UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-210693

The Honorable M. Peter McPherson
Administrator, Agency for
International Development

Dear Mr. McPherson:

The enclosed report discusses AID's progress to date assisting the Government of Egypt in developing its private sector. We found that progress was limited by project design problems and local institutional support for the private sector. We also found that the experiences of the Egyptian program may be useful for developing private-sector programs for other countries.

The report contains recommendations to you on pages 16 and 35. As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of the report to the Secretaries of State and Commerce, the Director, Office of Management and Budget, the President of the Overseas Private Investment Corporation, the United States Trade Representative, and appropriate congressional committees.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Director

GENERAL ACCOUNTING OFFICE REPORT TO THE ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

LESSONS LEARNED FROM AID'S PRIVATE SECTOR DEVELOPMENT EFFORTS IN EGYPT

DIGEST

Private-sector development is receiving increased emphasis as a means to address economic problems of third-world countries. The Agency for International Development (AID) is encouraging its overseas missions to undertake private-sector development activities as part of their assistance programs. With this emphasis and Egypt's desire for transition from a centrally planned to a more market-oriented economy, AID has authorized about $400 million for Egyptian private-sector expansion. Total U.S. economic assistance to Egypt since 1975 has been about $8.7 billion.

GAO undertook this review because of the growing interest in private-sector development generally and the size of the program in Egypt. GAO focused on (1) difficulties in developing the Egyptian program, (2) problems in implementing the program, and (3) lessons learned.

DIFFICULTY EXPERIENCED IN DEVELOPING [illegible]

Progress in developing a private-sector development strategy has been slow and difficult, with AID and Egyptian Government limitations impeding progress.

--Business climate does not favor private sector. In spite of the steps the Egyptian Government has taken to remove barriers to private-sector development, they have been insufficient to counterbalance the remaining restrictions on free market operations.

--Absence of Egyptian Government guidance. Egypt has not clearly defined the role the private sector should play in its economic development.

--Lack of information. There was insufficient information about private-sector operations and needs, making it difficult to determine what assistance to provide. The AID mission has neither adequately assessed its information needs nor developed a program to address them.

--AID inexperience. AID had not been directly involved with industrial private-sector development for a long time when it began to design a definitive program for Egypt in 1979.

--Limited collaboration. The AID mission did not actively involve the Egyptian Government in developing its strategy.

Because of these limitations, AID's initial strategy was broadly defined and the type of assistance provided was limited. The AID mission views the past 3 years as a learning period. During the next few years, the mission plans to refine its strategy and develop projects to better respond to Egypt's needs. (See pp. 7 through 15.)

IMPLEMENTATION PROBLEMS LIMIT PROGRESS

The mission's approach to private-sector development has been to fund a variety of projects aimed at addressing six critical constraints to private-sector expansion: (1) shortage of capital allocated to medium- and long-term credit, (2) lack of short-term foreign exchange credit on reasonable terms, (3) lack of investment information and incentives to encourage foreign investment, (4) outmoded management concepts and technology, (5) limited institutional capacity to support private-sector needs, and (6) restrictive business laws and regulations.

Progress in addressing the constraints has been slower than expected due to project implementation problems. The difficulties stem primarily from a lack of Egyptian institutional support, project design weaknesses, and the requirement to buy U.S. origin and source goods. It is doubtful that some projects will achieve their objectives.

The financial assistance thus far provided has benefited a relatively small group. The enterprises receiving assistance have primarily been larger, financially well-established firms located in the Cairo/Alexandria metropolitan areas. The financial assistance has not been targeted toward small-scale enterprises which comprise the majority of private enterprises. (See pp. 18 through 34.)

APPLICATION OF LESSONS LEARNED

During the past 3 years, AID attempted to identify lessons learned from its experiences in Egypt through project evaluations, studies, and internal reviews. These lessons are being considered as AID refines its strategy and designs new projects for Egypt. GAO believes that AID could apply some of the lessons learned to other countries. (See pp. 38 through 43.)

As AID refines its strategy, it is considering an approach which it hopes would allow the Egyptian Government more flexibility over resources and speed the disbursement of funds. Consolidation of similar activities into a single large project would permit AID funds to be allocated selectively to the areas of greatest demand. (See p. 33.)

RECOMMENDATIONS

GAO recommends that the Administrator, AID, direct the AID mission to

--actively involve the Egyptian Government in developing, refining, and revising its private-sector development strategy to ensure that it is consistent with Egypt's priorities and goals and

--assess future information needs, and, in conjunction with Egyptian officials, develop a plan to address these needs.

Additional recommendations concerning the management of AID's private-sector program in Egypt, such as consolidating an existing project with a proposed project, are found on page 35.

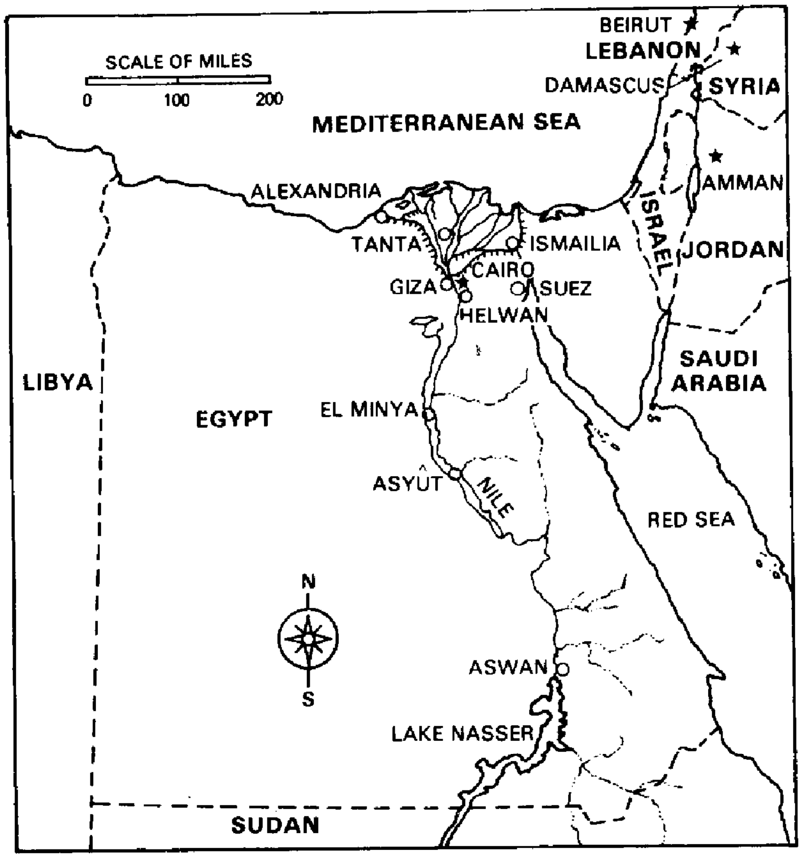
AGENCY COMMENTS

In its comments on the draft report (see app. I), AID basically agreed with the recommendations on page 16. Its objections to some proposals made in the draft report were considered and incorporated in the final report. (See p. 35.)

Contents

ABBREVIATIONS

AID	Agency for International Development
CIP	Commodity Import Program
DIB	Development Industrial Bank
GAO	General Accounting Office
PIE	Private Investment Encouragement



ARAB REPUBLIC OF EGYPT
CAPITAL: CAIRO (POPULATION ABOUT 10 MILLION)
POPULATION: 44 MILLION (1981)
LAND AREA: 386,100 SQ.M. (SLIGHTLY LARGER THAN CALIFORNIA, NEVADA AND OREGON COMBINED)
ANNUAL POPULATION GROWTH RATE: ABOUT 3.0% – THREE TIMES THE U.S. GROWTH RATE
GROSS NATIONAL PRODUCT PER PERSON: $480
MAJOR AGRICULTURAL PRODUCTS: COTTON, WHEAT, RICE, CORN
INDUSTRY: PETROLEUM PRODUCTS, CHEMICALS, FERTILIZER, TEXTILES
JOBS: 50% IN AGRICULTURE, 13% IN INDUSTRY
MAJOR EXPORTS: PETROLEUM, COTTON
MAJOR IMPORTS: FOOD, PARTICULARLY WHEAT, VEGETABLE OIL AND SUGAR; INDUSTRIAL EQUIPMENT AND MATERIALS
MAIN TRADING PARTNERS: UNITED STATES, ITALY, WEST GERMANY

Source: AID

CHAPTER 1

PRIVATE-SECTOR DEVELOPMENT

Private-sector development, such as expanding free and competitive markets and profit-oriented enterprises, is receiving increased emphasis as a means to address the economic development problems of third-world countries. The United States believes that private enterprise is essential to sustaining the broadly based economic growth required to alleviate poverty and is encouraging developing nations to take steps, such as eliminating subsidies and restrictive business laws and providing adequate infrastructure and institutional support, to create a business environment favorable to a vigorous private sector. The U.S. private sector is also being asked to become more active in international economic development.

The Agency for International Development (AID) has responded by encouraging its bureaus and missions to seek opportunities for financing private-sector development initiatives. In this context, AID has (1) appointed a private-sector officer in each regional bureau, (2) established a Bureau for Private Enterprise to develop and experiment with new initiatives for private-sector development, and (3) assigned private-sector officers and established special offices in its missions where the opportunity for private-sector development and growth are possible.

AID's attention to private-sector development initiatives is not new. The Foreign Assistance Act of 1961, as amended, encourages free enterprise and private participation in economic development. AID was involved in the late 1950s and 1960s in projects to provide assistance to indigenous private-sector enterprise and to encourage U.S. private-sector investment in developing countries. The Cooley Loan Program is an example of the type of assistance AID was providing. Under this program, AID used the local currency generated by Public Law 480 title I sales agreements to make loans to U.S. and host-country businesses. When basic human needs began to be emphasized under the New Directions mandate of 1973, AID decreased its involvement in financing private-sector development projects, especially large-scale industrial enterprises.

One purpose of the AID assistance program in Egypt is to help the Egyptian Government adopt a more market-oriented economy. Egypt is one of the few countries in which AID currently has an active private-sector development program. AID reports that it has authorized almost $400 million in financial and technical assistance either exclusively or substantially targeted at Egyptian private-sector expansion since 1976. The funds are being used (1) to finance credit facilities and technical assistance to the indigenous private sector, (2) for financial incentives and investment information to stimulate U.S. private-sector investment, and (3) for advisory services, training, and other assistance to improve institutional capabilities and to make the business climate more favorable to private-sector expansion. AID has proposed that an additional $58.3 million be allocated to finance two multiyear-funded projects focused on providing financial assistance to Egyptian private-sector enterprises and on improving the business climate.

HUMPHREY AMENDMENT STIMULATES AID'S PRIVATE-SECTOR PROGRAM IN EGYPT

Although private-sector assistance had been provided before 1977, it was not until passage of Section 9 of the International Security Assistance Act of 1977 that industrial private-sector development became a significant element in the U.S. assistance strategy for Egypt. Section 9, commonly referred to as the Humphrey Amendment, called for an examination and upgrading of the analysis of Egypt's economic needs to assure that the U.S. assistance program was meeting mutual political and economic objectives. A special interagency task force chaired by AID was created to conduct the review. As part of its review, the task force was asked to explore what more the U.S. Government could do to expand Egypt's private sector, with particular emphasis on the potential for small- and medium-sized companies. The task force report, which was submitted to the Congress in February 1978, analyzed the constraints to private-sector growth. The report also recommended assistance to support and enhance the opportunities for investment by both the Egyptian private sector and U.S. companies through joint ventures with public or private Egyptian enterprises. The major suggestions to accomplish these recommendations were to

--expand credit facilities, both foreign exchange and local currency, especially for smaller Egyptian enterprises;

--encourage joint ventures between U.S. and Egyptian enterprises;

--support entrepreneurial training;

--provide technical assistance to improve managerial, technical, and marketing skills;

--ease bureaucratic constraints; and

--encourage legal and policy reform.

The report served as the foundation for AID's private-sector program in Egypt and encouraged the mission to consider the potential role for private-sector participation in other sectors of assistance.[1]

EGYPT: TRANSITION TO A MIXED ECONOMY

During the early 1960s, Egypt nationalized most of its industrial private sector. The private sector, which had once dominated commerce and industry, was reduced to a minority position in the economy. Most firms employing more than 50 workers or holding assets over 10 million Egyptian pounds were expropriated. During this period, the financial, legal, and administrative structure supporting the private sector was allowed to deteriorate, and Western investment of both capital and technology virtually ceased.

After 1970, under President Sadat, Egypt began moving away from public-sector control which had not yielded the desired economic growth and production results. The Egyptian "open door" strategy for reforming its troubled economy, first articulated in 1974, called for a more liberal economic structure through the encouragement of foreign investment, increased support to the domestic private sector, and decentralization of economic decisionmaking. Under this initiative, Egypt began moving from a public-sector-dominated economy to a mixed economy, in which the market mechanism and private sector have more important economic functions.

The transition from a public-sector-dominated and centrally controlled economy to a more market-oriented economy normally involves a wide variety of policy, procedure, and attitude changes. In Egypt, the transition has been slow and difficult and is far from complete. Egyptian Public Law 43, enacted in 1974 and amended in 1977, was the initial legislation which set up the framework for foreign private-sector participation in the Egyptian economy. The Law offered financial and other incentives to encourage investors to form joint ventures with Egyptian private or public entities. (By definition, enterprises formed under Public Law 43 are private sector even if they involve a public-sector company.) Public Law 43 also removed many obstacles to foreign private investment and reversed prior public-sector national economic policies, reduced certain aspects of governmental control, and created the General Authority for Investment and Free Zones, known as the Investment Authority, to promote investment.

Since Public Law 43, other major pieces of legislation have been enacted or proposed which have the potential for removing major impediments to both foreign and domestic private-sector development. For example, the Companies Law, enacted in 1981,

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[1] AID's program in Egypt is concentrated in six areas of assistance and the Commodity Import Program (CIP). The six areas are infrastructure, agriculture, human resources, decentralization, industry, and population.

is intended to relax a number of discriminatory features of the old law and establish incentives for private-company formation. In addition, a recently passed income tax law eliminates excessive rates on private-sector profits. The Egyptian Government also has (1) relaxed control over foreign-exchange transactions, (2) liberalized import regulations, (3) removed price controls on many products, (4) established a Capital Market Authority to stimulate the growth of a securities market, and (5) taken other steps to make the business climate more favorable to private investment. However, much more needs to be done.

These policy and legislative changes were intended to stimulate private-sector expansion. Since 1974, the private sector has made progress in its contributions to national development. Currently, approximately 7,530 private enterprises exist, 500 of which employ more than 50 workers each. The private-sector share in industrial production, although still modest, has expanded at a rate of 24 percent each year since 1976 compared to the public sector's 19 percent. Although it accounts for only about 13 percent of the capital invested in the industrial sector, the private sector currently produces one-third of the total industrial output and accounts for about one-half of industrial employment. Although it started from a very low base, domestic private investment has grown at an average annual rate of 40 percent since 1973. The national economic growth has been 8 to 9 percent in recent years compared to 3.9 percent in the years immediately before 1974.

Despite the relative progress in the expansion of Egypt's private sector, both Egyptian and U.S. officials are disappointed in the type of private-sector growth. There is growing criticism that, to date, the open door policy has attracted service-oriented rather than industrial investments. These officials believe that the policy has offered more to bankers and importers than to Egypt's manufacturers, has not increased Egypt's productive capacity as much as expected, and has not generated the number of new jobs originally anticipated. Private entrepreneurs have tended to invest in businesses which yield an early profit instead of in those which build a firm economic base. Further, these officials are concerned that the most conspicuous benefactors have been importers of luxury goods which are beyond the financial means of most Egyptians, thereby creating the image that the open door policy has served the interests of the rich. Egyptian officials are concerned that this image may cause social unrest because Egypt has such a strong historical commitment to economic equity. Partially as a result of this concern, the government has called for an examination of the open door policy. The objective is a "productive" open door policy that will curb luxury imports, build local industry, and increase foreign investment.

The level and type of foreign investment in Egypt also has not met Egyptian and U.S. officials' expectations. The U.S. Embassy in Cairo reported that during 1980-81 direct foreign investment in Egypt was about $1 billion, three-quarters of which was in the petroleum sector. Most of the non-petroleum investment has centered on banking, investment and consulting services, and tourism projects rather than on productive manufacturing.

The low level of U.S. private-sector investment in non-petroleum-related industries is especially disappointing to AID and Egyptian planners. Other countries have had greater investment rates. Egyptian Investment Authority statistics show that as of August 1980, American corporations and individuals invested only $86 million in currently operating Public Law 43 companies. Apart from the banking and services industries, the U.S. Embassy estimates that only 12 to 18 U.S. companies are currently doing business under Public Law 43. The primary reasons U.S. officials cited for the low foreign investment level, specifically U.S. investment, were that the Egyptian business environment continues to favor the public sector and that there are doubts about Egypt's and the region's long-term political and economic prospects.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to (1) evaluate AID's progress in assisting the Egyptian Government to develop its industrial private sector, (2) identify improvements needed in the Egyptian private-sector program, and (3) identify lessons learned from the Egyptian experience which AID should consider when planning and designing private-sector programs in other countries. To do this, we asked the following questions.

What difficulties did AID experience in developing a private-sector industrial development program?

Does the strategy appropriately address the political and economic constraints to private-sector growth?

Has the program responded to congressional concerns as expressed in the Humphrey Amendment, Section 9, International Security Assistance Act of 1977?

Is the program responsive to U.S. and Egyptian business needs?

How were private-sector projects selected for funding, have they met their objectives, and what factors have influenced project implementation success or failure?

What has been the overall effect of AID's program in developing Egypt's private sector?

What are AID's plans to improve the program?

What role should AID play with other U.S. agencies in stimulating U.S. private investment in Egypt?

Because it is only in the industrial sector that the mission has a strategy and program specifically designed to foster the development and growth of the private sector by directly and indirectly providing capital and technical assistance, our review of the AID private-sector development program was limited to AID's efforts in that sector. Within the industrial sector, we evaluated the AID private-sector strategy and reviewed six projects which are considered part of the mission's private-sector portfolio. The portfolio includes projects which generally provide direct assistance to the indigenous private sector or encourage U.S. private investment in Egypt. To present a more complete picture of AID private-sector efforts, we also obtained general information about other industrial-sector projects which have private-sector implications. For example, we gathered information on initiatives aimed at reforming policies and procedures governing public and private enterprises.

We reviewed program and project documentation and conducted interviews in the United States and Egypt. We interviewed cognizant AID officials and representatives from the Department of Commerce, Overseas Private Investment Corporation, Trade and Development Program, Export-Import Bank, and the Office of the U.S. Trade Representative. We interviewed Egyptian Government officials in Washington, D.C., and Cairo and U.S. and Egyptian businessmen to learn their perceptions of the (1) major constraints to private-sector expansion in Egypt, (2) assistance needed to be more successful, and (3) AID program and how responsive it is to private-sector needs. We also interviewed AID financial consultants working on private-sector projects and a select group of Egyptian beneficiaries of AID private-sector assistance. These beneficiaries were not scientifically selected; they were identified through discussions with AID and Egyptian bank officials as being representative beneficiaries. Our work was conducted in accordance with generally accepted Government auditing standards.

CHAPTER 2

FORMULATION OF AID'S PRIVATE-SECTOR STRATEGY

It has been difficult for AID to design an effective program to assist the Egyptian Government in developing its industrial private sector. AID's inexperience with private-sector initiatives, lack of information, a business climate which favors public-sector enterprises, and the absence of a clearly defined Egyptian private-sector development strategy have been major factors which have hampered strategy formulation. AID's initial strategy, developed in 1979, was broadly defined and intended to make the private-sector program operational. Now, 3 years after developing its initial strategy, AID is in the process of refining and focusing its strategy. Its efforts, however, continue to be hampered. AID has not involved the Egyptian Government in its strategy formulation to the extent necessary to ensure that the strategy reflects Egyptian Government priorities; neither has it adequately addressed its needs for information about the business operations of Egypt's private sector.

PRIVATE-SECTOR PARTICIPATION IN EGYPT'S ECONOMIC GROWTH

The Egyptian Government has stressed industrial development as a major economic objective. Both the Egyptian Government and AID view expanding industry as essential to achieving self-sustaining economic growth and as a partial solution to three of Egypt's closely linked economic goals: increasing employment opportunities, generating a stable source of foreign exchange earnings, and increasing the volume of goods available for domestic consumption and investment. According to AID, many of the anticipated benefits of industrial growth depend on the private sector's ability to expand its share of industrial production. AID believes the private sector offers important advantages over the public sector in the Egyptian economic environment which should permit a quicker expansion, given financial and technical assistance. According to AID, some advantages are greater flexibility in personnel incentives at all levels, market-oriented rather than centrally directed investment planning, and increased responsiveness to new management techniques and technology.

Although the political and economic benefits of an expanded private sector are known, various factors inhibit effective and efficient development and expansion of the private sector. These factors include a shortage of capital allocated to medium- and long-term credit for both local and foreign currency; limited capital market institutions; lack of investment information; inadequate infrastructure; outdated technology; shortage of trained managers, technicians, and administrators; restrictive business laws and regulations; and limited government institutional capability to respond to private-sector needs.

STRATEGY DEVELOPMENT HAMPERED

In response to congressional interest, AID began to develop a definitive strategy in 1979 to provide private-sector development assistance. The objective was to address the major constraints to private-sector growth through providing financial and technical assistance. However, the process of formulating an effective and appropriate private-sector strategy has been difficult. AID had to consider its own internal and Egyptian limitations affecting its ability to address private-sector development constraints. Some of the most significant limitations have been, and are, a difficult business climate, the absence of Egyptian Government guidance, a lack of information, and AID's inexperience in private-sector development.

Business climate

The Egyptian Government has attempted to make the business climate more favorable to private-sector development; however, much more needs to be done. To a large extent, the financial, legal, and administrative systems reflect the policies of a public-sector-dominated economy. Many governmental policies and practices continue to distort investment and marketing decisions or discriminate against the private sector. For example, subsidized resources for the public sector, such as electricity and petroleum products, established artificially low selling prices for public-sector products and limited private-sector access to certain raw materials. In addition, foreign exchange rates and interest rates favor public-sector companies. For example, public-sector enterprises buy foreign exchange at an official exchange rate which is significantly lower than the rate available to private-sector enterprises on the free market.[2]

AID's strategy has had to recognize that needed policy, legislative, and attitude changes would not occur in the short term. In addition, even when policy and legislative changes were made, the Egyptian Government had difficulty getting its administrative machinery to implement them. Further, mission officials have had to recognize that, due to the U.S. political interest in providing assistance to Egypt, the influence the mission could exert on Egypt to make needed policy changes was limited. The aid levels have been politically established and AID cannot adjust them. The funds can be shifted to various sectors of assistance, such as agriculture, education, health, industry, and public utilities, only after consultation with the Egyptian Government.

A further consideration has been Egypt's desire to control private-sector growth. Due to the perception of many Egyptians that the private sector is exploitative, non-productive, and

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[2] During May 1982, public-sector companies could buy foreign exchange at 84 piasters to $1.00, whereas the private sector was buying piasters on the open market at 100-120 to $1.00.

profiteering, the Egyptian Government has been reluctant to relax its control over private-sector expansion. For example, the licensing of private-sector participation in industry is tightly controlled, primarily by the Ministry of Industry. Essentially, the Egyptian private sector is not flexible enough to readily respond to business opportunities.

Egyptian Government's guidance and program

The Egyptian Government has not clearly defined the areas in which private-sector participation is desired, nor has it developed an overall private-sector development strategy. This has compounded AID's difficulty in fashioning an appropriate strategy. When announcing the shift toward a mixed economy, the government made it clear that it was not seeking to dismantle Egypt's socialist structure, nor did it intend for the private sector to compete directly with some of the more basic nationally owned industries. Rather, the role of private investment was seen as supporting the national system in existence. An expanded private sector also was seen as providing a stimulus for improving existing public-sector industries. How this is to be accomplished has not been specified. Essentially, the open door policy invites the private sector to expand and develop, but it must do so without direct government encouragement or assistance.

Lack of information about the private sector

When the mission began to develop its strategy, there was little information available about the Egyptian private sector. During the 1960s and early 1970s, the government did not maintain detailed or reliable information on private-sector enterprises. The sector had been reduced to a minority position in the economy and many of the enterprises operated outside government control or supervision, especially the small artisan activities. It was not known how large the private sector was, what type of enterprises it comprised, or how it operated. The private sector typically did not use the formal banking system, nor was it accurately accounted for through official registers. Further, AID had inadequate information on Egyptian banking practices and the effect of the numerous Egyptian laws and regulations affecting private-sector growth.

AID's institutional limitations

The mission was not organizationally prepared to initiate a major private-sector development program in 1979. U.S. economic aid to Egypt had resumed in 1974, but the level of funding was relatively small until 1976. The early assistance was primarily aimed at supporting Egyptian reconstruction following the 1973 conflict with Israel. After 1975, because of the U.S. desire to achieve peace in the Middle East, assistance was increased significantly and the mission staff began to grow. The mission was still in a growth and reorganization phase when the Humphrey Amendment was passed in 1977, and it did not have an adequate staff to develop and manage a major new initiative. Further, because AID had not been involved with private-sector development since the early 1970s, mission staff was inexperienced with private-sector initiatives.

AID'S INITIAL STRATEGY

Due to the various factors which continue to affect private-sector strategy formulation, it was difficult for the mission to determine the type of assistance required, how it should be targeted, or how it could be most effectively disbursed. The mission's initial approach in 1979 was to formulate a strategy to meet the requirement for near-term action and, at the same time, address and resolve, where possible, the impediments to developing a more comprehensive and focused strategy.

With regard to the need for near-term action, the mission chose to develop a broad strategy addressing traditional business needs and to finance projects it believed could be rather quickly and easily designed and implemented. The strategy did not focus on assisting specific types of enterprises or on stimulating growth in certain segments of industry, and it did not set priorities on the constraints to private-sector growth which the mission should address. This approach was recognized as an interim step, reflecting the acknowledged need to understand more fully the nature of those constraints which are unique to Egypt. To gain this undertanding was a principal component in the initial stages of the strategy because the mission believed that only more indepth knowledge of the existing limitations could lead to an innovative and successful overall strategy.

In 1979, the mission began serious discussions with Egyptian Government officials to discuss policy, legislative, and administrative changes needed to create a more favorable business environment for private-sector growth. Due to political considerations, the mission's strategy has been to provide suggestions and assistance to encourage needed changes. In this same context, the mission has funded seminars aimed at professional Egyptians in policy making positions. For example, training seminars in specific areas, such as export and investment laws, have been held with senior-level government officials, private-sector investors, businessmen, lawyers, and accountants as well as other foreign and Egyptian experts.

The mission initiated major study efforts to fill the information void about Egyptian private-sector needs. It reorganized and expanded its staff, and hired experts to conduct broad sector analyses and extensive pre-project technical and feasibility studies. Recognizing the need to be organizationally structured to respond to a new program, the mission established an Office of Private Sector Development in 1979.[3] The mission has continued to increase the staff and the variety of skills to manage its private-sector program.

AID'S PLANS FOR THE FUTURE

The mission's initial strategy, with some minor revisions, has been the basis of the private-sector program since 1979. The mission views the past 3 years as a learning period in which staff resources were expanded, studies completed, and project experience gained. During the next few years, the mission plans to refine its strategy and develop second-generation projects to better respond to the Humphrey Amendment Report and business needs. The mission recognizes that, although improvements have occurred, the strategy still must consider many of the factors which limited initial strategy development. Mission officials said the most critical factor that will determine the effectiveness of the future strategy is the Egyptian Government's willingness to make the policy and administrative changes for a more favorable business climate.

The mission used the findings and recommendations from AID-financed studies and its experience with first-generation, private-sector development activities to formulate its fiscal year 1984 industrial-sector strategy. This strategy directs the mission's efforts to both the private and public industrial sectors. However, it reflects the greater importance the United States places on private-sector development, since the strategy generally limits public-sector assistance to improving the efficiency and productivity of existing enterprises. AID's investment in new plants and expansion is primarily in the private sector.

As described in the fiscal year 1984 Country Development Strategy Statement, the future private-sector program is to be based on a two-phase strategy. During the first phase, the mission intends to reduce the extent of discrimination against the private sector and to place the public and private sectors on more equitable terms. This equity will be sought through encouraging policy, legislative, and administrative changes and by exerting pressure on public-sector companies through increased private-sector competition. More specifically, in regard to desirable policy changes for private-sector expansion, the mission is interested in promoting policy changes which would

--relax restrictive legislative provisions concerning private-sector companies,

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[3] Currently called the Office of Finance and Investment.

--ease the licensing system for entry into fields of production now reserved for the public sector, and

--provide equal access to investment financing on market terms.

During the first phase, the mission also plans to increase the level of (1) financial assistance provided to Egyptian private enterprises and (2) technical assistance, advisory services, and training devoted to improving the business climate, such as assistance to help improve tax law and administration, financial accounting reports and auditing standards, and capital market operations. At the same time, the mission will continue trying to broaden its knowledge base in such areas as export-market development, labor intensity, and the sources of private-sector investment finance, in preparation for the second phase.

In the second phase of the strategy, which was planned to begin within a year after the first, the mission hopes to selectively develop specific types of enterprises or segments of the industrial sector, such as export industries, which are able to generate critically needed foreign exchange. For small enterprises, the mission hopes to increase employment opportunities. The second phase is supposed to involve continued funding of the credit and finance activities and efforts to improve the business climate initiated in phase one. All efforts in this phase, however, depend upon the Egyptian Government's receptivity to making some critical policy changes (as outlined previously) and on the mission's ability to improve its knowledge base.

WEAKNESSES IN THE AID STRATEGY FORMULATION

While formulating its private-sector strategy, the mission has not (1) been fully responsive to the Humphrey Amendment Report's recommendations or the needs identified by the U.S. and Egyptian business communities, (2) developed the strategy in close collaboration with the Egyptian Government, and (3) effectively addressed its need for private-sector information.

Responsiveness of the AID private-sector strategy

The Humphrey Amendment Report was the foundation for the mission's initial private-sector strategy in Egypt. The Report suggested a variety of assistance needed to support and enhance investment opportunities for both the indigenous and U.S. private-sector companies through joint ventures with Egyptian public or private enterprises (see ch. 1). In addition, the Egyptian and U.S. business communities, through the Egypt-U.S.

Joint Business Council[4], have identified the types of assistance they believe are needed. For example,

--loan guarantees to help lower banks' collateral requirements,

--cost-sharing funding for pre-investment feasibility studies conducted by Egyptian enterprises (currently, such assistance is provided for U.S. companies), and

--credit for small-scale enterprises.

The mission's private-sector development program has not responded fully to these recommendations and suggestions. The mission initially attempted to respond to all the Humphrey Amendment recommendations. In 1979, a target list of 10 projects to be implemented was developed, but the goal proved too ambitious. Mission officials said initial expectations about how quickly a new program could be developed were unrealistic, especially in the Egyptian environment. Due to the factors discussed earlier, neither the mission nor the Egyptian Government was prepared to implement an aggressive private-sector development program in 1979. Both parties needed to proceed slowly until they acquired experience and knowledge. In addition, when serious implementation problems began to impede project progress (see ch. 3), the mission was reluctant to expand the program, particularly to introduce more sophisticated financial instruments, such as loan discounting and guarantees. Consequently, the private-sector program has not expanded as quickly as desired; neither has it offered the variety of assistance originally envisioned.

Almost 80 percent of the mission's private-sector assistance has been for foreign exchange credit, most of which has been provided through the CIP. The mission credit programs, however, have not been specifically focused on small businesses nor have they offered local currency credit or credit guarantees as recommended in the Humphrey Report. Until recently, little funding had been directed toward improving entrepreneurial skills, management capabilities, and vocational skills.

Limited collaboration with the Egyptian Government

As the mission worked toward the concept of a more comprehensive and long-term development approach, it did not, for the most part, actively involve the Egyptian Government. The mission assumed the leadership role. The strategy reflected the mission's view of (1) the major constraints to private-sector growth and (2) the type and number of mechanisms needed to

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[4] A bilateral, private-sector organization formed in 1975 to promote trade and investment between the two countries.

provide assistance. This occurred partially because, as the mission director explained, the Egyptians made little effort to crystallize their own private-sector strategy. In addition, according to mission officials, until recently there has been no official and/or organization within the Egyptian Government to willingly make private-sector policy decisions. Although the mission is more actively discussing project progress with Egyptian officials, the Egyptian Government continues to have a minor role, and there is no evidence, contrary to its claims, that it intends to participate actively.

A Ministry of Economy official said the Egyptian Government has recognized the need to define the private-sector role in industrial development and is now developing a comprehensive economic policy to address this need. Initially, lack of experience, stemming from years of public-sector orientation, prevented the government from developing a private-sector policy. Later, a reluctance to move too quickly toward a market-oriented economy, due to widespread wariness of the private sector, limited government efforts. Now, however, economic development and the private-sector participation in it are receiving increased attention. The official said he expected the new economic policy to contain specific goals and guidelines regarding private-sector development. Both the mission and the Egyptian Government believe the new policy will enable Egyptian officials to provide more direction in developing an effective private-sector program.

Ad-hoc approach for obtaining information

Another weakness in the mission's strategy development concerns the studies designed to obtain information on Egypt's private sector. Most studies have been done in response to specific information needs rather than as part of a broad plan. Since the 1978 Humphrey Amendment Report, AID has spent over $3 million on broad studies of Egypt's private sector, feasibility and project design studies to assist in the development of new projects, pre-project activities, and evaluations of current projects. Because the mission failed to assess adequately its information needs and develop a program to address them, some studies have not been properly timed and others have been duplicative, while the need for information in other areas continues to impede program progress. For example, some individual project feasibility and design studies preceded broader sector surveys designed to obtain basic information about Egypt's private sector. Therefore, some project studies needed to be more comprehensive because they had to generate background as well as project-specific information. This increased the cost and time to conduct such studies and delayed project implementation. In addition, because of the volume of information and the disparate approaches for obtaining it, the information has not been organized so that it can be effectively used, according to the mission and an Egyptian Government official.

Mission and Egyptian Government officials said that the problems of timeliness, duplication, and contractor selection occurred because both parties were anxious to get a private-sector program operational and the information needs were so great. One mission official explained that AID is constantly faced with the difficulty of balancing the need to get money authorized and obligated to projects with the need to obtain sufficient information to design the projects properly. In Egypt, this problem is exacerbated due to the program size. After the Humphrey Amendment was passed, the mission perceived pressure to respond quickly to the amendment's recommendations for private-sector assistance. This perception caused the mission to initiate a variety of studies to fill the information void quickly instead of taking time to formulate a plan.

CONCLUSIONS AND RECOMMENDATIONS

The mission's approach for formulating an industrial private-sector strategy in Egypt reflects the political and economic conditions in Egypt and the mission's own limitations in responding quickly to new initiatives and U.S. foreign policy priorities. The initial strategy was intentionally broad, and the type of assistance provided was limited. Although this approach met the need to get a private-sector development program operational and has allowed some flexibility and time before expanding into a more comprehensive program, it has not responded fully to private-sector needs. It has taken time for the mission to organize its staff to manage the new program and to gain experience and knowledge to permit it to refine the strategy and expand its program. Now, 3 years after formulating its initial strategy, the mission is beginning to make major strategy revisions. Its new strategy expands the current program and more selectively focuses assistance on developing specific types of enterprises or segments of the industrial sector.

The validity of the new strategy cannot be confirmed. Its success depends upon the Egyptian Government's willingness to make the needed changes to improve the climate for private-sector growth. We are concerned, however, that because the mission has not actively involved the Egyptian Government in its strategy formulation, the strategy may not appropriately address private-sector development needs or receive needed government support.

In addition, the mission's ad-hoc approach to addressing its need for information about the Egyptian private sector has affected its ability to refine and focus the strategy. This weakness during strategy formulation is partially the result of pressure--real or perceived--to respond quickly to U.S. and Egyptian Government desires to implement a private-sector program.

We recognize that because the Egyptian Government has not defined clearly the role it wants the private sector to play in its economy, it has been difficult for the mission to collaborate with the government on private-sector development. However, we believe the mission should actively seek collaboration with Egyptian officials and should ensure that its fiscal year 1984 strategy appropriately reflects Egyptian Government views. The mission also should assess and analyze its future information needs before funding additional studies. Thus, we recommend that the Administrator, AID, direct the mission to

--actively involve the Egyptian Government in developing, refining, and revising its private-sector development strategy to ensure that it is consistent with Egyptian Government priorities and goals and

--assess future information needs and, in conjunction with Egyptian officials, develop a plan to address these needs.

AGENCY COMMENTS AND OUR EVALUATION

AID agreed with our conclusions and recommendations in this chapter. It agreed with the importance of including the Egyptian Government in planning future efforts and the necessity of having a well planned and organized information-gathering scheme. AID also commented on the difficulty of implementing our recommendations.

On the first point, AID pointed out the difficulty that can be encountered when dealing with the highly centralized decisionmaking environment of the Egyptian Government. For example, the mission had negotiated for a "steering committee" to work closely with the mission during planning and implementation of a production credit project. Just prior to signing the decree, the responsible Deputy Minister left office and his position was abolished. The mission had to begin the approval process again. We feel that close collaboration with the government is vital if AID projects are to have lasting benefits. AID stated its intention to work even more closely with the government in the future in spite of the occasional difficulties.

On the second point, AID noted the difficulty of assessing future information needs because of ambiguous and rapidly evolving regulations, policies, attitudes, and priorities regarding the private-sector's growth in Egypt. To date, this uncertainty has caused AID to respond to opportunities as they arise, thus projecting a course that occasionally appeared erratic. AID also highlighted several information-gathering activities in which it has been and continues to be involved. These include AID- and World Bank-funded studies on the needs of the industrial, entrepreneurial, and financial sectors, as well as the sector surveys conducted under the Feasibility Studies project.

We believe that a good information system is necessary to the private-sector expansion effort and that AID's intentions to improve the planning and coordination of its information-gathering and dissemination efforts will make future private-sector activities more focused.

CHAPTER 3

PROGRESS IN PROMOTING EGYPT'S PRIVATE SECTOR

AID has provided a significant amount of assistance to help Egypt develop its private sector. Since 1976, AID has allocated $179 million for private-sector projects[5] and has earmarked $137 million of the CIP for private-sector use. Although nearly 80 percent of the CIP funds have been disbursed, less than 23 percent of the project funds allocated prior to 1982 have been disbursed. The slow disbursement is attributable to a variety of project implementation problems stemming primarily from (1) inadequate Egyptian institutional support, (2) project designs which do not recognize the difficulties encountered in implementing private-sector initiatives in a country that is just beginning to make its transition into a more market-oriented economy, and (3) AID procurement requirements. The mission and the Egyptian Government have taken some steps to improve project implementation, but it is doubtful that some projects will be able to achieve their objectives within the defined timeframe.

AID'S PRIVATE-SECTOR PROGRAM ADDRESSES MAJOR CONSTRAINTS

The mission's private-sector development program (see chart 1) consists of a variety of initiatives designed to provide (1) financial and technical assistance to the indigenous private sector, (2) investment information and incentives to encourage U.S. private investment in Egypt, (3) advisory services, training, and equipment to improve Egyptian institutional capabilities to respond to private-sector needs, and (4) assistance to the Egyptian Government to identify and revise business laws and regulations which impede private-sector expansion. We reviewed only those initiatives which generally are considered part of the private-sector portfolio rather than all initiatives which affect private-sector development.

AID private-sector portfolio projects have primarily addressed the following five constraints to private-sector development in Egypt.

--Shortage of medium- and long-term credit for investment.

--Lack of foreign exchange on favorable terms for short-term credit.

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[5] Includes only funds allocated to private-sector portfolio projects. The portfolio does not include all AID initiatives which have private-sector implications, most notably AID's efforts to improve the business climate, which have broad economic implications.

CHART 1

AID PRIVATE-SECTOR PORTFOLIO PROJECTS [1]

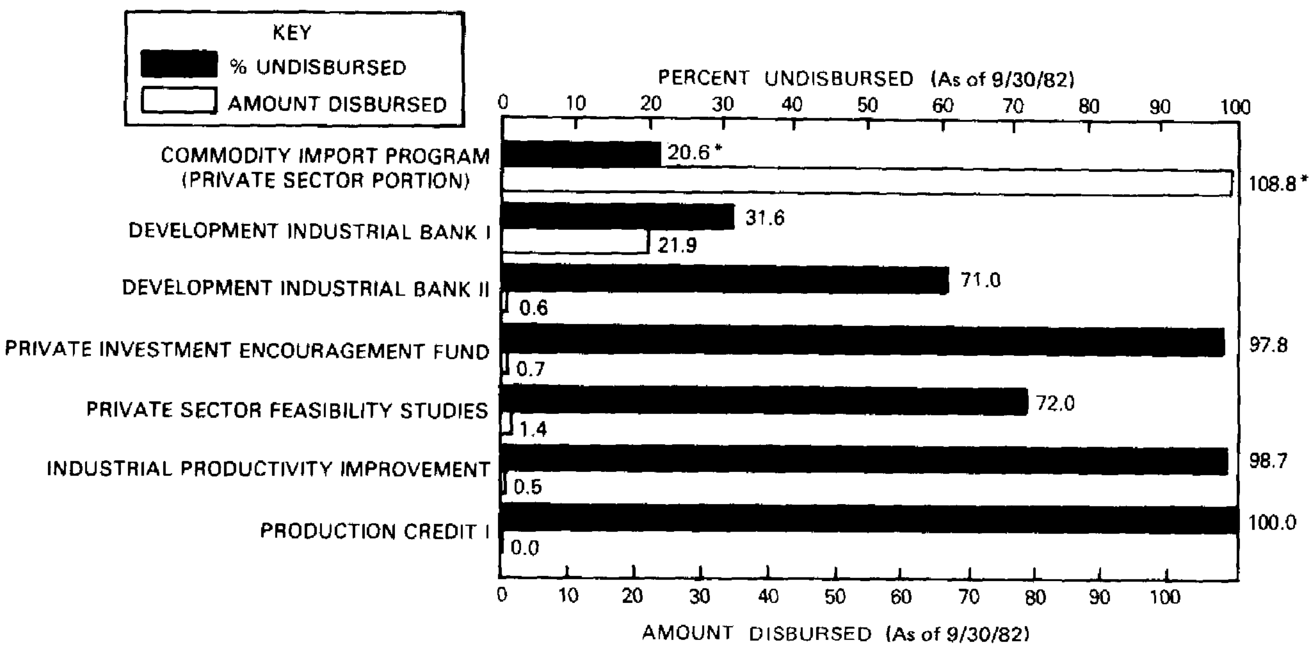
1976-83

	1976	1977	1978	1979	1980	1981	1982	1983	TOTAL
	(MILLIONS)								
COMMODITY IMPORT PROGRAM (PRIVATE SECTOR PORTION)		$25.0[2]	$10.0	$33.5	$33.5	$35.0			$137.0 (L)
DEVELOPMENT INDUSTRIAL BANK I	$32.0								32.0 (L)
DEVELOPMENT INDUSTRIAL BANK II			2.0						2.0 (G)
PRIVATE INVESTMENT ENCOURAGEMENT FUND				33.0					33.0 (G)
PRIVATE SECTOR FEASIBILITY STUDIES				5.0					5.0 (G)
INDUSTRIAL PRODUCTIVITY IMPROVEMENT					39.0				39.0 (G)
PRODUCTION CREDIT I							$68.0		68.0 (G)
PRODUCTION CREDIT II								$50.0 (P)	50.0 (G)
BUSINESS SUPPORT AND INVESTMENT								8.3 (P)	8.3 (G)
TOTAL	$32.0	$25.0	$12.0	$71.5	$72.5	$35.0	$68.0	$58.3	$374.3

(G) GRANT (L) LOAN (P) PROPOSED

[1] PORTFOLIO DOES NOT INCLUDE ALL OF AID'S ACTIVITIES AIMED AT ENCOURAGING PRIVATE SECTOR GROWTH

[2] $25 MILLION WAS EARMARKED FOR PRIVATE SECTOR USE IN 1977. $10 MILLION OF THE FUNDS WERE EARMARKED FROM 1976 CIP ALLOCATIONS.



* (AS OF 9/30/82)

--Lack of investment information and incentives to encourage foreign investors.

--Limited government institutional capabilities, primarily in the financial sector, needed to support the private sector.

--Outdated technology, outmoded management concepts, and lack of trained technicians.

Most projects (see chart 2) couple institution-building assistance with other types of assistance. Most of the mission's institution-building efforts, as well as efforts aimed at improving the Egyptian business climate, are not included in the portfolio because their objectives address broader Egyptian industrial-sector or economic needs. For example, the mission is providing advisory service to assist Egypt in revising its tax laws and administration. Though the primary objective is to create a more equitable tax system, the assistance is also aimed at removing the discriminatory tax rates currently applied to private-sector income. Another example is technical assistance provided to the Central Bank of Egypt to help improve its organization, skills, policies, and methods. Improvement in Bank operations will facilitate responsiveness to public and private financial needs. (For discussion purposes, the different project elements are evaluated separately under the type of constraint being addressed.)

<u>Shortage of investment capital</u>

Since 1976, the mission has allowed $61.5 million for financial assistance to indigenous private-sector enterprises through two projects: the Development Industrial Bank (DIB) I and the Private Investment Encouragement (PIE) Fund projects. These projects make medium- and long-term U.S. dollar loans (foreign exchange credit) available to Egyptian businesses to finance the procurement of U.S. equipment and other items needed to establish new enterprises or to expand and modernize existing facilities. The loans, administered through Egyptian banks, are offered on favorable terms, such as subsidized interest rates and repayment in Egyptian pounds at a below-market exchange rate. A portion of the funds is also available for the Egyptian Government to take equity positions in private-sector industrial projects. However, almost 65 percent of the $61.5 million remained undisbursed as of September 1982. Furthermore, most of the 65 companies which borrowed AID funds have been larger, financially well-established enterprises located in the Cairo and Alexandria metropolitan areas. AID stated that neither of these projects was structured to address small-scale enterprise credit needs.

CHART 2

TYPES OF ASSISTANCE PROVIDED BY PRIVATE-SECTOR PORTFOLIO PROJECTS

PROJECTS	LONG-TERM CREDIT	SHORT-TERM CREDIT	INVESTMENT INFORMATION AND INCENTIVES	INSTITUTIONAL CAPABILITIES	INDUSTRIAL TECHNOLOGY
COMMODITY IMPORT PROGRAM (PRIVATE SECTOR PORTION)		X			
DEVELOPMENT INDUSTRIAL BANK I	X			X	
DEVELOPMENT INDUSTRIAL BANK II				X	
PRIVATE INVESTMENT ENCOURAGEMENT FUND	X			X	
PRIVATE SECTOR FEASIBILITY STUDIES			X	X	
INDUSTRIAL PRODUCTIVITY IMPROVEMENT				X	X
PRODUCTION CREDIT I		X		X	

Development Industrial Bank I

The DIB project, authorized in June 1976, provided $32 million to Egypt's Development Industrial Bank. Most of the funds, $31.5 million, were intended to be used for extending loans to 75 to 100 private- and public-sector enterprises. (At least 65 percent of the funds were to be used by private-sector enterprises.[6]) The remaining $500,000 was allocated for technical assistance, training, and equipment to improve the Bank's capability to manage the AID project.

AID originally expected the Bank to fully disburse the loan funds within 3 years; 6 years later, only 68 percent of the funds had been expended. Four extensions of the final disbursement date have been granted. The current final disbursement date is December 1983, but mission officials are uncertain whether it can be met.

Several reasons account for the slow disbursement. The lending activity did not actively begin until October 1977--one year after the planned date--due to difficulties in satisfying conditions precedent and a misunderstanding of the project agreement. The Bank was established only several months prior to receiving the AID loan and required more time than anticipated to organize and become familiar with project objectives. In addition, the Bank mistakenly believed it could not begin using AID funds until the mission approved the first loan of over $250,000, which did not occur until October 1977.

The initial demand for funds was great enough that an average of $1.8 million was loaned monthly during the first year. During that time, AID funds were the Bank's only major source of foreign exchange for lending. In early 1979, when the Bank received major infusions of foreign exchange from other donors, such as the World Bank, the demand for AID funds decelerated immediately. This occurred because Egyptian borrowers preferred other donor funds which did not have U.S. source restrictions on procurement and shipping.

AID procurement regulations stipulate that AID funds must be used to procure goods and equipment of U.S. manufacture, obtained from U.S. sources, and shipped on U.S.-flag carriers. This restricts Egyptian businessmen from using the more familiar and accessible European market and increases shipping and marine insurance costs. Goods shipped from the United States must travel 3 to 10 times the distance as competing goods from Europe. In addition, the ton-mile costs of using U.S.-flag vessels are higher[7] and the longer trip increases freight insurance

[6] As of April 1982, about 75 percent of the loan portfolio was in the private sector.

[7] A mission study estimates that shipping raw material, such as sulphur ore or coking coal, on U.S. flag carriers can be four to five times as expensive as shipping on foreign flag vessels.

rates. Therefore, even when offered on concessional terms, the AID funds have not been competitive with other donor funds. Thus, there has not been strong demand for the funds since 1979.

The mission has taken some steps to mitigate the effects of tied lending. The Bank is now authorized to approve use of non-U.S. flag vessels for the remainder of the AID loan as long as the use does not exceed 50 percent of total project shipments. The shipping costs incurred on non-U.S. carriers, except in extraordinary cases, must be financed by alternative bank funds or directly by the purchaser. The mission also granted procurement waivers for two large loans in 1981, $5 million and $3 million, respectively, which facilitated loan commitments. Additionally, easy-to-understand information on AID procurement procedures was published for potential sub-borrowers.

The problem created by infusing more attractive foreign exchange loans was exacerbated by:

--The Egyptian Government's adjusting of the U.S. dollar to the Egyptian pound exchange rate in mid-1978 which resulted in a 75-percent increase in the amount of local currency required to repay the AID loans. Consequently, nine contracts totaling $1.6 million were canceled by Egyptian borrowers. To stop further cancellations, the mission obtained a waiver in June 1979 to retain the old exchange rate for loan contracts signed and disbursed before January 1, 1979, the effective date of the rate increase. The Egyptian Government has raised its official rate a second time, but, to avoid similar reactions, it agreed not to apply the new rate to AID-financed loans.

--A weak promotion program on the availability of AID funds which slowed disbursement. The mission did not allocate funds for project promotion and advertisement but relied on the Egyptian Government and the Bank to disseminate information. The Bank used word-of-mouth and limited printed information. Both mission and Egyptian officials stated that these methods were inadequate and that the majority of Egyptian enterprises, particularly small-sized ones, were not familiar with the AID project.

An analysis of the 65 borrowers shows that the funds have been borrowed primarily by medium- and large-scale, well-established firms, as AID intended, 90 percent of which are located in the Cairo/Alexandria area. Only a few small-scale enterprises have received assistance, and minimal regional growth has been stimulated. Furthermore, during the first few years of project implementation, a significant portion of the funds was borrowed by service-type industries. The mission estimated that only 40 percent of the approved loan funds were borrowed by manufacturing enterprises. Now, loans to manufacturers account for 63 percent of the approved loans.

Several factors contributed to the limited distribution of DIB funds. The mission imposed minimum restrictions on who could qualify for assistance. The Bank was not required to base loan approval on financial need, employment generation capability, type of industry, or any other criteria which could help ensure broader use. This lack of criteria, coupled with (1) conservative banking practices, such as requiring a 2-to-1 or less debt-to-equity ratio and substantial loan collateral requirements, and (2) the Bank's unfamiliarity in working with the private sector, tended to direct the funds toward large, financially well-established enterprises. Because Egypt's industrial enterprises are concentrated in the Cairo/Alexandria area and there is limited branch banking outside this area, mission officials said it was to be expected that most of the borrowers would be in that area.

This limited distribution of DIB funds has raised equity concerns. Mission and Egyptian officials are concerned that U.S. assistance may be perceived as benefiting wealthy Egyptians rather than contributing to improvements in the overall standard of living. They said perceptions of inequity, particularly the U.S. contribution to it, could be detrimental to the important long-run objectives of economic and political stability in Egypt. A mission official explained that it is difficult to promote private-sector development without creating some economic disparity, real or perceived. In Egypt, it is particularly difficult because of the common Egyptian attitude about the private sector.

Private Investment Encouragement Fund

The mission financed the $33 million PIE Fund project in September 1979, 3 years after DIB I--the first credit project. The PIE Fund was designed to provide medium- to long-term credit and equity to larger sized local and U.S.-Egyptian joint venture private enterprises. This project differs from the DIB I project in several important ways. It (1) requires co-financing by participating Egyptian banks to encourage them to take longer-term risks, (2) provides funds for loan and equity participation by the Egyptian Government in private enterprises, (3) makes funds available to a variety of financial institutions to encourage the development of longer-term financing facilities in Egypt, and (4) assumes the risk of currency fluctuations by fixing the U.S. dollar/Egyptian pound exchange rate for loan repayment on the date agreements are signed rather than at time of repayment. A semiautonomous government organization called the PIE Fund was specifically created by ministerial decree to implement the project and to channel the AID funds to participating banks.

The Fund received an allocation of $30 million to provide credit and equity. The remaining project funds were to be used for management consultant services and studies. The mission expected the Fund to have committed all the funds to private-sector projects by January 1982; however, only $7 million had been committed by April 1982, with none disbursed by September 1982.

The project was slow in starting because of the difficulties encountered in creating a new government organization. It took the Egyptian Government nearly 9 months to establish the Fund organization and an additional 9 months to appoint an executive director. As of April 1982, the Fund had not developed the necessary policies and guidelines for administering the monies or provided adequate staff. In December 1981, the mission informed the Egyptian Government about its concerns, and when administrative, organizational, and technical problems were not resolved by April 1982, the mission temporarily suspended further fund commitments. AID officials questioned the viability of the PIE Fund project as it exists. They believed most of the problems experienced in implementing the project have stemmed from the project design, which required creating a new organization rather than using an existing one. Given the difficulty in obtaining adequate Egyptian institutional support to implement AID projects, mission officials said it was a mistake to try to create a new organization.

Other investment credit activities

The two previously discussed projects channeled AID foreign exchange resources through Egyptian banks which loaned the funds to borrowers. The mission has also attempted to provide direct financing for large-scale, U.S.-Egyptian industrial plants by allocating funds to the Egyptian Government for making loans directly to Egyptian parties. The industrial plants were to manufacture glass for Egypt's growing construction industry, extract chemicals from the saline Lake Quaram for industrial uses, and produce polyester fiber for textiles. The mission funds were to help finance the Egyptian partner's debt requirements for plant construction, equipment, materials, and technical assistance costs. None of the projects has progressed beyond preliminary planning because:

--The business climate in Egypt made it difficult to attract long-term U.S. investment capital.

--U.S. companies preferred "turn-key", plant engineering, construction, and other service contracts, rather than active participation in plant operations and maintenance.

--Egyptian Government was slow in making decisions on economic policy and project design.

Mission officials said if these problems are resolved two of the projects could still be implemented. They said the third plant, to produce polyester fiber, is no longer being pursued.

However, due to problems associated with direct financing of industrial projects (rather than using the banking system), the mission has decided not to pursue implementing the above projects or to use this method of financing in the future. According to mission officials, direct financing is too time-consuming for the mission staff and requires inhouse technical skills, such as banking and engineering knowledge, which are not available. In addition, because the project is not financed through the competitive bid process, the mission is in a difficult position for determining the reality of cost estimates. Consequently, the mission has to hire consultants to evaluate U.S. investor proposals. This is costly (the mission spent almost $1 million in consultant fees for the glass manufacturing project), time-consuming, and annoying to potential U.S. investors. The Egyptian Government also has criticized this practice as resulting in "academic exercises."

Lack of foreign exchange on favorable terms

Since 1978, the mission has earmarked $137 million of the CIP for private-sector use. The CIP is designed to provide foreign exchange to wholly Egyptian-owned companies to procure U.S. raw materials, spare parts, replacement equipment, items for resale, and related services. Unlike the DIB I and PIE Fund projects, CIP provides foreign exchange loans chiefly on a non-project basis. The CIP is tailored to meet immediate short-term credit needs rather than investments, although some such financing has occurred.

In terms of fund disbursements, CIP has been successful. As of October 1982, almost 80 percent of the funds had been disbursed to about 275 Egyptian companies. Most of the remaining funds are expected to be disbursed during fiscal year 1983. Like the DIB I and PIE Fund projects, CIP provides U.S.-dollar loans on favorable terms at below-market exchange rates. The funds are also tied to U.S. procurement, but this requirement has not significantly impeded program disbursement. A mission official said the critical factor which has made CIP loans more attractive than obtaining foreign exchange through the open market is the savings realized from the difference between the official and open market exchange rates. The rate currently varies between 11 and 14 percent. This difference partially compensates for the increased costs of AID loans due to U.S. procurement requirements. Mission officials said if the difference between the exchange rates diminishes, so will the attractiveness of CIP loans and the program could suffer the same disbursement problems as the DIB I project.

Although there are no disbursement problems, current difficulties concerning borrower eligibility and differences between the mission and the Egyptian Government on access to funds have limited a broader distribution of the funds and have raised questions about program objectives. Initially, because of loosely defined borrower eligibility rules and the lack of clearly defined program monitoring responsibilities, a small group of importers was able to borrow a significant amount of program funds. A 1980 AID Inspector General review of the program noted that almost 45 percent of the disbursed funds--about $25 million out of $56 million committed at that time--had been used by five extended family groups. The mission responded to the audit by suspending some borrowers who were found violating program requirements. It also negotiated with the Egyptian Government for stricter procedures to verify and monitor borrower eligibility and to fix the banks' responsibilities.

A second problem has been differing views between the mission and the Egyptian Government on who should use the program--manufacturing-type enterprises or commercial traders. The Egyptian Government favors use of CIP funds almost exclusively by manufacturers and other entrepreneurs who would use CIP-procured items in the conduct of their business rather than by traders who import items for resale or consumption. Toward this end, the Egyptian Government has limited the items traders can import under the program and has negotiated higher interest rates for funds used to import intermediate goods or items for resale. Mission officials favor end-user participation, but not to the exclusion of all traders. They favor more balance. Mission and Egyptian Government officials also disagree on the eligibility of Public Law 43 companies. The Egyptian Government has limited Public Law 43 companies' eligibility because they have easier access to foreign exchange than wholly Egyptian-owned, non-Public Law 43 companies. The government has, however, agreed to consider exceptions for those companies procuring import substitutes.

<u>Lack of investment information and incentives to encourage foreign investors</u>

The mission has funded two activities to attract U.S. investment capital to Egypt: the Private Sector Feasibility Studies project and an Egypt-U.S. Business Council Investment Promotion facility. The first activity is the $5-million Private Sector Feasibility Studies project which was approved in September 1979 to create a mechanism to provide incentives for U.S. firms to carry out preinvestment feasibility studies. The project provided $4.6 million to the Egyptian Investment Authority to

--develop and promote investment information on 10 selected industries to stimulate U.S. firms' interest in conducting more extensive studies,

--share the costs associated with producing pre-investment feasibility studies with 20 potential U.S. investors, and

--partially reimburse 20 U.S. investors making reconnaissance visits to Egypt.

The remaining project funds--$400,000--were allocated for technical assistance and training to assist the Investment Authority in implementing the project and in improving its ability to attract foreign investment to Egypt.

Implementation was significantly behind schedule, and mission officials doubted that the project would accomplish its objectives within the planned timeframe. Some progress has been made in the sector-survey element of the project. The fieldwork for all the surveys is complete, and as of November 1982, eight studies had been published. Mission officials are particularly concerned about the viability of the $3.6 million allocated for preinvestment feasibility studies and reconnaissance visits. Since January 1982, U.S. businesses interested in conducting such studies and visits have submitted 45 applications. The Investment Authority has approved 15, disapproved 20, and 10 are pending approval. However, as of December 1982, only two final agreements had been signed by the Government of Egypt and the U.S. applicants. Six other agreements are in the final processing stage. AID maintains hope that interested U.S. investors can elicit timely decisions from the Investment Authority.

Various problems have hampered the project's progress, including (1) delays in obtaining contractors to assist the Authority in preparing the sector studies, (2) inadequately qualified Egyptian staff assigned to the project, and (3) poor working relationships between the U.S. contractor and the Investment Authority staff. Both mission and Egyptian officials believe, however, that the most significant problem has been the Investment Authority's decisionmaking process. As the implementing agency, the Authority is responsible for final approval on all project activities. Because the approval process involves obtaining concurrence from various ministries and is very time-consuming, the publication of sector studies and the approval of applications for preinvestment studies and visits have been delayed. Mission officials said they made suggestions to the Authority to streamline the approval process and to delegate authority, but no action has been taken. The approval process problem worsened when the Authority's Deputy Chairman, who had final approval power, retired early in May 1982.

As a result of these problems it was not until the third quarter of fiscal year 1982 that the first application was approved.

A Ministry of Economy official explained that the Investment Authority's difficulty in making a decision is caused partially by its uncertainty about its role vis-a-vis other ministries, such as the Ministry of Industry. In addition, because there is no Egyptian private-sector investment plan, the Investment Authority must evaluate each application individually instead of within a broader policy. He said this latter problem should be minimized when the new Egyptian economic development plan is approved. He also said that he intends to suggest changes to improve the approval process. He believes time limits for the approval process should be imposed on the Investment Authority. Failure to render a decision within the time limit would signify approval.

Apart from the difficulties with the approval process, mission officials are also concerned about the viability of the preinvestment feasibility studies and visits due to the closing of Egypt's Permanent Economic Mission in New York. The closing, in May 1982 for budget reasons, means that U.S. businesses having questions about their applications must now correspond with either the Investment Authority in Cairo or the Economic Section of the Embassy in Washington. This may prove to be an obstacle because of the inconvenience and delay in obtaining responses.

In addition to the Private Sector Feasibility Studies project, the mission also funded an Egypt-U.S. Business Council investment promotion activity in 1981. This activity was funded under the Technical and Feasibility Studies project, which funds a variety of studies and pre-project activites in all sectors of assistance. The Business Council used the mission funds to establish an office to assist U.S. businessmen in identifying suitable investment projects and potential joint-venture partners and to provide information and assistance to visiting businessmen. The assistance has been well received by U.S. businessmen but it has resulted in no investments. Additional financing to continue the assistance has been requested by the Business Council. Initially, the investment promotion office was viewed as an interim measure to assist U.S. investors until the Investment Authority could establish a comprehensive information and promotion center. The mission has been exploring the design and financing of such a center for almost 2 years. It plans to include the Business Council's activity as part of a project to finance the final design of the investment center.

Limited institutional capability

The mission's private-sector assistance strategy recognizes that the policy, planning, facilitation, and decisionmaking apparatus of Egypt's public-sector institutions must be upgraded, improved, and reoriented to encourage the support of the private sector in a more active and promotional manner. Therefore, all private-sector portfolio projects, except CIP, contain institution-building elements. In addition to the previously discussed projects, the mission funded a $2 million DIB II project in 1978 strictly for institution building. The project supplemented the $500,000 institution-building element funded in DIB I.

Some institution-building progress has been made in the DIB projects. The Bank has begun to reorganize its staff and operations as suggested by an AID-financed consultant and has improved its loan-appraisal capabilities. Mission officials are disappointed, however, with the delays in developing institutional capabilities to implement the PIE Fund and Private Sector Feasibility Studies projects. Despite the training and advisory services which have been provided, the PIE Fund is not a functioning organization and the Investment Authority is not effectively managing the reimbursement program for potential U.S. investors.

Mission efforts to address institution-building needs by providing technical assistance, management advisory services, equipment, and training to the organizations implementing and participating in the private-sector portfolio projects have been beset by the following problems.

--Delays in obtaining U.S. consultants. The DIB II project encountered a number of delays due to problems in obtaining technical and managerial services. It took longer than expected to obtain a senior advisor who was to assist the Bank in obtaining long-term consultants. Then, by mutual consent, the advisor's contract was terminated before he could complete his assignment. Consequently, the long-term consultants were selected 28 months later than planned.

--Difficulty in establishing compatible relationships between the U.S. consultants and Egyptian counterparts. Due to strained working relationships between the management consultant who designed and promoted the Private Sector Feasibility Studies project and the Investment Authority, the consultant's access to information about feasibility study applicants was limited. As another example, the management consultant for the PIE Fund was not permitted to attend the review of loan proposals submitted to the PIE Fund. Problems on the latter project are partially attributable to the U.S. consultant, who has since been replaced. A mission official said that the consultant was inexperienced in financial analysis and that this problem did not surface until the mission started to review loan applications.

--Limited project support from participating Egyptian agencies. The training segment of the Private Sector Feasibility Studies project had diminished benefits because of the inability of the Investment Authority to provide competent counterparts in accordance with the project schedule. The Egyptian counterparts were to begin training soon after they started to work with the U.S. technicians on the sector studies. The training, however, was delayed until after the sector studies commenced. The Investment Authority also has not provided the staff support required for implementing the PIE Fund. The Fund was supposed to be staffed with one senior specialist, an assistant, and a secretary. As of May 1982, almost 18 months after the Fund was established, the organization was still inadequately staffed.

--Project design problems. Instead of working with an existing organization, the PIE Fund project design required creating an institution to implement the project. The Fund had to be staffed, operating requirements and guidelines developed, and other actions taken prior to fund disbursements. This task required considerable technical assistance.

Mission officials agreed that institution-building efforts have generally been less successful than desired. However, they believe that institution building is of a long-term nature and the results are not noticeable for several years. In addition, the mission believes it is difficult to measure the true effect, except in terms of project milestones, such as obtaining consultants and revising procedures. Furthermore, considering the Egyptian institutional capability for providing private-sector support, mission officials believe it would have been optimistic to expect substantial progress in the few years the program has been operational.

Need for new technology
and management concepts

Outdated technology and outmoded management concepts impede the productivity of indigenous Egyptian private enterprises and make potential foreign investors reluctant to form joint ventures. Although the mission identified these as critical constraints to private-sector expansion as early as 1977, only recently has a major project, Industrial Productivity Improvement, been initiated in this area. At the suggestion of the Joint Egyptian-U.S. Business Council, the mission initially funded a small, pilot, participant-training project in 1979 to improve Egyptian businessmen's management skills and to enhance their knowledge about conducting business in an international market. The project provided training to 96 Egyptian businessmen, 30 of whom were from private and joint-venture companies. This pilot activity was the predecessor to an Industrial Productivity subproject. The $39 million Industrial Productivity

Improvement project, financed in September 1981, is an integrated public- and private-sector industrial technical assistance program. It is designed to improve industrial productivity by providing technical assistance and training to improve management, labor, and technology in both the public and private sectors. It incorporates the following related and complementary projects.

1. Management Development for Productivity ($8.5 million). Designed to improve management in 40 to 60 public- and private-sector business organizations through training programs and individual consultation and to increase the demand for, and the supply of, effective management and organizational development services in Egypt.

2. Industrial Technology Application ($10 million). Designed to help public, private, and joint-venture industrial firms identify, assess, and introduce new suitable technology effectively and to institutionalize the Egyptian capacity to provide such services.

3. Vocational Training for Productivity ($17.5 million). Designed to strengthen the Ministry of Industry and Mineral Resources' ability to equip entry-level workers with required skills, upgrade the skills of employed workers, respond to many specific training problems, and establish skill standards and appropriate trade tests.

4. Innovative Industrial Activities ($3 million). Provides a fund for creative intervention to improve sectoral productivity and to support small experimental or pilot-type interventions to test the viability of more substantial efforts. The one approved sub-activity will partially reimburse the costs of the International Executive Service Corps' technical assistance to Egyptian companies.

The mission and Egyptian Government are still in the contractor-selection phase for these subprojects. Consequently, it is too early to evaluate the mission's effectiveness in resolving the technology and management constraints to improved productivity.

FUTURE PRIVATE-SECTOR PROGRAM

The mission is currently revamping its approach to providing private-sector development assistance. Mission and Egyptian officials said they are actively reviewing implementation problems which have hampered active projects and are identifying lessons learned to incorporate into the revised strategy. To date, the mission has implemented its strategy on an individual project basis, responding to specific constraints to private-sector growth in Egypt. Now, in accordance with the Egyptian Government's desire to obtain more flexibility and control over the U.S. assistance program, the mission is moving toward implementing multiyear-funded sector projects. The mission believes this approach will not only offer more flexibility but will also provide a more coordinated approach to private-sector development by consolidating interrelated activities under large sector projects. Mission officials said the consolidation of similar types of assistance into a single project will permit AID funds to be allocated/reallocated among related subproject activities. This, they believe, should result in funds being allocated where the demand is greatest and should speed disbursement.

At the time of our review, the mission was designing two sector projects: Production Credit and Business Support and Investment. Both projects were to be financed with fiscal year 1982 funds but, due to project design delays, only a scaled-down version of the Production Credit project was authorized. The mission is now planning on using fiscal year 1983 funds to finance a $50 million add-on Production Credit II to the approved $68 million Production Credit I project.

The Production Credit projects are intended to build a unified private-sector financing structure to provide a broad array of financial assistance to the indigenous private sector. In the past, the mission has provided financial assistance through three separate projects: CIP, DIB I, and the PIE Fund. Production Credit is being designed to provide short-, medium-, and long-term financing and, eventually, investment equity. The recently approved Production Credit I project provides $67 million in short-term credit to indigenous private-sector productive enterprises and $1 million for technical assistance and training to both public- and private-sector financial institutions and for studies in the credit policy area. The project provides a framework for expansion to other components of the credit system and is linked to the goal of developing a financial system with the capability and capacity to service a full range of short-, medium-, and long-term financial needs to support growth of productive, private-sector enterprise. This project has replaced the private-sector portion of the CIP. Future CIP allocations will be only for the public sector. The fiscal year 1983 add-on to the project is planned to provide medium- to long-term credit and possibly a leasing facility to small-scale and larger enterprises for productive purposes. This credit will be provided to the private sector through an existing or new private-sector banking facility.

The second proposed sector project, the $8.3 million Business Support and Investment project, is being designed to support private- and public-sector efforts to modernize and improve the financial, legal, and administrative environment in which the private sector operates. The mission contemplates a two-phase project which will provide a broad range of technical assistance, training, and limited procurement activities to assist public- and private-sector institutions responsible for private-sector development.

In phase I, most project resources are to be directed primarily at investment and business infrastructure in five major areas, including accounting and auditing standards, legal and tax services, and a capital markets program. The project is to encompass the mission's assistance to the Investment Authority and the Egypt-U.S. Business Council as well as other institution-building activities. Before phase II begins, the project is to be evaluated to determine what adjustments are needed. It is anticipated that phase II will consist of a broad range of follow-up activities from phase I as well as new activities. During the project design phase, the mission intends to explore alternative formulas to place project execution in the hands of a nongovernment entity, with the Egyptian Government retaining authority for grant criteria and major subproject approvals.

CONCLUSIONS AND RECOMMENDATIONS

AID has provided a significant amount of assistance to help Egypt accelerate its private-sector development. Since 1976, $374 million has been allocated or proposed for private-sector portfolio projects. However, the mission's ability to stimulate private-sector development through financial and technical assistance has been limited due to project implementation and design problems. Less than 23 percent of the mission's non-CIP project funds allocated before 1982 have been disbursed. Furthermore, the majority of the Egyptian enterprises that have borrowed AID funds have been the larger, financially well-established firms in the major metropolitan areas. Minimum assistance has reached small-scale enterprises or rural areas.

Critical factors impeding individual project implementation have been identified. The most serious impediments to project progress stem from the lack of institutional support, project design weaknesses, and the requirement to buy U.S. origin and source goods. AID and Egyptian officials are aware of the implementation problems and have taken some action to facilitate project progress. However, other actions are needed.

AID procurement regulations continue to impede the DIB I project, and we believe that they may have a similar effect on the new Production Credit projects. Mechanisms should be found to mitigate the negative effects of the procurement regulations.

More action is also warranted to ensure adequate Egyptian Government institutional support, which is critical to successful project implementation. We believe the mission has taken the correct course of action in deciding to suspend PIE Fund activities. We believe AID should take some further action to provide term-credit assistance. AID should seriously consider folding the PIE Fund into the proposed Production Credit II project. We also believe the mission's interest in exploring alternative implementation mechanisms for the Business Support and Investment project, which would place project execution in the hands of a non-government entity, is good. Regarding the Private Sector Feasibility Studies project, we believe that, due to the institutional support problems encountered in implementing this project, the mission should closely monitor it and consider terminating the project and de-obligating the funds if it stalls again.

Thus, we recommend that the Administrator, AID, explore mechanisms to mitigate the negative effects of AID procurement regulations on private-sector credit projects and direct the mission to:

--Closely monitor the Private Sector Feasibility Studies project and terminate it if the project becomes inactive again.

--Consider folding the PIE Fund into the proposed Production Credit II project if it is approved; if not, consider terminating the PIE Fund project and seeking an alternative means for delivering term-credit assistance.

AGENCY COMMENTS AND OUR EVALUATION

AID agreed with our recommendation that the Feasibility Studies project should be closely monitored, but, on the basis of recent progress, AID objected to our proposal that it consider terminating the project if it remained inactive by fiscal year 1984. Commenting on our draft, the mission included more current information on project progress. AID reported that two agreements with U.S. applicants had been signed and that six more were in final processing. We changed the text of the report and altered our proposal to reflect this information.

AID intends to closely monitor the project in the future. Because of its variable performance record, we believe it is possible that the project may become stalled again. Thus, we have retained the recommendation that AID consider termination should this event occur.

Concerning the PIE Fund project, AID stated that the project is likely to remain inactive as currently structured. AID objected to our proposal that the project be terminated. AID stated that a "sound delivery system for term credit to influence the pattern of private investment into productive uses" is needed. To alleviate the problem, AID is developing a new initiative to provide term credit and discount facilities through a small group of leading private banks. The project would use "existing institutions and generally accepted techniques," the lack of which we cited as problems with the PIE Fund concept. If the proposal is approved, AID intends to investigate the possibility of folding the PIE Fund into the project. If the proposal is not accepted, the mission hopes to "reorganize" the PIE Fund into an effective delivery system.

As we stated in the report, we believe that there is a need to provide term credit for private-sector expansion. We believe the proposed Production Credit II project will address some of the impediments to delivering term-credit assistance. However, AID should take more positive action than to wait and "investigate the possibility" of combining the PIE Fund and the Production Credit II projects. Therefore, we altered our proposal to recommend that AID consider folding the PIE Fund project into the proposed project if it is approved.

We believe that the PIE Fund's past political and structural problems have not been solved and will continue to impede progress in the future regardless of how the Fund is organized. If the Production Credit II project is not approved, we believe that AID should terminate the PIE Fund project and seek an alternative means for providing term-credit assistance to the Egyptian private sector.

We also proposed that AID incorporate the remaining DIB I project activities into the new Production Credit project. AID pointed out that the Bank has sub-obligated the remaining AID funds available for relending and believes that disbursement will follow over a reasonable period of time. AID went on to say that at present the Production Credit I project contains only one delivery system--a short-term credit vehicle. Thus, it would not be feasible to incorporate DIB I with the project since the medium- and long-term credit aspects are not present. As a result of this information we modified our report by stopping short of a recommendation. While AID's comments point out that the mission is developing a term-credit delivery mechanism which it believes would help mitigate some of the problems identified, we feel that because of the past difficulties encountered with such projects, AID and the mission should closely monitor these activities and, if problems persist under the new initiative, take whatever action is necessary to correct the difficulties, even terminating credit activities if it appears they have little chance for success.

AID pointed out that, in our draft report, we cited AID credit projects as failing to meet the needs of small-scale enterprise. AID stated that these projects were not intended or structured to meet the unique credit needs of small business.

AID also stated its intention to develop separate projects to meet the special requirements associated with small-scale enterprise activities. We have altered the report text to reflect AID's comments; however, we believe more needs to be done to address the credit needs of Egypt's small-scale enterprises since they comprise 90 percent of its private sector.

CHAPTER 4

PRIVATE-SECTOR DEVELOPMENT IN

EGYPT HAS BEEN A LEARNING EXPERIENCE

The mission views the past 3 years as a learning experience (See ch. 2). During this period, it has made a concerted effort to identify lessons learned from past experience through project evaluations, studies, and internal reviews. This information is being considered as the mission refines its strategy and designs new projects. With the current U.S. Government emphasis on encouraging private-sector participation in development, the experiences gained from the Egyptian program could be useful to AID as it plans and programs future private-sector efforts.

FACTORS AFFECTING FUTURE PROGRAM PROGRESS

For AID, Egypt has been a most difficult country in which to pursue a private-sector development program. Egypt's economy is basically public-sector oriented. Almost 70 percent of Egypt's productive capacity is in the public sector, which is almost twice as large as most other mixed-economy countries. AID's private-sector initiatives have been modestly successful (see ch. 3), essentially because of the difficult and restrictive Egyptian business environment. The transition from the centrally planned, public-sector-dominated economy to a mixed economy has been slow and is far from complete. This has had a negative effect on AID's program because, above all, for a private-sector program to succeed, the business climate must be favorable. Mission officials said the infusion of financial and technical assistance is insufficient to counterbalance a legal, administrative, and attitudinal environment which discriminates against the private sector. The fact that AID has been actively pursuing private-sector development in Egypt only since fiscal year 1979 also partially accounts for the modest success to date. Private-sector expansion is recognized as a long-term objective, and mission officials point out that substantial short-term achievements are unlikely.

Mission officials are very candid about the difficulty they have experienced in formulating a private-sector strategy and in designing and implementing an effective, viable program. They recognize that their program has not fully responded to the Humphrey Amendment and has not addressed all the needs for assistance identified by the Egyptian and U.S. business communities. Through formal project evaluations and internal program reviews and assessments, the mission has identified critical factors which have impeded program progress. Thus, the mission is aware of internal limitations in its efforts to stimulate private-sector development and it has identified lessons learned to consider when designing new private-sector initiatives.

In addition to needed changes in the business climate which depend upon Egyptian Government action, two major issues which AID should address are (1) the AID role in conjunction with other U.S. agencies in stimulating U.S. private investment in Egypt and (2) the appropriateness of applying U.S. procurement regulations to private-sector initiatives.

AID's role vis-a-vis other U.S. agencies

Although the mission recognizes that U.S. and other foreign private investment in Egypt is essential to overall achievement of economic growth, its ability to harness the potential assistance is impeded. The principal impediments for making full use of the resources and other advantages which the U.S. private sector could offer Egypt--updated management and marketing skills and innovative technology--are the mission's perception of its role with other U.S. agencies and its organizational structure and staff capabilities.

The mission perceives its role in Egypt as assisting the indigenous private sector and working to make the business climate more conducive to both indigenous and U.S. investment. It believes its greatest contribution can be through providing institution-building assistance, vocational and managerial training, and credit to the indigenous private sector and encouraging Egyptian policy and regulation changes. Mission officials said they do not view AID's role as a stimulator of U.S. private investment in Egypt in terms of providing direct support, such as financing U.S. investors' shares in joint ventures or brokering investment projects with Egyptian enterprises. They say that the mission is not organizationally structured or staffed to work effectively with potential U.S. private investors and believe such efforts would duplicate the work of other U.S. programs and agencies. The mission staff is not trained in investment promotion and has limited direct contact with U.S. businessmen. Further, the type of program AID administers--government-to-government assistance--does not lend itself to effectively working directly with the U.S. business community.

AID's assistance to the U.S. business community is generally channeled through Egyptian Government ministries and organizations. Having the Egyptian Government and the associated bureaucratic problems in the middleman position does not create an effective mechanism for working with the U.S. private sector (See ch. 3). Mission officials believe other U.S. programs and agencies should have the leadership role in promoting investment. They said that the Overseas Private Investment Corporation, Department of Commerce, Export-Import Bank, the Trade and Development Program, and the U.S. Trade Representative's Office have more experience and contact with the U.S. business community and, thus, are more capable of working with potential U.S. investors.

Representatives from other agencies acknowledge AID's difficulty in working directly with the U.S. private sector but believe that, due to the size of AID's Egyptian program, it should explore mechanisms to provide assistance to stimulate U.S. private investment in Egypt. Some suggestions were to (1) allocate AID funds to other agencies, such as the Overseas Private Investment Corporation, to augment its efforts in Egypt and (2) contract with other agencies to administer specific projects designed to stimulate U.S. private investment; for example, contract with the Investment Corporation to administer a project similar to the Private Sector Feasibility Studies project.

More effective coordination between AID and other U.S. agencies could also be useful in stimulating U.S. private investment in Egypt. This is especially important in Egypt because of the large number of U.S. agencies currently involved in Egyptian development. Although some informal coordination exists, particularly at the headquarters level, the mission has not actively sought to involve other U.S. agencies in its industrial, private-sector strategy formulation because not all U.S. agencies have representatives in Egypt and various agencies have different objectives. For example, the U.S. Trade Representative's Office and Department of Commerce are more interested in expanding U.S. exports to Egypt than in stimulating U.S. private investment.

Mission officials said there could be several advantages to more effective coordination, such as those below.

--Agencies could support each other's activities. For example, the Overseas Private Investment Corporation could be called upon to bring in investment missions that focus on construction materials industries, if AID decides the housing shortage is critical and allocates several million dollars to construction.

--The United States would have a unified approach with the Egyptian Government. Agencies could work in tandem, if all agencies could agree on the most critical constraints to trade and investment.

--Better coordination would improve the U.S. Government's image with business. U.S. businessmen would have a better view of what is possible and what is being encouraged. Agencies would be able to discuss other agencies' programs and could make informed recommendations.

Application of U.S. procurement regulations

The application of U.S. procurement regulations to private-sector development initiatives are an impediment to meeting Egyptian enterprises' need for financial assistance. These regulations have delayed project disbursements due to the associated increased procurement costs and Egyptian preferences for European commodities and equipment (See ch. 3). While recognizing the political concerns behind imposing U.S. procurement regulations on AID funds, mission officials believe the differences between providing funds to the Egyptian Government versus private enterprises require a reassessment of the appropriateness of applying the regulations to private-sector initiatives.

Imposing U.S. procurement regulations on private-sector initiatives creates an ironic situation. Although AID is financing technical assistance to teach Egyptian businessmen better financial management and other skills to operate effectively under free market conditions, U.S. regulations require them to buy goods and equipment from the United States which can be more expensive than they could obtain from the more familiar European market. In addition, due to shipping distances, it often takes longer to receive the U.S. commodities. AID officials also point out that private enterprises are not receiving AID funds on a grant basis or at significantly lower interest rates, as is the case with funds granted or loaned to the Egyptian Government. As of May 1982, the private sector was borrowing AID funds at 13 to 15 percent interest, in addition to paying banking charges and depositing funds equivalent to a percentage of the loan in non-interest-bearing accounts as collateral. These latter practices increase the effective interest rate on the loan.

The cost of imposing U.S. procurement regulations can be partially compensated for by providing other incentives for using AID funds, such as lowering interest rates or using mechanisms to offset shipping costs. For example, AID could provide grant funding to the borrower to pay for the increased shipping costs. However, making AID funds more attractive to Egyptian borrowers by offering them on more favorable terms, such as highly concessional interest rates, is contrary to AID's objective in Egypt to reduce subsidies that skew investment decisions. The drawback to using mechanisms to compensate for the increased cost is that they will impose an administrative burden. Although a complete waiver of the procurement regulations for private-sector initiatives may not be feasible, mission officials believe a partial waiver might be considered. For example, loans to small-scale enterprises for certain types of equipment or below a certain amount could be exempt.

WHAT HAS AID LEARNED IN EGYPT?

AID and the Egyptian Government are well aware of the problems encountered in implementing a private-sector program. Some of the lessons learned and identified by the mission and the Egyptian Government include the need to

--develop a plan for addressing information needs;

--incorporate mechanisms into the project design to compensate for the increased costs associated with U.S. procurement regulations;

--channel financial assistance for private-sector enterprises through intermediary credit institutions, such as banks, rather than provide direct financing;

--minimize requirements for AID approvals of bank loans to private-sector borrowers, especially for smaller loans;

--use existing organizations, if possible, to implement projects, since it is time-consuming and difficult to create new institutions;

--allocate project funds for advertising and promoting AID's assistance program for private-sector enterprises;

--involve as many banks as possible in the credit programs to facilitate broad distribution of AID funds;

--clearly identify in the project agreement the participating parties' monitoring and implementing responsibilities, i.e., AID, the Egyptian Government and participating banks or other organizations; and

--share the risk of foreign exchange rate fluctuations affecting the repayment of AID financial credit between the Egyptian Government and the private-sector borrower.

We believe that with the current U.S. emphasis on encouraging private-sector participation in the development process, the experiènces gained from the Egyptian program could be useful to AID as it plans and programs future projects in the private-sector area. The problems encountered in the Egyptian program, as well as those efforts which have been relatively successful, have many worldwide applications and should be considered as the Bureau for Private Enterprise and other AID missions attempt to use the private sector to accomplish AID development objectives. Especially important are the lessons learned regarding the use of intermediary financial institutions to channel funds to the indigenous private sector and the perception that AID private-sector efforts are directed to an elite group within the host country. These are important factors to which AID needs to be sensitive in pursuing its private-sector development objectives.

CONCLUSIONS

We believe the ultimate success of AID's private-sector development program depends upon whether the Egyptian Government makes the needed policy, administrative, and attitudinal changes to make the business environment favorable to private-sector development. Until these occur, the AID program will continue to have only a modest effect. We recognize that AID is more experienced in designing and managing projects which address indigenous private-sector needs and business climate improvements rather than in encouraging private U.S. investment through incentive programs. However, we also recognize the unique position AID has in the U.S. assistance program for Egypt--managing the largest U.S. Economic Support Fund Program. Therefore, we believe it is essential that AID and other U.S. agencies coordinate their efforts to ensure mutual support and that mechanisms be explored to share talents and funds. We also believe that the lessons learned from the AID private-sector experience in Egypt will be useful when planning future private-sector initiatives in Egypt and other countries.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

14 JAN 1983

Mr. Frank C. Conahan
Director
International Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

We are pleased to have the opportunity to comment on GAO's Draft Report, "Lessons Learned from AID's Private Sector Development Efforts in Egypt".

We consider the draft report very useful and wish to commend the GAO team on its thoroughness and fairness. Our attached comments address the five recommendations presented on pages 22 and 46 of the report and, likewise, provide information on specific actions the Agency is taking with respect to the problems identified by the GAO team.

Please let us know if you should wish to discuss any of our comments or if you should wish to have additional information.

Sincerely yours,

W. Antoinette Ford
Assistant Administrator
Near East Bureau

AID'S COMMENTS ON GAO DRAFT REPORT, "LESSONS LEARNED FROM AID'S PRIVATE SECTOR DEVELOPMENT EFFORTS IN EGYPT"

I. INTRODUCTION

We are pleased with the scope, tone and content of the draft report. In most respects, it accurately represents the efforts which have been made over the past five years to assist Egypt's private sector. It also recognizes many of the obstacles to successful assistance, some of them related to the Egyptian context and some of them self-imposed by the U.S. in general and AID in particular. The statement on page 23 that "difficulties encountered in implementing private sector initiatives in a country that is just beginning its transition to a more market oriented economy" is particularly apt. Our comments will deal first with the specific recommendations and second with the other parts of the report that deserve specific comment.

II. COMMENTS ON RECOMMENDATIONS

A. Strategy Development

1. Government of Egypt (GOE) Involvement. The draft report recommends that the Administrator direct the USAID Mission in Cairo to "actively involve the Egyptian Government in developing, refining and revising its private sector development strategy to ensure that it is consistent with the Egyptian Government's own priorities and goals." We note that in connection with the preparation of the Production Credit Project, which was authorized by AID/W last September, the Mission negotiated with the GOE to establish a private sector "Steering Committee" to work closely with the Mission in the development of its private sector program and its implementation. After much effort, a ministerial decree establishing the "Steering Committee" was in final form and ready to be promulgated by the Deputy Prime Minister. However, a cabinet change which, inter alia, eliminated the Deputy Prime Minister position occured before the decree could be officially issued. The Mission was left in the position of, in effect, starting over in this effort to promote a more effective coordination mechanism. This is but one example of the difficulties of carrying out this recommendation. AID is in total agreement with the recommendation and will continue its efforts to improve coordination with the GOE.

2. Information Needs. The draft report recommends that the Administrator direct the Mission to "assess future information needs and, in conjunction with Egyptian officials, develop a plan to address these needs." Again, AID is in basic agreement with this recommendation but regards implementation as extremely difficult. One of the difficulties that private investors face in deciding whether to invest in Egypt is the lack of clearly defined ground rules and regulations on which they can rely in their planning process. GOE attitudes toward business, foreign exchange regulations, legal structures, etc., keep changing. Accordingly, our Mission has had difficulty in developing a long term strategy that will be responsive to both the rapidly changing GOE attitudes toward private sector development and the overall AID private sector initiative. Under the circumstances, the Mission has had to adopt a strategy to respond to opportunities as they arise. This has caused difficulties in defining future information needs and establishing an acceptable base of information. Even with the development of the previously mentioned Production Credit Project umbrella and the pending Business Support and Investment Project umbrella, future activities will depend on future opportunities.

   The Mission has long been in the process of developing the detailed information base required for programming resources in support of the private sector. Two of the sources for the information base can be cited as examples. The first is a World Bank funded sample survey of the medium and small scale industrial sector focusing on identifying the major constraints to industrial growth and how they can be addressed through an appropriate combination of technical and financial assistance. The second is the AID financed University of Michigan Off-Farm Employment Survey focusing special attention on small and artisan level enterprises. An interesting and quite useful feature of the Michigan Survey is its longitudinal character. Instead of relying on the episodic accuracy of a point-in-time sample survey, the University of Michigan Survey involves repeat visits at regular intervals designed to assess the temporal character, duration and frequency of specific constraints to industrial development that might be addressable in a programmatic context. The Foda Banking Study, Arthur

D. Little's Egyptian Investment Authority Organization and Management Studies, and the sector studies prepared by Chase Trade Information Corp. outlining investment opportunities are other examples.

B. U.S. Investment Promotion

The draft report recommends that the Administrator direct the Mission to "closely monitor the Private Sector Feasibility Studies Project and terminate it if the project remains inactive by fiscal year 1984." There has been substantial movement in this project since the GAO gathered its information. The Egyptian Investment Authority has now acted on 35 study applications, approving 15, disapproving 20 leaving approximately 10 under review. The GAO draft report states that no agreements have been signed between the Investment Authority and potential investors. We are pleased to report that 2 final agreements have been signed by the U.S. applicants and at least 6 are in the final processing stage. We believe that the action demonstrated in the last few months has clearly put the program on a sounder footing and that U.S. investors requesting decisions on funding for feasibility studies can now elicit a decision in timely fashion. Thus we agree with the recommendation that the project be closely monitored but do not agree that the project should be considered for termination at this time.

C. Credit Programs

1. Private Investment Encouragement Fund (PIE-FUND). The draft report recommends that the Administrator direct the Mission to "consider terminating the PIE-Fund." The report spells out in some detail an accurate account of events leading up to the suspension of further PIE-Fund activities by the Mission. There has been no substantive change since the report was drafted. The PIE-Fund is still inactive and the likelihood of it becoming active under its present structure is still unclear.

2. Proposed Production Credit Project - II While the PIE-Fund, in its current configuration, may not be the appropriate delivery mechanism, the idea of providing term credit to the private sector through the Egyptian banking system is sound. Our Mission, with assistance from the Private Enterprise Bureau of AID and an independent expert, is developing a proposal to provide term credit and discount facilities through a

small group of leading private banks. Although the effect would be fully consistent with the objectives for which the PIE Fund was established, the delivery mechanism would be quite different and would depend on already existing financial institutions and generally accepted techniques. If this new proposal is approved, our Mission would then investigate the possibility of folding the PIE-Fund into the new mechanism. If the new proposal cannot gain acceptance, our Mission will continue working with the PIE-Fund to reorganize it into an effective delivery system for term credit to the private sector. In any event, a sound delivery system for term credit is clearly needed as a means to influence the pattern of private investment into more productive uses. Accordingly, we do not concur in this recommendation.

3. Development Industrial Bank (DIB). The draft report recommends that the Administrator direct the Mission to "incorporate the remaining DIB I Project activities into the new Production Credit Project." We do not believe this recommendation is necessary. The DIB has sub-obligated the remaining AID funds available to it for relending. Disbursement will follow as a matter of course over a reasonable period of time. Therefore, we believe there is no need or reason to fold DIB-I funds into the Production Credit Project as suggested. Furthermore, the Production Credit Project at the present time contains only one delivery system, a short term credit vehicle to support private sector imports. As mentioned above, and in GAO's draft report, the Mission is developing a term credit delivery mechanism which we expect to mitigate the problems identified with both DIB-I and the PIE-Fund.

III OTHER COMMENTS

A. Industrial Productivity Improvement Project (IPI)

Although IPI is identified in the draft report as a private sector initiative, this is not entirely correct. The benefits of the program will be available to both the private and public sectors. Since public sector industrial output is substantially greater than that of the nascent private sector, it can be presumed that a significant share of the benefits will flow, at least initially to the public sector.

B. Small Scale Enterprises (SSE).

Throughout the report, it is stated that AID financial assistance has not reached SSEs. However, nowhere does the draft clarify that the AID credit programs, now in place, were not intended or structured to address SSE credit needs. The intention has been and continues to be to develop separate programs for assisting SSEs, programs which are specifically designed to meet the unique requirements associated with SSE activities. We are continuing efforts to establish a program for addressing SSE development constraints in Egypt.

C. Private Sector Commodity Import Program (CIP).

1. It should be noted that in recent CIP procurements, shipping costs on U.S. bottoms have been as much as 4 or 5 times as high as on foreign bottoms, not 30 or 40 percent higher as stated in the draft report.

2. The discussion of the CIP private sector program leaves the impression that the Mission favors trader usage of the program vs. end-user. The opposite is the case. Certainly for the last several years, the Mission has favored end-user usage of the program in very specific terms and the actual usage reflects this.

D. U.S. Investment Promotion

1. The closure of the New York office of Egypt's Permanent Economic Mission to the United States does not mean there is no source in the U.S. to obtain information about the feasibility studies project. One can do so from the economic section of the Egyptian Embassy in Washington, which U.S. firms are doing.

2. The figures for the feasibility studies approvals must be updated in line with the information mentioned above.

E. Egyptian Business Climate

1. The draft report stresses the need for a favorable business climate as a prerequisite for success of a private sector program. By virtually all unbiased accounts -- U.S. businessmen and institutions who evaluate country risks rank Egypt's business climate at the low end of the scale of those LDCs which are in competition for foreign investment. As mentioned in GOA's draft report, the Cairo Mission has designed the

Business Support and Investment Project to support GOE and Egyptian private sector efforts to improve the investment, legal and administrative conditions under which private sector projects are developed and implemented and business is conducted. The BSI project is expected to be authorized and obligated in FY 1983.

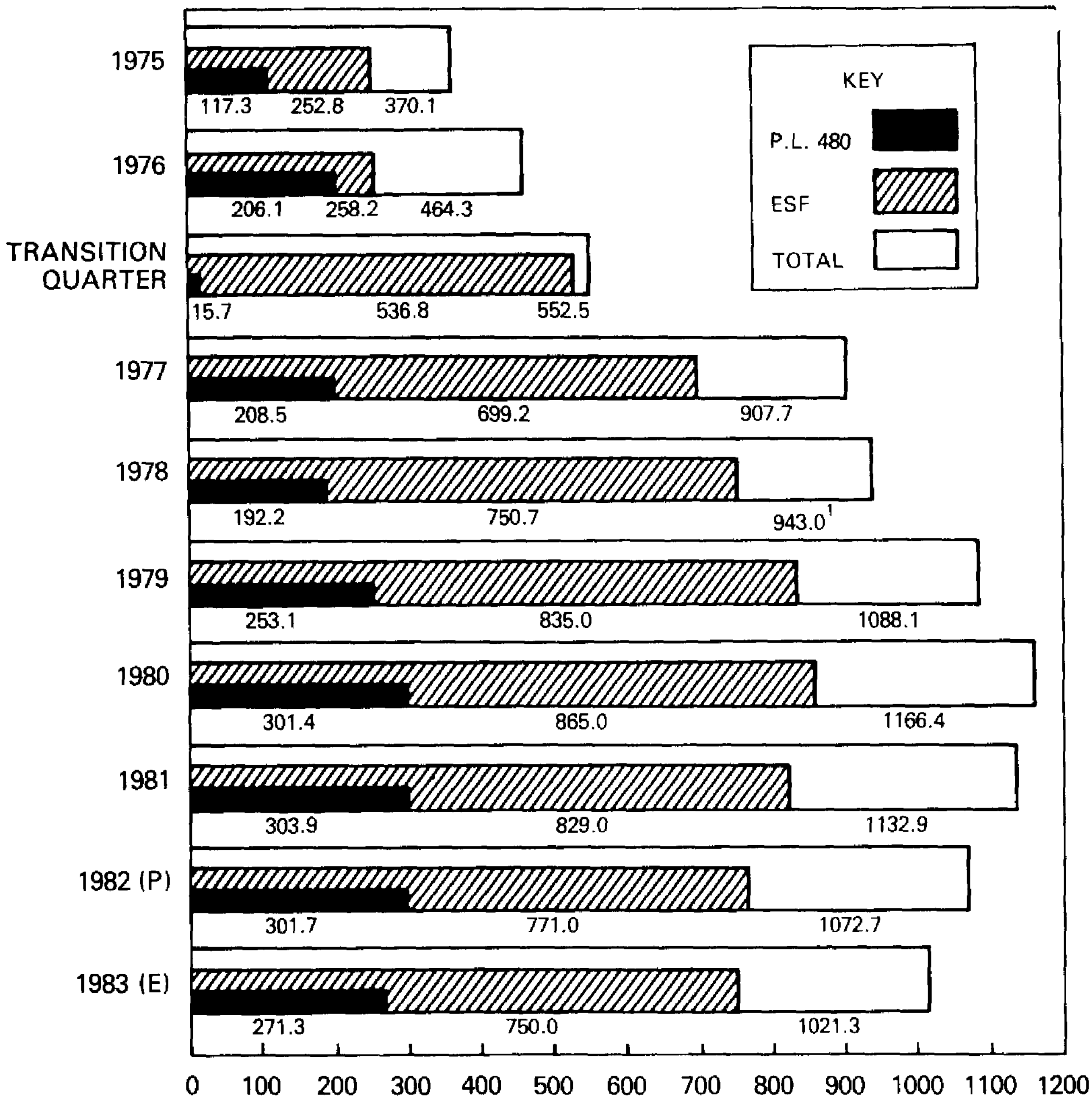
2. AID is also pleased to see that the GAO recognizes the need to provide incentives for private businessmen to participate in AID programs, since AID programs invariably carry a variety of disincentives. Inability to provide sufficient incentives has hindered development of the private sector program in Egypt.

F. Trade Financing Facility (TFF).

The Trade Financing Facility is mentioned as a useful tool. Since the GAO report was drafted, a USG review of the TFF has taken place to assure its compliance with international agreement on the use of mixed credits. That review resulted in the determination by AID that the TFF may only be used as a defensive response to a concessional mixed credit package offered by a foreign competitor to U.S. business. A "mixed credit" has been defined to mean a combination of official development assistance and official export financing where the supply of each is dependent upon the other. There are very few cases in which U.S. suppliers are faced with concessional financial competition falling under this very narrow definition of mixed credits. The restrictive character of the current definition of mixed credits is now under review by pertinent Washington agencies. Unless this review leads to a wider definition of mixed credits, and/or a broader latitude in the use of TFF, the anticipated role of the TFF as a significant support to U.S. business will be substantially circumscribed.

SUMMARY OF AID ECONOMIC ASSISTANCE TO EGYPT—FISCAL YEARS 1975-83

(IN MILLIONS OF DOLLARS)



[1]INCLUDES $0.1 MILLION LOAN FROM SOURCES OTHER THAN ESF OR P.L. 480

(P) PROPOSED (E) ESTIMATED

STATUS OF PRIVATE-SECTOR PORTFOLIO PROJECTS

COMMODITY IMPORT PROGRAM

Project objective: This program was designed to assist Egypt in meeting foreign exchange costs of commodities and commodity-related services as required by the borrower in meeting a serious foreign exchange shortage, achieving development objectives, improving the standard of living, and maintaining political stability.

Since 1975, there have been 13 loans and grants under this program, 9 of which have had funds designated for private-sector use. This funding amounted to $137 million or about 5.8 percent of the total CIP.

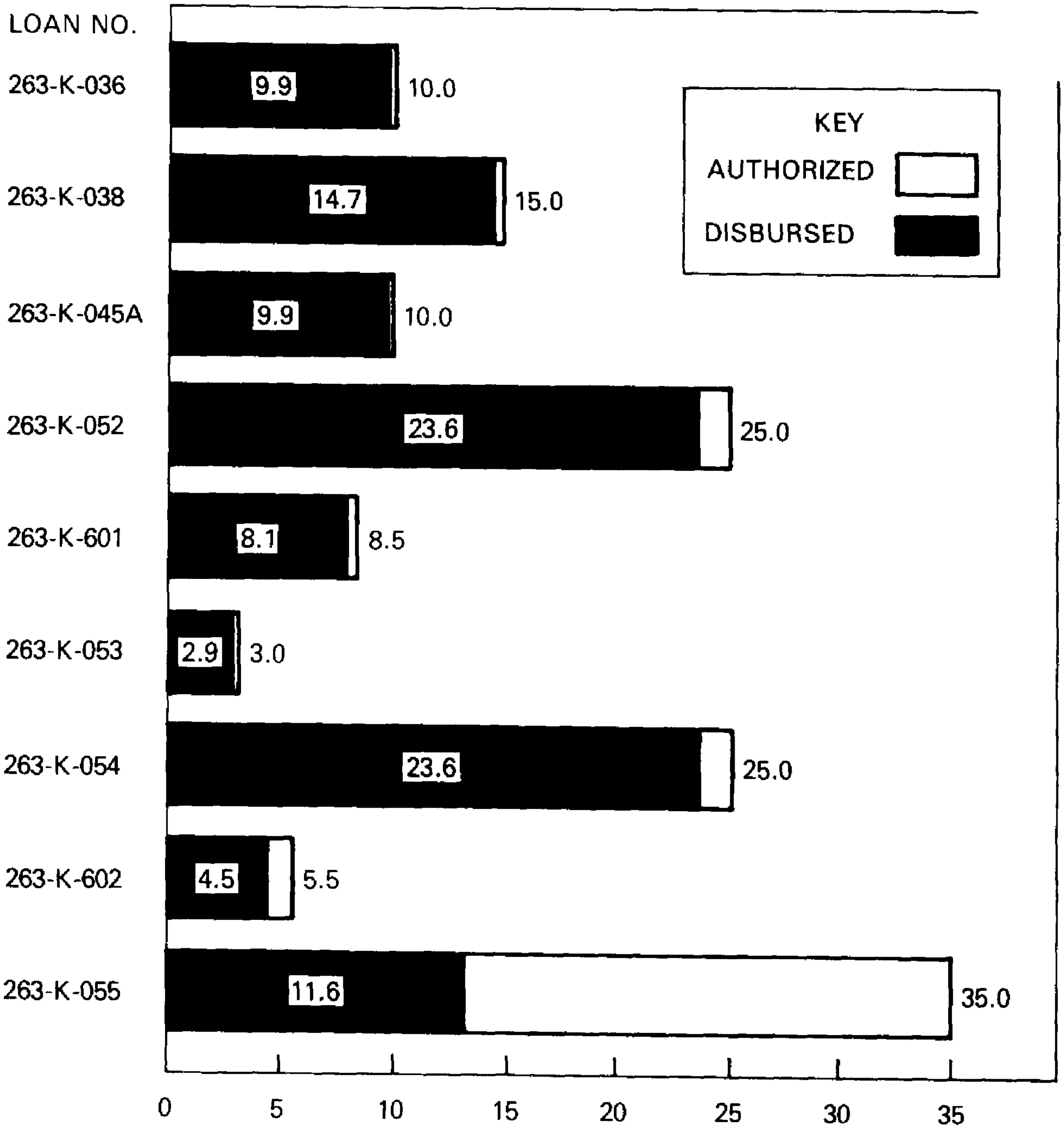
The CIP was intended to show how private enterprise can help the country with its development programs. To permit the broadest possible access to CIP funds by individual importers, a $500,000 limitation was established with certain guidelines. The groundrules were made known by the Government of Egypt to all participating Egyptian banks.

Also funded under the CIP is the new Trade Financing Facility which is intended to help U.S. exporters compete with foreign companies for Egyptian business by making reduced interest rate loans available. To be eligible for this funding, a U.S. firm must have made a competitive bid but be in danger of not winning the contract because it cannot meet the concessional financing offered by foreign competition.

AID commented that a U.S. Government review concerning the compliance of the Facility with international arrangements for the use of mixed credit resulted in the term "mixed credit" being so strictly defined for the purpose of the Facility that its usefulness will be severely limited. AID commented that the restrictive character of the current definition of mixed credits is now under review by pertinent Washington agencies.

CIP FUNDS DEDICATED TO PRIVATE SECTOR DEVELOPMENT

(IN MILLIONS OF DOLLARS)



NOTE: AS OF 10/30/82
TOTAL AUTHORIZED = $137.0
TOTAL DISBURSED = $108.8

DEVELOPMENT INDUSTRIAL BANK I (263-0018)

Project objective: This AID loan is intended to strengthen the foreign exchange position and technical resources of the Development Industrial Bank by providing $31.5 million for medium- and long-term subloans and $0.5 million for technical assistance.

Subloans are to be made to public and private companies to carry out specific development activities. The conditions on these subloans are that (1) 65 percent must go to private-sector companies, (2) only U.S. productive capital equipment and related services may be purchased, (3) projected Investment Return Rate must be at least 15 percent, (4) interest rates must not be less than 10 percent over a period not to exceed 15 years, and (5) AID approval is required for loans over $500,000.

The technical assistance and training elements include the services of U.S. development bank advisors, training for senior bank officers, and the purchase of related books, calculators, and office equipment.

Original estimated life of project: June 1976 - December 1979

Estimated cost of project: $32 million (loan)

Significant project dates:

Authorization date:	June	1976
Agreement date:	July	1976
Conditions precedent met:	October	1976
Planned project assistance completion date:	N.A.	
Current terminal disbursement date:	December	1983

Status of funds as of September 30, 1982: (in millions)

Obligated:	$32.0	100.0 percent
Expended:	$21.9	68.4 percent

DEVELOPMENT INDUSTRIAL BANK II (263-0045)

Project objective: This project is intended to improve the institutional capability of the DIB to handle increased lending activities. To accomplish this objective, the project is providing management assistance training and appropriate office equipment. Management consulting services are being provided by Price-Waterhouse & Company.

There are three priority tasks for this project: (1) the improvement of internal bank systems, i.e., organizational structure, management information, accounting, and auditing, (2) the improvement of specific bank operations, such as small-scale enterprise and leasing activities to promote future bank development, and (3) improvement in secondary bank operations, such as public reporting and libraries.

Original estimated life of project: September 1978 - February 1981

Estimated cost of project: $2 million (grant)

Significant project dates:

Authorization date:	September 1978
Agreement date:	September 1978
Conditions precedent met:	November 1978
Planned project assistance completion date:	February 1981
Current terminal disbursement date:	November 1984

Status of funds as of September 30, 1982: (in millions)

Obligated:	$2.0	100 percent
Expended:	$0.6	29 percent

PRIVATE INVESTMENT ENCOURAGEMENT FUND (263-0097)

Project objective: This project is intended to encourage the development of investment financing for private-sector productive facilities by establishing a fund to be facilitator and cofinancier with local banking institutions by providing medium- and long-term credit.

Through the use of Fund assets, AID hopes to encourage local financial institutions to undertake longer-term investments, to collaborate more closely, and to use Egyptian consultants and experts to augment its own project appraisal staffs. AID also intends to design a training program in project appraisal for bank officers and others who must assess investment proposals. The program is to be taught locally by Egyptians.

Original estimated life of project: September 1979 - June 1984

Estimated cost of project: $33 million (grant)

Significant project dates:

Authorization date:	September	1979
Agreement date:	September	1979
Conditions precedent met:	March	1981
Planned project assistance completion date:	June	1984
Current terminal disbursement date:	June	1985

Status of funds as of September 30, 1982: (in millions)

Obligated:	$33.0	100.0 percent
Expended:	$ 0.7	2.2 percent

PRIVATE SECTOR FEASIBILITY STUDIES (263-0112)

Project objective: This project is intended to provide the Government of Egypt with the financial and technical resources to produce sector studies and other promotional activities to inform potential American investors of the private-sector opportunities in Egypt. Simultaneously, AID intends to build within Egypt the capability to sustain and expand these activities.

This project is a direct response to the Humphrey Amendment Report recommendation to develop information about the Egyptian private sector. Information is to come from sector studies and investment seminars to be held in various parts of the country. The 10 topics of the seminars and studies are (1) Food Processing and Packaging, (2) Health Care Products and Equipment, (3) Construction Materials, Components, and Systems, (4) Non-Electrical Machinery, (5) Non-Food Process Industries, (6) Food Transport, Storage, and Distribution, (7) Integrated Agribusiness, (8) Maintenance and Repair Facilities and Services, (9) Electrical and Electronic Equipment, and (10) Automotive Industry.

This project also provided funds to be used by the Investment Authority to share the costs of feasibility studies and preinvestment visits with interested investors. As of December 1982, 45 applications for feasibility studies had been sent to the Investment Authority; 15 have been approved, 20 have been disapproved, and 10 are awaiting decision. Only two final agreements have been signed by the Government of Egypt and the American applicants. Six other agreements are in the final processing stage.

Original estimated life of project: September 1979 - December 1982

Estimated cost of project: $5 million (grant)

Significant project dates:

Authorization date:	September 1979
Agreement date:	September 1979
Conditions precedent met:	November 1979
Planned project assistance completion date:	December 1982
Current terminal disbursement date:	September 1983

Status of funds as of September 30, 1982: (in millions)

Obligated:	$5.0	100 percent
Expended:	$1.4	28 percent

INDUSTRIAL PRODUCTIVITY IMPROVEMENT (263-0090)

Project objective: This project is intended to provide broad-based, integrated industrial technical assistance through four complementary subprojects: (1) Management Development for Productivity, intended to train public and private industry managers, (2) Industrial Technology Application, designed to identify, apply, and market new technology to Egyptian industry, (3) Vocational Training for Productivity, intended to design a training model to provide skilled industrial workers, and (4) Innovative Productive Activities, intended to encourage and support activities beyond the scope of the other subprojects.

Original estimated life of project: Varies by subproject between August 1980 and September 1986

Estimated cost of project: $39 million (grant)

Significant project dates:

	Management development	Industrial technology application	Vocational training	Innovative productivity activities
Authorization date:	8/80	9/81	9/81	9/81
Agreement date:	8/80	9/81	9/81	9/81
Conditions precedent met:	1/81	5/82	4/82	N/A
Planned project assistance completion date:	8/85	9/86	9/86	9/86
Current terminal disbursement date:	5/86	6/87	3/87	3/87

Status of funds as of September 30, 1982: (in millions)

Obligated:	$39.0	100.0 percent
Expended:	$ 0.5	1.3 percent

PRODUCTION CREDIT I (263-0147)

Project objective: The goal is to increase private-sector productive assistance and to develop a financial system to meet the credit needs to support the growth of productive private-sector enterprises.

This project provides $67 million in short-term credit and $1 million for technical assistance and training to both public and private-sector financial institutions and for studies primarily in the credit policy area. It also provides a framework for expansion to other components of the credit system and is linked to the goal of developing a financial system with the capability to service a full range of short-, medium-, and long-term financial needs.

Short-term credit will be made available to public and private banks on a first come, first served, transaction-by-transaction basis. AID reviews and approvals will be similar to those currently in place for private-sector CIP.

Technical assistance, training and studies are intended to improve banking skills, including project appraisal and transaction and sub-loan management. These funds are intended to be used also for credit policy analysis and for developing new financial instruments for the Egyptian banking system.

Original estimated life of project: September 1982 - March 1985

Estimated cost of project: $68 million (grant)

Significant project dates:

Authorization date:	September	1982
Agreement date:	September	1982
Conditions precedent expected:	March	1983
Planned project assistance completion date:	September	1984
Current terminal disbursement date:	March	1985

Status of funds as of September 30, 1982: (in millions)

Obligated:	$68	100 percent
Expended:	$ 0	0 percent

(472001)

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