

# COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(92) 1353 final

Brussels, 14 July 1992

## REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

on financial assistance to the countries most directly affected by  
the Gulf crisis  
(Egypt, Jordan and Turkey)

1. Background

1. On 1 October 1990 the Council approved a financial assistance operation to help the countries most directly affected by the Gulf crisis (Egypt, Jordan and Turkey). The operation involved ECU 1.5 billion, comprising ECU 1 billion in voluntary contributions from the Member States and ECU 500 million, primarily in the form of grants, from the Community budget. The part of the operation to be charged against the Community budget was made possible by Council Regulation (EEC) No 3557/90 of 4 December 1990 and involved compensating the three "front-line" states for the economic and financial losses sustained as a result of the conflict in the Gulf, and in particular the trade embargo on Iraq. This economic and financial injury was caused primarily by the loss of export markets and the money sent home by migrant workers and by the cost of integrating returning migrant workers into the economy. There was also an appreciable, if temporary, rise in the oil bill (which in Egypt's case actually helped reduce the economic injury).
  
2. Community aid was part of a multilateral effort coordinated by the Gulf Crisis Financial Coordination Group, set up at the instigation of the United States in late September 1990.

3. World Bank and IMF estimates put the aggregate loss sustained by the three countries between 1 August 1990 and 31 December 1991 at between thirteen and fourteen billion US dollars (the combined impact on the balance of payments and budget expenditure). Commitments made in the multilateral context amounted to almost USD 11.7 billion. The total Community contribution therefore represented about 20% of the combined international effort (see Annex 1).

**11. Council Regulation (EEC) No 3557/90 of 4 December 1990**

4. Article 3 of the Regulation states that the "aid shall be earmarked in particular to cover the cost of importing capital goods and spare parts and local budgetary expenditure incurred by the beneficiary countries as a result of the Gulf crisis."
5. In order to execute the operation without delay, the Commission presented to the Committee provided for in Article 5 of the above Regulation a financing proposal covering the three front-line states. On 25 January 1991 the Committee delivered a favourable opinion on the Commission proposal and on 30 January the Commission adopted the decision enabling funds to be committed and subsequently disbursed.
6. Guided by a study of the damage sustained and commitments by other donors, the Commission decided that the funds be divided between the three countries as follows:

Egypt and Jordan would respectively receive ECU 175 million and ECU 150 million in grants, while Turkey would receive an interest-free loan of ECU 175 million to be repaid in a single payment in 2001. The grant element of that loan is about 65%.

The distinction made between Egypt and Jordan on the one hand and Turkey on the other is accounted for by Article 2 of the Regulation, where it stipulates that the aid is to be "primarily in the form of non-reimbursable aid, the rest in the form of loans - to be charged in full against the 1991 budget."

7. In accordance with the above Regulation, the Commission planned the following scenario:
- the financing of an import programme based on a positive list of goods of Community origin;
  - the use of counterpart funds generated by the import programme to finance job creation schemes, particularly to integrate repatriated workers into their country's economy;
  - regular audits to monitor implementation.

### III. Implementation of the Community operation

8. The ways and means of implementing the operation were set out in financing agreements concluded with the authorities in each of the three countries receiving Community aid. (see Annex 2).

9. The agreements were very quickly concluded. That with Jordan was signed on 5 February 1991, and those with Egypt and Turkey on 12 February, i.e. within two weeks of the Commission financing decision. Thus the first instalment - 80% of the total - could be disbursed towards 20 February. It consisted of ECU 140 million each for Egypt and Turkey and ECU 120 million for Jordan (see Annex<sup>3</sup> ).
10. The operation's execution has been closely monitored, both by means of quarterly audits (June 1991, October 1991, January 1992 and May 1992) and by the Commission Delegations in the three countries concerned.
11. In view of the importance of their trade with the Community, all three countries had by June 1991 requested that the Commission transfer the second instalments, the remaining 20% of the total. Since, according to both the audit of June 1991 and the Commission Delegates, the conditions for the transfer of the second instalment had been fulfilled,<sup>1</sup> the second instalment was transferred to Turkey on 3 June 1991 and Jordan on 24 July, while Egypt's was not transferred until 22 October (dates of entry in the accounts). This interval was the result of the Egyptian authorities' relative tardiness in presenting the monthly implementing reports provided for in the financing agreement.

Implementation was also monitored by means of monthly reports presented by the relevant national authorities (Central Bank, Ministry of Finance) and verified by audits.

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1 I.e. that 75% of the first instalment should have been used up and the implementing procedures (origin of goods, compliance with the positive list) respected, and the embargo on Iraq upheld.

12. Without wishing to overstate the case, it can also be said that besides its direct impact on the three countries' balance of payments the Community operation has some social influence in Egypt and Jordan through the use of counterpart funds. Since Turkey's aid took the form of a loan, there was no obligation to set up and use counterpart funds.

Thus, in Jordan, the additional resources are bolstering current spending and investment by the Ministries of Public Health and Education in particular. These departments were among the first to feel the effects of the repatriation of almost 300 000 people.

In Egypt, 70% of the counterpart funds will go to the Social Development Fund, set up in mid-1991 at the instigation of the World Bank to offset the inevitable rise in unemployment following the introduction of the structural adjustment programme, and to create jobs for hundreds of thousands of Egyptians repatriated during the Gulf crisis.

The remaining 30% of the counterpart funds is intended to provide medium-term loans in support of the private sector (small and medium-sized enterprises).

13. The periodic audit emphasized that Community aid, and in particular the first instalment, arrived at a time of particular economic difficulty for the front-line states.

**IV. The Community operation in the international context**

14. Multilateral coordination began at the behest of the United States in late September 1990 in order to ensure that the military effort was matched as effectively as possible by financial and economic assistance to front-line states.

By late spring 1991 the international donors had committed about USD 11.7 billion, or 86% of the economic losses incurred by the three countries. These commitments more than covered Egypt's losses: the same could not, however, be said for Jordan, which was "blacklisted" by donors in the Gulf.

In the period in question the Community's disbursements far exceeded the average for the donors as a group: almost 90% against 51%.<sup>2</sup>

**V. Preliminary conclusions**

15. The Community operation was rapidly executed. Egypt, Jordan and Turkey received financial aid at a moment of great financial and economic difficulty.

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<sup>2</sup> The Community also granted substantial humanitarian aid in 1990 and 1991. This aid, totalling more than ECU 80 million, has also been included in the overall table.

Notwithstanding the derogation granted at the Jordanian Government's request for foodstuffs in view of Jordan's dependence on imports, the import programmes' emphasis on capital goods and spare parts kept the wheels of industry turning in the three countries.

In Jordan and Turkey, all financial aid had been used up by 31 December 1991. In Egypt, the use of the second instalment was somewhat delayed, mainly because there was no shortage of foreign exchange.

The counterpart funds were used in Jordan to cover part of the massive increase in expenditure by the social sector ministries (education, health, etc.). In Egypt, the social fund, which accounts for 70% of the counterpart funds and is a vital adjunct to the country's recently launched structural adjustment process, has been slow getting off the ground, whereas the credit scheme for SME (the remaining 30%) is now being executed.

It may be said in conclusion to this report that the objectives set for this Community operation have been amply achieved.



## ANNEXES

Annexe 1: Tableau du "Gulf Crisis Financial Coordination Group" sur l'effort international (p/r au préjudice subi) en faveur des états de la ligne de front.

Annexe 2: Financing agreement(ex. Egypt).

Annexe 3: Calendrier d'exécution.

GULF CRISIS FINANCIAL ASSISTANCE

1990-91 COMMITMENTS AND DISBURSEMENTS

(Millions of U.S. Dollars)

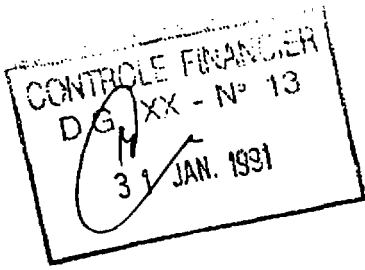
7/13/91

	TOTAL			Egypt			Turkey			Jordan			Humanitarian/Unalloc'd. 1/			Other States			GRAND TOTAL		
	Committ.	Disb.	Future	Committ.	Disb.	Future	Committ.	Disb.	Future	Committ.	Disb.	Future	Committ.	Disb.	Future	Committ.	Disb.	Future	Committ.	Disb.	Future
	to Date		Disb.	to Date		Disb.	to Date		Disb.	to Date		Disb.	to Date		Disb.	to Date		Disb.	to Date		Disb.
<b>GCC STATES 2/</b>	6168	3863	2305	3423	2663	760	2745	1200	1645	0	0	0	0	0	0	3636	2845	791	0904	6708	3076
Saudi Arabia 3/	2848	2189	660	1688	1308	300	1160	800	360	0	0	0	0	0	0	1833	1463	370	4881	3651	1030
Kuwait	2500	855	1645	1015	655	460	1485	300	1185	0	0	0	0	0	0	1184	763	421	3684	1618	2066
UAE	820	820	0	720	720	0	100	100	0	0	0	0	0	0	0	618	619	0	1439	1439	0
<b>EC</b>	3039	1225	1814	1225	389	826	533	395	139	560	369	190	721	62	659	177	1	176	3216	1226	1990
EC Budget*	805	757	48	254	207	48	240	240	0	214	214	0	96	96	0	0	0	0	005	757	48
Bilateral:	2234	601	1633	971	182	779	293	202	91	346	196	158	625	11	614	177	1	176	2411	602	1809
Belgium	33	17	16	16	6	10	10	10	0	7	1	6	0	0	0	0	0	0	33	17	16
Denmark	30	10	20	20	4	16	0	0	0	10	6	4	0	0	0	0	0	0	30	10	20
France 4/	200	0	200	50	0	50	30	0	30	20	0	20	100	0	100	30	0	30	230	0	230
Germany	1195	462	733	773	154	619	174	174	0	248	134	114	0	0	0	137	0	137	1332	462	870
Ireland	6	0	6	6	0	6	0	0	0	0	0	0	0	0	0	0	0	0	6	0	6
Italy 5/	650	37	614	75	10	65	49	0	49	27	27	0	500	0	500	9	0	9	659	37	623
Luxembourg	11	2	9	1	0	1	2	0	2	2	2	0	6	0	6	1	1	0	12	3	9
Netherlands	63	59	4	18	18	0	18	18	0	18	18	0	9	5	4	0	0	0	63	59	4
Portugal	4	0	4	0	0	0	0	0	0	0	0	0	4	0	4	0	0	0	4	0	4
Spain	36	9	27	12	0	12	11	0	11	14	5	5	0	0	0	0	0	0	36	9	27
U.K.	6	0	6	0	0	0	0	0	0	0	0	0	6	6	0	0	0	0	6	6	0
<b>OTHER EUROPE/AUSTRALIA</b>	249	76	173	55	3	52	31	2	20	67	23	44	96	48	48	02	60	22	331	136	195
Australia	14	5	9	1	1	0	0	0	0	0	0	0	13	4	9	0	0	0	14	5	9
Austria	21	2	19	0	0	0	0	0	0	0	0	0	12	2	10	0	0	0	21	2	19
Finland	16	16	0	0	0	0	0	0	0	3	3	0	13	13	0	0	0	0	16	16	0
Iceland	3	2	1	0	0	0	1	0	1	1	1	0	1	1	0	0	0	0	3	2	1
Norway	24	7	17	19	2	17	2	2	0	3	3	0	0	0	0	82	60	22	106	67	39
Sweden	52	28	24	10	0	10	4	0	4	26	16	10	12	12	0	0	0	0	52	28	24
Switzerland	120	16	104	25	0	25	25	0	25	25	0	25	45	16	29	0	0	0	120	16	104
<b>JAPAN</b>	2126	803	1323	629	336	293	720	210	502	717	189	528	60	60	0	481	0	481	2607	803	1004
<b>CANADA</b>	66	17	49	22	0	22	4	0	4	23	0	23	17	17	0	0	0	0	66	17	49
<b>KOREA</b>	98	19	79	30	0	30	20	5	15	15	12	3	33	2	31	17	2	15	115	21	94
<b>(a) TOTAL COMMITMENTS</b>	11746	6003	5743	5354	3401	1964	4054	1820	2234	1381	593	788	927	189	738	4393	2908	1485	16130	8911	7228
<b>(b) EST. EFFECT OF GULF CRISIS 6/</b>	13500	13580	-	3375	3375	-	5910	5910	-	4295	4295	-	-	-	-	-	-	-	-	-	-
<b>DIFFERENCE (a minus b)</b>	-1854	-7577	-	-2021	26	-	-1856	-4690	-	-2914	-3702	-	-	-	-	-	-	-	-	-	-

\* Does not include contributions to the multinational force. Totals may not equal sum of components due to rounding. Based on data submitted to the Coordinating Group. 1/ Unallocated among Egypt, Jordan, and Turkey. Includes general humanitarian assistance. 2/ GCC financing for "Other States" is for Syria, Morocco, Lebanon, Somalia, Pakistan, and Djibouti. 3/ Grant aid to Turkey is \$1160 million. 4/ Protocols for \$130 million of grand total were signed by end-November. Total aid to countries affected by the Gulf crisis is \$600 million in both 1990 and 1991. Aid to "Other States" is for Morocco. 5/ Indian aid to "Other States" is for Somalia. 6/ IMF/World Bank estimates (in at \$1 billion) circulated to Group shown for illustrative purposes. Not intended to represent precise figure of impact.

\* Figures have been corrected to reflect the end-July 1991 Community disbursement position.

1990/91



FINANCING AGREEMENT

between the

EUROPEAN ECONOMIC COMMUNITY

and the

ARAB REPUBLIC OF EGYPT

## FINANCING AGREEMENT

THE EUROPEAN ECONOMIC COMMUNITY,

hereinafter called "the Community" and represented by

THE COMMISSION

hereinafter called "the Commission"

of the one part and

THE ARAB REPUBLIC OF EGYPT

hereinafter called "the beneficiary State" and represented by the  
Ministry of International Cooperation,

of the other part,

whereas the Community and its Member States have decided to combine  
forces in order to give financial aid to the countries most directly  
affected by the Gulf crisis;

whereas it is necessary to agree between the Community and the  
beneficiary State on the amount and the modalities of the Community part  
of this aid;

HAVE AGREED AS FOLLOWS :

### Article 1

The Community aid shall be earmarked in particular to cover the cost of  
importing capital goods and spare parts, in conformity with the list  
given in Annex 1, which forms an integral part of this Agreement.

### Article 2

The Community commitment is a grant fixed at ECU 175 million. Payments  
will be made in two instalments to the account n°40700 (Laufendeskonto)  
with the Deutsche Bundesbank in Frankfurt am Main, opened in favour of  
the Central Bank of Egypt (Head Office CaTro), which acts as executing  
agency on behalf of the Government of the beneficiary State.

Article 3

The modalities concerning the utilisation of the Community aid and the counterpart funds, which will result from the financial assistance granted, are laid down in Annex 2.

Article 4

This Agreement shall enter into force as of the date of signature.

Article 5

This Agreement is drawn up in two originals in the English language.

In witness whereof the undersigned, being authorized in accordance with the power of attorney document exchanged between them, sign this Agreement.

for the European Economic  
Community

for the Arab Republic of  
Egypt.

Annex 1

LIST OF GOODS ELIGIBLE FOR FINANCING FROM THE COMMUNITY  
FINANCIAL AID FOR EGYPT

1. Goods eligible

- (a) Industrial raw and auxiliary materials as well as semi-manufactures,
- (b) Industrial equipment as well as agricultural machinery and implements,
- (c) Spare parts and accessories.
- (d) Chemical products, in particular fertilizers, plant protection agents, pesticides, medicaments,
- (e) Other industrial products of importance for the economic development,

2. Imports of goods not included in the above list may only be financed with the prior written approval of the Commission of the European Communities.  
The importation of luxury and consumer goods as well as any goods and facilities serving military purposes shall not be financed from the financial aid.

TECHNICAL AND ADMINISTRATIVE PROVISIONS FOR IMPLEMENTATION

Recipient country : Arab Republic of Egypt

Title of programme : Financial aid for the countries most directly affected by the Gulf crisis.

## 1. PROGRAMME DEFINITION

### 1.1. Description and objective of the programme.

The Gulf crisis resulting from Iraq's occupation of Kuwait on 2.8.1990 and the subsequent embargo has had a particularly severe impact on three countries in the neighbourhood of Iraq, i.e. Egypt, Jordan and Turkey, the so-called front-line states. This crisis affects directly the balance of payments of these countries as well as causing domestic costs.

Council Regulation (EEC) n° 3557/90 of 4.12.1990, therefore stipulates that Community aid shall be in particular used to cover imports of capital goods and spare parts, as well as local budgetary expenditure incurred by the beneficiary countries as a result of the Gulf crisis.

The objective of this quick-disbursing financial aid is to contribute to compensate for the financial and economic damage these countries have undergone.

### 1.2. Programme Financing

A grant of ECU 175 million is proposed from the Community's 1991 budget in favour of Egypt.

## 2. PROGRAMME IMPLEMENTATION

### 2.1. Implementation details

2.1.1. The Community financial assistance is to be used for commodity imports (CIF), in particular of capital goods and spare parts subject to the respect of a positive list of commodities (cfr Annex 1).

2.1.2. The foreign exchange provided under this programme will be available to private and public enterprises, as well as to public authorities. At least 30% of the financial assistance will benefit the private sector.

2.1.3. The authority responsible for implementing the import programme in Egypt is the Central Bank, which will administer the funds.

2.1.4. For the purpose of implementing this programme, a special foreign currency account will be opened by the Central Bank as well as a special local currency account.



2.1.5. Counterpart funds will be used in particular to contribute to the financing of employment programmes geared at reintegrating repatriated workers into the economies.

To this effect, the Government of Egypt shall present to the Commission, before 15.3.1991, a detailed programme on the utilisation of counterparts funds.

2.1.6. Importers will deposit in advance the local currency equivalent of the CIF value with this counterpart fund.

2.1.7. The exchange rate used to calculate the amounts will be that ruling on the day before the payments made by the importers.

2.1.8. The Community funds will be disbursed in two tranches, a first tranche of ECU 140 million following the signing of the financing agreements and the second tranche of ECU 35 million when the drawdown of the initial tranche reaches 75 % provided the implementation procedures have been observed in a satisfactory manner and provided the embargo of Iraq is duly respected.

2.1.9. The payments will be made directly to the Central Bank in the currencies and on the special account it specifies.

2.1.10. Retroactive financing will be permitted as of 1.01.1991 upon presentation of relevant import documents (letters of credit honoured by the Central Bank), provided the procurement methods followed conform to the conditions agreed for import support eligibility.

## 2.2. Programme duration

This import programme shall be implemented before 31.12.1991.

## 2.3. Technical assistance

In order to assist the Commission delegation in Cairo in monitoring the drawdown of the funds i.e. to ensure the timely completion of the programme and that the method of documenting the drawdown is within the terms and conditions of the grant, a short term technical assistance input is required.

To this end a consultant will be recruited who will periodically visit Egypt. His task will be specifically to :

- a) Asses the rate at which the foreign exchange funds made available to the Central Bank are being drawn down against approved imports, and advise accordingly;
- b) Review monthly reports presented by the Central Bank to the EC Delegation; reconcile these against appropriate shipping documents, and confirm that these conform to the conditions agreed for import support eligibility;
- c) Review the transfer and allocation of funds to the Government of Egypt to confirm that these have taken place in the manner and to the extent agreed;
- d) Comment on the utilisation of counterpart funds by the end-using departments of the Arab Republic of Egypt.
- e) Advise on the likely progress in achieving disbursement within the timescale envisaged;
- f) Report on the impact of the grant on the balance of payments of Egypt.

2.4. Implementation procedures

- 2.4.1. For the import programme, procurement methods followed will be those normally used in Egypt;
- 2.4.2. Selection of consultant will follow standard Commission procedure.

2.5. Special conditions

- 2.5.1. Goods imported are restricted to EC origin and should conform to the positive list established (cfr Annex 1).
- 2.5.2. The Central Bank will present to the Commission delegation every month a report showing the drawdown of the foreign currency special accounts and the withdrawals and deposits of the counterpart fund account. This report will show the value and origin of CIF imports (following the specimen form given hereinafter).
- 2.5.3. The Central Bank will keep all documents relating to the drawdowns and make these documents available for revision by the Commission or duly authorized representatives.  
These documents will be :

- copies of commercial invoices for the goods for which financing from the special accounts has been effected and
- non negotiable copies of the shipping documents giving details of the type and nationality of the means of transport, the type of goods and the place and date of shipment.

2.5.4. The Court of Auditors of the European Communities is empowered to carry out audits. It shall do so by agreement with the relevant authorities of Egypt. In this respect, the Central Bank shall assist the Court of Auditors in carrying out the aforesaid audits.

2.5.5. Taxes and duties shall not be financed from the grant.

2.5.6. The Government of Egypt shall allow suppliers of commodities financed from the Community contribution free choice of transport enterprises from Community Member States and Egypt, and shall abstain from taking any discriminatory measures in this respect.

2.5.7. The Government of Egypt shall ensure that commodities procured with the financial contribution from the Community remain in the territory of Egypt.

### 3. FINAL PROVISIONS

#### 3.1. Disputes

Any dispute arising from performance of this Agreement between the Community of the one part and the Government of Egypt of the other part and which has not been settled by agreement between the Contracting Parties shall be resolved in accordance with the relevant provisions of the Cooperation Agreement.

#### 3.2. Notifications and addresses

Any notification or agreement between the contracting parties required by the Agreement must be made in writing, in the English language, to the addresses given below :

a) For the COMMUNITY :

Commission of the European Communities  
Directorate General for External Relations, DG I/H-B3/32  
Rue de la Loi 200  
B - 1049 Brussels

b) For the ARAB REPUBLIC OF EGYPT

Ministry of International Cooperation  
Adli street - Caïro.

Statement of Disbursements from the Special Account NO.....

NO.	Name & Address of Supplier	Country of Supply	Name & flag of vessel	Description of goods	Invoice Amount	Recipient	Private or Public Sector	Mode & Date of Payment
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We confirm that the goods listed in this statement have been duly supplied and have been paid from the Special Account No.....  
Copies of documents used in this report will be retained and will be available for inspection and verification.

We confirm that no import duties have been financed from the Special Account. We declare that the goods and services listed  
in this statement have not already been financed from any grants or other loans.

.....  
Date .....

*M. W. Old*

19  
*[Handwritten marks]*

**AIDE FINANCIERE EN FAVEUR**  
**DES ETATS DE LA LIGNE DE FRONT**  
**EGYPTE, JORDANIE, TURQUIE**  
**500 MECU**

**C A L E N D R I E R**  
**D ' E X E C U T I O N**

Proposition de la Commission au Conseil.....	25.9.1990
COREPER : position commune sur la proposition de règlement.....	11.10.1990
Avis du P.E. (+ 4 amendements).....	23.11.1990
Concertation PE/Conseil .....	4.12.1990
Règlement du Conseil 3557/90.....	4.12.1990
Envoi Crown Agents en Jordanie et en Egypte afin de préparer la mise en oeuvre.....	1.12 /20.12.1990
Réunion Comité Art. 5 (Discussion proposition de financement).....	25.1.1991
Décision de la Commission.....	30.1.1991
Signature conventions de financement :	
Jordanie.....	5.2.1991
Egypte, Turquie.....	12.2.1991
Banques Centrales créditées (1ère tranche de 80%) :	
Jordanie ( 120 mio d'écus).....	18.2.1991
Egypte, Turquie (chacun 140 mio d'écus).....	20.2.1991
1ère visite Crown Agents aux trois pays.....	3/17.6.1991
Déboursement 2ème tranche (20%) :	
Turquie.....	3.6.1991
Jordanie.....	24.7.1991
2ème visite Crown Agents (Egypte et la Jordanie).....	début oct. 91
Déboursement 2ème tranche (20%) :	
Egypte.....	22.10.1991
3ème visite Crown Agents (les trois pays) .....	début janvier 92

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