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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DECUMENT
(PAAD)

EGYPT: Commodity Import Program
(CIP) (263-K-616)

February 3, 1988

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

January 27, 1988

ACTION MEMO

TO : Marshall D. Brown, DIR

FROM : Paul O'Farrell, PDS/PPP

SUBJECT : Program Assistance Approval Document (PAAD) for the FY 1988 Commodity Import Program (CIP)

Attached is the PAAD for the FY 1988 CIP. It has been cleared by Mission offices (PDS/E (O'Farrell); FM (Miller); LEG (O'Donnell); IS (Huger); and IS/CMT (Richardson)). Funds are available (as per State Cable 020738; attached herewith). A CN is not required.

You are therefore requested to authorize the attached 1988 CIP PAAD by signing the face sheet (at cell Number 20).

In addition you are requested to approve the attached Action Memorandum dated January 28, 1988 entitled "CIP: Justification for maintaining the Special Account as an interest-free account with the Central Bank of Egypt".

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UNITED STATES

AGENCY FOR INTERNATIONAL DEVELOPMENT

EGYPT: FY 1988 COMMODITY IMPORT PROGRAM

AID GRANT No. 263-K-616

.2

CLASSIFICATION

AID 1120-1 (9-82)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. AID Grant No. (616)
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY Egypt 3. CATEGORY Commodity, Standard Financing Procedure 4. DATE

5. TO
Marshall D. Brown
Director, USAID/Cairo

6. FROM
Peter Gajewski
PPP/E

7. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 100,000,000

8. OYB CHANGE NO.
Not Applicable

9. OYB INCREASE
None

TO BE TAKEN FROM: Economic Support Fund

10. APPROPRIATION - ALLOTMENT
QES8-88-37263-KG-32, PER STATE (88) 020738

11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD
14. TRANSACTION ELIGIBILITY DATE
PAAD Authorization Date

15. COMMODITIES FINANCED
Items appearing in the A.I.D. Commodity Eligibility Listing that will be eligible for financing under this loan. Priority items are expected to include food commodities.

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: $100,000,000	U.S.: $100,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

FUNDS AVAILABLE
Initial ... A.A.

18. SUMMARY DESCRIPTION

18. Egypt's balance of payments continued to be in deficit during 1987. Export earnings are heavily concentrated in petroleum, worker's remittances, the Suez Canal and tourism. While earnings from these sectors, especially petroleum and workers' remittances, grew very rapidly through 1980, they consequently stagnated before declining sharply in 1986-their future growth potential is not buoyant. Supplements to export earnings must be developed in the commodity producing industrial and agricultural sectors in order to meet the import requirements for sustaining favorable trends in production, consumption and investment. However, it is necessary to change a range of domestic economic policies in order to accomplish this. Important initial steps were taken by the GOE in conjuction with the 1987 IMF standby and Paris Club debt rescheduling. More changes are needed. However, the results of these changes in stimulating exports will take several years. In the meantime, continuation of balance of payments assistance through the CIP is essential to provide vitally needed imports and to assist this adjustment process.

Controller concurs in the methods of implementing and financing stated herein.

19. CLEARANCES	DATE
LEG: KO'Donnell	1/27/88
AD/FM: WMiller	1/27/88
AD/IS: GHuger	1/28/88
IS/CMT: RRichardson	1/28/88
AD/PDS: JAPatterson	1/28/88
PPP/E: PGajewski	1/28/88

20. ACTION
☒ APPROVED ☐ DISAPPROVED
Marshall Brown — AUTHORIZED SIGNATURE — 2/3/88 DATE
Director, USAID/Egypt — TITLE

CLASSIFICATION

3

US AID OFFICIAL RECORD

ACTION COPY

DO NOT REMOVE FROM BACKING SHEET UNTIL READY FOR FILE

file

MGD UNCLASSIFIED STATE 020738

public sector

CIP

ACTION AID 3 INFO OCM ECON /5

VZCZCCP0074
OO RUEHEG
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ZNR UUUUU ZZH
O 230328Z JAN 88
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO IMMEDIATE 8543
BT
UNCLAS STATE 020738

LOC: 92 96
24 JAN 88 0441
CN: 18148
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A

SUBJECT: FY 1988 ESF BUDGET ALLOWANCE - EGYPT

1. BUDGET ALLOWANCE FOR BFC GES8-88-37263-KG-32 (870-63-263-20-59-81), APPROPRIATION SYMBOL 72-1120/91037 HAS BEEN ISSUED TO AA/ANE FOR DOLS. 100 MILLION FOR PROJECT 263-K616, COMMODITY IMPORT PROGRAM. CN NOT REQUIRED. FUNDS CANNOT BE OBLIGATED UNTIL USAID NOTIFIED THAT PAAD HAS BEEN AUTHORIZED. SHULTZ
BT
#0738

NNNN

Notified Mr. Southwick at 0835 hrs 11

MGD UNCLASSIFIED STATE 020738

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EGYPT: U.S. FY 1988 CIP ASSISTANCE

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I. U.S. OBJECTIVES

The overall objective of U.S. assistance to Egypt is to foster economic and social development that will facilitate and encourage the establishment of a permanent, comprehensive regional peace. The critical importance of this objective, together with the fragile state of the Egyptian economy over the next few years, justifies and necessitates the exceptionally high level of present and proposed U.S. assistance to Egypt.

The proposed FY 1988 CIP assistance package has both political and economic objectives. The immediate political objective is to support domestic economic stability. The Egyptian government needs this stability to continue its policies which support a comprehensive and durable peace settlement in the Middle East. The Egyptian-Israeli peace agreement was the cornerstone of a comprehensive regional peace. U.S. policy now aims at a satisfactory evolution of political and economic relations among all countries in the region. The active participation of Egypt, the principal Arab country, is essential for these purposes. The GOE has demonstrated by its actions that it shares our desire for a peaceful resolution of Middle East differences. Egypt has worked hard to end tension that has adversely affected the well being of the people throughout the region. The recent reestablishment of full diplomatic relations between Egypt and the majority of Arab States has been a dramatic step towards regional harmony. Egypt's ability and willingness to build on this significant development and proceed toward the ultimate goal of regional peace depends now, more than ever, on (a) sustaining domestic political stability; (b) avoiding short-term deterioration in the standard of living of the population; and (c) obtaining sufficient foreign resources to permit a continuing development effort.

The economic objective of U.S. CIP assistance is to help meet the economy's needs for imported equipment and raw materials. The CIP provides a portion

of the required foreign exchange. CIP financed imports are important production ingredients for industry and agriculture. They sustain the economy's capacity to provide the goods and services required to support economic stability and stimulate growth. These requirements cannot now be funded on a self-sustaining basis out of such market-determined sources of foreign exchange as merchandise and service export earnings and direct investment inflows. Currently, Egypt's main current sources of foreign exchange earnings are petroleum, workers' remittances, tourism and Suez Canal revenues. These sources have stagnated as a result of world market conditions, and the effects of an accumulation of domestic policies of control which are now being reduced. Tourism has shown a secular rise although regional terriorist events in 1986 depressed earning during that year. Developing exports of agricultural and industrial products as additional sources of foreign exchange will be a lengthy process. It will require further implementation of a significant structural adjustment program which started with the IMF Standby Agreement in April 1987. It will also require sustained high levels of private sector investment in new, economically productive activity. During the adjustment period, sustaining the Egyptian economy at its present level of activity will require a flexible balance of payments assistance of the type provided by the CIP.

The program level for the public and private sector CIP has been set at $230 million for FY 1988. The program level for the Public Sector CIP covered by this PAAD will be $100 million. This is adequate to fund only the highest priority needs of the public sector. The balance of the funds allocated for CIP are made available to the private sector. The Private Sector CIP is described in and will be authorized as a component of the umbrella Private Enterprise Credit Project.

II. Background and CIP Justification

A. Recent Economic Developments

During the period 1965-1974, the Egyptian economy grew in real terms by only 3% annually. It experienced severe pressures in its balance of payments. The economy was becoming less competitive internationally and there was a rising

domestic demand. The effect of these trends was exacerbated by the burden of defense expenditures. However, between 1975 and 1980, Egypt's real economic growth soared to some 8% annually and balance of payments pressures were substantially relieved. The basis of this growth was a surge in foreign exchange receipts from petroleum exports, earnings from the Suez Canal, tourism receipts, supplier credits and emigrant remittances. This growth did not result from improvements in the economy's productivity or industrial comparative advantage. The surge in foreign exchange earnings is graphically portrayed in the following table (in $ billion):

Table I

PRINCIPAL FOREIGN EXCHANGE RECEIPTS

	1975	1980	1984/85	1987/88
Petroleum	0.4	2.9	2.8	1.7
Suez Canal	0.1	0.7	0.9	1.2
Tourism	0.4	0.8	1.2	1.8
Supplier Credits	0.4	0.8	0.7	0.6
Worker Remittances	0.4	4.0	4.3	4.4

However, between 1980 and 1984/85, most of the major sources of external earnings stagnated or declined slightly. Real economic growth tapered off to an annual average of about 3%. From 1980 to 1984/85, petroleum earnings declined to $2.8 billion. However, in 1985/86 a more precipitous decline was experienced as earnings fell to $2.2 billion. This trend continued and in 1986/87, earnings from petroleum exports declined dramatically to $ 1.4 billion; projected to partially recover in 1987/88 to $ 1.7 billion.

The collapse of the world price of oil restricted the demand for Egyptian labor in the oil producing states. Both the number of workers and the average salary declined. Consequently, worker remittances also stagnated between 1980 to 1985 and then declined to $ 4.25 billion (including adjustments for unofficial flows) in 1986/87. In 1987/88 remittances are projected to recover slightly to $4.4 billion (including adjustments for unofficial flows).

Suez Canal revenues continued to increase after 1980 but at a lower rate. After 1984/85, earnings from this source has essentially stabilized at approximately $1 billion (in FY 85 dollars).

Tourism continued its substantial growth until 1984/85. In 1985/86 regional terrorist incidents caused a large drop in the number of visitors. However, the absence of terrorist incidents during the past year, the official devaluation of the currency and a massive publicity effort by the Ministry of Tourism has reversed this trend. The 1987/88 earnings from tourism are now expected to exceed the 1984/85 level, by almost 50% in nominal terms.

The net effect of the stagnation and decline of the traditional sources of foreign exchange earnings was a decline in the real growth of the economy to about 3% in 1984/85. By 1986/87 the real growth rate turned negative.

There were no new sources of earnings on the current account ot compensate for the declines in traditional exports of goods and services (See Table III: Balance of Payments). Non-traditional exports grew but still constitute a small percentage of total current account earnings. Consequently, with imports continuing to rise at 20% per year from 1981/82 through (1984/85), the current account deficit remained high during this period at about $2.5 billion annually. However, in 1986/87, there was a dramatic decline in the current account deficit by more than 50 percent due to a 20 percent decline in imports as compared to 1985/86.

This deficit had been financed by borrowing -- primarily public sector borrowing -- which pushed Egypt's official external debt to a staggering $ 44 billion in 1986/87.

In 1985, bleak forecasts in the balance of payments and the slow growth of the economy forced the government to begin the process of economic structural adjustment. At first, restraints on imports were introduced administratively through import rationalization committees. By August 1986, this system was replaced by a comprehensive customs reform which banned the importation of 210

items and raise the effective customs tax on numerous others. More importantly, with arrearages in the payment of official debt becoming a serious economic and political issue, Egypt, in late 1986 began discussions with the IMF for a Standby Agreement. While the Standby was to bring additional liquidity, its real importance arose from the fact that it was a prerequisite for a Paris Club debt rescheduling.

After lengthy negotiations, the GOE reached an agreement with the IMF in April 1987. In May, several major economic reforms were introduced and a Paris Club rescheduling was expeditiously concluded.

Today, the effects of the structural adjustment measures associated with the IMF Standby have contracted the economy. While non-Petroleum export earnings have risen moderately (14%) and the services balance has risen slightly (4%), the growth of imports has been severely constrained in FY88 and is expected to be only slightly higher than in FY87. As a result, preliminary estimates of the current account indicate that the deficit may be cut further and even eliminated in 1987/88.

B. Economic Justification

The GOE's reform program is intended to change the structure of the economy. Its short run objectives as stated in the Standby Agreement are to bring about a recovery of economic activity and reduce the underlying rate of inflation. Its longer run objective is to make possible over the medium term a sustainable level of economic growth consistent with a manageable balance of payments position and an improved price performance. Such growth will produce a more permanent improvement in the balance of payments by expanding exports.

To effect these changes, the GOE has instituted the following economic measures in 1987:

1) Established a market based foreign exchange rate within the banking structure. This rate has fluctuated at about $1= LE 2.20. Forty percent of the transactions previously authorized for the Commercial bank pool ($1 = LE 1.35) were transferred to the new rate in May. Forty percent more were transferred in November. The balance of transactions are expected to be moved in December.

2) The Commercial Bank pool exchange rate has been gradually devalued. Full unification of this rate with the new Free Bank Market Exchange Rate will be completed by June 1, 1988. It is expected that after December 1987, this rate will be used only for customs valuation.

3) A one percent interest premium was added for loans whose maturities are between one and two years. An additional one percent was added for loans longer than two years.

4) Nominal energy prices were substantially increased. The price of petroleum products sold domestically was raised by 66% on average. Electricity rates were raised 29%. Additional increases are planned in the first half of 1988.

5) The GOE committed itself to reducing the budget deficit from 22% of GDP in 1985/86 to 16% in 1986/87 and 13% in 1987/88. Performance in 1986/87 was slightly less than the target at approximately 17.5% of GDP. Reaching the 1987/88 target is also expected to be difficult because of institutional rigidities and political sensitivities in rapidly reducing expenditures and raising revenues.

6) Strict credit ceilings have been imposed to control domestic borrowing.

7) Significant portions of agriculture have been freed from government control. Numerous prices of industrial goods have been increased and the government is seeking to implement measures to cut red tape for businesses.

While these reforms are significant compared to the character and pace of policy change prior to 1986, they are only the start of the effort needed to structurally adjust the economy. A full unification of the foreign exchange regime is still required. This reform requires the elimination of the Central Bank rate ($ 1 =LE .70) which now finances the bulk of the subsidized items sold to the poor. Energy rates, particularly electricity are still significantly below world market levels. There remain a large number of policies and procedures which discriminate against the private sector vis-a-vis the public sector. Real interest rates are still negative. Subsidies are still a large element of the budget.

Over the next several years, the government must deal with these distortions. Eventually, prices of goods and services in the economy must reflect economic costs and growth must occur in activities in which Egypt has a comparative advantage.

The deficit in the balance of payments may not be eliminated during the period of the first IMF standby (January 1987 to June 1988). Continued policy reform to structurally adjust the economy supported by a series of standby arrangements and debt rescheduling will be necessary for the next five years and possibly more. During this adjustment period, the resources made available by the standby, the debt rescheduling and the donors must be directed towards expanding exports of goods and services. The brunt of the correction in the balance of payments cannot, in the long run, be absorbed solely by a contraction of imports. Such an event would result in a serious economic recession within Egypt, adversely effecting the consumption and employment of the lower income groups. The size of the decline in consumption and employment needed to correct the balance of payments would seriously destabilize the economy. In addition, the adverse investment climate associated with a recession would lengthen the period required for the adjustment. New production capacity would not appear at the rate desired and export growth would not meet the adjustment objectives.

Since the AID level to Egypt is not rising and the growth of other donor assistance is likely to be small, finance of needed imports requires continued quick disbursing program assistance. Hence the proposed CIP.

C. PL-480 Title I, II and III

From FY 1975 through 1987, the U.S. financed $2.8 billion in PL 480 Title I and III commodities. The FY88 program level is $170 million. The major portion of this assistance has been for wheat grain and flour. The U.S.-supplied wheat has been a critical element in meeting the demand for this basic foodstuff by the growing Egyptian population.

Title II grant obligations from FY 1975 through FY 1987 totaled $179.2 million and have been used to support feeding and MCH programs in Egypt.

These PL 480 shipments complement CIP-financed shipments of corn, vegetable oil, tallow and of other consumer goods in helping to provide a higher level of domestic consumption than Egypt's stringent balance of payments situation would otherwise permit. In addition, PL480 commodities directly support the consumption of low income Egyptians and, therefore, directly support the goal of stability.

D. Impact on U.S. Balance of Payments

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

As a result of trade relationships developed under the CIP, it is expected that U.S. suppliers should be able to win a share of future GOE procurement. The U.S. is likely to win an increasing share of the Egyptian import market because the change in the value of the dollar vis-a-vis European and Japanese currencies.

III. CIP IMPLEMENTATION

A. Past Experience

Since 1975, 22 Public Sector CIP agreements have been signed obligating a total of $3.7 billion. This figure compares with total U.S. commitments of $13.1 billion since 1975, of which $2.9 billion has been allocated for PL-480 commodities (see Table II). Against these CIP obligations, 5,500 letters of credit and direct letters of commitment were issued to U.S. suppliers. Disbursements totalled $3.3 billion through November 1987. FY 1986 and 1987 disbursements were $243 and $187 million respectively. Data on the 22 CIP agreements are presented in Table IV with respect to obligations, disbursements and shipping dates. (CIP financial data excludes the Private Sector CIP obligated under the Private Enterprise Credit Project).

Sectoral allocations of CIP funds are presented in Figure I. From FY 1975 through FY 1987, agricultural commodities, including corn, have received the largest share of funds at 32.6% ($1,242 million), followed by public sector industry at 27.7% ($1,059 million). Private sector industry became the third largest recipient this year at 10.1% ($385 million).

The principal industries supplied with raw materials, spare parts and equipment have been textiles, sugar, bakeries, cement, printing, aluminum and food processing. Past assistance to the power sector emphasized rehabilitation of stations and transmission systems as well as new generating equipment especially in Cairo, Suez, the Aswan Dam and the Sinai. The transport sector has been assisted with buses, railroad rolling stock, freight cars, refrigerated rail cars; locomotives; railway maintenance and signalling equipment;Suez Canal radar equipment; marine engines and boat maintenance equipment; trucks, tractors, trailers, forklifts, and road building machinery and maintenance equipment.

Agriculture assistance has embraced shipments of corn, soybean meal, and fishmeal, mainly for use in raising poultry; vegetable seeds; insect spraying

equipment; peanut shelling and roasting equipment; vegetable oil processing equipment; irrigation equipment; farm tractors, utility vehicles; and repair parts. Assistance in the health, sanitation, education and food sectors has included ambulances; hospital beds; X-Ray machines and other hospital equipment; refuse trucks;garbage containers; fire trucks; over 800,000 tons of tallow, laboratory, teaching and vocational equipment; printing equipment; library supplies; testing equipment; frozen poultry and edible oils.

Breakdowns of the commodities financed under the CIP through fiscal year 1987 are given in Table V. Food items have totaled $688 million, capital equipment $1,049 million, and raw materials and other commodities $1,513 million. The most important commodities have been corn; tobacco; tallow and other inedible oils; vegetable oils; frozen chickens; coking coal; iron/steel strips and sheets; agricultural and food machinery; printing machines, paper, pulp and paper products; transformers, generators and motors; radio and radar apparatus; and motor vehicles.

B. The Allocation Process

The Public Sector CIP program is administered on a government to government basis. The Ministry of International Cooperation (MIC) acts as the coordinating body on the Egyptian side. Proposals for the use of CIP funds are prepared by public sector organizations and Ministries and are then reviewed by the MIC. Requests for capital equipment imports which are not in accordance with the Five Year Plan are dropped. Decisions to steer public sector import needs through the CIP are largely based upon whether the U.S. source is best technically by a finding that the United States has been the traditional supplier of the items or of closely related commodities.

Because of the scarcity of foreign exchange, MIC used time phasing of procurements under the CIP. A portion of a Ministry's request is approved for current year funding and the balance for subsequent year funding. Time

phasing is used for those requests which are deemed less urgent and can be spaced out, but also for those organizations which have been unnecessarily slow in preparing specifications or in other procedures. MIC cuts of ministry proposals are often sweeping and unspecific in order to fit the available funding and it is up to the ministry to decide on the individual new allocations.

As in past years, the approved MIC list has been circulated to all USAID Associate Directors for any expressions of concern before final USAID concurrence. USAID technical offices are given an opportunity to make suggestions to MIC and the technical ministries on recommended procurements early in the decision-making process. With this year's grant, we will continue to urge MIC to allocate less to public industry and more to essential foodstuffs, governmental functions and spare parts.

The FY88 Public Sector CIP will continue to accommodate two allocation concerns of the U.S.G. bulk shipping and the procurement of agricultural commodities. The Government of Egypt will continue to import significant quantities of bulk commodities under the A.I.D. financed Commodity Import Program such as corn, soy beans and coal. We anticipate that the procurement of agricultural commodities will continue to be above the 18% minimum level imposed by Section 212 of the proposed, but not yet enacted, International Security and Development Cooperation Act of 1987. In any event, Government agreement to these two allocation concerns will be formalized in Project Implementation Letters under this agreement.

C. <u>The Acquisition Process</u>

Once the allocation procedure is completed and the prospective purchasers are identified, the USAID/Cairo Office of Commodity Management and Trade (CMT) works closely with the purchasers and with M/SER/OP in AID/Washington to develop and refine technical specifications for the desired commodities.

Procurements are governed by A.I.D. Regulation No.1 and A.I.D. Handbook 11, Chapter 3, Sections 2.2 and 2.3. When formal tender documents are made final, they are issued through the Egyptian Embassy in Washington. Advertising is made through AID-issued bulletins and the Commerce Business Daily. Purchasing committees in the public sector organizations analyze the supplier proposals and notify USAID/Cairo on their decisions of contract awards. After approval of the awards, standard bank letters of credit or direct letters of commitment will be issued to the awardees.

A High Purchasing Committee is usually appointed by each entity's central controlling organization. In some areas, the ultimate end-users form their own buying group with Ministry approval and undertake procurements in the same way as buying associations in the United States. In other areas, the buyer is a single industrial entity and purchase authority may be delegated directly to the buyer after initial approval of the sub-allocation. There are over 120 separate public sector organizations participating in the CIP, purchasing either as the ultimate user or as a buying authority for several satellite members.

GOE procurement practices, traditionally followed with the use of GOE-owned foreign exchange and other donors' aid, do not mesh well with A.I.D. procedures that are designed to promote competition and to establish formal contract terms that are acceptable to both A.I.D. and the U.S. business community as a whole. USAID has ongoing programs to brief organizations receiving their first A.I.D. allocations and alert them to the preliminary work required under A.I.D. regulations. These steps did, at first, inhibit procurement and delay disbursements. However, continued use of CIP funds by the same organizations and growing familiarity with each other's (A.I.D. and GOE) procedures, have all contributed to an accelerated CIP utilization.

For sophisticated commodities, the user agency certifies that necessary action has been taken to permit the immediate and effective use of the

commodities: before a tender is issued, the equipment site is prepared and the building where the equipment will be installed is erected. There are also plans for the installation of the equipment, and for operating and maintaining it. In only rare cases, wiil procurements be approved for equipment requiring installation at multiple sites or requiring installations time of more than one month.

Other procedures adopted for prompt CIP utilization include:

- Proposals for funding of less than $1 million are discouraged.

- Concentration on repeat purchases of replacement equipment already defined and successfully purchased under past CIP programs.

- Confining low unit-value purchases to high volume orders for standard packages. Screening the intricate and diverse requirements for laboratory equipment, for example, required an inordinate amount of staff time. We are continuing to recommend that educational and health institutions make use of a Procurement Services Agent (PSA) in the preparation of specifications for desired equipment and to carry out the procurements on behalf of the buyers.

- Concentrating procurement activities on GOE agencies with a proven track record in effective and timely implementation. A reallocation of funds is required if procurement contracts are not produced within six months after allocation. This new requirement has permitted a by-passing of several end-users that have delayed excessively in providing specifications or in making contract awards.

- A streamlined preparation and review of specifications by M/SER/OP and its support contractor have accelerated the flow of tender documents from AID/W.

LEGAL PROVISIONS

A. Local Currency Special Account

The US/GOE Bilateral Agreement that was entered into on August 16, 1978, require the Government of the Arab Republic of Egypt to establish a Special Account in the National Bank of Egypt and to deposit therein currency of the Government of Egypt in amounts equal to proceeds accruing to the government, or any agency thereof, as a result of the sale or importation of eligible items. The Special Account was established in conjunction with the FY 1979 Supplemental Commodity Import Program Grant.

The FY 1982 CIP Agreement and subsequent agreements stipulated that in cases where credit terms are provided for imports under the CIP, deposits to the Special Account are to be made in accordance with the debt service schedule associated with these credit terms. Since there were indications that many of these deposits were not made on a timely basis, the MIC established an interim control system during the summer of 1984. This system required that importers pay 25 percent of the value of the import before the AID Financing Request or bank letter of credit was issued. It also required that signed promissory notes for the remaining 75 percent be obtained before the release of the shipping documents to the importers.

In January 1985, the GOE agreed to install a system to enable USAID/C to control and monitor counterpart deposits. At the same time USAID/C developed a computerized counterpart accounting system in the Controller's Office of USAID/Cairo.

The GOE system required local banks and the Central Bank of Egypt to maintain accounting records to account for all collections and deposits of local currency generated from the CIP. The USAID counterpart accounting system depended on the GOE to submit every month all reports relating to Letters of

Credit and AID Direct Letters of Commitment and counterpart deposits to the Special Account. However, the GOE has failed to implement the agreed upon accounting procedures and is not able to furnish USAID with the required accounting records in a timely and effective manner.

The task of monitoring deposit requirements for hundreds of importers and thousands of transactions, has proven exceedingly difficult for the GOE. Further, the system has caused significant delays in the CIP procurement process. After completion of a transaction, but prior to issuance of a Letter of Credit or Letter of Commitment, the importer must pay his 25% downpayment. If the importer is unable to pay, the procurement must be postponed or cancelled and the money reallocated to a new importer and the process of specification review, advertising, evaluation and award started over again. The delays inherent in this system could be overcome by resolving all Special Account deposit requirements prior to initiating the procurement process.

To remedy these problems, the Grant Agreement will specify that the GOE and A.I.D. must come to an agreement on a Memorandum of Understanding for the Special Account. The MOU will clearly set forth the responsibilities of all parties in collecting and monitoring Special Account deposits. The MOU will spell out the dates upon which deposits shall become due and specify uses for the local currency which is generated.

In negotiating a MOU on the Special Account, every effort will be made to simplify the accounting procedures and avoid delays in the procurement process. USAID will review with the GOE other alternatives to properly account for counterpart deposits to the Special Account and prepare the Special Account reconciliation. USAID will also request the GOE to issue the instructions required to correct deficiencies in the system. Further, AID will seek to ensure that adequate funds are made available to cover all of AID's local currency administrative expenses and to assist the GOE as necessary to meet their obligation to ensure that commodities are received and utilized in accordance with the provisions of the Agreement.

Ideally this MOU would -- as in past years -- be negotiated and in place before execution of the CIP Agreement itself. However, Mission strategy this year is to proceed with the CIP Agreement and to negotiate MOU details later. The Mission is confident that appropriate MOU details can be negotiated and resolved with the GOE on a timely basis.

The importers having arrearages from past CIP transactions have been identified and agreement has been reached with MIC that such importers will not be allocated further CIP funds until the delinquent balances are paid. Exceptions will be granted on a case by case basis by the Mission Director only if the commodities to be imported are critically required for economic, humanitarian or other reasons.

Importers identified as having received commodities as recorded in the CIP Arrival Accounting System but, for which bank records have not been located should provide evidence of payment as a precondition to obtaining additional CIP financing. If in this case and in other cases of arrearages when importers cannot submit evidence of payment, GOE will have to reimburse the Special Account with the amount of arrearages on behalf of the delinquent importers. USAID is working in close cooperation with MIC to expedite the full collection of arrears.

In order to insure prompt and complete deposits into the Special Account we will include in our negotiations a revised method by which an importer or the GOE makes deposits into the Special Account.

Allocations of Funds to not-for-profit organizations which do not result in the accrual of proceeds to the grantee may be exempted from the requirement to deposit counterpart funds into the special account. Such set asides will be mutually agreed upon by both parties and shall be set forth in implementation letters. Internal clearances for such implementation letters are described in Mission order 5-6.

The grant agreement will continue to specify that "grantee will make such deposits at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of Egypt". As of July 1, 1987, pursuant to a letter from the Minister of Planning and International Cooperation, the exchange rate for AID program and project transactions was changed from $1 = LE 1.35 to the new Free Bank Market Exchange Rate.

In accordance with FAA Section 531(d) as amended, USAID will ensure that, to the maximum extent feasible, no less than 50% of the local currency generated by the CIP will be used for AID-administered activities consistent with the objectives of sections 103 through 106 of the FAA. We expect that the percentage of CIP re-flows to be devoted to AID activities in the areas of agriculture, rural development, nutrition, health, population, education, energy and other basic human needs under the Egypt program during FY88 will be well above 50%.

We will make every effort to ensure, beginning in FY 1990, that CIP re-flows will be made available to AID to fully fund all local cost expenses, including reimbursement to the American Embassy for local currency costs expended by the Embassy on our behalf. (Currently, approximately 50% of AID's LE expenses are funded from the re-flows. LE costs expended by the Embassy on our behalf are now funded by dollars).

B. Requirements Precedent to Disbursement

Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.

(a) a statement to the effect that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 8.2, together with a specimen signature of each person;

(b) a list of allocations of Grant funds provided under this Agreement; and

(c) an executed Eighth Amendment to the Memorandum of Understanding for the Special Account, dated June 30, 1980 which will, among other things:

i. fully describe the responsibilities of all parties in collection and monitoring of deposits to the Special Account;

ii. specify the dates on which deposits shall fall due; and

iii. describe how Special Account deposits are to be used, including provisions for (a) a portion of such deposits to be made available to A.I.D. to meet all or a mutually agreed lesser portion of A.I.D.'s local currency administrative expense requirements in Egypt; (b) a portion of such deposits to be made available to A.I.D. to facilitate resolution of claims and extraordinary problems arising under A.I.D. -funded contracts; and (c) a portion of such deposits to be made available to the Grantee or A.I.D. to meet the monitoring requirements related to commodity utilization as set forth in Section 4.9 of this Agreement.

C. Covenants:

The CIP covenants will be the standard covenants related to CIP agreements in Egypt.

ANNEX A. STATISTICAL TABLES

TABLE II

U.S. Economic Assistance To Egypt

FY 1975 - 1987

($ 000)

Programs	Cum. Oblig.
Commodity Import Program	3,817,341
PL-480	2,951,409
Cash Transfer	926,949
T O T A L	7,695,699
Projects	
Electricity	955,827
Water/Wastewater	1,318,387
Decentralization	681,200
Other Infrastructure	543,885
Industry	562,932
Agriculture	604,913
Human Resources	610,436
Other	179,745
T O T A L	5,457,325
Grand Total	13,153,024

* Includes Production Credit and Private Sector CIP

Prepared By: PPP/P/MIS
Doc. No. : 1109q

Table III
Egypt: Balance of Payments
Merchandise Trade
(In Millions of Current Dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88
Petroleum Exports[1]	2,957	2,891	2,215	1,380	1,700
Crude[2]	(2,396)	(2,363)	(1,638)	994	
Non-Petroleum Exports[3]	1,393	1,294	1,191	1,361	1,500
Imports4	12,600	12,300	11,400	9,300	9,650
Trade Deficit	8,200	8,100	8,000	6,560	6,450
Services					
Shipping & Airline Companies[5]	521	606	574	504	500
Suez Canal Dues[6]	974	897	1,028	1,148	1,200
Tourism[7]	1,050	1,200	950	1,200	1,800
Worker Remittances[8]	4,900	4,700	4,400	4,250	4,450
Investment Income	1,079	1,044	914	790	700
Other	789	781	757	1,196	1,000
Total Service Receipts	9,300	9,200	8,625	9,090	9,650
Interest Payments[9]	2,035	1,133	1,068	1,100	
Remittances[10]	300	560	810	720	
Other Payments[11]	1,248	1,262	1,258	1,287	
Total Service Payments	3,583	2,955	3,136	3,107	3,000
Deficit on Current Account	2,500	1,855	2,510	580	-200
% of GDP	8.3	6.1	8.2	1.9	
Capital Account					
Amortization Payments	1,818	1,321	1,897	1,440	1,400
- Public Creditors	(571)	(580)	(792)	(883)	(800)
- Suppliers	(1,247)	(741)	(1,105)	(557)	(600)
Direct Investment[12]	1,273	1,287	1,265	920	1,050
International Assistance	2,000	2,000	2,400	2,100	2,100
Supplier Credits	1,547	850	1,192	645	700
Other and Errors And Additions to Reserves	500	960	450	1,645	2,650
MEMO: Rise in External Debt Arrears	520	1,353	1,274	1,500	

Source: Government of Egypt and IMF reports with American Mission/Cairo adjustments. Footnotes are given in Appendix.

Note: Several figures have been rounded off within a range of 10 million.

Appendix

1. Includes bunkers (FY87: LE M 123.2), excess cost recovery (FY87: LE m 72.5), Crude oil (FY87: LEm 623.1) and refined products (FY87: LEm 146.9m). These are converted at the Central Bank rate of 0.7 LE = $1. Items excluded are foreign partners' profit share, cost recovery shipments, SUMED and signature bonus.

   Allowance for value of partner companies' exports would add estimated $1.1 to $1.3 billion annually for 1982-1985, and $0.8 to $1.0 billion in 1986 to Petroleum Exports and to Remittances accounts, negating each other in the Current Account Balance. However, inclusion would increase the export total and lower the debt service ratio and estimated 2 percentage points each year.

2. Crude includes crude oil and excess cost recovery.

3. These are Central Bank of Egypt (CBE) figures.

4. The derivation of the IMF estimates is presented in IMF, ARE-Recent Economic Developments SM/85/198 of August 22, 1986 page 127. These IMF estimates for the 1983/4-1986/7 period of 10,738; 10,516 and 9,560; and 7760 million dollars (revised) respectively include an adjustment for unrecorded grant shipments. Two additional adjustments are made to the IMF figures: 1) Equipment for exploring and developing oil fields brought in by foreign oil companies of 1,128; 1,077; 1,056 and 693 million dollars per year is unrecorded both as imports and as direct investment. 2) Many imports brought back by returning emigrants on ships and planes are unrecorded; some additional imports are also unrecorded with financing from unrecorded worker remittances or unrecorded tourism earnings. These unrecorded imports may total $700-800 million annually. Military imports and foreign military assistance are excluded from this table.

5. CBE figures.

6. CBE figures.

7. Includes unrecorded tourism receipts resulting from divergence between official bank and free market rate. USAID estimates are based on Ministry of Tourism (MOT) figures on total number of nights spent on a month-by-month basis valued at $100 per night.

8. The official figures are 3,930; 3,497; 2,973; and 2,845 million dollars respectively. The following two adjustments are made to these figures: 1) IMF, SM/85/198 pages 55-57 and a later revision indicate that unrecorded flows into foreign currency free accounts may have totalled 457; 686; 860 and 850 (USAID estimate) million dollars respectively. 2) Unrecorded worker remittances financing unrecorded imports may have totalled $450-600 million annually.

9. The actual interest payments were obtained by using IMF estimates of interest obligations and subtracting therefrom the figures for annual increases in external arrears. Amounts given here and in IMF presentations include military interest payments.

10. A central Bank breakdown of the other service payments item for 1984/5, 1985/6 and 1986/7 contains a component called capital and investment account transactions. This component is listed in this table as remittances.

11. CBE figures.

12. IMF 1985 figures adjusted by amounts of 1,128; 1,077; 1,056 and 693 million dollars annually in foreign oil company equipment imports for exploring and developing oil fields.

NAgarwal, PDS/E, 1/26/88, mf

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Table IV

SUMMARY OF CIP AGREEMENTS - LOANS AND GRANTS
BY AGREEMENT NUMBER
FY 1975 THRU 1987

(In Thousands of Dollars)

Agreement No.	(A) Amount obligated	(B) Amount Disb'd	(C) Amount Undisb'd	Eligibility Date	Terminal Dates Shipping	Terminal Dates Disbursement
GRAND TOTAL	3,596,223.00	3,318,197.00	503,046.00	0.00		
263-K026	79,926.00	79,926.00	--	01-14-75	07-31-80	08-31-80
263-K027	69,908.00	69,908.00	--	06-27-75	07-31-80	08-31-80
263-K029	99,843.00	99,843.00	--	04-05-76	11-30-81	12-31-81
263-K030	149,175.00	149,175.00	-	10-07-76	06-30-82	07-31-82
263-K036	64,803.00	64,803.00	--	09-30-76	06-30-82	07-31-82
263-K038	437,261.00	437,261.00	--	03-04-77	04-30-83	04-30-83
263-K045A	224,509.00	224,509.00	--	10-27-78	07-31-83	04-28-87
263-K045B	72,935.00	72,935.00		07-27-79	07-31-83	04-28-83
263-K053	250,000.00	249,325.00	675.00	05-19-79	08-31-86	09-30-86
263-K054	29,835.00	29,825.00	--	06-30-80	10-31-84	05-31-85
263-K055	25,000.00	249,447.00	553.00	06-30-80	06-30-86	07-31-86
263-K601	70,000.00	69,768.00	232.00	06-29-81	08-31-85	09-15-85
263-K602	83,936.00	83,936.00	--	08-29-79	12-31-83	01-15-84
263-K603	54,637.00	54,637.00	--	06-30-80	12-31-84	01-15-85
263-K604	230,000.00	227,242.00	2,758.00	06-28-81	02-28-86	04-15-86
263-K606	350,000.00	335,419.00	14,581.00	02-05-82	12-15-87	01-14-88
263-K606A	300,000.00	288,033.00	11,967.00	07-25-83	09-13-88	10-13-88
263-K607	1,055.00	1,055.00	--	07-25-83	09-13-86	10-13-86
263-K610	300,000.00	263,407.00	36,593.00	07-31-84	12-31-88	02-03-89
263-K612	200,000.00	112,784.00	87,216.00	03-12-85	05-05-88	08-05-88
263-K615	155,400.00	49,840.00	105,560.00	08-21-86	09-29-89	10-29-89
263-K027	100,000.00	--	100,000.00	06-25-87	09-31-90	10-29-90
263-0201*	160,000.00	18,190.00	141,810.00	08-21-86	09-30-92	06-30-92
263-0147**	88,000.00	86,899.00	1,101.00	09-25-82	03-30-90	03-30-90

* Private Sector CIP

** Production Credit Project

Disbursements as of November 30, 1987.

TABLE V

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1987
BY USE CATEGORY

(L/C Values in Dollars)

COMMODITY DESCRIPTION	DOLLAR AMOUNT
GRAND TOTAL	3,250,561,802
FOOD ITEMS	688,500,614
CHICKEN FROZEN	61,202,256
CORN	502,359,496
LEGUMINOUS VEGETABLES	25,724,454
OIL-BEARING SEEDS, EXCL. PEANUTS	776,477
OILS, VEGETABLE	96,205,373
SEEDS, GARDEN & FIELD	15,600
SEEDS, OTHER	2,216,958
RAW MATERIALS	1,512,558,464
ALKOLOIDS, VITAMINS, ETC.	222,116
ALUMINUM BARS, SHEETS, PIPES, ETC.	151,616
AMPROL, IN PLASTIC BAGS	320,654
ANIMAL FEEDS & ADDITIVES	47,215,043
BEARINGS, BALL OR ROLLER	4,156,961
CALCIUM HYPOCHLORITE	113,641
CARBONS, ISOTOPES, WAXES, ETC. LB	33,284
CATHODE/INCAND.LAMPS, ETC.	44,541
CHEMICAL COMPOUNDS, ACYCLIC	12,771,303
CHEMICAL COMPOUNDS, CYCLIC	50,719,053
CHEMICAL ELEMENTS, INCL. SULPHUR	48,149,516
CHEMICAL MIXTURES & PREPARATIONS	1,184,321
CHEMICALS (ZEOFREE)	8,391
COKING COAL & MISC. NONMETALLIC PRODUCTS	255,201,039
COPPER PIPES/TUBES/FITTINGS, ETC.	1,120,710
COPPER SHEETS, RODS, WIRE, ETC.	3,577,985
COTTON	9,709,500
DYEING & TANNING PRODUCTS	4,314,947
EDUCATIONAL MATERIAL	16,353,984
ELECTROLYTIC MANGANESE DIOXIDE MT	36,675
FREIGHT & RELATED COSTS	102,314,545
GLASS PRODUCTS, FILTERS, ETC. SQ.MTR	188,840
GRAPHITE ELECTRODES	9,818,769
INKS, PAINTS, AND RELATED PRODUCTS	25,153
IRON, SCRAP	2,271,500
IRON/STEEL BARS, INGOTS, RODS, ETC.	17,581,437
IRON/STEEL STRIPS, COATED OR PLATED	156,836,025

TABLE V

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1987
BY USE CATEGORY

(L/C Values in Dollars)

COMMODITY DESCRIPTION	DOLLAR AMOUNT
RAW MATERIALS (CONT'D)	
JOINT CLOSURES	8,855
LUMBER, SIDING, FLOORING, ETC.	3,108,716
MANGANESE DIOXIDE	184,587
MANMADE FIBERS	90,919,701
MANMADE YARNS	28,613,338
METAL CONTAINERS	3,000,086
PAPER & PRODUCTS, INCL. WOODPULP	63,703,520
PAPER/PAPERBOARD IN ROLLS/SHEETS	26,720,639
PAPER/PAPERBOARD, CUT TO SIZE	3,035,672
PESTICIDES, SYNTHETIC ORGANIC MT	1,549,728
PETROLEUM PRODUCTS	145,480
PIGMENTS/PIGMENTLIKE MATERIALS	2,053,717
PLASTICIZERS, PHOTO & TEXTILE CHEMICALS GAL	90,721
POLYVINYL BUTYRAL	205,234
PVC, METALIZED	351,831
REFRACTORIES, BRICK	1,051,686
REFRIGERATION & HEATING EQUIPMENT	31,153,411
RUBBER	4,490,428
RUBBER/PLASTIC PRODUCTS	10,655,360
SODIUM COMP., INCL. CAUSTIC SODA	1,022,564
SP PARTS MISCELLANEOUS	3,533,347
SURGICAL SUPPLIES	88,228
SYNTHETIC RESINS & PLASTICS MATERIALS	12,067,675
TALLOW & OTHER INEDIBLE OILS	313,377,842
TECHNICAL SERVICES	5,580,918
TERGITOL	77,240
TIN & TUNGSTEN COMPOUNDS	54,989
TIRES AND TUBES	17,161,128
TOBACCO	137,728,829
TRAINING AIDS	135,000
WELDING ELECTRODES/LIGHTING FIXTURES	5,821,291
WIRE CORDAGE/SCREEN/NETTING, ETC.	461,118
ZINC INGOTS	98,901

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TABLE V

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1987
BY USE CATEGORY

(L/C Values in Dollars)

COMMODITY DESCRIPTION	DOLLAR AMOUNT
CAPITAL EQUIPMENT	1,049,502,724
AGRIC, HORTICULTURAL & FOOD PREP MACH.	53,057,244
AIRCRAFT, FOR AGRICULTURAL USE	6,343,114
BOILERS/ENGINES/PUMPS FOR LIQUID, ETC.	73,696,453
COMPUTER TAPES	299,911
DATA PROCESSING/OFFICE MACHINES	19,942,157
ELECTRIC LAMPS & ELECTRONIC TUBES	120,861
ELECTRICAL FILAMENT LAMPS	329,259
ELEVATORS/CRANES/EARTHMOVING EQUIPMENT	70,510,799
FOOD PROCESSING MACHINERY	6,026,516
GENERATORS & SPARES	21,395
FURNITURE: LABORATORY & OFFICE	10,462,021
HAND BOOK, MANNUELS	9,200
HAND TOOLS: SHEARS, PLIERS, ETC.	236,094
HAND-DIRECTED TOOLS W/MOTOR/STORAGE	8,887,722
IND. CERAMICS; INSULATED WASHERS, ETC.	1,395,325
IND. SAFETY ARTICLES: GOGGLES, ETC.	3,902,752
INTERCHANGABLE HAND TOOLS	851,173
KIT, SPLICING TERMINATION, TEST SET	177,491
MACHINES FOR WORKING METALS	9,603,899
MEASURING/CONTROLLING INSTRUMENTS	2,910,032
MEASURING/TESTING INSTRUMENTS	11,096,429
MEDICAL & SURGICAL APPARATUS	2,656,497
MEDICAL & SURGICAL INSTRUMENTS	21,625,166
MISCELLANEOUS HAND TOOLS	2,245,029
MOTOR VEHICLES	302,648,465
PHOTOGRAPHIC EQUIPMENT	2,381,384
PHOTOGRAPHIC SUPPLIES	2,296,004
PRECISION MACH	18,250
PREFAB BLDGS, CHAINS, SPRINGS, ETC.	4,212,501
PRINTING MACHINES	78,354,298
RADIO & RADAR APPARATUS	157,163,208
RAILWAY EQUIPMENT & PARTS	23,312,206
SAFETY HEADWEAR	40,353
SEWING MACHINES	70,711
SHEARS, SQUARING	34,400
SHIPS, BOATS, FLOATING STRUCTURES	4,440,749

TABLE V

COMMODITIES FINANCED UNDER AID COMMODITY IMPORT PROGRAM TO EGYPT
FISCAL YEAR 1975 THROUGH FISCAL YEAR 1987
BY USE CATEGORY

(L/C Values in Dollars)

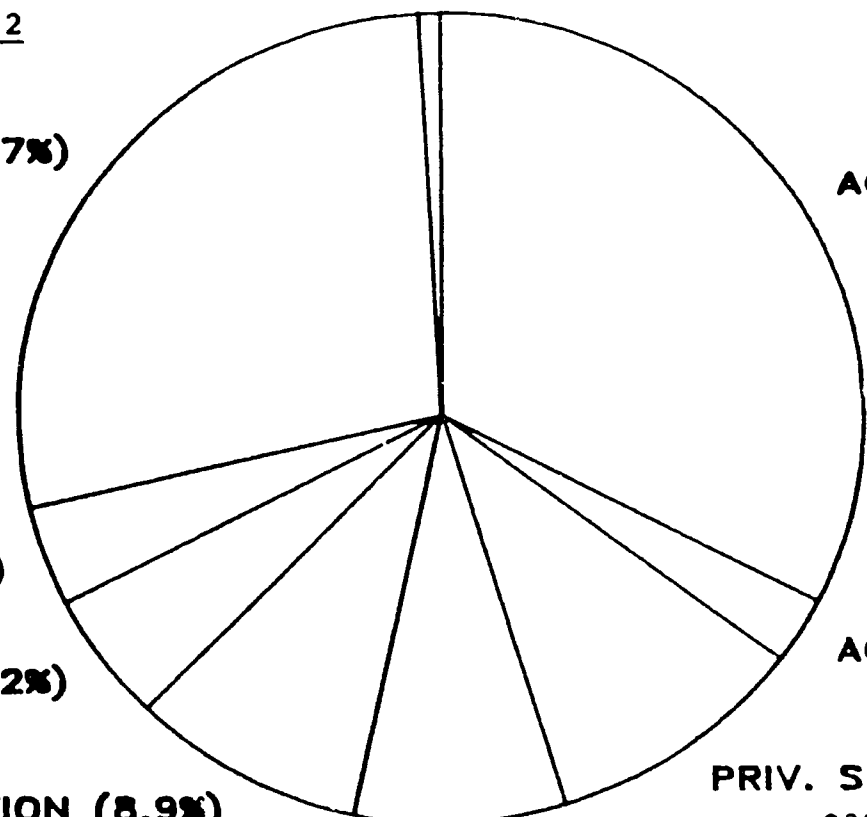
COMMODITY DESCRIPTION	DOLLAR AMOUNT
CAPITAL EQUIPMENT (CONT'D)	
SORTING/CRUSHING/GINNING MACHINERY,	40,329,744
SP PARTS/ COMPUTER, GAS TURBINES	984,889
SP PARTS/ TRACTORS, EARTHMOVING EQUIPMENT	173,733
SP PARTS/EARTHMOVING EQUIP	425,043
TELEGRAPH & TELEPHONE APPARATUS	1,906,136
TELEPHONE & TELEGRAPH WIRE & CABLE	31,460,693
TEXTILE MACHINES	4,599,432
TRACTORS, WHEEL LOADERS, MOTOR GRADERS	659,935
TRANSFORMERS/GENS/MOTORS/BATTERIES	87,584,051

Drafted by:IS/CMT:NWilliam:TE
Cleared by:OD/CMT:RBRichardson

Figure 1

COMMOD. IMPORT ALLOCATIONS BY SECTOR

1975 – 1987 ($ MILLIONS)



TOTAL $3,817.34

ANNEX B. STATUTORY CHECKLISTS

COMMODITY IMPORT PROGRAM

3(A)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 Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.	The FY 88 Congressional Presentation notified the Committee of AID's Plans for CIP activities.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No further legislative action is required to implement the program other than the customary ratification of the signed grant agreement. Such ratifications have been obtained without difficulty in the past.
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	This program is not susceptible to execution as part of a regional multilateral program. Assistance is not expected to encourage regional development programs.

4.	FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	(a) This program will increase the flow of international trade by providing the necessary foreign exchange for the importation of goods. (b) The program is designed to foster private initiative and competition to the maximum extent possible. (c) No perceptible impact on such activities is attributable to this program. (d) No perceptible reduction of such practices is attributable to this program. (e) Imports of raw materials and spare parts significantly enhance the technical efficiency of industry, agriculture and commerce. (f) No perceptible impact.
5.	FAA Sec. 601(b). Information and conclusions 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.
6.	FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs.507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S.are utilized in lieu of dollars to meet the cost of contractual and other services.	Program essentially provides foreign exchange assistance for commodity imports. Minimal short-term contracts or other services are financed under the CIP.
7.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
8.	FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
10. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	It will promote economic stability by providing vital foreign exchange required for Egypt's development. Yes, the program reflects the policy directions of part I to the extent possible.
b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?	No.
c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?	Yes, local currencies will be available to support activities consistent with the objectives of FAA sections 103 through 106.
d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States origin? If so, what percentage of the funds will be so used?	Yes, at least 18% of the funds will be so used.

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

Not applicable. Egypt Program, while located largely on the African continent from a strictly geographical standpoint, is administered by the Asia/Near East Bureau and is considered to be politically, economically and culturally within that geographic area. Therefore sections of the ISDCA applicable to African countries are not considered applicable to the Egypt program.

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States? No.

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

h. <u>FY 1987 Continuing Resolution.</u> If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? N/A

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5C(3) - STANDARD ITEM CHECKLIST

Listed below are the 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 imposing limits on certain uses of funds.

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

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Procurement of commodities and services under the grant will be according to established A.I.D. Reg. 1 procedures.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	The grant authorizes procurement from the U.S. only, except as A.I.D. may otherwise agree.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Egypt does not discriminate against U.S. marine insurance companies.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	No such procurement is contemplated.

5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	No.
6.	FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent 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 such vessels are available at fair and reasonable rates?	It is not so excluded. A.I.D. Reg. 1, which is to be incorporated in the grant agreement, covers this requirement.
7.	FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	N/A
8.	International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.

9.	FY 1987 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	No such contract is contemplated. However, if a direct contract is executed, it will contain such a provision.
10.	FY 1987 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	N/A

B. CONSTRUCTION

1.	FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?	N/A
2.	FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	N/A
3.	FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress?	

C. OTHER RESTRICTIONS

1.	FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights.	N/A
3. FAA Sec. 620(h). Do arrangements exist to ensure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes. Additionally, any necessary determinations under this section will be made and issued.
4. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?	Yes.
b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?	Yes.
c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes.
d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes.

e. FAA Sec. 662. For CIA activities?	Yes.
f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes.
g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	Yes.
h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues?	Yes.
i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes.
j. FY 1987 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology?	Yes.
k. FY 1987 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No.
l. FY 1986 Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	No.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: P. O'Farrell, Acting Chief Economist

SUBJECT: CIP: Justification for maintaining the Special Account as an interest-free account with the Central Bank of Egypt

DATE: January 28, 1988

PURPOSE:

Recently announced AID/W policy advises all Missions to consider the desirability of having Special Account funds earn interest. In Egypt, Special Account funds are on deposit in the Central Bank and do not earn interest. This memorandum seeks your approval to continue this policy.

BACKGROUND:

In October 1987 AID/W issued new guidelines concerning local currency which, although owned by the host country, is subject to joint programming with AID (STATE 327494, TAB A). Among other things, those guidelines urged Missions to consider requiring that such local currency be deposited in interest-bearing accounts thus (possibly) maximizing their developmental impact.

In Egypt, the Special Account, which consists of GOE-owned LE generated from sales under the Commodity Import Program, is the basic account coming within the new guidelines. As of to-day, approximately LE 600 million are in that account. The Special Account has for years been maintained in the Central Bank of Egypt (CBE) and CIP agreements so specify. Pursuant to GOE law and regulations, funds on deposit in the CBE may not earn interest; see the legal analysis at TAB B.

One option available to the Mission under these circumstances would be to seek transfer by the GOE of the Special Account to an interest-bearing account, probably at the National Bank of Egypt.*

DISCUSSION AND ANALYSIS:

First of all, it makes economic sense for the Special Account to remain at the CBE. Thus far, the GOE has managed the Special Account as an instrument of monetary policy. Treatment of the account as a commercial bank deposit would permit the financial institution to affect the money supply (just like demand deposits). The CBE can use its fractional reserve requirement (FRR) and

* In this regard, the 1978 Bilateral Agreement in fact calls for the Special Account to be established at the National Bank. It is unclear from the record available to us when and why the Special Account was established, instead, at the CBE.

sterilization operations (SO) to influence this effect. (Note: A sterilization operation is a procedure wherein the Central Banking Authority intervenes in the money market by the issuance of bonds or other government instruments to negate, wholly or partially, the impact on the money supply as a result of recirculation of money held by other financial institutions). The manipulation of the FRR and the use of the SO are both, essentially, reactions of the CBE to the actions of the other banking institutions in the country. In this sense, the CBE has only indirect and/or lagged control over such actions that affect the money supply. Therefore, a more efficient method for the government to have greater control on monetary flows resulting from the use of the Special Account is to continue to keep this account within the CBE.

In addition, in realistic terms, we see no more "developmental mileage" to be accomplished through interest hypothetically generated by transfer of the Special Account. Funds already on deposit in the CBE, which of course are enhanced substantially each year by generations from new CIP agreements, are more than ample to cover the primary uses to which Special Account LE are put namely, meeting the GOE's contributions to our bilateral projects and transfer of LE to the FT-800 Account (the Trust Account) to defray AID's in-country Operating Expense requirements. Another possible use - LE funding, on an exceptional basis, of new activities not otherwise supported by AID - can also be accommodated easily within current and projected Special Account balances. Beyond such uses, the TAB A guidelines permit use of such balances to fund broad and non-additive budgetary requirements of development ministries; and it is current Mission thinking to negotiate such an "attribution" arrangement with the GOE in the near future. Also in this regard, we are not seeking "additionality" through use of Special Account funds since to require the GOE to take on new activities would have inflationary impact. Given these factors, there would be no point in building up Special Account balances through the earning of interest, an these additions to the SA will simply be notional.

CONCLUSION AND RECOMMENDATION:

For the above reasons, we conclude that the Special Account should remain where for years it has been, namely, in a non-interest bearing account at the CBE. We recommend that, by your signature below, you approve continuation of this policy.

Approved [signature]

Disapproved _____

Date 4/3/88

TAB A

1N UNCLASSIFIED STATE 494/01

ACTION AID 3 INFO DCM ECON /5

VZCZCCR0780
RR RUEHEG
DE RUEHC #7494/01 2940509
ZNR UUUUU ZZH
R 210459Z OCT 87 ZEX
FM SECSTATE WASHDC
TO AID WORLDWIDE
BT
UNCLAS SECTION 01 OF 05 STATE 327494

LOC: 77 591
21 OCT 87 0555
CN: 63662
CHRG: AID
DIST: AID

AGR
FN

ACTION TO PPP 1-3
ACTION TAKEN ____ DUE DATE 10/27
MAR ____ INITIALS ____

AIDAC

E.O. 12356: N/A

SUBJECT: SUPPLEMENTAL GUIDANCE ON PROGRAMMING LOCAL CURRENCY

ACTION TO DD
DATE OCT 22 1987

1.00 INTRODUCTION

1.10 POLICY DETERMINATION NO. 5 (PD-5), GUIDE PROGRAMMING PL 480 LOCAL CURRENCY GENERATIONS UNGUIDE, HAS BEEN THE AGENCY'S BASIC POLICY STATEMENT GOVERNING THE USE OF HOST COUNTRYOWNED LOCAL CURRENCY SINCE FEBRUARY 1983. THE POLICY WAS EXTENDED IN 1984 TO COVER COMMODITY IMPORT PROGRAMS (CIPS) AND CASH TRANSFERS, AND OVER THE PAST SEVERAL YEARS ADDITIONAL GUIDANCE MESSAGES HAVE ENCOURAGED MORE EFFECTIVE USE OF LOCAL CURRENCY RESOURCES INCLUDING SUPPORT OF THE PRIVATE SECTOR INITIATIVE. ABS GUIDANCE ALSO ENCOURAGES APPROPRIATE INVOLVEMENT FOR AID IN THE PROGRAMMING OF LOCAL CURRENCY IN ALL COUNTRIES RECEIVING CIP, CASH TRANSFER AND PL 480 RESOURCES.

1.20 PD-5 RECOGNIZES THAT AID PARTICIPATION IN LOCAL CURRENCY PROGRAMMING IS NOT AN END IN ITSELF BUT RATHER A TOOL FOR MOVING TOWARD THE MORE IMPORTANT GOAL OF AN OVERALL HOST COUNTRY BUDGET THAT REPRESENTS A SOUND, DEVELOPMENT-ORIENTED ALLOCATION OF BUDGET RESOURCES SET WITHIN A MARKET-ORIENTED MACROECONOMIC POLICY FRAMEWORK.

1.30 THE EXPERIENCE WITH THE CURRENT GUIDANCE ITSELF, AND A GROWING RECOGNITION OF THE IMPORTANCE OF THE PROPER PROGRAMMING OF LOCAL CURRENCY ASSOCIATED WITH U.S. ASSISTANCE REQUIRES AN AMPLIFICATION OF POLICY CONTAINED IN THE PRIOR DIRECTIVES.

1.40 THIS SUPPLEMENTAL GUIDANCE COVERS HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED BY, OR OTHERWISE MADE AVAILABLE FOR JOINT PROGRAMMING AS A RESULT OF, DEVELOPMENT ASSISTANCE, ECONOMIC SUPPORT FUND, OR PL 480 AGREEMENTS. LOCAL CURRENCY NOT REFLECTED OR COVERED IN THIS GUIDANCE INCLUDES (A) U.S.-OWNED LOCAL CURRENCY SUCH AS COUNTRY PAYMENTS TO THE U.S. PURSUANT TO SECTION

JINTLY PROGRAMMED FOR PRI..TE ENTERPRISE PROMOTION
NDER PL 480 SECTION 106(B), AND (C) THAT PURCHASED WITH
ID APPROPRIATED DOLLARS FOR DISBURSEMENT UNDER PROJECT
SSISTANCE.

.50. THIS SUPPLEMENTAL GUIDANCE ALSO COVERS, AS A
EPARATE ITEM, LOCAL CURRENCIES HELD IN TRUST BY AID.
HESE LOCAL CURRENCIES WHICH ARE LARGELY, BUT NOT
XCLUSIVELY, USED TO MEET MISSION OPERATING E PENSE
EQUIREMENTS ARE OF A SUFFICIENTLY DIFFERENT NATURE FROM
OCAL CURRENCIES WHICH ACCRUE AS A RESULT OF AID'S
ROGRAM ACTIVITIES AS TO WARRANT SEPARATE TREATMENT.
HUS, THE GUIDANCE ON PROGRAMMING (2.00) AND MONITORING
3.00) LOCAL CURRENCIES IS NOT, EXCEPT AS NOTED,
PPLICABLE TO LOCAL CURRENCY TRUST FUNDS (4.00).

.00 AID POLICY ON PROGRAMMING

.10 THE MISSION AND THE HOST GOVERNMENT SHOULD AGREE
N THE APPROPRIATE DEGREE OF AID INVOLVEMENT IN
ROGRAMMING LOCAL CURRENCY BEFORE ANY AGREEMENT IS
IGNED. AGENCY POLICY EXPLICITLY ENCOURAGES AID
ARTICIPATION IN THE PROGRAMMING OF HOST COUNTRY-OWNED
OCAL CURRENCY TO ACHIEVE DEVELOPMENTAL OBJECTIVES.
GENCY POLICY ALSO ENCOURAGES THE INTEGRATION OF LOCAL
URRENCY WITH EXTERNAL RESOURCES (PRIMARILY FROM THE
CONOMIC SUPPORT FUND, DEVELOPMENT ASSISTANCE AND PL 480
OOD AID) TO HELP ACHIEVE SPECIFIC PROGRAM AND POLICY

BJECTIVES AND TO ENHANCE THE DEVELOPMENTAL IMPACT OF
HE EXTERNAL RESOURCES.

.20 AID POLICY RECOGNIZES THAT THE RECIPIENT
OVERNMENT ASSUMES PRIMARY RESPONSIBILITY FOR ALLOCATING
TS OWN BUDGETARY RESOURCES. THIS IS THE CASE WHETHER
ID SPECIFIES ITS SUPPORT AT THE SECTORAL, SUBSECTORAL
R MINISTERIAL BUDGET LEVEL OR ASSOCIATES ITS
ROGRAMMING INVOLVEMENT WITH INDIVIDUAL PROJECTS OR
UDGET LINE ITEMS AT THE END-USE LEVEL. IN GENERAL, THE
ORE AID INVOLVEMENT IN PROGRAMMING, PARTICULARLY ON A
ROJECTIZED RATHER THAN BUDGET ATTRIBUTION BASIS, THE
ORE AID OVERSIGHT WILL BE REQUIRED. (AID MONITORING
ESPONSIBILITIES ARE DISCUSSED IN SECTION 3.00).

NB!

.30. MISSIONS SHOULD BE PARTICULARLY AWARE OF
NCREASING LEGISLATIVE INTEREST IN THE USES OF LOCAL
URRENCIES. IN RECENT YEARS CONGRESS HAS ENACTED
EGISLATION AFFECTING GENERALLY AID'S USE OF LOCAL
URRENCIES, AS WELL AS LEGISLATION PRESCRIBING USES FOR
ARTICULAR REGIONS OR COUNTRIES. IN THE FORMER
ATEGORY, ATTENTION SHOULD BE PAID TO FAA SECTION 531(D)

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WHICH REQUIRES THAT NOT LESS THAN 50 PERCENT OF THE LOCAL CURRENCY DERIVED FROM PROGRAM ASSISTANCE SUPPORT ACTIVITIES CONSISTENT WITH THE OBJECTIVES OF SECTIONS 103 THROUGH 106 OF THE FAA.

2.40 AID MISSIONS MUST MAKE AN INITIAL JUDGMENT AND REACH AGREEMENT WITH THE HOST GOVERNMENT ON WHAT ARE ELIGIBLE, AND INELIGIBLE, USES OF JOINTLY PROGRAMMED LOCAL CURRENCY. LOCAL CURRENCY MUST BE PROGRAMMED CONSISTENT WITH THE INTENT AND PURPOSES OF THE FOREIGN ASSISTANCE ACT OR PL 480. ALTHOUGH MOST STATUTORY PROVISIONS OF THE FAA AND PL 480 GOVERN THE USE OF APPROPRIATED FUNDS AND NOT LOCAL CURRENCY WHICH IS MOST COUNTRYOWNED, MISSIONS SHOULD BE ALERT TO CONGRESSIONAL CONCERNS EXPRESSED IN THOSE PROVISIONS AND REFRAIN FROM JOINTLY PROGRAMMING LOCAL CURRENCY FOR SPECIFIED ACTIONS PROHIBITED BY LEGISLATION GOVERNING APPROPRIATED FUNDS. IN ADDITION, THE APPROPRIATE AGREEMENT SHOULD PROHIBIT THE USE OF LOCAL CURRENCY QUOTA GENERATIONS UNQUOTE FOR POLICE TRAINING PURSUANT TO FAA SECTION 660, AS WELL AS THE USE OF JOINTLY PROGRAMMED LOCAL CURRENCY FOR MILITARY OR PARAMILITARY PURPOSES.

2.50 WHEN MISSIONS ADOPT A LESS INVOLVED, LESS DETAILED PROGRAMMING APPROACH, AT A HIGHER LEVEL OF AGGREGATION THAN INDIVIDUAL PROJECTS OR ACTIVITIES, MISSIONS SHOULD

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GENERALLY BE SATISFIED THAT THE HOST GOVERNMENT'S PROGRAMMING AND BUDGETING SYSTEM GIVES AID REASONABLE ASSURANCE THAT MUTUALLY AGREED-UPON OBJECTIVES WILL BE ACHIEVED. IF PROGRAM SUPPORT IS DEFINED IN SECTORAL TERMS, THE MISSION MUST GENERALLY SATISFY ITSELF ON THE QUALITY OF OVERALL SECTORAL ACTIVITIES AND THE TECHNICAL AND ADMINISTRATIVE CAPABILITY OF THE IMPLEMENTING ENTITY OR ENTITIES TO CARRY OUT THE PROGRAM. WHEN THE HOST GOVERNMENT'S ACCOUNTING ARRANGEMENTS NEED IMPROVEMENT, MISSIONS ARE ENCOURAGED TO JOINTLY PROGRAM LOCAL CURRENCIES OR OTHER RESOURCES, AS APPROPRIATE, TOWARDS STRENGTHENING THESE SYSTEMS.

2.60 BUDGETARY RESOURCES ARE FUNGIBLE, AND THEREFORE MISSIONS SHOULD BE ALERT TO ENSURE THAT ABSENT SPECIAL CIRCUMSTANCES THE RECIPIENT GOVERNMENT DOES NOT ALLOCATE FEWER RESOURCES TO SUPPORT PRIORITY ACTIVITIES FINANCED BY JOINTLY PROGRAMMED LOCAL CURRENCY. EVEN WHEN THE OVERALL GOVERNMENT BUDGET REMAINS CONSTANT OR IS REDUCED FROM PREVIOUS ANNUAL LEVELS, MISSION MONITORING CAN HELP TO ENSURE THAT THESE IMPORTANT ACTIVITIES CONTINUE TO RECEIVE AN APPROPRIATE SHARE OF THE REDUCED LEVEL OF RESOURCES A SHARE MADE POSSIBLE BY THE LOCAL CURRENCY ASSOCIATED WITH THE U.S. FOREIGN ASSISTANCE PROGRAM.

2.70 JOINTLY PROGRAMMED LOCAL CURRENCY MAY BE USED TO HELP MEET THE HOST COUNTRY'S CONTRIBUTION TO AID DA AND ESF PROJECTS, INCLUDING THE MANDATORY CONTRIBUTION REQUIRED UNDER FAA SECTION 110. LOCAL CURRENCY MAY ALSO BE USED TO SUPPORT ACTIVITIES FUNDED BY OTHER DEVELOPED AND

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BE ESPECIALLY WISE WHEN THE MISSION DETERMINES IN A MORE DIRECT INVOLVEMENT AT THE PROJECT OR LINE ITEM LEVEL IS APPROPRIATE. THE HOST GOVERNMENT AND A.I. SHOULD ASSURE THEMSELVES THAT DONOR PROJECTS MEET ACCEPTABLE TECHNICAL, FINANCIAL, ADMINISTRATIVE, AND ACCOUNTING STANDARDS AND THAT LOCAL CURRENCY ALLOCATIONS TO SUPPORT THESE PROJECTS, THEREFORE, ARE LIKELY TO BE EFFECTIVELY UTILIZED. THE FACT THAT PROJECTS ARE FUNDED AND MONITORED BY OTHER DONORS OR UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS WOULD GENERALLY PROVIDE SUCH ASSURANCES.

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2.80 JOINTLY PROGRAMMED LOCAL CURRENCY SHOULD BE DISBURSED AS QUICKLY AS IS CONSISTENT WITH SOUND PROGRAMMING AND PREVAILING ECONOMIC CONDITIONS IN THE RECIPIENT COUNTRY, TAKING INTO ACCOUNT THE CONDITIONS OF AN ECONOMIC STABILIZATION PROGRAM THAT MAY HAVE BEEN NEGOTIATED. HOWEVER, DISBURSEMENT DELAYS DO OCCUR ON OCCASION UNAVOIDABLY. THEREFORE, AID POLICY FAVORS THAT LOCAL CURRENCY BE PLACED INTO AN INTEREST-BEARING ACCOUNT IN A DEPOSIT-TAKING INSTITUTION, WITH ANY INTEREST EARNED PROGRAMMED AS IF IT WERE PRINCIPAL, SO LONG AS SUCH ACCOUNTS ARE PERMITTED UNDER HOST COUNTRY LAW AND REGULATION AND DO NOT UNDERMINE INTERNATIONALLY-SUPPORTED STABILIZATION AGREEMENTS AND SOUND MONETARY POLICY. A DETERMINATION NOT TO FOLLOW AID'S PREFERENCE FOR INTEREST-BEARING ACCOUNTS MAY BE MADE BY THE HIGHEST AID OFFICIAL AT POST. COPIES OF EACH DETERMINATION SHALL BE FORWARDED TO THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR AND PPC/PDPR. THIS POLICY SUPERCEDES THE MORE FLEXIBLE GUIDANCE IN PD-5.

Determine requirements 1/23/

3.00 AID MONITORING

3.10 EXTENT OF INVOLVEMENT

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3.11 WITH REGARD TO PL 480 ASSOCIATED LOCAL CURRENCY PROGRAMMING, AS INCLUDED IN ALL PL 480 TITLE II AND TITLE III AGREEMENTS, THE U.S. GOVERNMENT HAS THE RIGHT TO REVIEW THE RECORDS OF RECIPIENT GOVERNMENTS TO ASSURE THAT THE LOCAL CURRENCY GENERATED BY SALES HAS BEEN USED FOR AGREED-UPON PURPOSES. THE RECIPIENT GOVERNMENT IS REQUIRED TO FURNISH A REPORT ON PROCEEDS COLLECTED AND EXPENDED UNDER TITLE I.

3.12 MORE GENERALLY, MISSION DIRECTORS AND COGNIZANT AND RESPONSIBLE MISSION STAFFS, INCLUDING AS APPROPRIATE CONTROLLER AND PROGRAM OPERATIONS PERSONNEL, SHOULD REVIEW WITH THE RECIPIENT GOVERNMENT THE SPECIFIC PROCEDURES FOR PROGRAMMING, RELEASING, AND CONTROLLING THE LOCAL CURRENCY, AND FOR MONITORING AND EVALUATING THE IMPLEMENTATION OF THE SPECIFIC ACTIVITIES (INCLUDING REPORTING REQUIREMENTS). MISSIONS SHOULD SEEK TO HAVE THE RECIPIENT COUNTRY DO AS MUCH OF THE WORK OF UTILIZING AND ACCOUNTING FOR THE HOST COUNTRY-OWNED LOCAL CURRENCY AS POSSIBLE. IF THE GOVERNMENT PROCEDURES NEED IMPROVEMENT, A PORTION OF THE LOCAL CURRENCY SHOULD BE USED TO DEVELOP THE NECESSARY SYSTEMS AND PROCEDURES FOR FINANCIAL OVERSIGHT. THE MISSION AND THE HOST GOVERNMENT SHOULD WORK OUT THESE PROCEDURES AND THE RESPONSIBILITY FOR IMPLEMENTING THEM PRIOR TO SIGNING THE AGREEMENT, AND THEY SHOULD BE REFLECTED THERE AND IN SUBSEQUENT IMPLEMENTATION DOCUMENTS.

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3.13 THE EXTENT TO WHICH MISSIONS MUST MONITOR THE ACTUAL USES OF THE LOCAL CURRENCY WILL DEPEND ON THE AGREEMENT WITH THE RECIPIENT GOVERNMENT.

(A) IF AID SHOULD CHOOSE TO DIRECTLY ASSOCIATE JOINTLY PROGRAMMED LOCAL CURRENCY WITH HOST GOVERNMENT PROJECTS OR PRIVATE SECTOR ACTIVITIES, THE MISSION SHOULD HAVE REASONABLE ASSURANCE THAT THE ACTIVITIES HAVE BEEN DESIGNED IN ACCORDANCE WITH SOUND TECHNICAL, FINANCIAL, AND ENVIRONMENTAL PRACTICES, THAT IMPLEMENTATION AND MONITORING CAPABILITIES OF THE IMPLEMENTING ENTITIES ARE ADEQUATE, AND THAT PERIODIC AUDITS OF RELEVANT ACTIVITIES WILL BE UNDERTAKEN. PROJECTS THAT ARE FUNDED AND MONITORED BY AID WOULD PROVIDE SUCH EVIDENCE. SIMILARLY, THE FACT THAT PROJECTS WERE FUNDED AND MONITORED BY OTHER DONORS OR UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS WOULD GENERALLY PROVIDE SUCH ASSURANCES. OTHERWISE, MISSIONS SHOULD BE PREPARED TO TAKE A MORE ACTIVE ROLE IN IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING THE PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING FOR THE ACTIVITY. IF AND WHEN SUBSEQUENT ALLOCATIONS OF JOINTLY PROGRAMMED LOCAL CURRENCY FOR PROJECT LEVEL ACTIVITIES ARE BEING CONSIDERED, THE MISSION SHOULD TAKE THIS OPPORTUNITY TO REVIEW PROGRESS IN MOVING TOWARD PROJECT COMPLETION. PERIODIC REPORTING BY THE HOST GOVERNMENT SHOULD BE REQUIRED, AND FIELD VISITS MAY BE USEFUL IN

Subject to Those Activities

NB - Problem

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B) IF AID AND THE RECIPIENT GOVERNMENT PROGRAM THE
UCAL CURRENCY FOR MORE GENERAL PURPOSES, FOR EXAMPLE,
N AGREEMENT THAT LOCAL CURRENCY WILL BE USED TO MEET
EVELOPMENT BUDGET REQUIREMENTS OF, SAY, THE MINISTRY OF
GRICULTURE, THE ROLE OF AID MAY BE LIMITED TO ENSURING
HAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL
URRENCY INDEED WAS TRANSFERRED TO THE MINISTRY'S
EVELOPMENT ACCOUNT. THE MISSION NEED NOT TRACE THE
UNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS SINCE AID'S
EVELOPMENT GOAL IS A LEVEL OF OVERALL FINANCIAL SUPPORT
O A PROGRAM OR INSTITUTION; INDEED, ONCE TRANSFERRED
ROM A SPECIAL ACCOUNT TO A PROGRAM OR INSTITUTION, THE
UNDS WILL GENERALLY HAVE BEEN COMBINED WITH OTHER
UDGETARY FUNDS AND WILL NOT BE TRACEABLE. HOWEVER, THE
ISSION SHOULD GENERALLY BE SATISFIED ON THE QUALITY OF
VERALL PROGRAM ACTIVITIES AND THE TECHNICAL AND
DMINISTRATIVE CAPABILITIES OF THE IMPLEMENTING ENTITY
R ENTITIES TO CARRY OUT THE PROGRAM. FURTHERMORE,

Support For General Purposes

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PERIODIC REPORTS ON BUDGETARY ALLOCATIONS SHOULD BE
REQUIRED OVER THE PERIOD OF THE AGREEMENT TO ENABLE THE
MISSION TO ASSESS COMPLIANCE WITH AGREED PRIORITIES.
FINALLY, THE MISSION SHOULD ASSURE ITSELF POST HOC THAT
THE GOVERNMENT HAS ACCORDED AN APPROPRIATE EMPHASIS TO
PRIORITY PROGRAMS. THIS CAN THEN BE USED AS A BASIS FOR
MAKING JUDGMENTS ABOUT FUTURE LOCAL CURRENCY ALLOCATION
DECISIONS.

3.14 TO REITERATE, AID'S RETENTION OF MONITORING AND
APPROVAL RIGHTS, AS WELL AS THE RIGHT TO RECEIVE
REPORTS, IS DIRECTLY RELATED TO THE PROGRAMMING BURDEN
THAT AID ASSUMES FOR ITSELF IN THE AGREEMENT DESCRIBING
HOW LOCAL CURRENCY WILL BE USED. RETENTION OF THESE
RIGHTS IN THE AGREEMENT SHOULD BE CONSISTENT, THEN, WITH
THE AGREED UPON PROGRAMMING RESPONSIBILITIES OF AID BUT,
AT A MINIMUM, SHOULD BE ADEQUATE TO ENSURE THAT AID WITH

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TIMELY ACCESS CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED. (UNDER TYPICAL P.L. 480, TITLE I AGREEMENTS, HOWEVER, REPORTS CERTIFIED BY THE COUNTRY ARE OBTAINED, RATHER THAN REQUIRING INDEPENDENT ACCESS TO THE SUPPORTING DOCUMENTATION ON THE USES OF LOCAL CURRENCY.)

3.20 SPECIAL ACCOUNTS

3.21 PL 480 TITLE I LEGISLATION DOES NOT REQUIRED RECIPIENT COUNTRIES TO DEPOSIT SALES PROCEEDS INTO SPECIAL ACCOUNTS. HOWEVER, SALES AGREEMENTS MUST INCLUDE PROVISIONS TO ASSURE THAT SALES PROCEEDS ARE USED FOR ECONOMIC DEVELOPMENT PURPOSES, AND MANY MISSION PERSONNEL BELIEVE THAT SPECIAL ACCOUNTS FACILITATE THE MONITORING OF THIS REQUIREMENT.

3.22 IN CONTRAST, PL 480 TITLE III LEGISLATION DOES REQUIRE THE ESTABLISHMENT OF SPECIAL ACCOUNTS QUOTE WHERE PRACTICABLE UNQUOTE. THE PL 480 TITLE II, SECTION 206 PROGRAM REQUIRES THE ESTABLISHMENT OF SPECIAL ACCOUNTS WITHOUT EXCEPTION.

3.23 FAA SECTION 609 REQUIRES THAT LOCAL CURRENCY GENERATED FROM THE SALE OF ANY COMMODITY PROVIDED ON A GRANT BASIS UNDER THE ECONOMIC SUPPORT FUND (ESF) BE DEPOSITED INTO A SPECIAL ACCOUNT. THE FY 1987 CONTINUING RESOLUTION REQUIRES THAT LOCAL CURRENCY GENERATED WITH FUNDS PROVIDED AS A CASH TRANSFER IN EXCESS OF 5.0 MILLION DOLLARS AFTER FEBRUARY 1, 1987, BE DEPOSITED INTO A SPECIAL ACCOUNT AND USED IN ACCORDANCE WITH SECTION 609 OF THE FAA. SPECIAL PROVISIONS APPLY TO EL SALVADOR PURSUANT TO THE CONTINUING RESOLUTION AND SECTION 702(C) OF THE INTERNATIONAL SECURITY AND DEVELOPMENT COOPERATION ACT OF 1985.

3.24 IN ADDITION TO MEETING THE STATUTORY REQUIREMENTS FOR SEPARATE LOCAL CURRENCY ACCOUNTS, AS A MATTER OF GENERAL POLICY FOR JOINTLY PROGRAMMED LOCAL CURRENCY ASSOCIATED WITH OR GENERATED BY FUNDS PROVIDED UNDER THE FAA, MISSIONS SHOULD ESTABLISH SPECIAL ACCOUNTS FOR ALL SUCH LOCAL CURRENCY TO FACILITATE MONITORING AND ACCOUNTABILITY. IN THE UNLIKELY EVENT THAT SUCH ACCOUNTS WOULD BE CLEARLY COUNTERPRODUCTIVE, A WAIVER MAY BE GRANTED BY THE APPROPRIATE REGIONAL BUREAU ASSISTANT ADMINISTRATOR WHERE SPECIAL LOCAL CURRENCY ACCOUNTS ARE NOT REQUIRED BY STATUTE. THE CREATION OF A SPECIAL ACCOUNT DOES NOT SUBSTITUTE FOR THE NEED TO SEPARATELY DETERMINE THE EXTENT OF PROGRAMMING INVOLVEMENT AID WILL ASSUME IN REGARD TO THE PROCEEDS OF SUCH ACCOUNTS. ALTHOUGH SPECIAL ACCOUNTS HELP TRACKING AND ACCOUNTABILITY, THEY DO NOT GUARANTEE THAT APPROPRIATE BUDGET ALLOCATION DECISIONS WILL BE MADE BY THE RECIPIENT GOVERNMENT, NOR ARE THEY NECESSARILY [illegible] BUDGET

3.25 .IT CANNOT BE EMPHASIZED TOO STRONGLY THAT SPECIAL ACCOUNTS, ONCE ESTABLISHED, MUST BE CAREFULLY MONITORED. ADDITIONAL STAFF MAY OR MAY NOT BE REQUIRED TO CARRY OUT THE ADDITIONAL MANAGEMENT OR CONTROL FUNCTIONS ASSOCIATED WITH THESE ACCOUNTS. MISSIONS MUST CAREFULLY EXAMINE THEIR STAFF LEVEL AND COMPOSITION TO DETERMINE IF CHANGES WILL BE NEEDED.

Question also of staff ~~and~~ for detailed monitoring and evaluation

4.00 TRUST FUNDS

4.10 AID HAS AUTHORITY TO ESTABLISH TRUST ACCOUNTS FOR HOST COUNTRYOWNED LOCAL CURRENCIES. IF A.I.D. MANAGES OR ADMINISTERS LOCAL CURRENCY FUNDS OWNED BY THE HOST GOVERNMENT FOR ANY REASON, THIS CAN BE DONE ONLY PURSUANT TO A TRUST FUND AGREEMENT. THE TRUST AGREEMENT ENTERED INTO BETWEEN AID AND THE HOST GOVERNMENT DEFINES THE USES TO WHICH TRUST FUNDS MAY BE PUT. THE USES MUST ALSO BE CONSISTENT WITH ANY SPECIFIC STATUTORY REQUIREMENTS (E.G., SECTION 609 OF THE FAA) WHICH MAY BE APPLICABLE TO LOCAL CURRENCIES WHICH HAVE BEEN GENERATED OR HAVE OTHERWISE ACCRUED AS A RESULT OF A FOREIGN

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ASSISTANCE PROGRAM AND DEPOSITED IN THE TRUST ACCOUNT. SINCE THESE LOCAL CURRENCIES ARE ADMINISTERED BY AID AS A TRUSTEE AND ARE NOT JOINTLY PROGRAMMED WITH THE HOST GOVERNMENT, AID OWES A DUTY TO THE HOST GOVERNMENT TO ACCOUNT FOR AND REPORT PERIODICALLY TO THE HOST GOVERNMENT ON THE USES OF THE TRUST FUNDS. THIS REPORTING AND ACCOUNTING REQUIREMENT IS DESCRIBED IN CHAPTER 5, HANDBOOK 13.

4.20 TRUST FUNDS ARE PRIMARILY USED BY AID TO HELP MEET THE ADMINISTRATIVE COSTS OF ITS OVERSEAS MISSIONS. IN ADDITION, THEY HAVE PROVEN TO BE A USEFUL TOOL, FOR EXAMPLE, WHEN USED LIKE PD AND S FUNDS TO FACILITATE PROJECT DESIGN AND IMPLEMENTATION OF PROJECTS. IT IS

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EXPECTED THAT TRUST FUNDS WILL CONTINUE TO BE MADE AVAILABLE PRIMARILY FOR THESE PURPOSES.

4.30 TRUST FUNDS UTILIZED TO FINANCE DISCRETE NEW PROJECTS OR ACTIVITIES ARE GENERALLY NOT FAVORED BUT IT IS RECOGNIZED THAT UNDER EXCEPTIONAL CIRCUMSTANCES THEIR USE FOR THIS PURPOSE MAY BE WARRANTED. THE USE OF TRUST FUNDS TO FINANCE PROJECTS MUST BE PERMISSIBLE UNDER THE TERMS OF THE TRUST FUND AGREEMENT BETWEEN THE HOST GOVERNMENT AND AID.

4.40 LOCAL CURRENCIES HELD IN TRUST, WHETHER USED FOR ADMINISTRATIVE OR PROGRAM PURPOSES, ARE NOT U.S.OWNED LOCAL CURRENCIES AND THEREFORE STATUTORY RESTRICTIONS (EXCEPT AS NOTED IN PARAGRAPH 4.10) THAT APPLY TO APPROPRIATED FUNDS DO NOT AS A MATTER OF LAW APPLY TO THEIR USE UNLESS SPECIFICALLY APPLICABLE TO LOCAL CURRENCY PROGRAMMING. BECAUSE AID EXERCISES VIRTUALLY COMPLETE CONTROL OVER THE USE OF TRUST FUNDS, WHILE STILL OWING A FIDUCIARY RESPONSIBILITY TO THE HOST GOVERNMENT, AID WILL APPLY CERTAIN PROCEDURAL REQUIREMENTS ON THEIR USE. HANDBOOK 19 DESCRIBES REPORTING REQUIREMENTS. IN ADDITION, AS A MATTER OF POLICY, AID WILL APPLY THE FEDERAL ACQUISITION REGULATIONS (FAR) AND AID ACQUISITION REGULATIONS (AIDAR) TO ANY CONTRACT ACTION PERFORMED BY AID WITH SUCH FUNDS. WHEN TRUST FUNDS ARE UTILIZED TO SUPPORT DISCRETE NEW PROJECTS OR ACTIVITIES, MISSIONS MUST DEVELOP, ANALYZE, JUSTIFY, AND IMPLEMENT THE ACTIVITY AS IF IT WERE AN AID PROJECT, INCLUDING THE USE OF A PPLIKE AUTHORIZATION DOCUMENT. ENVIRONMENTAL CONSIDERATIONS ARE ADDRESSED IN PARAGRAPH 5.00. IT IS NOT THE INTENTION OF THIS GUIDANCE TO MAKE APPLICABLE TO TRUST FUNDS THE ENTIRE RANGE OF LIMITATIONS AND

RESTRICTIONS CONTAINED IN UNDERLYING LEGISLATION. HOWEVER, IN UTILIZING TRUST FUNDS FOR PROJECT ACTIVITIES, MISSIONS MUST BE AWARE OF STATUTORY LIMITATIONS WHICH MAY APPLY TO THE USE OF APPROPRIATED FUNDS FOR A COUNTRY OR PURPOSE AND AID POLICY IMPLEMENTING SUCH LEGISLATION, AND ARE ENCOURAGED TO EXERCISE CARE IN ASSURING THAT THE USES OF TRUST FUNDS ARE CONSISTENT WITH THE LEGISLATION AND POLICY. IN THIS REGARD, SECTION 2.40 OF THIS GUIDANCE SHOULD BE VIEWED AS APPLYING AS WELL TO TRUST FUNDS. GIVEN THE SIGNIFICANT BURDEN ON LIMITED MISSION STAFFS ASSOCIATED WITH SUCH TRUST FUND PROJECTS, TRUST FUNDS MAY BE UTILIZED FOR THIS PURPOSE ONLY WITH THE APPROVAL OF THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR.

5.00 ENVIRONMENTAL SAFEGUARDS UNDER LOCAL CURRENCY PROGRAMMING

5.10 RESPONSIBLE SAFEGUARDS ENSURING THAT ENVIRONMENTAL CONCERNS WILL BE TAKEN INTO ACCOUNT IN THE DESIGN AND

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APPROPRIATE. ACCORDINGLY, SPECIFIC POLICY GUIDANCE ON THIS SUBJECT IS BEING PREPARED AND WILL BE SENT OUT FOR COMMENT SOON. IN THE INTERIM, MISSIONS ARE URGED TO PAY PARTICULAR ATTENTION TO HOST COUNTRY ENVIRONMENTAL PROTECTION AND MITIGATION PROCEDURES IN THE LOCAL CURRENCY PROGRAMMING PROCESS. ARMACOST

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TAB B

UNITED STATES GOVERNMENT

memorandum

DATE: December 27, 1987

REPLY TO ATTN OF: LEG, Naim Attia

SUBJECT: Using Special Account funds to generate interest

TO: AD/FM, William A. Miller

THRU: SLA, Kevin O'Donnell

You asked me to advise whether funds deposited in the Special Account established with the Central Bank of Egypt according to the provisions of Commodity Imports Grant Agreement, can be used to generate interest. If this is not acceptable, shall there be any other means permissible to do that purpose.

I herein after state my legal opinion after pointing out the provisions of Egyptian Law and A.I.D. Agreements.

Legal Background

I Provisions of the Special Account in USAID Agreements:

A The Bilateral Agreement of 1978

The Economic, Technical and Related Assistance Agreement concluded between the Governments of the United States of America and the Arab Republic of Egypt on August 16, 1978 provides:

> "3. In any case where commodities or services are furnished on a grant basis under arrangements which will result in the accrual of proceeds to the Government of the Arab Republic of Egypt from the import or sale of such commodities or services, the Government of the Arab Republic of Egypt, except as may otherwise be mutually agreed upon by the representatives referred to in paragraph 1 hereof, will establish in its own name a Special Account in the National Bank of Egypt; will deposit promptly in such Special Account the amount of local currency equivalent to such proceeds."

B Commodity Imports Grant Agreement

Under successive Grant Agreements between the United States of America and the Arab Republic of Egypt for Commodity Imports, e.g. Agreement dated June 25, 1987 (AID Grant No 263-K-615) Grantee (ARE) will establish a Special Account in the Central Bank of Egypt and deposit therein currency of the Government of the Arab Republic of Egypt in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of Eligible Items, except as the parties may otherwise agree in writing.

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OPTIONAL FORM NO 10
(REV. 1-80)

Funds deposited in the Special Account pursuant to this agreement may be used for such purposes as are described in the Memorandum of Understanding Regarding the Special Account, dated June 30, 1980, as amended, paragraphs (a) and (b) of Section 6.6.

II Provisions of Egyptian Law related to special accounts:

Special accounts are governed by the provisions of Law No. 127 for 1981 related to Government Accounting and its Executive Regulations issued by Ministerial Decree No. 181 of 1982.

Under the light of these provisions, I point out the following:

1. Acting with the approval of the Ministry of Finance, administrative quarters may open special accounts with the Central Bank or any other public sector bank.

Usually administrative quarters open special accounts with the Central Bank. The administrative quarter shall not open a special account with a public sector bank unless authorized to do that by the Ministry of Finance.

The funds that the Egyptian Government contributes to finance the special accounts created in conformity with an international agreement, e.g. USAID Grant Agreement, shall be deposited in independant account with the Central Bank of Egypt or public sector banks. These funds may also be lodged according to the provisions of Article 60 of the Executive Regulations of Law No 127, in mixed banks, if the agreements so require.

2. The opening of such accounts shall be for the lodgement of donations or aids or endowments or grants or any other resources, outside the general budget.

A special account shall be opened for each of these resources.

3. All these accounts shall be subject to a system of control established for their accuracy, provided that this is not inconsistent with the terms and decrees relevant to the acceptance of special private sums, and conforms to the control procedures governing revenues and expenditures prescribed by the Executive Regulations

The administrative quarters assigned to the Implementation of international agreements - in conformity with the powers stipulated to each of them, after seeking the opinion of the Ministry of Finance - shall formulate the rules governing disposal of the funds deposited in the special accounts opened in implementation of these agreements.

The foreign component to which the foreign party contributes shall be subject to the provisions of the agreement concluded in this respect.

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The local component to which the Government of Egypt contributes with a foreign party shall be subject to the rules stipulated in the Executive Regulation, without prejudice, however to the rules prescribed by the agreements concluded with the Government of Egypt.

4. Spending therefrom shall be made for the purpose for which it was offered.

No payment shall be effected to serve other purposes than what they were meant to serve except after referring the matter to the Ministry of Finance for the promulgation of the necessary legislation.

The provisions of Article 12 of Law 127 indicates that in case the appropriations of a special account shall be spent in other purposes than that they are meant to serve the People's Assembly shall be involved.

Thus, such a use of a special account funds shall not be only an act of the Executuve branch but it shall require the interference of the Legislative branch.

The discrepancy of the payment provisions stated in Law No 127 is strictly prohibited by the said Law.

Representatives of the Ministry of Finance and financial incumbents in administrative quarters shall refrain - on grounds that they shall explain in writing - from implementing any order or resolution entailing clear infringement of the provisions of the contribution as of the laws and decrees of the Republic or financial rules.

In all cases of payment entailing financial infringement, the Ministry of Finance and the Central Agency for Auditing shall be advised.

5. The final accounts of the concerned quarter shall comprise all payments and collections of the said special accounts affected during the year.

The surplus of these accounts shall be carried forward to subsequent years, for spending on the purposes that they were intended to serve.

III Provisions of the Status of the Central Bank of Egypt

According to the provisions of Article (1) of Law No. 120 of 1975 providing for the Central Bank of Egypt and the Banking System as amended;

"The Central Bank of Egypt is a public and autonomous body corporate concerned with regulating the monetary, credit and banking policy and the supervision of its implementation in conformity with the State's overall plan in order to provide assistance towards the development and consolidation of national economy and the promotion of Egypt's monetary stability. It shall exercise its powers and prerogatives under Law No. 163/1975 providing for the banking and credit law, in conformity with the provisions and regulations stipulated in it, provided that this is consistent with the provisions of the present law."

Article 3 of Law No. 120/1957 provides:

"The Bank shall be in charge of banking operations pertaining to the Government and to other public body corporates; of internal and external financing and of credit operations with banks in conformity with the provisions of Law No. 163/1957. It shall refrain from carrying on such operations to others than the designated Authorities."

Article 13 of Law No. 163/1957 promulgating Banks and Credit Law as amended confirms the role of the Central Bank as the Government bank providing:

"The Bank shall act as the Government bank and shall not receive any fees in return for the services rendered to it."[1]

In such transactions the Central Bank is acting as treasury and "running account" for the Government.

Articles 14 and 15 of Law No. 163/57 state two other jobs entrusted to the Central Bank as the Government bank.

The first job is acting on behalf of the Government in managing and issuing public loans and also serving and depreciating these debts.[2]

The second job is advancing loans to the Government to meet any seasonal deficit in the public budget.[3] Terms and rules of such loans shall be specified in agreement between the Bank and the Government in accordance with the conditions of currency and prevalent prices at the time of advancement.

For all these banking activities the Central Banks shall neither receive fees nor collect interest against loans extended to the Government.

In addition to the above mentioned, provisions of Article 7 of Law 120/75 assert that the Central Bank shall not raise interest on loans extended by it to the government or public entities. This Article states that the Bank's Board of Directors is the authority concerned with the dispatch of its business and regulating its monetary credit and banking policy; supervision of

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1 The Bank may upon the approval of its board of directors carry out banking operations for other public entities with the same terms.

2 However, the Bank shall have the view of the Government before concluding local or foreign loans.

3 Such loans shall be advanced to the Government, provided that they shall not exceed 10 percent of the average budget revenues over the three preceding years, and also provided that they shall be for a period of three months renewable for another three months period and so on but such loans shall be refunded by the Government within at most twelve months as of the date of their advancement.

the implementation of such policy; and the issue of such decisions regarding its management as it may deem appropriate to achieve the objects and purposes it is implementing in conformity with the provisions of Law No. 163/57 referred to within the framework of the overall socio-economic Development Plan and as may be consistent with the State's general policy.

To this end Article 7 empowers the Bank's Board of Directors specified means. These means do not permit the Bank to advance loans with interest neither to the Government nor to other entities.[4]

The Central Bank shall receive return for its activities only from the net profits realised by the issue of bank notes.[5]

Conclusions

Under the abovementioned provisions of Commodity Imports Agreements, and of Laws Nos 127/81, 120/75 and 163/57 as amended, I point out the following:

1. Since the Special Account is established in the Central Bank of Egypt, the currency deposited therein shall not generate interest, because the legal status of the said Bank prohibits that.

Since the Central Bank of Egypt as Government Bank is not authorized to extend loans against interest, it is reasonable that funds deposited in it shall not generate interest.

2. In addition to that, the currency deposited in the said Special Acc is appropriated to specific purposes described in the Memorandum of Understanding regarding the Special Account dated June 30, 1980 as amended. Therefore, Special Account funds shall not be used for other than these purposes. Consequently, these funds shall not be used to extend loans generating interests.

Using appropriations of a special account in other purposes than that they are meant to serve is strictly forbidden, unless the permission of the Minister of Finance is obtained and the People's Assembly is advised.

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4 However, the Bank's funds shall be deemed private funds (Article 4 of Law 120/75 as amended).

5 "Net profits realised by the issue of bank notes after exclusion of all expenses approved by the accounts censors shall be divided between the Government and the Bank at the rate of 85 percent for the former and 15 percent for the latter, while all increases arising from the re-evaluation of gold balance in stock as cover for issue shall go to the Government." (Article 11 of Law 163/57)

3. In case the using of Special Account funds to generate interest is agreed upon between the two Governments, the Special Account should be opened with a public sector bank or a mixed bank.[6] This procedure shall be permissible upon two conditions as follows:

1. The approval of the Ministry of Finance shall be obtained.

2. The status of the Special Account (e.g. Memorandum of Understanding) shall indicate that purpose as one of the purposes served with the allocations of the Special Account.

Finally, I would add herein, that the decision upon using the Special Account funds totally or partly to generate interest is easy to indicate theoretically, but may be a difficult one to adopt in practice.

6 This should call for an amendment to the Bilateral Agreement of 1978, which Agreement provides establishment of the Special Account in the National (Central) Bank. Unless the amendment of the Bilateral Agreement is effected there would be a technical violation of the Bilateral in movement of Special Account elsewhere.