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REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED DEVELOPMENT CREDIT

TO THE

ARAB REPUBLIC OF EGYPT

FOR THE

TALKHA II FERTILIZER PROJECT

June 6, 1974

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Currency Equivalents

1 Egyptian Pound	=	2.56 US Dollars
1 US Dollar	=	£E 0.435
1 £E = 100 Piasters	=	1,000 Miliemes

Fiscal Year

Equivalent to Calendar Year

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT CREDIT TO THE ARAB REPUBLIC OF EGYPT FOR THE TALKHA II FERTILIZER PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Arab Republic of Egypt for the equivalent of US$20.0 million on standard IDA terms to finance a portion of the foreign exchange cost of an ammonia/urea fertilizer project at Talkha. The proceeds of the credit would be onlent to the Societe El Nasr d'Engrais et d'Industries Chimiques (SEMADCO) 1/ at an effective financing cost of 8.5 percent p.a., for 15 years, including five years grace. A group of Arab lenders will provide about $69 million equivalent to finance most of the remaining foreign exchange costs of the project. The Government will provide to SEMADCO, mainly as equity, an estimated £E 16.9 million (approximately $43 million equivalent), towards the balance of the foreign exchange cost as well as the local cost of the proposed project.

PART I - THE ECONOMY

2. A report entitled "Current Economic Position and Prospects of the Arab Republic of Egypt" (R73-16) dated December 30, 1972, was distributed to the Executive Directors on January 23, 1973. An economic mission has just returned from Egypt, and its preliminary findings are reflected in this report. Country data are provided in Annex I.

Economic Structure and Growth

3. The period since the Revolution of 1952 involved major changes in the structure and organization of the economy. On the production side, there was a marked shift toward industry, supported by government policies which - especially after the 1956 Suez crisis - emphasized import-substitution and self-sufficiency. Industry has been growing faster than any other sector of the economy, and its share of GDP increased from slightly over 10 percent in 1950 to nearly 30 percent in the last three years. Direct involvement of the State in industrial organizations and enterprises, became the main feature of Egypt's industrial policy. At the same time, agriculture has maintained its pivotal role in the economy, employing half of the labor force and generating four-fifths of exports, although its relative share in GDP has decreased from about 45 percent in 1950 to less than one-third in recent years. Land reform, irrigation and drainage works and the promotion of cooperative

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1/ Also referred to in the Appraisal Report as "El Nasr Company for Fertilizers and Chemicals (El Nasr)" or "the Company".

farming has been extensively provided by the Government, in its effort to increase agricultural productivity and to improve income distribution and rural employment.

4. Notwithstanding these efforts towards industrialization and rural development, population pressure continues to be one of the most urgent problems faced by Egypt. Egypt's population is already one of the most densely settled in the world and is growing at about 2.5 percent a year. The fast rate of natural increase is combined with a high rate of internal migration to urban areas, resulting in growing urban congestion, especially in Cairo. Recognizing that continued rapid population growth would erode much of the benefit of its economic and social programs the Government embarked on a national family planning program in 1965. Results achieved so far are modest and need to be reinforced.

5. With the impetus of the First Five-Year Plan (1961-65) Egypt's economic growth accelerated in the early 1960's to an average annual rate of about 6 percent -- nearly reaching the plan target of 7 percent and considerably faster than the pace of growth in the 1950's. However, the increased investment rate of the early 1960's was accompanied by growing defense expenditure which led to serious balance of payments pressures by the mid-1960's. In 1966/67, the Government imposed severe import restrictions and deflationary policies, resulting in negligible growth in that financial year. The war of June 1967 compounded an already difficult situation, and there was a significant fall in GDP in 1967/68. In the following years, the economy recovered, but average growth was reduced to some 4 percent a year.

6. Defense has taken a progressively greater share of Egypt's resources, reaching 15-20 percent of GNP in recent years, largely at the expense of investment expenditure, which has fallen to about 12 percent of GNP. This economic situation has been aggravated by continuing severe pressure on the balance of payments. The share of private consumption in GNP has, however, remained fairly constant, implying a growth rate in per capita private consumption of about 1.5 percent annually. Employment has grown slowly (by about 2 percent annually in recent years), resulting in increased unemployment and underemployment.

Recent Developments

7. The Egyptian economy emerged from the war of October 1973 with relatively little damage. Agricultural production was unaffected and additional diversion of industrial production towards military needs was probably marginal. There was a temporary drop in tourism and some dislocation of economic activity, mainly due to a slowdown in commercial shipping traffic. Much of the direct cost of the war was financed by Arab grants, mainly from Saudi Arabia, Algeria and the Gulf States. In addition, an estimated $400 million was received from Arab sources, as well as the $250 million (£E 110 million) received annually under the Khartoum Agreement to replace Suez Canal revenues; this inflow of funds permitted Egypt to sustain a somewhat enlarged

current account deficit in 1973, and to settle various debt arrears existing up to mid-1973. However, whereas gross reserves exceeded $400 million at the end of 1973 (about 3 months imports), short-term liabilities were even greater; therefore, net reserves were still negative to the extent of $430 million.

8. In 1973 the rising import prices (and particularly higher prices of food imports) resulted in a sharp increase in the current account deficit. In 1972, Egypt imported 2.1 million tons of wheat at a cost of about $150 million. In 1973, 2.3 million tons of wheat imports are reported to have been imported at a cost of about $400 million. Imports of other principal foodstuffs, edible oils and animal fats increased from about $100 million in 1972 to $170 million in 1973. Altogether, food imports cost nearly $600 million in 1973 (nearly 40 percent of total commodity imports), an increase of about $350 million over the 1972 level. A further increase is projected for 1974. While world prices of cotton, Egypt's principal export earner, also rose in 1973, most of the gains from this price rise will not be reflected until 1974. Overall, the deficit on current account excluding transfers of Arab funds amounted to over $300 million in 1973 and is expected to be higher in 1974. Foreign exchange shortage continues to limit both the utilization of productive capacity and the implementation of new development programs.

Debt Service Burden

9. During the past year, Egypt relied heavily on short-term credits to finance its deficit; the total use of these credits (including rollovers) amounted to nearly $1,100 million in 1973. Egypt's medium and long-term debt outstanding and disbursed at the end of 1973 stood at about $2 billion, with the USSR as Egypt's principal creditor, followed in importance by the United States, Kuwait, Italy, Czechoslovakia and Germany. The debt service ratio for 1973 was about 25 percent. IBRD debt at end 1973 comprised less than one percent and IDA debt comprised about 1.5 percent of the total reported medium and long-term debt (including undisbursed). Of the reported outstanding medium and long-term debt at end 1973, 40 percent was due to be repaid within two years, 50 percent within three years, and 64 percent within five years. The debt service ratio is expected to increase to nearly 27% in 1974. Given this unfavorable debt structure and its burden on Egypt, it is important that development financing on appropriate terms be made available so that recent reliance on short-term financing can be reversed.

Development Prospects

10. Egypt has considerable potential for economic development. Apart from her favorable geographic location, her proximity to Arab and European markets and her sizeable domestic market, she has a labor force that is distinguished for its high level of education, skills and industrial experience as well as a willingness to offer sacrifices for national goals. In some sectors such as cotton, textiles, leather, food and some engineering goods, Egypt competes successfully in international markets. Utilization of known natural resources, including oil and natural gas, is well underway and will

be intensified by the application of advanced technologies. Tourism holds great promise, due to a favorable climate and the country's outstanding cultural heritage. Domestic food production can be substantially expanded provided irrigation and drainage projects are implemented expeditiously, and crucial inputs (such as fertilizers, pesticides, better seeds) are supplied in sufficient quantities.

11. The Government is preparing a development plan for 1976-80. Meanwhile it is actively working on a transitional program, which, on the assumption that more peaceful conditions will prevail, would provide the framework for changing the pattern of the country's resource allocations. The expected reopening of the Suez Canal in 1975 should improve Egypt's economic prospects considerably. The Government believes the economy could be rapidly stimulated by fuller utilization of existing capacity in the industrial and agricultural sectors, which is currently constrained by severe shortages of foreign exchange; this aspect is currently being reviewed by a Bank mission. The Government is also taking steps to liberalize the economy, to stimulate foreign investment, and to encourage private domestic investment. There is also a good chance for increased financial support from oil-exporting countries, as well as from private and official Western sources, on concessionary terms, which would assist Egypt considerably in improving its debt profile; to facilitate this support the Government has recently established an Agency for Arab and International Economic Cooperation to coordinate external capital inflows. All these measures, form part of the Government's effort to improve Egypt's economic and debt management, in order to gradually restore creditworthiness.

PART II - BANK GROUP OPERATIONS IN EGYPT

12. The proposed credit would be the Bank Group's tenth operation in Egypt. It would bring Bank and IDA commitments to $207.6 million. The first operation was a Bank loan for the Suez Canal Expansion Project ($56.5 million) in 1959. IDA lending began in 1970 with a credit for the Nile Delta Drainage Project ($26 million). Since then, credits have been made for the following projects: Railways I ($30 million), Upper Egypt Drainage ($36 million), Bank of Alexandria ($15 million), Cotton Ginning Rehabilitation ($18.5 million including the refinancing of the $175,000 engineering credit for the cotton ginning project), Population ($5 million), and the engineering of the proposed Talkha Fertilizer Project ($0.4 million). Annex II contains a summary statement of Bank loans and IDA credits as of April 30, 1974, together with notes on the execution of ongoing projects. There have been no IFC investments in Egypt.

13. The main purpose of the IDA lending program is to assist development of key sectors and to alleviate Egypt's severe shortage of foreign exchange by financing high-priority projects in agriculture, industry and population, as well as for infrastructure. In view of the overall demands upon IDA monies, the amount that can be allocated to Egypt remains modest in relation to that country's size and absorptive capacity. The staff has therefore been exploring the interest of other donors in the complementary financing of

projects, in order to broaden the impact of limited IDA funds. A pipeline of projects has been developed in the sectors noted above. A project covering the second phase of the railway rehabilitation program is being appraised, and one for the expansion of cement production is scheduled for appraisal around July/August this year. Both are likely to be ready for Board consideration in the third quarter of FY75. A project to provide certain facilities required in connection with the reopening of the Suez Canal has also been appraised, with a view to presenting it for Board consideration in the first half of FY75. Other projects under discussion, which may result in lending operations in FY75 and FY76, include proposals for telecommunication expansion, textile rehabilitation, production and export marketing of fruits and vegetables, and a repeater development finance company project with the Bank of Alexandria.

PART III - AGRICULTURE AND THE FERTILIZER SUB-SECTOR IN EGYPT

Egyptian Agriculture

14. Agriculture is concentrated in the Nile Delta and along the Nile between Aswan and Cairo, and accounts for about 30 percent of Egypt's gross domestic product (GDP), about half of total employment and over half of the country's commodity exports. The growth rate in real terms in agriculture averaged about 3.5% annually over the past 15 years (1957-1972), but only 2 percent or less during the last five years (1967-1972). The construction of the Aswan Dam permitted a shift to perennial irrigation and continuing expansion of land reclamation. Egypt has about 2.7 million hectares of agricultural land. Its extensive irrigation however, permits cropping of about 4.4 million hectares or about 1.6 crops per year per hectare. The area cropped has risen by about 210,000 hectares since 1960, with most of this increase since 1967 when the Aswan Dam made year-round water supplies available. Nevertheless, shortages of foreign exchange for key inputs, such as fertilizers, seeds, agricultural equipment and spares, especially since the 1967 war have limited agricultural growth. Inadequate extension services and farm management practices have also limited growth in yields and production of most food crops.

15. Major crops are cotton, rice, maize, wheat, clover and fruit and vegetables with rice and cotton accounting for about 25 percent of the cropped area. Cotton is a major earner of foreign exchange, but at the expense of producing food crops. As indicated above, Egypt has sharply increased food imports (largely wheat, but also including flour, edible oils and animal fats). While most of the increase has been attributable to rising import prices, the food gap has also been growing in real terms, partly on account of increased demand due to rapid population growth, partly on account of the slow growth of food supplies due to rationing of fertilizers, seeds, pesticides, etc., and failure to take aggressive policy measures to stimulate import-saving agricultural production. Short-term agricultural possibilities are constrained by limited land, high population density, capital shortages and organizational and structural impediments, including pricing policies which have depressed

incentives to produce and market wheat and other basic foods. Yields of some crops such as wheat, maize, vegetables and fruits are low compared with other countries having a similar climate and irrigation; the high man/land ratio, irrigation, location and favorable climate indicate that intensive production methods (i.e. better varieties, larger quantities of fertilizer and other inputs, more credit) can result in substantial future growth. A large potential also lies both in import substitution (by expanding domestic production of wheat and livestock feeds and products), and in export expansion of fresh and processed fruits and vegetables.

The Fertilizer Subsector

16. In 1972, fertilizer consumption in Egypt had reached 395,000 tons of nutrients (figures here and below measure nutrient content with that for nitrogen nutrient designated as N), of which 83 percent (327,000 tons) was nitrogen fertilizer with phosphate fertilizer comprising most of the balance. Fertilizer consumption has increased substantially from 113,000 tons in 1950 with growth rates of about 7 percent per annum from 1950 to 1965 and 4 percent thereafter. No mixed or complex nitrogen and phosphate fertilizers are used and the ratio of N to phosphate consumption has remained at about 5 to 1 during the past two decades. This is a relatively low level of phosphate utilization. The Egyptians intend to increase the use of phosphates parallel with N, but do not as yet have a detailed plan for increasing phosphate availability. Under the proposed project, the Government will commence by June 30, 1975, a comprehensive fertilizer sub-sector study which will review fertilizer production, distribution and use, including provision for increasing phosphate availability and usage (Section 4.01 of the draft Development Credit Agreement). It has also agreed to establish a retail price of urea, which, on a nutrient basis, would be comparable to the retail price of other nitrogen fertilizers in Egypt (Section 4.04 of the draft Development Credit Agreement).

17. Of the ammonia fertilizers in use, calcium ammonium nitrate and urea are by far the most common, with ammonium sulphate making up a relatively minor portion of the total. These fertilizers are used most extensively for production of sugar cane, corn, wheat, vegetables and cotton. Since the mid-1960's, the rate of increase in fertilizer consumption has been constrained by insufficient supplies and fertilizer has been rationed.

18. Domestic production of fertilizers began with the completion of a phosphate plant in 1950. Egypt now has four phosphate facilities with a total installed capacity of 80,000 tons per year, compared with 1972 consumption of 66,000 tons. No phosphate fertilizers are imported and as indicated above, further expansion of phosphate production is now needed. Production of N began in 1952 when a plant at Suez began operations. The country has had four N plants, including one each at Aswan, Helwan, and Suez, with a fourth plant, initially constructed at Suez, now being reconstructed (and expected to be completed in late 1974) on the site of the proposed project at Talkha (hereafter referred to as Talkha I). Both Suez plants, which belonged to SEMADCO, ceased operations in 1969 after the refinery providing the feedstock

was destroyed by war. SEMADCO decided in 1970 to reconstruct one of these plants as well as establish additional facilities at Talkha, both in view of the proximity of this location to the fertilizer market in the Nile Delta and to the Abu Mahdi natural gasfield, the adequacy of which was confirmed at the time, and whose gas could be used as feedstock for fertilizer production. Portions of the other plant at Suez may be recommissioned and modernized although it is small and obsolete by present standards. In recent years, Egypt has thus been forced to rely on production of N at the Aswan and Helwan plants, which currently (1974 estimates) produce about 109,000 tons a year, or less than a third of Egypt's consumption of N.

19. The deficit in production of N has been made up with imports, particularly of urea, which accounted for about 160,000 of the 285,000 tons of N imported in 1972. The foreign exchange cost of these imports is about $80 million (measured at a price of about $280 per ton of N). The modest increase in consumption actually recorded in recent years does not take into account the likely pent-up demand for fertilizer during the period when rationing has been necessary. The table below shows the past and projected supply and consumption of nitrogen fertilizers, assuming a relatively modest 5 percent per annum future increase in consumption which is significantly less than optimal from the agricultural point of view. Actual consumption will, in all probability, increase somewhat more rapidly as a result of the project.

PROJECTED SUPPLY AND CONSUMPTION OF NITROGEN FERTILIZER
(in 000's tons of N)

Production	1970 (Actual)	1972 (Est.)	1973	1974	1975	1976	1977	1978	1980	1982	1985
			Projected								
Kima (Aswan)	117	93	30	78	100	113	120	122	125	125	125
Helwan	-	10	21	31	42	42	42	42	42	42	42
Talkha I	-	-	-	-	75	98	98	113	113	113	113
Talkha II	-	-	-	-	-	-	-	196	249	249	249
Total Production	117	103	51	109	217	253	260	473	533	533	533
Consumption	330	327	381	381	409	410	438	456	492	506	514
Apparent Deficit (Surplus)	213 /1	215 /1	330	272	192	157	178	(17)	(41)	(27)	(19)

/1 Actual imports in these years were 203,000 and 285,000 tons of N respectively with the differences from apparent deficit attributed to changes in inventory.

Even with the increased utilization of plants at Aswan and Helwan, and the commissioning of Talkha I in 1975, Egypt would face serious shortages of N over the next several years without substantial imports. The proposed project would provide about 250,000 tons of N annually and would virtually eliminate the necessity for fertilizer imports from 1978 into the early 1980's.

20. Fertilizer production and distribution in Egypt is managed by public sector institutions. The General Organization for Industrialization (GOFI), an autonomous public sector organization attached to the Ministry of Industry, is responsible for fostering and coordinating industrial expansion in Egypt. The General Organization for Chemical Industries (GOCI) one of the 20 such autonomous governmental organizations which cover virtually every segment of the Egyptian economy, is a holding company for the 29 largest Government-owned companies in the chemical sub-sector, including SEMADCO -- which will implement the proposed project. GOCI implements Government policy in the chemical sub-sector, and works jointly with GOFI and the companies' managements in preparing and implementing projects. GOCI receives annual budgetary allocations to meet its own operating costs. It was made a legal holding company in 1971, but its role is limited, since all major investment decisions are made at the ministerial level. Once approved, the funds allocated to a given project are usually channeled through GOFI and disbursed under its supervision, although responsibility for actual project execution is effectively delegated to the ultimate operating company. All fertilizers are distributed through the General Organization for Agricultural and Cooperative Credit which supplies credit, and other inputs, and purchases most crops at controlled prices through cooperatives.

PART IV - THE PROJECT

Project History

21. In early 1972, Egypt approached the Association for assistance in financing a project for the construction of an ammonia urea fertilizer plant. The economic mission of March/April 1972 also identified fertilizer production as a priority subsector. Missions in late 1972 and April 1973, identified the proposed project. In view of the substantial foreign exchange financing that was likely to be required and the project's importance to Egypt, the Association acceded to the Egyptian request to help prepare the project, appraise it, finance a portion of the foreign exchange cost and play a catalyctic role in putting a financing package together. The Association thereafter assisted Egypt with project preparation, which was further advanced through the appointment of a technical advisor. An engineering credit (S-15 UAR) was approved in November 1973 to finance these services (see Annex II). The technical advisor has assisted with process selection, design criteria and other preparation work essential to moving forward with the project. Meanwhile, the Association actively explored the interest of and received encouraging responses from, certain donors in participating in the financing. In August 1973, the Arab Fund for Economic and Social Development indicated its interest to Egypt and the Association in providing a part of the requisite financing and helping to arrange the balance from other Arab sources, if the Association assisted in completing project preparation, and appraised the project.

22. Egypt and the Association agreed to proceed on that basis. The proposed project was appraised in December 1973, followed by a post-appraisal review in early February 1973. The Arab Fund participated in the Association's appraisal and post-appraisal missions. Thereafter, the Kuwait Fund for Arab Economic Development also indicated its willingness to participate in financing the appraised project. Negotiations for the proposed credit were held in Washington, D.C. between May 3 and 10, 1973. The Egyptian delegation included Mr. Attia, General Manager of SEMADCO, Mr. El-Nahal, Minister (Economic) in the Egyptian Embassy in Washington, D.C., and Mr. Mansour, Legal Adviser of GOFI.

The Project

23. The proposed (Talkha II) project consists of the design, engineering and construction of a large nitrogen fertilizer plant with a capacity of 570,000 metric tons per year (TPY) of urea (262,000 TPY of N). It will be centrally located in the Nile Delta at Talkha, to take advantage of natural gas feedstock available from the Abu Mahdi gas field about 40 km away. Natural gas would be first converted into ammonia, and then urea. The urea would be marketed primarily in the Delta within about 150 km. of Talkha as a substitute for nitrogen fertilizers currently being imported.

24. Gas reserves are adequate for at least 30 years to supply Talkha I and II, as well as the Talkha power station. The independent project to exploit the gas and connect it to SEMADCO's plants at Talkha, is under construction and is expected to be completed by the end of 1974. The gas company (owned by the Egyptian General Petroleum Corporation and ENI of Italy) and SEMADCO have contracted for a 20 year gas supply at a price of $22.3/ton, equivalent to $0.018/$M^3$ or $0.51/1000 cu. ft., which is based on the prevailing fuel oil price in Egypt--with a provision for escalation linking the gas price to the price of fuel oil in that country.

25. The proposed project includes (a) a 396,000 TPY ammonia plant which would supply 66,000 TPY of ammonia for use in the existing calcium ammonium nitrate fertilizer plant (Talkha I) and 330,000 TPY for conversion to urea; (b) a 570,000 TPY urea plant; (c) facilities for manufacturing 20 million polyethylene bags per year for the output of Talkha I and Talkha II; (d) all necessary ancillary and related equipment, and (e) consultancy services and training and pre-operational expenses. The project would utilize commercially proven modern technology to ensure efficient operation. Adequate pollution control facilities would be included to deal with effluents. The main features of the proposed project and credit are summarized in Annex III; the appraisal report "Appraisal of the Talkha II Fertilizer Project," (No. 456-UAR, dated May 28, 1974), is being circulated separately to the Executive Directors.

Project Cost and Financing Arrangements

26. The estimated total cost of the project is about $132 million. The foreign exchange component, including interest during construction, would be about $93 million, roughly 70 percent of total cost. The proposed credit

would finance $20 million, or about 21 percent of the foreign exchange cost. Of this amount, about $12 million will be used to cover the estimated cost of the services of the General Contractor and Technical Advisor and to refinance the engineering credit in line with the Association's normal procedures; besides contingencies, the remaining $8 million is allocated for selected equipment and construction materials. Egypt will onlend the proceeds of the proposed IDA credit to SEMADCO for 15 years, including 5 years grace, at an interest of 6 percent plus a supplemental Ministry of Finance charge of 2.5 percent per annum. Thus, the effective cost of proposed credit to SEMADCO will be 8.5 percent per annum. SEMADCO will also bear the foreign exchange risk on the loan (Section 3.01 (b) of the draft Development Credit Agreement).

27. Approximately $69 million equivalent 1/, or 74 percent of the foreign exchange cost of the proposed project, will be provided as parallel financing, by a group of Arab lenders. The group consists of the Arab Fund, the Kuwait Fund, the Abu Dhabi Fund, the State of Qatar and the Libyan Arab Foreign Bank. This is the first time that Arab financing, which will substantially exceed the Association's share of the foreign exchange cost, has been arranged for a Bank Group project in Egypt. The three funds will provide financing in the form of loans, while Qatar and the Libyan Foreign Bank will purchase bonds to be issued by SEMADCO.

28. The Arab Fund, which is providing KD 6.5 million ($22.0 million), has already signed loan documents with SEMADCO. Approval of the board of directors of the Kuwait Fund for its KD 7.0 million ($23.7 million) loan is anticipated shortly. The boards of the Abu Dhabi Fund and the Libyan Bank have respectively approved a loan of KD 3.0 million equivalent ($10.1 million) and a bond purchase of LD 3.0 million ($10.1 million). Qatar has already confirmed to Egypt its intention to purchase KD 1.0 million equivalent ($3.4 million) of SEMADCO's bonds. It is a condition of effectiveness that Egypt and/or SEMADCO will have obtained financing amounting to $69 million equivalent towards the foreign exchange cost of the proposed project, on terms satisfactory to the Association (Section 6.01 (c) of the draft Development Credit Agreement).

29. The Arab Fund loan to SEMADCO is at 6 percent annual interest, with a 20 years repayment period, inclusive of 5 years grace; this loan is guaranteed by Egypt. The Kuwait Fund's loan will be made to the Government of Egypt at 4 percent annual interest and with repayment and grace periods similar to the Arab Fund loan; however, its loan is to be onlent to SEMADCO at 6.5 percent annual interest, with repayment over 15 years including 5 years grace. Similarly, the Abu Dhabi Fund will lend to Egypt at an interest of 6.5 percent per annum and a 19 years repayment period, inclusive of 6 years grace; the monies will be onlent to SEMADCO on the same terms. SEMADCO's bonds to be purchased by the Libyan Foreign Bank and Qatar, will carry an interest rate of 6.5 percent a year and have 16 years repayment period, inclusive of

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1/ Kuwait Dinar (KD) and Libyan Dinar (LD) have both been converted at the current rate, which equals $3.38.

5 years grace. The terms of the Arab financing average about 5.2 percent interest per annum and a repayment period of 19 years, inclusive of 5 years grace.

30. About $4 million of the foreign exchange costs (mainly representing interest during construction on some of the Arab financing) and the entire local currency cost (about $39 million equivalent) will be made available to SEMADCO by the Government of Egypt (Section 3.01 (a), (c) and (d) of the draft Development Credit Agreement). Most of this will be provided in the form of equity, as promptly as required to finance the proposed project.

Organization and Execution

31. The proposed project will be carried out by SEMADCO under the supervision of GOFI and GOCI. Established in 1947, SEMADCO is one of the GOCI's largest subsidiaries and already owns fertilizer plants at Suez and Talkha (Talkha I). The company is organized functionally and has a capable management, but some technical assistance is required to help with its large expansion program.

32. SEMADCO has already hired consulting engineers, Cremer and Warner (UK), to serve as its technical advisors for the project, with the foreign exchange cost of the first year of these services financed under the said $400,000 engineering credit. SEMADCO will also employ a General Contractor to assume overall responsibility for the design, engineering and execution of the project through commissioning of the project facilities (Section 2.03 of the draft Project Agreement). Selection of a General Contractor is expected by September 1974. The selected firm will provide full guarantees for the project's capacity and efficiency, mechanical warranties and for its completion on schedule.

33. A joint committee of the Arab and Kuwait Funds is expected to be established with responsibility for supervising the project and the Arab-financed procurement, on behalf of all the Arab lenders. This committee will also coordinate all project supervision matters with the Association. A tentative understanding exists between both parties on the coordination and administration of the proposed project, and this will be formalized by an exchange of letters during the next few weeks.

Procurement and Disbursement

34. IDA and Arab financing will be on a parallel basis, for separate and specific lists of goods and services. Goods and services to be procured with the proceeds of the proposed credit consist of: (a) the Technical Advisor's and General Contractor's services and license fees; (b) special and/or proprietary equipment such as compressors, reactors, pressure vessels, and proprietary and construction equipment; (c) materials such as structural steel, reinforcing steel and instruments; (d) refinancing of the said engineering credit. All other equipment, as well as a portion of the interest during construction, will be financed from monies provided by the Arab lenders. The allocation of the proposed credit and Arab financing is shown below:

Allocation of Financing
(US$ millions)

		IDA Credit	Arab Funds
(1)	Technical Advisor/General Contractors Services (including refinancing of the Engineering Credit)	12.0	0
(2)	Equipment	3.0	59.5
(3)	Construction Materials	3.0	0
(4)	Interest During Construction	0	2.8
(5)	Working Capital	0	0
(6)	Unallocated	2.0	7.0
		20.0	69.3

The proceeds of the credit would be disbursed against 100 percent of the foreign expenditures of the goods and services financed by the Association. The Arab lenders will disburse against the balance of the project's foreign cost and also remaining IDA-allocated items -- should their total foreign cost exceed the amount of the proposed credit.

35. There will be pre-qualification for all suppliers of equipment and materials (i.e. independent of the sources of finance) and their technical evaluation will be done by the General Contractor and SEMADCO. IDA-financed items will be procured in accordance with the Bank Group's procurement guidelines; if any local suppliers are pre-qualified. They would receive, for purposes of bid evaluation, a preference of 15 percent or the amount of customs duty, whichever is lower. International competitive bidding will be used with the exception of about US$3 million of proprietary items or items with limited availability that will be procured by "international shopping". The Arab co-lenders procurement procedures are expected to be similar to those of the Association with the exception that the regulations of the Arab League must be followed and all countries, including Eastern Bloc countries (but excluding Israel), are permitted to bid and there is no preference for local or Arab States suppliers.

Financial Returns and Covenants

36. The proposed project has a financial rate of return of 19 percent based upon conservative assumptions of urea price and operating costs; the rate of return remains at 16 percent or above, even under adverse sensitivity analysis assumptions. On the strength of financial projections for the proposed project and similar projections for Talkha I, SEMADCO is forecast to have a healthy debt service coverage of 4.0 and a current ratio above 8.0 from 1978 onwards. SEMADCO may, however, undertake other projects in the future which could affect these projections. Egypt and SEMADCO have therefore agreed on a number of lending covenants to ensure the financial viability of SEMADCO.

37. The draft Development Credit Agreement includes provisions under which Egypt would (i) contribute £E 15.9 million to SEMADCO as equity towards the estimated capital costs of the project (Section 3.01(d)); (ii) provide

any additional foreign or local funds which might be required to complete both the proposed project and the Talkha I project, and also to ensure adequate liquidity for SEMADCO until the completion of the proposed project (Sections 3.01(a) and 3.02); (iii) provide £E 1.0 million towards initial working capital for the project (Section 3.01(c)); (iv) not withdraw funds from SEMADCO after completion of the project, if such withdrawals prevent SEMADCO from maintaining a ratio of current assets to current liabilities of at least 1.5:1 (Section 3.03); (v) provide SEMADCO with funds at project completion and, if required thereafter, to maintain a current ratio of 1.5:1 (Section 3.04). Egypt has also undertaken to (i) set the ex-factory price of fertilizers so as to ensure SEMADCO a reasonable return on its investment and debt service coverage of at least 1.5:1 (Section 4.03); and (ii) repay SEMADCO's existing long-term debt before December 31, 1977 (Section 4.02).

38. The draft Project Agreement also provides that:

(a) prior to the completion date of the proposed project, SEMADCO will not undertake capital investment (other than the proposed project, Talkha I and rehabilitation or modernization of existing facilities) exceeding £E 2.0 million a year, without prior consultation with the Association (Section 4.03(a));

(b) after that date, it has undertaken not to make any capital investment which would raise the debt/equity ratio beyond 50:50 (Section 4.03(b)); and

(c) it will take all action within its power to maintain a debt service coverage of 1.5:1 and a current ratio of at least 1.5:1, after the said completion date (Sections 4.04 and 4.05).

Economic Benefits

39. The proposed project would make good use of the natural gas reserves at the Abu Mahdi field, and approximately double Egypt's production of N after 1978. The net foreign exchange savings from the proposed project are estimated at $41 million annually. It would also introduce significant economies of scale to the industry, and the extra ammonia capacity provided under the proposed project will also enable SEMADCO to increase substantially the operating efficiency of its Talkha I plant. Taking these factors into account and assuming a long-term price of $120/ton c.i.f. Egyptian port for imported bagged urea and a natural gas price of US$1.40/thousand cubic feet, the economic return would be 19 percent. The return is however sensitive to change in urea prices, as well as to project delays and cost overruns. A one-year delay in project implementation decreases the return to 16 percent and a 10 percent cost overrun lowers the return to 17 percent. A 25 percent increase or decrease in urea price, correspondingly increases or decreases the economic return to 23 percent or 10 percent. Substantial unmeasurable benefits not accounted for in the calculation of the economic return (such as training of labor, removal of fertilizer procurement constraints and additional agricultural production and exports) can also be attributed to the proposed project.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

40. The draft Development Credit Agreement between Egypt and the Association, the draft Project Agreement between the Association and SEMADCO, the recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement of the Association, and the text of a resolution approving the proposed development credit, are being distributed to the Executive Directors separately.

41. Special features of the draft Development Credit and Project Agreements which are referred to in paragraphs 16, 27, 28, 32, 37 and 38 of this Report. Besides the execution of necessary agreements for financing of about $69 million equivalent in foreign exchange cost of the project mentioned in paragraph 27, Section 6.01 of the Development Credit Agreement provides inter alia that an additional condition of effectiveness is the execution of a subsidiary loan agreement between the Government and SEMADCO.

PART VI - RECOMMENDATION

42. I recommend that the Executive Directors approve the proposed credit.

Robert S. McNamara
President

Attachments

June 6, 1974
Washington, D.C.

COUNTRY DATA - EGYPT

AREA	POPULATION	DENSITY
1,002,000 km^2	35.0 (1972 - Estimated) Rate of Growth: 2.5% (from 1960 to 1970)	35 per km^2 over 950 per km^2 of inhabited area

POPULATION CHARACTERISTICS (1970)

Crude Birth Rate (per 1,000)	35.6 (provisional)
Crude Death Rate (per 1,000)	15.0 (provisional)
Infant Mortality (per 1,000 live births)	119

HEALTH (1970)

Population per physician	2,025
Population per hospital bed	470

NUTRITION

Calorie intake as % of requirements:	103% (1970)
Per capita protein intake (grammes):	83.5 (1969)

EDUCATION

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

GNP PER CAPITA in 1971 : US $ 220

GROSS NATIONAL PRODUCT IN 1971/72

	US$ Mln.	%
GNP at Market Prices [1/]	7,412	100.0
Gross Domestic Investment	910	12.3
Gross National Saving	667	9.0
Current Account Balance	-243	-3.3
Exports of Goods, NFS	1,005	13.6
Imports of Goods, NFS	1,480	20.0

ANNUAL RATE OF GROWTH (%, constant prices)

	1960-65	1965-70	1971 [3/]
GNP at Market Prices [1/]	6.3	2.3	4.0
Gross Domestic Investment	-14.9	-3.9	-12.2
Gross National Saving	-	-	-
Current Account Balance	-	-	-
Exports of Goods, NFS	5.7	- [2/]	4.7
Imports of Goods, NFS	11.2	- [2/]	12.5

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1970/71

	Value Added		Employment		V. A. Per Worker	
	US$ Mln.	%	Mln.	%	US $	%
Agriculture	1,780	29	4.06	49	438	59
Industry	1,794	29	1.31	16	1,369	185
Services	2,589	42	2.95	35	878	118
Total/Average	6,163	100	8.32	100.0	741	100.0

GOVERNMENT FINANCE

	Central/Federal Government		
	(US$ Mln.)	% of GDP	
	1971/72	1971/72	1969-71
Current Receipts	2,275	30.5	28.4
Current Expenditure	2,364	31.7	28.2
Current Surplus	-89	-	1.0
Capital Expenditures	812	10.9	11.7
External Assistance (net)	118	1.6	-0.4

MONEY, CREDIT and PRICES

	1965/66	1968/69	1969/70	1970/71	1971/72
	(Million LE outstanding end period)				
Money and Quasi Money	912	1,005	1,106	1,108	1,189
Bank credit to Public Sector	870	1,028	1,133	1,232	1,346
Bank Credit to Private Sector	397	435	456	491	505
	(Percentages or Index Numbers)				
Money and Quasi Money as % of GDP	37	37	37	36	..
General Price Index (1964/65 = 100)	102.9	108.2	110.4	111.6	..
Annual percentage changes in:					
General Price Index	2.9	1.3	2.0	1.0	.
Bank credit to Public Sector	8.8	5.2	10.2	8.7	9.3
Bank credit to Private Sector	4.7	7.4	4.9	7.6	2.9

1/ GNP and savings are defined here inclusive of net transfer receipts, most of which consist in payments from Arab countries to compensate Egypt for the loss in Suez Canal dues.

2/ Accurate constant price growth rate are not available due to insufficient information concerning trade deflators. Moreover, the export growth rate for this period is biased by the drop in Suez revenues after 1966/67. Between 1967/68 - 1970/71, exports (in current prices) rose on the average by 12.5 percent annually, imports by 10.6 percent annually.

3/ Figure refers to GDP at-factor cost.

COUNTRY DATA - EGYPT

MONEY, CREDIT and PRICES	1965/66	1968/69	1969/70	1970/71	1971/72
		(Million £E outstanding, end period)			
Money and Quasi Money	912	1005	1106	1108	1189
Bank Credit to Government	870	1028	1133	1232	1346
Bank Credit to Non-Government Sector	397	435	456	491	505
		(Percentages or Index Numbers)			
Money and Quasi Money as % of GDP 1/	37	37	37	36	..
General Price Index (1964/65 = 100)	102.9	108.2	110.4	111.6	..
Annual percentage changes in:					
General Price Index	2.9	1.3	2.0	1.0	..
Bank credit to Government	8.8	5.2	10.2	8.7	9.3
Bank credit to Private Sector	4.7	7.4	4.9	7.6	2.9

BALANCE OF PAYMENTS

	1969/70	1970/71	1971/72
	(Millions US $)		
Exports of Goods, NFS	936	965	1,005
Imports of Goods, NFS	1,274	1,412	1,480
Resource Gap (deficit = -)	-338	-447	-475
Factor Payments (net)	-31	-41	-50
Net Transfers	320	272	281
Balance on Current Account	-49	-216	-244
Net MLT Borrowing			
Disbursements	(249)	(349)	(400)
Amortization	(267)	(331)	(282)
Subtotal	-18	18	118
Other Capital (net	61	42	29
Overall Balance (deficit -)	-5	-156	-97
Errors and Ommissions	-5	-25	16
Reserve Position, end of	1970	1971	1972
Gross Reserves	275	259	288
Net Reserves	-493	-692	-633
Fuel and Related Materials			
Imports	.	.	.
of which: Petroleum	100	114	96
Exports	.	.	.
of which: Petroleum	63	74	50

MERCHANDISE EXPORTS (AVERAGE 1968/69-1971/72)

	US $ Mln	%
Raw Cotton	346	44
Cotton Yarn and Textiles	122	16
Rice	83	11
Other Primary Agricultural Commodities	55	7
Petroleum	54	7
Manufactured goods (excl. cotton yarn & textiles)	117	15
All other commodities	16	-
Total	792	100.0

EXTERNAL DEBT, DECEMBER 31, 1972

	US $ Mln
Public Debt, inc. guaranteed	1,566
Non-Guaranteed Private Debt	-
Total outstanding & Disbursed	1,566

DEBT SERVICE RATIO for 1971/72 2/

	%
Public Debt. incl. guaranteed Balance of Payments data	28

IBRD/IDA LENDING, APRIL 30, 1974 (Million US $):

	IBRD	IDA
Outstanding & Disbursed	2.7	28.5
Undisbursed	-	102.4
Outstanding incl. Undisbursed	2.7	130.9

RATE OF EXCHANGE

Through - Jan. 1973	From Feb. 1973
US $ 1.00 = £E 0.435	US $ 1.00 = £E 0.390
1.00 = US $2.30	1.00 = US $2.56

1/ Included in N.F.S. due to inadequate data.

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

EMENA
June 6, 1974

THE STATUS OF BANK GROUP OPERATIONS IN EGYPT

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(As of April 30, 1974)

Loan or Credit Numbers	Year	Borrower	Purpose	Amount in million US Dollars Less cancellations Bank	IDA	Undisbursed
Ln 243-UAR	1959	Suez Canal Authority	Suez Canal Expansion	56.5	-	-
Cr 181-UAR	1970	UAR	Nile Delta Drainage	-	26.0	18.4
Cr 284-UAR	1972	ARE	Railways	-	30.0	9.5
Cr S-13-UAR[1/]	1972	ARE	Cotton Ginning Eng.	-	0.2	-
Cr 393-UAR	1973	ARE	Upper Egypt Drainage	-	36.0	36.0
Cr 412-UAR	1973	ARE	BOA	-	15.0	15.0
Cr 423-UAR	1973	ARE	Cotton Ginning	-	18.5	18.1
Cr 437-UAR	1973	ARE	Population	-	5.0	5.0
Cr S-15-UAR	1973	ARE	Talkha Eng.	-	0.4	0.4
				56.5	131.1	102.4
of which has been repaid				53.8	0.2	
Total now outstanding				2.7	130.9	
Amount sold			6.0			
of which has been repaid			6.0	-		
Total now held by Bank and IDA 2/				2.7	130.9	
Total undisbursed				-	102.4	102.4

B. STATEMENT OF IFC INVESTMENTS
(As of April 28, 1974) — Nil

1/ Refinanced under Credit 423-UAR
2/ Excluding exchange adjustments

C. PROJECTS IN EXECUTION [1/]

Cr. No. 181-UAR — Nile Delta Drainage Project; US$26 million Credit of April 17, 1970; Closing Date: December 31, 1976.

In 1973 a revised implementation program was prepared, extending this project until 1978, and the government agreed to take a number of actions recommended by IDA to improve project performance and provide an effective management. In February 1973, NDDA and the Egyptian General Authority for Drainage (EGAD) were merged in the Egyptian Public Authority for Drainage Projects (EPADP) established by Presidential Decree. A new Chairman and Vice Chairman for the Nile Delta and Upper Egypt Drainage Projects were appointed and the staff reorganized and strengthened by the appointment of additional qualified personnel. A panel of experts was nominated to undertake project evaluation, and action is being taken to replace the consultants who advise and assist the Authority on the implementation of both the Nile Delta and Upper Egypt projects. The new Authority is actively working on the arrangements for the maintenance of equipment and the storage of spare parts and has drafted the terms and conditions under which project equipment will be transferred to local contractors for construction of drainage works and for the manufacture of drainage tiles. Recent supervision missions have expressed concern that sufficient local currency funds be budgeted to keep project implementation up to the pace agreed in the revised schedule; this matter has been discussed with the Government and remedial action is being taken.

Cr. No. 284-UAR — Egyptial Railway Project; US$30 million Credit of February 9, 1972; Closing Date: (i) December 31, 1973 for track materials, locomotives and spare parts; and (ii) September 30, 1976 for signalling and telecommunications equipment and installation.

The project has been implemented satisfactorily. Most of the procurement contracts have been awarded, and the credit is almost entirely committed. Some complaints have been received about evaluation procedures. It appears that delays occurred in passing out information to potential bidders. IDA discussed this problem with Egyptian Railways and steps were taken to improve procurement procedures and increase the number of staff in the procurement office.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. S-13-UAR Cotton Ginning Rehabilitation Engineering Project; US$175,000 Credit of November 17, 1972; Closing Date: November 30, 1973.

This Credit was approved on November 7, 1972 and was declared effective on June 15, 1973. It has been fully disbursed and subsequently refinanced under Cr 423 below.

Cr. No. 393-UAR Upper Egypt Drainage Project; US$36 million Credit of June 8, 1973; Closing Date: December 31, 1979.

This Credit was approved by the Executive Directors on June 7, 1973 and signed on June 8, 1973. It became effective on November 28, 1973. Progress in implementing the project has been satisfactory. A recent supervision mission reported insufficient budgeting of local currency funds for the current fiscal year. The matter has been taken up with the Government, which promised remedial action to ensure timely project implementation.

Cr. No. 412-UAR Bank of Alexandria Project; US$15 million Credit of June 29, 1973; Closing Date: September 30, 1977.

This Credit, approved by the Executive Directors on June 26, 1973, and signed on June 29, 1973, became effective on November 29, 1973. Since then, BOA has approved several sub-projects and over $2 million of the credit has been committed.

Cr. No. 423-UAR Cotton Ginning Rehabilitation Project; US$18.5 million Credit of July 30, 1973; Closing Date: June 30, 1978.

This Credit, approved by the Executive Directors on July 24, 1973, and signed on July 30, 1973, became effective on February 15, 1974. Meanwhile, bids for major packages have been invited and a program for retraining of nationalized works, prepared by Egypt for IDA's consideration. Because of sharply increased equipment prices, an overrun in project cost is anticipated.

Cr. No. 437-UAR Population Project; US$5.0 million Credit of November 6, 1973; Closing Date: December 31, 1977.

This Credit, approved by the Executive Directors on October 23, 1973, and signed on Nobember 6, 1973, was declared effective on March 25, 1974. The architects have been appointed, as also consultants for other studies financed by the credit.

Cr. No. S-15-UAR Talkha Urea Fertilizer Engineering Project; US$400,000 Credit of November 20, 1973; Closing Date: March 31, 1975.

This Credit, approved by the Executive Directors on November 13, 1973, and signed on November 20, 1973, was declared effective on April 24, 1974. Meanwhile, a consulting firm, appointed as the technical advisors, has done some of the work covered by this credit and has been paid by Egypt. This payment, about $50,000 to $60,000, will be reimbursed as soon as the expected documentation is submitted by Egypt.

Europe, Middle East and North Africa Region
June 6, 1974

TALKHA II UREA FERTILIZER PROJECT

Credit and Project Summary

Borrower:	Arab Republic of Egypt
Purpose:	To assist in financing a portion of the foreign exchange costs of the proposed Talkha Urea Fertilizer Project, described below.
Amount:	US$20,000,000.
Terms:	Standard.
Beneficiary:	Societe El Nasr d'Engrais et d'Industries Chimiques (SEMADCO).
Relending Terms:	The Borrower will onlend the proceeds of the Creditto SEMADCO for 15 years including five years grace, at an effective financial cost of 8.5 percent per annum; foreign exchange risk during the period of the sub-loan will be borne by SEMADCO.
Project:	The project comprises the expansion of existing fertilizer production facilities owned by SEMADCO at Talkha, to increase capacity by 570,000 TPY urea. The project includes:

(a) Services of a Technical Advisor and of a General Contractor;

(b) Design, engineering, licensing and commissioning, complete with off-site facilities and ancillary and related equipment, of:

(i) an ammonia plant (based on natural gas feedstock) with an annual capacity of 396,000 TPY ammonia, of which approximately 330,000 TPY ammonia will be converted to urea and about 66,000 TPY ammonia will be utilized in the existing fertilizer facilities; and

(ii) a urea plant with an annual capacity of 570,000 TPY urea.

(c) Procurement and installation of a polyethylene bag-making unit with an annual capacity of 20 million bags;

(d) Training and pre-operating expenses required for SEMADCO to manage and operate the project facilities.

PROJECT COSTS (in millions):

	Egyptian Pounds			US Dollars			% of
	Local	Foreign	Total	Local	Foreign	Total	Total Cost
Engineering Services	0.2	3.4	3.6	0.6	8.6	9.2	7
Civil Works	4.0	0.7	4.7	10.1	1.9	12.0	10
Equipment & Materials	0.4	16.4	16.8	1.0	41.8	42.8	35
Spare Parts	0.1	1.0	1.1	0.2	2.5	2.7	2
Freight	1.3	0.2	1.5	3.3	0.4	3.7	3
Erection	3.7	1.8	5.5	9.3	4.5	13.8	11
Furniture, Vehicles, & Office Equipment	0.4	--	0.4	1.2	0.1	1.3	1
Preoperating & Start-up Expenses	0.9	0.1	1.0	2.3	0.3	2.6	2
Total Erected Plant Costs	11.0	23.6	34.6	28.0	60.1	88.1	71
Contingencies							
Physical	0.8	2.4	3.2	2.0	6.1	8.1	7
Price	1.7	8.0	9.7	4.4	20.3	24.7	20
Total Contingencies	2.5	10.4	12.9	6.4	26.4	32.8	27
Total Fixed Assets	13.5	34.0	47.5	34.4	86.5	120.9	98
Working Capital	0.5	0.5	1.0	1.3	1.3	2.6	2
Total Project Cost, Without Interest During Construction	14.0	34.5	48.5	35.7	87.8	123.5	100
Interest during Construction	1.3	2.1	3.4	3.3	5.6	8.9	
Total Cost and Financing Required	15.3	36.6	51.9	39.0	93.4	132.4	

FINANCING PLAN (in millions):

	Egyptian Pounds			US Dollars			% of
	Local	Foreign	Total	Local	Foreign	Total	Total Cost
Debt							
IDA	--	7.8	7.8	--	20.0	20.0	15.1
Arab Lenders	--	27.2	27.2	--	69.3	69.3	52.3
Equity							
Government of Egypt	15.3	1.6	16.9	38.9	4.1	43.1	32.6
TOTAL	15.3	36.6	51.9	38.9	93.4	132.4	100.0

ESTIMATED DISBURSEMENTS (US$ million) calender	1974	1975	1976	1977
	3.0	10.0	4.9	[illegible]

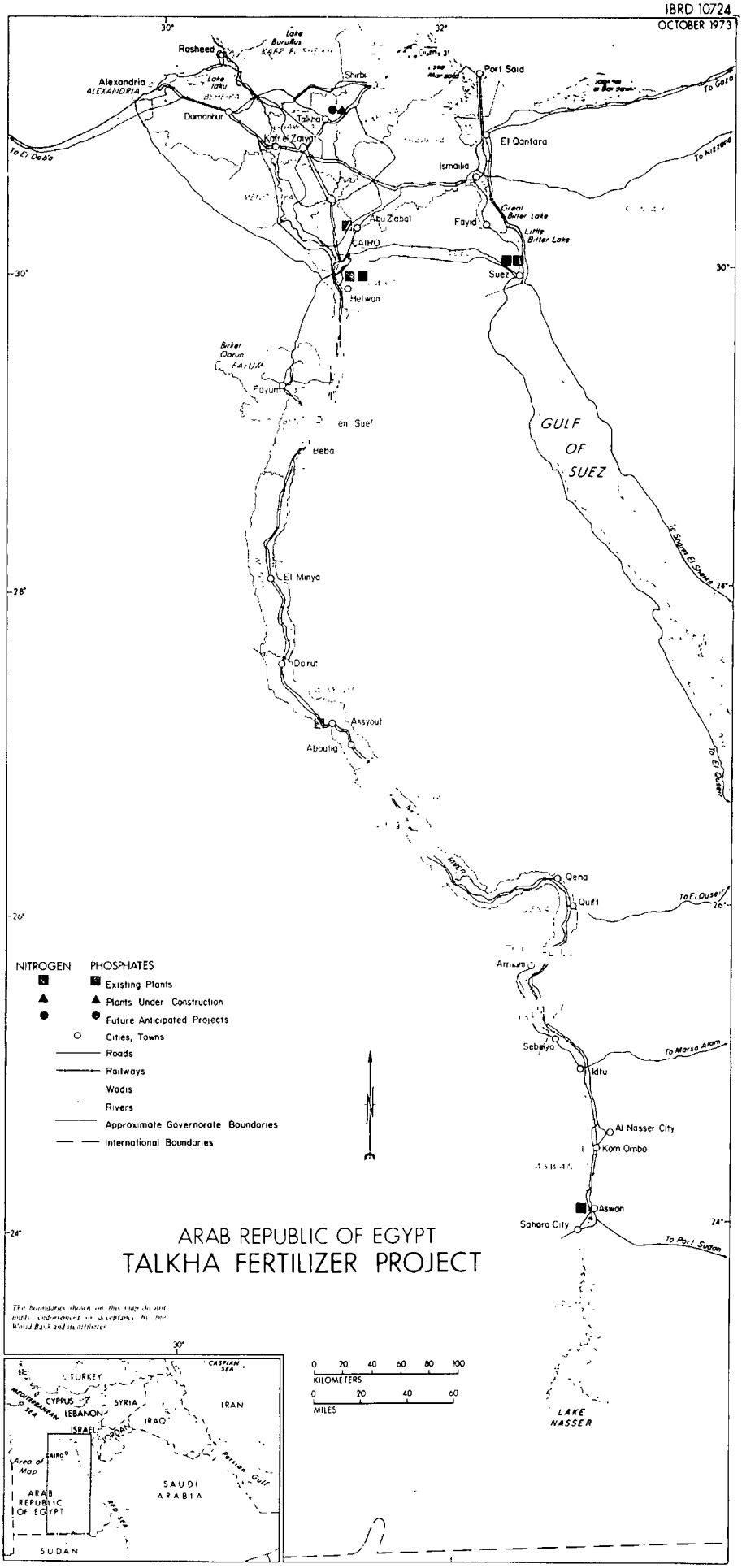
Project Execution: SEMADCO, under the general supervision of GOFI and GOCI, will be responsible for project execution. It will be be assisted by a consulting firm, as its technical advisor. A General Contractor will also be selected by September 1974, on a fixed-price basis, for obtaining the necessary license, designing, engineering and exercising supervision over the construction of the project. The General Contractor will bear the single responsibility for the execution of the project through commissioning with full guarantees for the project's capacity, efficiency, mechanical warranties and completion time. Civil engineering construction and plant erection will be carried out by SEMADCO or other Egyptian firms.

Procurement: IDA and Arab foreign exchange financing will be on a parallel basis, with separate, specific lists of goods and services. The Arab lenders will disburse against the project's foreign cost for items not covered by IDA and also any IDA-allocated items should the total foreign exchange cost of such items exceed the amount of the proposed credit. There will be prequalification for all suppliers of equipment and materials (i.e., independent of the sources of finance) and their technical evaluation will be done by SEMADCO and the General Contractor. IDA-financed items will be procured under the normal Bank Group procurement guidelines through international competitive bidding, except for certain proprietary and critical items with an estimated value of about $3 million. Although none of the IDA goods is expected to be procured in Egypt, pre-qualified local suppliers will receive, for purposes of bid evaluation, a preference of 15 percent or the amount of customs duty, whichever is lower. Procurement of the Arab-financed items will also be subject to international competitive bidding under the rules of the Arab lenders concerned and whose procedures are similar to those of the Bank Group, with the exception that the regulations of the Arab League must be followed, and all countries, including Eastern Bloc countries (but excluding Israel), are permitted to bid and there is no preference for Arab or local suppliers.

Consultants:	The firm of Cremer and Warner (UK), which is already working as the Technical Advisor under the engineering credit (Cr. S-15) of November, 1973, will be continued in that capacity under the proposed project. The General Contractor will be selected on the basis of proposals requested from five pre-qualified firms.
Economic Rate of Return:	19 percent.
Appraisal Report:	Report No. 456-UAR, dated May 28, 1974 **Industrial Projects Department**

Europe, Middle East and North Africa Region
June 6, 1974

IBRD 10724
OCTOBER 1973



ARAB REPUBLIC OF EGYPT
TALKHA FERTILIZER PROJECT

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