provisional estimates.

TABLE IV EGYPTIAN INCOME DISTRIBUTION  
(Share of Incomes Received by Different Income Stratas)

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

TABLE V CONSUMPTION PATTERNS FOR EGYPTIAN HOUSEHOLDS

	<u>Twenty-Fifth Percentile</u>		<u>Seventy-Fifth Percentile</u>	
	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>
Grains and Starches	22.3%	13.4%	17.1%	7.5%
Other Food	41.4	41.4	41.1	38.2
Clothing	10.2	12.9	10.7	14.0
Housing & Consumer Durables	14.5	17.9	12.2	17.4
Health, Education & Culture	1.7	3.2	2.2	10.2
Other	9.9	11.2	16.7	12.7
 	<hr/>	<hr/>	<hr/>	<hr/>
Total	100.0%	100.0%	100.0%	100.0%

TABLE VI COMMODITY COMPOSITION OF IMPORTS\* - 1975  
(in millions of dollars)

<u>Fuels</u>	\$ 266
Crude petroleum	<u>183</u>
Petroleum products	8
Coke and coal	75
 <u>Primary commodities</u>	 \$ <u>738</u>
Wheat	543
Tobacco	52
Maize	69
Wool	16
Sesame	6
Other	51
 <u>Intermediate commodities</u>	 \$ <u>1,578</u>
Animal fats and vegetable oils	345
Chemicals, n.i.c.	253
Unwrought, waste and scrap metals	39
Iron and steel	260
Dyestuffs and coloring	47
Wood	117
Paper and paper products	140
Fertilizers	95
Electrical products	53
Rubber and rubber products	35
Oils and wax	23
Other	163
 <u>Capital commodities</u>	 \$ <u>664</u>
Automobiles	247
Other transportation	33
Textile machinery	49
Electrical products	66
Earth moving equipment	38
Other	230
 <u>Consumer commodities</u>	 \$ <u>680</u>
<u>Durables</u>	<u>126</u>
Automobiles and motorcycles	(77)
Radio and television	(15)
Other	(34)
<u>Nondurables</u>	<u>554</u>
Wheat flour	(119)
Sugar	(105)
Tea	(32)
Coffee and cocoa	(10)

TABLE VI continued

Nondurables (cont'd)

Meat, fish and poultry	\$ (58)
Beans and lentils	(37)
Medicines	(17)
Disinfectants and insecticides	(85)
Paper and paper products	(34)
Other	(57)
Total	<u>\$3,925</u>

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

## Egypt: CIP Loan VII

Loan 263-K-0045

3A(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? No.
2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? The Secretary of State has so Determined.
3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? None of the known claims of any US citizen asserted against the GOE meet the criteria of this section. In any event, Egypt participated with the US in a joint commission to discuss debt of Egypt to US citizens and has agreed with the USG on an amount which the GOE will pay to settle these debts.
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? The Secretary of State has determined that Egypt's agreement to establish a Joint Commission to discuss compensation of American nationals constitutes taking appropriate steps for the purpose of this section.
5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? Egypt is not a communist country.

## A.

6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

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

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

The President, in accordance with 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.

8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

Egypt has reactivated its Investment Guaranty Agreement with the U.S.

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

No instance of any such seizure or imposition of such penalty or sanction is now known

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

Not applicable

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

Not applicable

10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?

No such default exists. Reconciliation is taking place between the books of AID and the Government of Egypt in regard to several very minor amounts.

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

The President has taken into account 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 project program contributes to the underlying intent of the FAA which seeks to reduce arms costs and to stimulate economic development.

## A.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? Egypt severed diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? Egypt has paid all of its outstanding U.N. obligations.
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, 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? Not applicable
16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No.
17. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? Egypt is not a "nuclear-weapon state".
18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No.

B. FUNDING CRITERIA FOR COUNTRY1. Security Supporting Assistance Country Criteria

- a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? No.

44

B1

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

Yes.

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

Commodities are not being furnished on a grant basis under this program.

## 2. Development Assistance Country Criteria

Not applicable.

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

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

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

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

- (1) Making appropriate efforts to increase food production and improve means for food storage and distribution.
- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.
- (3) Increasing the public's role in the developmental process.

B2d

Not applicable

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

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

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

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

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

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. App. Unnumbered; FAA Sec 653(b)

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

The Committees were notified of this program and of the amount of intended obligation in AID's Congressional Presentation for FY78.

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

The intended obligation for the program is within the level of funds appropriated for Egypt for FY78.

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

No further legislative action is required to implement the program than action ratifying the signed project agreement.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

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

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to:

(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

This program will increase the flow of international trade by providing the the necessary foreign exchange for the importation of goods. A portion of the program assistance is earmarked for the Egyptian private sector, thus tending to foster private initiative and competition.

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

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

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

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

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

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

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

This assistance will promote economic stability by providing vital foreign exchange required for Egypt's economic development, thus promoting economic and social stability.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

Not applicable.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

B2b

- (1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;
- (2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?
- (3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;
- (4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:
  - (a) to help alleviate energy problem;
  - (b) reconstruction after natural or manmade disaster;
  - (c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;
  - (d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.
- (5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

Not applicable

PAGE NO. 3A(2)-4	EFFECTIVE DATE November 2, 1977	TRANS. MEMO NO. 4:6	AID HANDBOOK 4, App 3A
---------------------	------------------------------------	------------------------	------------------------

B2

Not applicable

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

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

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only)

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

B3

Not applicable

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 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?

4. Additional Criteria for Alliance for Progress

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

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

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

3A(3) - STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

- |  |   |
|--|---|
| 1. <u>FAA Sec. 602.</u> Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?  | Procurement of commodities and services under the Loan will be according to established A.I.D. Reg. 1 procedures. |
| 2. <u>FAA Sec. 604(a).</u> Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?   | The loan authorizes procurement from the U.S. only, except as A.I.D. may otherwise agree in writing.              |
| 3. <u>FAA Sec. 604(b).</u> Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?  | A.I.D. Reg. 1 will be incorporated in the Loan Agreement to enforce statutory pricing restrictions.               |
| 4. <u>FAA Sec. 604(c).</u> Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? | Not applicable to this Loan.  |
| 5. <u>FAA Sec. 604(d).</u> If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?  | Egypt does not discriminate against U.S. marine insurance companies.  |
| 6. <u>FAA Sec. 604(e).</u> If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?  | See question 3. of item 3A(3), above.   |
| 7. <u>FAA Sec. 604(f).</u> Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?   | Yes, A.I.D. Reg. 1 certification requirements will be applied.  |

A

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?
9. MIA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.
10. International Air Transport. Fair Competitive Practices Act, 1974

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

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

Yes.

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

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?
3. Will arrangement preclude use of financing:
- a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?
- b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?
- c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?
- d. FAA Sec. 662. for CIA activities?

Yes. Necessary determinations under 620(h) will be issued.

Financing is not permitted to be used for such purposes.

Yes.

Yes.

Yes.

Yes.

3

B3

- e. App. Sec. 103. to pay pensions, etc., for military personnel? Yes.
- f. App. Sec. 106. to pay U.N. assessments? Yes.
- g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.
4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? Not applicable.