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SEMIANNUAL PROGRESS REPORT, CONTRACTOR'S NARRATIVE

June 1–December 31, 2011

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Egypt Trade Facilitation Project

Contract No. AID-263-C-11-00003

Contractor: Nathan Associates Inc.

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1. CONTRACT OBJECTIVE

As stated in the contract The Trade Facilitation Project (TFP) is “designed to address key constraints to improving Egypt’s trade environment while providing support to Egypt in fulfilling its commitments under the Strategic Economic Partnership”. TFP will contribute to USAID/Egypt’s assistance objective of improving conditions for trade and investment and support the overall USG strategic economic partnership with Egypt signed in May 2009. Improvements in trade facilitation will in turn support long term economic development objectives: promoting economic growth and job creation and reducing poverty. The reduction in barriers to trade and the creation of a more efficient internal and external trading system will streamline the flow of goods at the border and lead to improved administration and growth in Egypt’s trade of goods and services within its borders. These improvements will reduce the transaction costs of trade and lower key components of the overall cost of production, leading to economic efficiencies and likely reductions in wholesale and retail prices. With lower costs, Egyptian firms can improve their competitive advantage and market share which will lead to jobs and wealth creation, the cornerstone of beneficial and broad-based economic growth. Lower costs of production combined with competition also mean lower retail costs to poor consumers. To achieve these objectives, the contractor shall assist the GOE in implementing a number of reforms which enhance trade and relate directly to the US-Egypt strategic economic partnership.

Project results are categorized broadly in two groups: reform measures that take place at the border and others behind the border. There are two major results: 1) External trade made more efficient and consistent with international standards and 2) Internal trade process improved and strengthened.

The main counterpart is the Ministry of Industry and Foreign Trade. The Ministry of Finance, represented by the Egyptian Customs Authority (ECA), and the Ministry of Social Solidarity represented by the Internal Trade Development Authority (ITDA) also play important roles. The TFP contract base period is for a total amount of \$10,870,663.03. This first semi-annual report covers the first full seven months of the project, the period from June 1 – December 31, 2011. The choice of a seven-month timeframe for the initial report recognizes delays that impacted project start-up (see Section 3: Project Start-Up) and also enables future reporting to follow the normal calendar quarterly and semi-annual reporting periods.

2. EXPECTED RESULTS

The main results and illustrative tasks of the project are:

1. External trade made more efficient and consistent with international standards.
 - Improve the current export/import executive regulations
 - Establish a coordinated risk management system for imported commodities
 - Streamline Egyptian mandatory standards

- Finalize customs reform measures
 - Strengthen the role of public-private dialogue relating to trade across borders
 - Support the non-tariff measures database initiated by MTI and the World Bank
 - Improve enforcement of IPR border measures
2. Internal trade process improved and strengthened.
- Promote distribution/retail sector
 - Overcome deceptive advertising
 - Support the food safety system
 - Improve enforcement and application of IPR systems in the domestic market
 - Improve environmentally sustainable production

3. PERFORMANCE DURING THE REPORTING PERIOD

The project has had to work hard to engage effectively with counterparts and build momentum during its initial months due largely to the current political and social upheaval in Egypt. Momentum is now growing as reflected in a number of recent developments.

Project Start-up

The TFP contract was signed on June 1, 2011. Long-term staff was not fully mobilized immediately at the request of USAID pending meetings with a newly appointed Minister of Industry and Foreign Trade, the second since the revolution. Nathan Associates sent its key personnel to Egypt on a short-term basis in late June to facilitate start-up, which effectively began in July 2011. Start-up was subsequently complicated further by another change in administration, including two appointments of new Ministers of Industry and Foreign Trade on July 18, 2011 and then again only three days later on July 21, 2011. The timeframe for this first semi-annual report is June – December, 2011. In addition, engagement on Results 2 activities (Internal Trade) was delayed by the changing and uncertain status of the Internal Trade Development Agency. (ITDA). In 2011, following the revolution, ITDA was moved from the then Ministry of Trade and Industry to the Ministry of Social Solidarity. Subsequent to its relocation, ITDA operations were impeded by employee strikes and lack of clarity regarding its mission and ultimate ministerial location. Through the autumn months, TFP communications with ITDA staff increased and planning was started on activities that the project hopes to begin in the first quarter of 2012 (see Result 2, Task 1). At the writing of this report, ITDA is now part of the Ministry of Supply and Internal Trade, after the Ministry of Social Solidarity was renamed.

During this first reporting period of the project, Nathan Associates located and leased office space, procured furnishings and equipment, opened a local bank account, obtained counterpart letters from MIFT necessary for applications for project tax status, social insurance files, sales tax exemption and interviewed and hired administrative staff. In addition, the project's two key long-term persons were mobilized. The gender expert was mobilized, a gender assessment conducted, and gender performance indicators developed and added to the proposed M&E plan. The M&E

advisor also travelled to Egypt and working with the local M&E staff member developed the M&E plan which was discussed and forwarded to USAID for their comment and consideration. As this report is being written the project has not yet received its tax or social insurance registration numbers or letters of tax exemption from the Government. Additionally, the two long term key persons have not received residence status or work permits.

Result 1—Trade Facilitation Measures Improved

Task 1: Improve Current Export/Import Executive Regulations

In December 2011, the Foreign Trade Sector of MIFT confirmed to USAID and TFP its interest in reviewing its export and import regulations (EIR) [770/2005] to improve consistency with international standards and with regulations of the Egyptian Customs Authority (ECA).

In December, TFP facilitated two high-level meetings between officials of FTS, ECA, GOEIC, and the Egyptian Trademark Office as a follow up to acting upon a set recommendations coming out of November workshops on Protection for Intellectual Property Rights jointly conducted by TFP, the U.S. Border Protection Agency and the US Embassy's Office of Homeland Security (See Results 1, Task 7). These December meetings focused on completing a draft with major changes to the "Executive Regulations" covering IPR—Chapter 9 of the implementing regulations to Law No 118/1975—by early January, including proposed revisions to empower Customs to carry out IPR protection powers and responsibilities vested in the Ministry of Trade. As of the end of the reporting period further action by TFP awaits receipt from FTS, ECA and GOEIC of their jointly-revised draft of implementing regulations covering IPR.

It is worth noting that revisions to the executive regulations have been recommended by earlier USAID-supported technical assistance programs but never implemented. The earlier work is being reviewed and used in developing the current set of recommendations this new initiative is a special opportunity for TFP to assist in a process that has high-level government support and has the potential to affect IPR border protection and trade facilitation in positive ways.

During the reporting period, TFP also drafted an SOW and made arrangements for the IPR export expert to come to Egypt in January 2012.

Task 2: Establish a Coordinated Risk Management System for Imported Goods

TFP completed the important foundation activity under this task during this reporting period—which required an assessment of GOEIC's and ECA's Capacity for Implementing Risk Management applied to cargo inspections. In September and October, a TFP team led by William Claypole assessed the capacity of GOEIC and ECA for using computerized risk management-based inspection, including the potential for a joint, integrated approach to risk management by both agencies.

The report recommended against investing in a joint approach to risk management for the two agencies at the present time, because of (a) the significant differences in the two agencies' missions and risk management responsibilities, and (b) the wide disparity in the state of risk management systems and capacities currently in place. ECA has a working risk management system with infrastructure, staff, procedures and training. GOEIC does not. The report

recommended increased information sharing (ECA's declaration data to be shared in real time with GOEIC) and a design and feasibility study for developing risk management capacity in GOEIC, beginning with a pilot phase.

Briefing papers summarizing the report's findings and recommendations were presented to GOEIC and ECA and shared with MFTI and USAID in October.

Activities since the report include confirmation of ministerial support and visits with GOEIC to discuss baseline measurements, data sharing, and working approaches to undertaking the feasibility study.

Task 3: Streamline Egyptian Mandatory Standards

During this reporting period, TFP met several times with EOS to discuss work plan elements and approaches. Discussions were driven to a large extent by urgent and critical demands placed on EOS to participate in an interagency response to the EU ban on some produce exports from Egypt, due to alleged *E.coli*-infected exports of fenugreek seeds. The project expended a considerable amount of effort drafting SOWs and identifying seed and seed-testing experts who were available to come to Egypt immediately to address the EU-related issues. However, after these persons were identified and arrangements made, EOS informed TFP that assistance was no longer needed on the EU ban related to fenugreek and other seeds. EOS informed TFP that it was capable of implementing on its own EU-regulations and CODEX guidance identified by the EU as the necessary measures to address the seed ban. EOS subsequently shifted its immediate focus to producing regulations and a conformity assessment strategy for fresh produce. Accordingly, the project revised the SOW and identified consultants; it is anticipated that work related to regulations and conformity assessment for fresh produce will begin in the 1st quarter of 2012.

During the reporting period, TFP and EOS also agreed on the basic methodology for focusing TFP assistance on selected sectors and products. TFP and EOS worked together on criteria for selecting sectors where TFP assistance would be most beneficial and measurable. This work produced the activities listed in the work plan to follow along with templates for scopes of work for identifying and recruiting experts.

Task 4: Finalize Customs Reforms

Evaluated Status of NCIS

A full roll-out of the New Customs Information System (NCIS), developed and mostly installed under TAPRII, a previous USAID-supported assistance project, was not ultimately completed and put into operation. In September 2011, TFP specialists (Mohammed Sha'ban and William Claypole) undertook a review of the status of NCIS within ECA. Together with the COP for TFP, they also contacted the systems contractor/software vendor (MicroClear). This preliminary assessment uncovered both positive and negative findings that were reported to USAID and to Customs officials. TFP also provided a preliminary estimate of the steps and time required to restart and complete user acceptance testing and roll-out of the NCIS system in Alexandria with training. With full cooperation on the part of both ECA and the vendor, the estimated time to complete full roll-out of the NCIS systems is 9 -12 months of which more than 6 months require work on an intensive basis.—mainly to complete user acceptance training. TFP also

recommended a more detailed analysis of steps and resources required for completing and implementing the NCIS system. Decisions regarding next steps in the process rest now with the Ministry of Finance and depend in large part on good faith commitments from the vendor/contractor. TFP understands that the IT department within ECA is working on an alternative approach to developing an on-line capacity declaration entry – something the private sector has been advocating and expecting from Customs for some time.

Training for Customs Agents

In November, TFP worked with the US Customs and Border Control Agency to present two five-day training workshops in Cairo and Alexandria for more than sixty ECA staff and a handful of staff from GOEIC and the FTS of the MIFT (a total of 72 trainees). The training focused on techniques and procedures for identifying counterfeits and other trademark infringements, and was judged very useful by participants. The training led to a series of recommendations for improving procedures and practices enabling TFP to engage with the Foreign Trade Sector's efforts to update its regulations covering imports and exports.

Task 5: Strengthen the Role for Public-Private Dialogue

TFP attended two meetings of ACTFA between October and December 2011. The first meeting in October involved a vigorous discussion between participants from GOEIC headquarters and Alexandria importers about clearance problems and delays that importers felt GOEIC should improve upon. At the November meeting ACTFA members asked TFP for help in creating a website for ACTFA.

Additionally, TFP has been working on obtaining bids for its own website and developing website content. And has held discussions with counterparts to determine how they would like to participate in public-private dialogue.

Task 6: Support Reduction of Non-Tariff Measures (NTMs)

There are no specific activities planned during the project's first year to address this task specifically. Some of the work ongoing with MIFT, EOS, and GOEIC could also have the effect of eliminating or reducing problem NTMs in Egypt, for example elimination by EOS of mandatory standards un-related to health and safety consideration. TFP will continue to monitor activities by relevant institutions in the area throughout 2012.

Task 7: Improve the Enforcement of IPR Border Measures

In November 2011, TFP partnered with the U.S. Border Protection Agency and the US Embassy's Office of Homeland Security in planning, managing, and presenting two week-long workshops covering Border Protection for Intellectual Property Rights. The workshops focused on the problems of counterfeit goods entering Egypt through border control points. TFP prepared the materials and arranged for speakers for two days of training on the procedures in Egypt and the problems with those procedures. Seventy-three persons primarily from Egyptian Customs and GOEIC participated. TFP recorded and coordinated recommendations from the group for improving IPR protection at the borders.

Plans to present the recommendations to senior officials at MIFT/FTS were met with encouraging news that FTS was engaged in a review of the executive regulations of the Export Import Law (Law No. 118/1975), which includes IPR Border Measures (Chapter 9). TFP supported two high-level interagency meetings to develop a new draft to replace Chapter 9 of the regulations, written to implement Law No. 118/1975 (See Results 1, Task 1). TFP made arrangements for an IPR specialist to provide comments on, and best international practice for IPR border measures.

Result 2—Domestic Market Strengthened

Task 1: Promote the Distribution/Retail Sectors

In July, October, and November, TFP advisers met with senior ITDA personnel to discuss Year 1 activities that would be of most use to ITDA and would produce measurable results. ITDA shared a slide presentation of ITDA's strategic plan that TFP translated into English. The focus of discussions narrowed to three areas for which ITDA requested assistance:

- Drafting of bidder guides for both logistic and commercial parks.
- Customizing software developed under a previous USAID program for ITDA use.
- Review of internal market laws and regulations with recommendations to simplify and bring them into conformity with best international practice.

TFP has identified consultants and is drafting a SOW for the task listed above.

Task 2: Overcome Deceptive Advertisement

No activities will be undertaken for this task in TFP Year 1.

Task 3: Support the Food Safety System

The EU ban (summer 2011) on the importation of seeds and other legumes from Egypt has raised concerns about the risks of future bans on other Egyptian agricultural exports to the EU or other importers. In November, the Chairman of EOS asked the project to prioritize EOS standards, work on drafting standards for seeds, and ensure a conformity assessment system is in place in Egypt to test if the new standards have been met. TFP drafted a scope of work and identified experts in the field who would have travelled to Egypt in early January. In mid-December, however, the Chairman decided that EOS could undertake implementation of the measures the EU specified as sufficient to address the seed ban (See Result 1, Task 3). Accordingly, the EOS Chairman asked the project to shift its attention to standards and conformity assessment for fruits and vegetables. TFP is working on identifying the appropriate consultants for this task and hopes to bring them in January 2012. These efforts will be coordinated with Dr. Hussein Mansour and the Food Safety Unit.

Task 4: Improve and Promote the Application and Enforcement of IPR Systems in the Domestic Market

Egypt has industrial property offices for patents, trademarks, and industrial designs. The offices perform similar functions but require employees with substantially different skills. All three offices were located under the Commercial Registration Authority for more than twenty years,

from 1950 until 1971, when the Patent Office was moved to the Academy of Scientific Research and Technology. Since 1971, the Patent Office has remained in the Academy. The GOE is considering re-merging the patent, trademark, and industrial designs office. The proposed merger has been sent to the Cabinet, which has requested a briefing paper outlining the advantages and disadvantages of the proposed move. The Patent Office and Trademark Office asked the project to draft a paper delineating the advantages and disadvantages to merging the offices and what is best international practice for the industrial property office.

The briefing paper, written by Judy Goans, concluded that: placing Egypt's Patent, Trademark and Industrial Designs Offices under a common administrative authority would put Egypt in the mainstream of international law and practice and allow the offices to provide better service at lower cost to the Egyptian people. Specific advantages include:

- More efficient and cost-effective operations without job loss;
- Fostering professionalism among employees and managers by increasing the pool of employees and managers with intellectual property training and experience;
- Transfer of skills among the offices; and
- Facilitating work with the World Intellectual Property Organization (WIPO), regional offices, and donor organizations.

Additionally, placing the offices in a single location would be more convenient for applicants and agents, and could allow the offices greater flexibility to respond to demands for their services.

Potential disadvantages could be a loss of autonomy and access to policy-level officials. The critical issue is to provide sufficient resources and autonomy for the combined offices.

Task 5: Improve Environmentally Sustainable Production

During the reporting period, the project did not begin work on this task. Work will begin on this task after meeting with the Ministry of Industry and Foreign Trade counterpart responsible for this activity.

4. TRAINING COURSES CONDUCTED

During this reporting period, the project conducted one training course as follows.

IPR and Trade Enforcement

Course Objective: This five-day training program was provided by the U.S. Customs and Border Protection Agency, U.S. Homeland Security for 72 officials from the Egyptian Customs Authority (ECA), the General Organization for Export and Import Control (GOEIC), and the Foreign Trade Sector and QIZ Unit of the Ministry of Industry and Foreign Trade. The purpose of the training is to present best practices in identifying counterfeit and pirated items at the border before they enter the domestic market.

- Dates: November 13-17 in Cairo and November 20-24 in Alexandria
- Training Duration: 5 days

- Description of Training Material Provided: PowerPoint presentations by the speakers, translated into Arabic.
- Number of Participants: 72
- Gender of Participants: 52 male and 20 female
- Organizations represented: ECA, GOEIC, TAS and QIZ

5. DIRECT PROCUREMENT TO ACTIVITIES

TFP has initiated efforts to procure equipment to replace equipment that was lost or damaged in the ECA Training Institute in Alexandria during the civil unrest in the first half of 2011. Preliminary estimates put the size of this procurement at approximately \$120,000 US. Because of a relatively scarcity of ITC equipment stock in Egypt during late 2011, this procurement was postponed until 2012 and is currently planned for first quarter 2012. The project budget for equipment procurement is \$500,000 total. Procurement of equipment and furnishings for the project office including vehicles are estimated to cost about \$140,000 -- leaving approximately \$240,000 for procurements to support activities. A sum of \$30,500 was spent on the training procurements – which are tracked separately from equipment procurements.

6. ASSESSMENT OF CURRENT STATUS

The project has had to work hard to engage effectively with counterparts and build momentum during its initial months due largely to the current political and social upheaval in Egypt. However, momentum is growing as reflected in a number of recent developments. Importantly, agreement has been reached with key counterparts on tasks to be undertaken, the result of months of discussions by TFP and USAID with GOE agencies.

Additionally, it should be noted that engagement with GOEIC appears to be on a positive track in terms of activities in support of a risk management (RM) system for imports. GOEIC has asked, however, to extend TFP risk management to include exports. The project is investigating the cost implication of this request.

7. PERFORMANCE RESULTS AND INDICATORS

During this first reporting period, TFP fielded a senior expert working with a full-time local M&E advisor to develop the project's Monitoring and Evaluation indicators and PMP. TFP discussed the draft performance indicators with USAID/Egypt. The indicators were revised based on response to USAID feedback and the performance indicator reference sheets created. The indicators and PMP indicator reference sheets will be submitted to USAID in the next quarter.

8. FINANCIAL EXPENDITURES

Type of Expenditure	Amount of Expenditure (\$)
Total estimated cost	10,870,663.03
Expenditures this period	626,581.83
Cumulative expenditures to date	626,581.83
Remaining unexpended balance	10,244,081.20