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

PROJECT PAPER
PROJECT NO. 263-0159
SEPTEMBER 1983

EGYPT: BUSINESS SUPPORT AND INVESTMENT

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A - Add <input type="checkbox"/> C - Change <input type="checkbox"/> D - Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTRY EGYPT	3. PROJECT NUMBER 263-0159
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4. BUREAU/OFFICE _____	5. Project Title Business Support & Investment
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 01 03 85	7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 83 B. Quarter 2 C. Final FY 85
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AWD Appropriated Total	7,200	1,900	9,100	7,200	1,900	9,100
(Grant)	()	()	()	()	()	()
(Loan)	()	()	(150)	(715)	(-)	(715)
Other						
1. IESC	150					
2. U.S.						
Host Country	0	2,015	2,015	0	6,125	6,125
Other Donor(s)						
TOTALS	7,350	3,915	11,265	7,915	8,025	15,940

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	700	840				9,100		9,100	
(2)									
(3)									
(4)									
TOTALS									

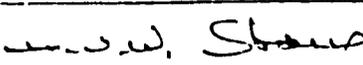
10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 811 819	11. SECONDARY PURPOSES 701
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code B. Amount
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13. PROJECT PURPOSE <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>To assist the GOE achieve its policy of encouraging private sector investment and development by modernization and improvement of the business environment.</p> </div>
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14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature  M.P.W. Stone Title Director	Date Signed MM DD YY 08 08 83	18. DATE DOCUMENT RE IN AID/W, OR FOR AID/MENTS, DATE OF DISTR MM DD YY
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BUSINESS SUPPORT AND INVESTMENT

(263-0159)

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I. SUMMARY AND RECOMMENDATIONS

A. Project Title: Business Support and Investment

B. Project Number: 263-0159

C. Grantee: The Government of Egypt (GOE)

D. Coordinating Entity: The Ministry of Investment and International Cooperation (MIIC)

E. Implementing Entities: The Capital Markets Authority (CMA), the Syndicate of Commerce Professions (Syndicate), the Ministry of Investment and International Cooperation (MIIC), the General Authority for Investment and Free Zones (GAFI) and the International Executive Service Corps (IESC).

F. Amount: \$9.1 million

G. Terms: Grant to the Government of Egypt (GOE)

H. Life of the Project: 3 years (subject to amendment for possible follow-on activities)

I. Goal and Purpose: To assist the GOE achieve its policy of encouraging private sector investment and development by supporting private and public sector efforts to modernize and improve the environment within which the private sector operates, i.e., the investment, financial, legal and administrative conditions under which business is conducted regardless of the political and economic conditions which may exist at any given time.

J. Strategy: This project will fund activities to modernize and improve the business environment in Egypt. The activities build upon or continue past AID efforts to help the GOE improve the private sector. They are practical programs addressing specific constraints on private sector investment and development which have been identified over time by Egyptian and foreign investors, the GOE, and consultants. The five activities currently planned are:

1. Capital Markets Development - Mobilizing capital for long-term investment in productive enterprises is essential to private sector development in Egypt. This activity will provide \$4.130 million of AID assistance to the GOE's Capital Market Authority ("CMA") for technical assistance and training needed to implement a detailed action program.

Working with an AID-financed expert, the CMA prepared an action program based on recommendations contained in a 1980 report prepared by the International Finance Corporation of the World Bank ("IFC"). The action program focuses on the following areas: emphasis on the development, as opposed to the regulatory, role of the CMA; education and promotion to demonstrate the benefits of securities markets to both savers and users of funds; efforts to increase the supply of and demand for securities; introduction of new types of securities and new securities intermediaries; identification and removal of legal impediments to capital market activity; development of new financial legislation covering capital markets, underwriting and leasing; training securities professionals; modernization of procedures and facilities for trading securities in the Cairo and Alexandria Stock Exchanges; etc.

2. Strengthening Accounting, Financial Reporting and Auditing. Financial reports, based on reliable accounting and confirmed by competent, independent auditors are essential to develop investor confidence and provide a means of allocating scarce capital resources to the most productive enterprises. This activity will provide \$2.080 million of AID financing to assist the Egyptian Syndicate of Commerce Professions -- a professional association with legal authority over, and responsibility for, all accountants and auditors in Egypt -- to achieve the following objectives: first, create a professional association with the capacity to provide practical professional training to accountants and auditors, to conduct research with respect to developing and updating accounting and auditing standards, and to exchange views with those who are affected by such standards; second, formulate an initial set of comprehensive accounting, financial reporting, and auditing standards appropriate for Egypt; and, third, develop effective means of communicating and enforcing standards within the profession.

The activity will be implemented in two phases. In the first phase, a team of experts will work with a counterpart Egyptian team to evaluate the state of accounting, financial reporting and auditing in Egypt and prepare a detailed plan of action and budget. It is planned that the team will, within approximately one year, complete work on the initial set of accounting standards, with their Egyptian counterparts. The second phase will consist of implementing the detailed plan to strengthen accounting, financial reporting and auditing.

3. Legal and Financial Infrastructure Modernization. - This activity will continue and build upon a program which has been funded by AID and the Ford Foundation since 1974. It will provide \$0.570 million for 30 person months of technical assistance, to provide professional assistance in identifying, developing and implementing activities to modernize and adapt the Egyptian legal and financial structure to private sector needs. The advisor will investigate previously identified financial and legal obstacles to private sector

investment and development; assist relevant GOE agencies in implementing and coordinating existing and future projects to modernize and improve the investment, financial and legal infrastructure of the private sector; identify additional needs of the private sector with respect to this infrastructure; and prepare proposals for further donor assistance.

4. Investment Authority. Under this activity, AID will provide \$1.320 million to the General Authority for Investment and Free Zones ("GAFI") for technical assistance and training to develop and upgrade GAFI's capability to respond to investor inquiries, promote investment in Egypt, assist investors in the investment process, and provide information needed to facilitate policy formulation. A key objective is to make GAFI more action-oriented and to enable it to solve private investor bottlenecks. Training will be directed at middle and senior management to demonstrate what others are doing in the field and at younger staff to teach investment fundamentals. This activity is based upon recommendations contained in extensive studies of GAFI undertaken by various AID-financed consulting firms.

In addition, limited technical assistance and training will be provided to the Free Zone Sector of GAFI to improve and maintain physical infrastructure; reduce legal and administrative deterrents to investment; and improve Free Zone sector management.

5. Technology Transfer (IESC). This activity will provide \$1.0 million to primarily private sector Egyptian businesses as cost sharing for direct technical assistance. The International Executive Service Corps (IESC) will obtain partial cost reimbursement from USAID for approximately 130 clients over the FY 1983-1985 period. This subactivity will bring the cost of IESC services within reach of deserving firms, allow for a leveraging of USAID technical assistance funds, and maintain the private sector's initiative to become more competitive and knowledgeable in productive business operations.

An important element of the project strategy is the use of and reliance upon non-governmental entities where possible. Under the capital markets development program, CMA officials will be assisted by teams consisting of both Egyptian and foreign private sector experts. In the program to strengthen accounting, financial reporting and auditing, the implementing organization is a professional association chartered by law. The evaluation program's team will be working directly with private sector accountants and auditor to develop the detailed plan and budget for establishing a professional association. Finally, the IESC is a non-governmental voluntary entity.

Because of the changing state of development of the private sector and its supporting infrastructure, it is expected that follow-on activities may arise out of this project, either separately or in the form of increments to this project. The activity to modernize the legal/financial infrastructure specifically includes an advisor to investigate and develop assistance programs in areas of high priority to benefit the private sector. In addition the advisor is charged with developing programs in newly identified areas of need as this project continues. (Such new activities could be funded by subsequent amendments to this project or by the new USAID Technology Transfer and Feasibility Studies project (263-0102).)

Each sub-project will be implemented by the recipient organization, i.e., the CMA, the Syndicate of Commerce Professions, GAFI, etc. The projects will be coordinated by the MIIC. Subject to approval by USAID and the coordinating GOE entity, the recipient organizations will have the authority to reallocate funds among the various activities provided that no activity shall have its funds adjusted by more than 20% of its original budget. The MIIC and USAID will review the performance of each of the above activities. (Evaluation plans for the individual activities and the overall project are included in this paper.)

Procurement will be governed by regular AID project guidelines for training, technical assistance and contracting. Because of special expertise, past involvement with the subject activities, and for reasons set out in Annex K, USAID will seek waivers to allow sole source procurement for technical assistance and training for two of the activities. Services of the International Finance Corporation (IFC) will be used for the capital market development activity, and services of the National Association of Accountants (NAA) will be used for the activity to strengthen accounting, financial reporting and auditing.

K. Recommendation: Approval of a dollar grant for \$9.1 million.

II. PROJECT BACKGROUND AND OVERVIEW DESCRIPTION

A. Background

Since 1973 one of the GOE's declared policy goals has been to encourage development of the private sector. To a large extent, however, Egypt's investment, financial, legal and administrative systems still reflect former GOE policies of industrial nationalization, state socialism and centralized planning. From the late 1950s until the early 1970s, Egypt's once flourishing private sector atrophied as it lost virtually all major enterprises to the public sector due to nationalization, active discouragement of private initiative and neglect. Consequently, the technical infrastructure of laws, institutions and services supporting the private sector fell into a state of severe disrepair.

The development problem is to rebuild, modernize and revitalize this infrastructure to enable the private sector to grow and contribute to Egypt's economic development.

This project brings together activities developed by USAID and by concerned Egyptian entities whose common theme is the modernization and improvement of the private business infrastructure in Egypt which include: (1) development of capital markets; (2) strengthening and modernizing accounting, financial reporting and auditing; (3) developing and modernizing the legal and financial infrastructure of private business; (4) improving investor services, investment information, and Free Zone operations at the Investment Authority; and (5) continuing technical assistance support through the IESC. These activities represent movement on various fronts to deal with problems identified as serious constraints in doing business in Egypt.

Consolidating these activities into a single project comes at a propitious time in the evolution of the GOE's policy toward the private sector. Recent laws and regulations have liberalized the rules for forming and operating private business corporations and have reduced income taxes on business profits.

This project comes at a time of opportunity for private sector expansion posed by Egypt's present macro-economic setting (discussed in detail in Annex G). The private sector in Egypt has grown significantly over the past five years and now has a large share in a number of commodity-producing subsectors: foodstuffs, printing, clothing, footwear and leather products. The public sector, however, still dominates not only heavy and "basic" industries, but a wide range of intermediate and light engineering subsectors: beverages, tobacco, spinning and weaving, transport equipment, and other light and intermediate subsectors. The longer term prospects for economic development in Egypt clearly rest in significant measure upon improved performance and sustained growth in the commodity producing sectors of the economy.

Since 1973 the GOE has signaled its support of private sector development in a series of steps to remove institutional obstacles to private sector investment and development. These include encouragement of foreign investment, liberalization of exchange controls and slow but persistent relaxation of price controls. Annex H contains a more detailed list of GOE actions in support of private sector development.

USAID has responded to the needs of the private sector with programs in four major areas: (1) provision of foreign exchange resources through intermediate credit institutions such as the Development Industrial Bank, the Private Investment Encouragement Fund and the CIP private sector program; (2) provision of technical assistance and training in policy making, institution building and management to government agencies involved with private sector development such as the Investment Authority, the Capital Markets Authority and the Central Bank; (3) modernization of laws regarding income tax, corporations, foreign trade and foreign investment; and (4) encouragement of joint ventures between Egyptian and U.S. companies through support for investment promotion efforts by the Egypt-US Joint Business Council and for feasibility studies. (A more detailed discussion of AID-financed programs in support of the Egyptian private sector is contained in Annex I.) In addition, AID financing has supported numerous studies, conferences and seminars concerning critical aspects of private sector development in Egypt, including those listed in Annex J.

Though recent, the AID private sector programs mentioned above have made progress in assisting the GOE to liberalize the economy and to support the private sector. The programs have performed successfully in some areas and marginally in others. Generally, however, the programs have influenced the GOE to undertake legal reforms and institution-building assistance. In addition, several AID programs have provided credit to the private sector when it was critically needed (DIB in 1976, and Private Sector CIP from 1979 to the present).

Through the combined efforts of the GOE, the Egyptian private sector and USAID, significant progress has been made in rebuilding and modernizing the investment, legal, financial and administrative infrastructure of the

Egyptian private sector. Much remains to be done. A significant portion of the progress to date has been identifying the areas where assistance is needed. This project addresses these areas with five activities.

B. Goal and Purpose

The goal of this project is to assist the GOE in encouraging private sector development by supporting private and public sector efforts to modernize and improve the investment, financial, legal and administrative conditions under which business is conducted (regardless of the political and economic conditions which may exist at any given time).

The overall purpose of the project is to assist the GOE in achieving the policy of encouraging private sector investment and development by modernization and improvement of the business environment. Each subactivity presented herein carries its own subgoal which is more explicitly defined and which supports the overall project goal.

III. DESCRIPTION OF THE SPECIFIC ACTIVITIES

A. Capital Markets Development

1. Objectives, Background and Problem Statement

The objectives of the Capital Markets Program are to stimulate savings; encourage investment in long-term securities, provide industry access to capital, encourage the use of free market forces to allocate capital to productive enterprises and contribute to increased economic growth job creation.

The program is designed to accelerate development of Egypt's capital markets through steps to: (a) strengthen the GOE's Capital Market Authority (CMA) and the stock exchanges to develop (as opposed to regulate) the capital markets; (b) increase the supply of and demand for securities; (c) encourage formation of new securities intermediaries; (d) stimulate a broader range of securities used to raise capital; (e) improve the legal environment for securities activities; and (f) provide needed investor confidence in the market.

Concerted effort is needed to reactivate the capital markets. Until the Nasser era the markets were very active with stock exchanges in Cairo and Alexandria. However, the markets have been dormant since the introduction of socialist policies and nationalization, when private sector initiatives were sapped and skilled professionals -- brokers, underwriters, accountants, lawyers -- left the country or moved into other activities. Securities market activities consequently decreased to almost nothing and needed skills virtually disappeared.

Since 1976 the GOE has made a serious commitment to reactivate the capital markets. In response to recommendations of a 1976 IFC limited financial sector survey, in 1979 the GOE established the CMA with a mandate to stimulate mobilization of capital and to develop Egypt's capital markets. It is also charged with encouraging growth of the Cairo and Alexandria stock exchanges, training securities market professionals, and studying/recommending actions needed to support capital market development.

In 1980, the CMA and IFC prepared detailed recommendations of steps to develop the market, resulting in the USAID/UNDP financed Report and Recommendations on Capital Market Development in Egypt (Report). Based on the Report and its own experience, the CMA worked directly with USAID and prepared a detailed Action Program of practical steps to be taken over the next two years.* A more

The action program and the Report upon which it is based are contained in USAID/Cairo FI Files.

detailed explanation of the Action Program is set forth in Annex M. The Action Program comprises a series of substantive tasks designed to identify and implement improvements needed to develop the markets. It also includes provisions for substantial training to educate Egyptian private and public sector representatives on capital market operations and development.

2. Action Program Approach, Outputs and Inputs

a. Action Program Approach. The Action Program is designed to engage active private sector participation with the CMA and representatives of other government entities. Implementing teams of private and public sector representatives and, as needed, Egyptian and foreign experts, will implement each task in the Action Program described below. The Action Program also will focus on training private and public sector Egyptians in development and operation of capital markets through practical courses in Egypt and abroad and, where feasible, on-the-job training in securities firms, stock exchanges, and securities regulatory bodies.

The Action Program consists of interrelated steps which will be implemented with a mix of policy development and practical market development skills. Implementing such phased policy approaches will require specialized knowledge of the operations of securities markets in both developing and developed countries. The GOE, CMA and USAID believe these dual requirements of policy formulation and practical market development will be met through the implementation approach described in Section 3.

Technical assistance and training for each task will take place according to a detailed, time-phased implementation plan and will be conducted in a manner consistent with the stage of development of the capital market in Egypt, the absorptive capacity of the CMA, and the participation of other GOE and private sector organizations and individuals.

b. Action Program Outputs and Inputs. A brief description of the tasks to be addressed in the Action Program follows. Each description is followed by the amount budgeted for technical assistance and other items; these funds may be changed between individual tasks upon mutual agreement between CMA and USAID.

1) Capital Markets Development Conference. In May 1983 the CMA will hold a major conference on capital market development in Egypt. This will initiate the Action Program, signal GOE commitment to capital market development and concentrate on practical steps for market development. Experts from developing and developed countries will discuss their experiences on means to develop capital markets. Numerous (100+) private and government sector representatives will participate. (The conference will be funded from Project 263-0042 and the AID Activity Trust Fund (AT-800) and is not included in the Action Program budget.)

2) CMA Development Role. Technical assistance is planned to assist the CMA to act as a developmental entity to stimulate and encourage the securities markets rather than simply regulate them. \$70,000 and LE 30,000 are budgeted over two years.

3) Increasing the Supply of and Demand for Securities. Steps to increase the supply of and demand for securities are planned including technical assistance efforts for the following: (i) evaluation and consideration of incentives for companies to sell securities to the public and for savers to invest in them; (ii) promotion, encouragement and incentives to institutional investors (such as insurance companies, pension funds, commercial banks and investment companies) to increase their investment in publicly traded securities; (iii) encouragement of formation of underwriting, brokerage and full-line securities firms; and (iv) encouragement of companies to offer a broader range of securities to the public. \$ 455,000 and LE 54,000 are budgeted over two years.

4) Stock Exchanges. Efforts to improve the Cairo and Alexandria Stock Exchanges will be undertaken emphasizing the need to develop new listings and market activities and to provide fair, honest and orderly markets. \$140,000 and LE 18,000 are budgeted over two years.

5) New Financial Legislation. It is well recognized that the legal system in Egypt presents great complications and difficulties for business and financial activities deriving from earlier adoption of laws based on differing legal systems and from failure to progress during the period 1960-70. Extensive efforts must be taken to provide needed revisions and legislation conducive to capital market development. This effort will include: (a) a comprehensive Capital Markets Law to deal with the myriad of activities that must be addressed in an active capital market, including protection of investors, and identification and removal of legal impediments to corporate and to capital market activities; (b) a law facilitating the operation of securities underwriters; and, (c) a law facilitating leasing and formation of leasing companies. \$507,000 and LE 87,000 are budgeted over two years.

6) Company Law and Companies Department. The new 1981 Companies Law and July 1982 Executive Regulations will significantly affect the capital market. Technical assistance in the Action Program will monitor their operation and their effect on the markets, as well as recommend

adjustments as appropriate.* In addition, technical assistance efforts are planned to integrate a new Companies Department with the capital market activities of the CMA. \$70,500 and LE 12,000 are budgeted over two years.

7) Training. Extensive training is planned for private and public sector Egyptians involved in the capital markets. The CMA expects 20 of its personnel will be available for training, and has identified over 40 candidates from other interested entities outside the CMA (banks, insurance companies, brokers, institutional investors). Training will occur both in Egypt and abroad, principally through the services of the New York Institute of Finance and, to the extent feasible, through on-the-job training with securities firms and other entities engaged in capital market activities. Subjects will include: (i) development of capital markets, (ii) incentives and inducements to securities activities, (iii) underwriting, (iv) new types of securities, (v) securities brokerage and selling, (vi) stock exchange activities, (vii) corporate finance, (viii) securities regulatory bodies, and (ix) securities-related accounting. \$1,255,000 and LE 175,000 are budgeted over two years.

8) The program provides funding for up to 12 person months of a technical advisor to coordinate and substantively contribute to the action program. \$210,000 has been budgeted over two years.

9) Possible Follow on Steps. During implementation a significant number of new activities are expected to be identified leading to further development efforts in Egypt's capital markets.

3. Implementation and Evaluation Plan

a. Institutional Responsibilities. The Action Program will be implemented by the CMA with regular monitoring by USAID. CMA and AID believe the implementation method will permit both policy analysis and practical market operations to be addressed in a development format.

1) The Capital Markets Authority. The CMA will serve as the main administrative organization for implementation of the Action Program. Created by Presidential Decree 520 in 1979, the CMA is an autonomous body affiliated with the Ministry of Economy with the broad mandate to stimulate mobilization of capital for economic development, develop Egypt's markets and regulate them as needed.

*Specialized accounting, financial reporting and auditing requirements appropriate to publicly traded securities will be developed in the separate activity under this project discussed in Part III. B.

Appointed by the President, the CMA Chairman holds cabinet rank (i.e., is the equivalent of a Minister) and presides over a Board of Directors comprised of five GOE and four private sector representatives. The Board is supplemented by a Consultative Committee of 14 high level representatives of GOE and private entities concerned with capital market development. The Committee provides policy guidance, advice and liaison with GOE and private organizations. (Annex N contains an organizational chart of the CMA.)

In June 1982, the CMA's personnel totaled 127, including 40 professional staff recruited from other GOE organizations. Salaries, bonuses and benefits are higher than the GOE norm. Several of the professional staff have been trained in various aspects of securities markets in both the U.S. and Europe. The CMA budget for FY 1982 (7/1/81 - 6/30/82) was LE 1.0 million. The FY 1983 budget is LE 1.2 million; the estimated budget for FY 1984 is LE 2 million and for FY 1985, LE 2.5 million. Assuming escalation of capital market development, CMA management has indicated that it can secure additional LE funding from the GOE.

To administer the Action Program, the CMA has formed an Executive Committee comprised of department chiefs and supervised by the CMA Vice Chairman, who is also the CMA Training Coordinator. USAID worked with this committee to develop the Action Program and has maintained steady contact with CMA top management and professional staff. The CMA will provide counterparts, office space, secretarial support and transportation services.

2) International Finance Corporation. IFC will act as the executing agent to implement the Action Program with the CMA and the Coordinator/Advisor discussed below. (Annex K describes IFC's unique capability in capital market development). As executing agent, IFC will undertake a substantive role in providing or arranging for the policy analysis, technical assistance and training requirements of the Action Program. It will be responsible for contracting and monitoring performance of advisors, handling administrative requirements of disbursement, records, and accounts, and maintaining communication with the CMA and USAID on implementation. IFC will obtain technical and training services based on good commercial practice and with the waiver authority requested in Annex K. \$297,000 and approximately LE 52,000 has been budgeted to fund the estimated costs of the executing agency contract.

3) Action Program Coordinator/Advisor. An experienced Coordinator/Advisor, in coordination with the IFC, will provide on-the-spot assistance/guidance in implementing the Action Program. The duties of the advisor will include: (a) follow-up on the Capital Markets Conference, (b) coordinating the Action Program, (c) liaison between USAID, CMA and IFC, (d) participation in policy formulation, and (e) participation in evaluation. The advisor will work directly with the CMA's Executive Committee, the IFC and the USAID project officer.

4) USAID. USAID will provide the usual project monitoring and management functions through the Office of Finance and Investment (IT/FI). The USAID project manager will monitor the executing agency contract and maintain frequent contact with the CMA and IFC through its representative stationed in Cairo. AID/W will provide the customary backstop support and provide liaison with IFC in Washington.

b. Evaluation and Mid-Course Corrections. Throughout implementation of the Action Program, short evaluations will be made to determine the progress in each task area, emphasizing important actions that can bring the quickest development results. Evaluations will be conducted by the IFC and the Coordinator/Advisor based on review of required periodic Implementing Team reports and recommendations, and periodic, organized evaluation sessions with appropriate personnel. Results will be reviewed by the CMA Executive Committee, IFC and USAID to determine whether design changes are necessary in the Action Program, to address significant implementation issues, and to provide data for larger, formal evaluations.

Periodically during the 2-year implementation period, the CMA, IFC and USAID will consult and review past activities, note progress or its absence, identify problems, suggest solutions, and if necessary, re-program the phasing of implementation actions. The first mid-course appraisal will occur between 6 and 12 months after the signing of the executing agency contract and thereafter as agreed upon by all parties.

4. Financial Plan

The Capital Market Action Program proposes total funding of US\$ 3,410,000 and IE 599,000 over a two-year implementation period. Total AID financing will amount to \$4.130 million equivalent of which \$3.410 million will be supplied in US dollars with US \$720,000 used to purchase Egyptian pounds for local currency costs.

The proposal in the Project Identification Document (PID) requested approximately this amount but did not include an inflation factor, certain administrative costs, or sufficient per diem allowances. Additionally, certain proposed activities have been eliminated, some expended and some reduced. Annex N contains a detailed program budget. Table 1 displays the Summary Cost Estimate and Financial Plan for the Program. Table 2 provides a Projection of Expenditures by fiscal year.

TABLE 1
CAPITAL MARKETS PROGRAM
Summary Cost Estimate and Financial Plan
\$(000)

<u>Project Input</u>	<u>FX</u>	<u>(LE*)</u>	<u>GOE</u>
1. Technical Advisors	1,452		(Total Project Life GOE Estimated Budget Contribution of US\$ 3,727.4, or LE 3,100)
2. Egyptian Technical Advisors		241.7	-
3. Training			
a. CMA Participants	300	66.1	-
b. Non-CMA Participants	700	108.2	-
c. Training Advisors	175	36.1	-
d. Field studies	80		
4. Administrative Support for Technical Advisors		120.0	-
6. Executing Agency Contract	297	62.9	-
7. Contingency	<u>406</u>	<u>85.0</u>	<u>-</u>
TOTALS	3410.0	720.0	3,727.4
Total AID	\$4,130.0 ^{2/}		
Total GOE			\$3,727.40 (equivalent)
PROJECT TOTAL			\$7,857.4 (equivalent)

*Equivalent U.S. Dollars; For purposes of this project \$US 1.00 = 0.83168 Egyptian Pound.

TABLE 2
CAPITAL MARKETS PROGRAM
Expenditure Projections
(\$000)

Program Year	<u>AID Grant</u>	+	<u>GOE</u> ¹	=	<u>Project Total</u>
First	\$1825.0	+	1,623	=	3448.0
Second	<u>\$2305.0</u>	+	<u>2,104</u>	=	<u>\$4409.0</u>
	\$4130.0		3,727		\$7857 (rounded)

^{1/} Represents total aggregate CMA budget over life of the Action Program, appropriated for the first year and estimated for the second year, in equivalent U.S. Dollars.

^{2/} All AID supplied funds will be obligated in FY 1982. Egyptian pound costs will be financed as required.

B. Strengthening Accounting, Financial Reporting and Auditing

1. Background and Problem Statement

Egypt has a shortage of trained accountants and auditors capable of servicing the private sector. There is no system to provide accountants and auditors with needed practical training. There are no comprehensive modern standards for accounting, financial reporting or auditing which are generally recognized and followed in Egypt's private sector.

These deficiencies arise from the atrophy of private enterprise accounting and auditing in Egypt caused by the nationalization of private business in the early 1960's. With the disappearance of the private companies they had serviced, most accountants and auditors ceased private practice. Although this trend was reversed following Egypt's Open Door Policy and increased private business activity, few newcomers have been trained or have acquired professional experience outside the government. Universities in Egypt cannot fill this gap. With thousands of students per faculty member, needed practical training cannot be provided. Instead, junior accountants leave the university with only theoretical knowledge.

Also as a result of nationalization, the practice and theory of profit and cost accounting in Egypt failed to develop. To meet the socialist goals of the 1960's, the government introduced accounting principles and theories not applicable to private enterprise accounting. Accordingly, Egypt lacks comprehensive modern uniform standards for private enterprise accounting, financial reporting and auditing.

Because of these deficiencies in standards and training, there are widespread doubts about the reliability and comparability of financial reporting in Egypt. Trustworthy, comprehensive financial reporting based upon reliable accounting and confirmed by competent independent auditors is vital to making informed investment decisions and to overseeing investments. Accurate, dependable financial reporting also facilitates the smooth flow of credit. Creditors with confidence in financial reports and underlying accounts will be more willing to lend to private business.

Reliable financial reporting, accounting and auditing are essential tools for managers to measure overall efficiency and performance of the enterprise, determine output pricing policy, construct effective budgets and pinpoint capital and financial needs. Where cost records are poorly maintained, firms often do not know the real costs of their products or whether various activities or departments are profitable.

Enforcement of the 1981 Egyptian Companies Law depends, to any extent, upon reliable accounting, financial reporting and auditing. Otherwise, provisions requiring annual financial reports to protect creditors and investors, to cite only one of several important examples, are meaningless. The most essential ingredient in assuring accurate, reliable financial reporting and competent auditing lies in well-trained professional accountants and auditors.

Comprehensive uniform accounting and financial reporting standards are necessary to enable investors to compare the financial reports of different entities, as well as the same entity over time; evaluate enterprise performance and prospects; within the accounting profession, ease the transfer of skills and know-how from one firm to another; and facilitate, on a national level, the collection of national income data.

Recognizing the above needs in training and standards, a 1980 Conference on Accounting and Auditing, hosted by the Syndicate of Commerce Professions and its Accounting and Auditing Division (the "Syndicate"), recommended: (a) creation of a professional institute under the auspices of the Syndicate to provide practical professional training to practicing accountants and auditors; and (b) formulation of modern uniform accounting and auditing standards.

2. Objectives

This program will strengthen accounting, financial reporting and auditing in Egypt by assisting the Syndicate to implement the recommendations of the above-mentioned conference. A professional association * will be created which will: (a) provide practical professional training; (b) examine and certify practicing accountants and auditors at all levels; (c) conduct the research necessary to design and update standards; (d) exchange views with those affected by accounting and auditing standards to incorporate changing needs; and (e) operate on a self-sustaining financial basis. The program also will assist the Syndicate in the formulation of an initial set of basic accounting, financial reporting and auditing standards and in the development of effective means to communicate and enforce standards within the profession.

* It should be stressed that the association will not provide university level education; rather, it will offer short, practical courses only to accountants and auditors, both senior and junior, already in practice.

3. Outputs

a. A written report, prepared by the US-Egyptian team of experts described below, will be submitted to the Syndicate and USAID within six months of program commencement and will: i) evaluate the state of the Egyptian accounting profession with respect to Egyptian needs, modern international standards and the above objectives; and ii) set forth a detailed plan and budget on how to achieve program objectives in the most timely, cost-effective manner.

b. A report will be submitted within one year and will provide a preliminary set of basic accounting, financial reporting and auditing standards -- as comprehensive as reasonably possible and appropriate for Egypt -- together with a plan for communicating such standards to those affected.

c. A professional association of accountants and auditors will be established by the end of the project.

d. US and Egyptian experts will provide association staff as well as practicing accountants and auditors with 50 person months of classes (by the end of the project) in practical professional training.

e. The association will have substantial financial independence, by the end of the project, through user fees, membership dues or other means.

4. Inputs

a. AID will provide funding to assist the Syndicate to obtain: i) short- and long-term expert advisory services; ii) equipment and materials, including an initial library of books, periodicals, and educational/training aids; iii) overseas training consisting of short-term observation study field trips and long-term training for institute and Syndicate staff; iv) in-country training for accountants and association staff; v) translation of standards and key materials; vi) international travel and per diem for Egyptian counterparts who contribute to program outputs.

b. The Syndicate will provide: Egyptian counterparts, secretarial services for short-term US consultants working in Egypt and office space for long term US consultants.

Implementation and Administrative Analysis

a. Recipient: The Syndicate of Commerce Professions

The implementing and disbursing authority for this activity will be the Egyptian Syndicate of Commerce Professions ("Syndicate"). An organization established by Law 40/1972, the Syndicate has power to enact rules governing the accounting and auditing professions in Egypt and, concomitantly, the authority to discipline accountants and auditors who violate these rules. By law all accountants and auditors (along with all graduates of the faculties of commerce in Egypt) must belong to the Syndicate. The Syndicate's official powers and responsibilities for maintaining professional ethics and standards are similar to those of a state bar association or a state society of certified public accountants in the United States.

Currently membership in the Syndicate totals approximately 150,000, of which some 65,000 are members of the Accounting and Auditing Division. Of these, only about 1,000 are "public" (i.e., in private practice) accountants involved in compiling and auditing financial statements for companies. Members pay annual dues to the Syndicate ranging from LE 8 to LE 12. In addition, the GOE contributes about LE 250,000 annually to the Syndicate. Additional revenues are obtained from sales of required revenue stamps for certain documents. About two-thirds of these revenues go into a Syndicate-managed pension fund or into social welfare assistance.

In addition to its Cairo headquarters, the Syndicate has 20 active branches throughout the country. In the headquarters office the Syndicate has a permanent paid administrative staff of about 45. It is governed by a board of directors, a president and other officers who are elected by the membership. Each branch also elects a board and officers.

Affiliated with and supported by the Syndicate is the Association for Costing, a specialized organization of accountants concerned with "management" accounting problems such as costing, budgeting and internal financial control systems. Also affiliated with the Syndicate is the Association of Auditors and Accountants, whose members are concerned with "public" accounting, i.e., the preparation and auditing of financial statements presented to investors, shareholders and creditors. These associations conduct modest continuing education programs and hold annual or semi-annual conferences. The Syndicate conducts one or two major

conferences a year. (In 1980 it organized the Cairo Conference on Accounting and Auditing which involved foreign participants and which adopted the recommendations underlying this program).

In summary, the Syndicate is fully capable of administering the program with: i) the support of the profession to set up a research and training association and formulate standards; ii) office and classroom space for such a group iii) authority under law to promulgate and enforce standards by disciplining violaters; iv) a complete administrative staff; and v) an expressed commitment to act in this area.

b. Implementation Plan

(1) Summary and Introduction. Following signing of the Grant Agreement, the Syndicate will enter into a host country contract for the technical assistance and training services necessary to implement the program.

Implementation will take place in two phases. Phase One will entail an evaluation of current standards and options, a detailed action plan and a preliminary set of accounting standards. Phase Two will consist of implementation of the detailed plan.

(2) Phase One. A team of approximately five US experts will be chosen to work with a counterpart team of Egyptians. The US team is expected to consist of a university professor specializing in management accounting; a university professor specializing in public accounting and auditing; a practicing management accountant with hands-on experience in developing and operating management information systems; a practicing CPA auditor; and a specialist with solid experience in organizing the operations of a professional accounting association or institute. Preferably one or more of the members of the team will be fluent in Arabic. The Syndicate will nominate the Egyptian counterpart team to work with the US team and will coordinate any necessary discussions with ministries and other entities.

After assessing the current state and needs of the Egyptian accounting profession, the teams will work together to set forth a detailed plan for achieving program objectives in the most cost-effective manner. The plan may include: a) time phasing and coordination needed with other entities; b) a proposal for the creation of the professional training and research association; c) a preliminary budget including the nature and amounts of external assistance required and the contributions to be made by the Syndicate; and d)

recommendations for putting the Syndicate program (with respect to accounting standards, research and training) on a self-sustaining basis through user fees or other means.

In addition the teams will prepare a preliminary set of basic comprehensive accounting and auditing standards for review by the Syndicate, along with a plan for communicating such standards to accountants and auditors, the business community and relevant government agencies.

It is expected that the US team will first come to Egypt to work on these matters with their Egyptian counterparts for up to a two month period. Thereafter the teams will travel to other countries, including the United States, for an observation study of how comparable institutions carry out the functions described above. (Suggested countries are France and Scotland: France's Plan Comptable Generale is one of the most world's comprehensive uniform accounting systems; Scotland's Institute of Chartered Accountants provides standardized training of accountants and auditors, whereas individual accounting firms provide company-specific training in the US and England.)

By the end of six months, the results of Phase One will be incorporated into a final evaluation of current standards and a detailed plan and budget for Phase Two. At the same time the US and Egyptian teams will work on the preliminary set of basic accounting and auditing standards for completion within one year.

(3) Phase Two. Phase Two will implement the Phase One plan and budget as approved by the Syndicate and USAID. A detailed description of Phase Two must therefore await the completion of Phase One. The Syndicate will require the following assistance in Phase Two:

a) Expert consultant services.

b) Training will include (i) overseas training of Egyptian auditors, accountants and institute or Syndicate staff. This training will consist of: short-term observation study tours by senior members of the profession; and long-term training (1/2-2 years) for persons who will later structure and implement the training and research program; (ii) in-country training of Egyptian accountants, auditors, and association or Syndicate staff.

c) Equipment and materials will include (i) an initial library of books and periodicals plus assistance to keep publications current until the overall program becomes self-sustaining; (ii) educational and training aids such as overhead projectors, cassettes and equipment, etc.

d) Translation into Arabic of key training and other materials (including an initial manual setting forth accounting, auditing and financial reporting standards); translation into English of key documents concerning the accounting and auditing profession in Egypt.

c. Consultants for the Activity: The National Association of Accountants

The National Association of Accountants (NAA) is a US non-profit association of accountants with branches in a number of countries. In June 1982, the NAA approved the Syndicate's application to form an Egyptian chapter. Prior to that, the NAA furnished the Syndicate with recommendations for implementing a program to strengthen accounting, financial reporting and auditing in Egypt. Using those recommendations, the Syndicate, with the help of a USAID-financed consultant, formulated the proposals for AID assistance incorporated in this program.

The NAA will provide the team of US experts mentioned above, including at least one professional fluent in Arabic. The NAA already has achieved the capabilities which the Syndicate wishes to attain under this program in operating its own research and training institute. With its extensive research capability and international experience it can easily provide the materials necessary to generate a preliminary set of accounting and auditing standards. Because it is non-profit, the NAA has indicated a willingness to consider a modest or at-cost fee arrangement to cover its overhead.

Because of the foregoing, and for the additional reasons set forth in Annex K, it is proposed that the NAA act as the executing agent to implement the activity with the Syndicate. As executing agent, the NAA will undertake a substantive role in providing or arranging for the analysis, technical assistance and training activities called for under this program and will be responsible to contract and monitor performance of advisors. It will also handle the administrative requirements of disbursements, records and accounts, as well as communicate with the Syndicate and USAID on implementation of the program. In addition, the NAA will assist the Syndicate to arrange for needed training programs in the US. The NAA will procure technical and training services based on good professional and commercial practice, and according to the provisions of the waiver of competitive procurement. (See Annex K.)

d. Implementation Schedule

<u>Date</u>	<u>Major Action</u>
03/1983	Project Agreement executed
05/1983	Consultant Contract signed; Phase One Activities start
10/1983	Phase One investigation and evaluation report and Phase Two plan completed
11/1983	Phase Two final plan approved and begun
03/1984	Preliminary accounting/auditing standards submitted by consultant
09/1985	Phase Two completed
10/1985	PACD

e. Monitoring, Reporting and Evaluation

Primary responsibility for monitoring program performance will lie with the USAID IT/FI office. The consultant, however, will be expected to make all necessary administrative support arrangements with the Syndicate. USAID will not be responsible for contract execution; this will be the responsibility of the Syndicate.

Every three months the consultant will submit a progress report to USAID indicating the status of all activities, identifying any constraints on progress, recommending corrective actions and setting forth future plans. Evaluations of the program will occur upon submission of the Phase One Report and on a yearly basis and will be undertaken by the Syndicate and USAID to allow for any needed mid-course corrections. A final evaluation will be scheduled prior to the departure of the consultant.

7. Financial Analysis

The proposed subproject's total is \$2,560,000, of which approximately \$480,000 will be provided by the Syndicate in the form of office space, facilities, employee and counterpart time. USAID will provide \$2,080,000, of which the dollar amount will be approximately \$1,415,000 and the equivalent local currency amount \$665,000. Of the USAID amount, \$1,105,000 will provide for 70 person months of advisory services at approximately \$15,000 per month. These person months include five individuals during the first 6-12 months of the project working approximately 4 months each or a total of 20-22 months, and two individuals who will be long-term resident advisors for 24 months each. \$660,000 will fund 100 person months of long- and short-term professional training overseas, primarily for Syndicate and association permanent staff, and 3,000 person months of in-country training, primarily for practicing accountants and auditors. \$200,000 will fund training aids, equipment and printed materials. \$115,000 is funded for translation and miscellaneous local professional services.

Table 3
Summary Cost Estimate and Financial Plan
(\$000)

<u>AID</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>TOTALS</u>
FX	\$230	\$ 635	\$ 550	\$1,415
LC	85	280	300	665
<u>TOTAL</u>	<u>\$315</u>	<u>\$ 915</u>	<u>\$ 850</u>	<u>\$2,080</u>
<u>Syndicate</u>				
FX	-	-	-	-
LC	120	180	180	480
<u>TOTALS</u>	<u>\$435</u>	<u>\$1,095</u>	<u>\$1,030</u>	<u>\$2,560</u>

Table 4
Disbursements by Fiscal Year
(\$000)

<u>AID</u>	<u>FY 83</u>		<u>FY 84</u>		<u>FY 85</u>		<u>TOTALS</u>	
<u>Technical Assistance</u>								
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
1. ST	\$200	\$70	\$50	\$25	-	-	\$250	\$95
LT	-	-	260	120	260	120	520	240
2. <u>Training</u>								
Overseas	20	5	175	30	250	60	445	5
in-country	-	-	-	35	-	85	-	120
3. Books								
materials								
equipment	10	-	150	-	40	-	200	-
4. Translation	-	10	-	70	-	35	-	115
<u>Syndicate</u>								
Office Space/ Secretarial	-	120	-	180	-	180	-	480
<u>TOTALS</u>	<u>\$230</u>	<u>\$205</u>	<u>\$635</u>	<u>\$460</u>	<u>\$550</u>	<u>\$480</u>	<u>\$1415</u>	<u>\$1145</u>

Table 5
Costs by Phase
(\$000)

<u>Phase</u>	<u>AID</u>		<u>Syndicate</u>		<u>TOTALS</u>
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	
Phase One	280	115	-	150	545
Phase Two	<u>1,135</u>	<u>550</u>	<u>-</u>	<u>330</u>	<u>2,015</u>
<u>TOTALS</u>	<u>\$1,415</u>	<u>\$665</u>	<u>-</u>	<u>\$480</u>	<u>\$2,560</u>

Table 6
Costing of Outputs
((\$000))

	<u>AID</u>		<u>Syndicate</u>	<u>TOTALS</u>	
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
Institute	\$1220	\$600	\$360	1,220	960
Standards	145	60	90	145	145
Upgrading Syndicate Capability	<u>50</u>	<u>12</u>	<u>30</u>	<u>50</u>	<u>40</u>
<u>TOTALS</u>	\$1415	\$665	\$480	\$1415	\$1145

C. Legal and Financial Infrastructure Modernization

1. Background and Problem Statement.

This program will provide assistance in identifying, developing and implementing activities to modernize the Egyptian legal and financial infrastructure related to private sector development. This subcomponent continues and builds upon a program originally established by the Ford Foundation with significant AID assistance and later continued with AID funding through July 1982.

The Egyptian legal and financial infrastructure relevant to the private sector fell into serious disrepair as a result of neglect or active discouragement in the 1960s. Although progress has been made (e.g., in the liberalization of foreign investment, foreign exchange, tax and companies laws), private sector development policies continue to be hamstrung by outmoded laws, practices and administration. Accordingly, Egypt's laws and financial practices do not accommodate modern, western private business practices which encourage private sector investment and development. (For example, the current legal structure does not adequately include modern leasing practices which clearly protect the lessor from the claims of a third party who purchases equipment in good faith from the lessee.)

Concentrated, objective professional attention and analysis is required to identify problems and recommend practical solutions. At present, however, the GOE does not have professional staff which can devote proper attention to the problem. This is primarily because the decades of decline of the private sector have been accompanied by a decline in the number of lawyers and financial consultants skilled in matters of private business. Technical assistance in these areas is vital to Egypt at this time.

A policy to encourage and facilitate private sector investment calls for a legal and financial system which permits investors, consumers and suppliers to arrange economic transactions through mutual agreement and to contract in response to free market forces. A favorable investment climate needs a legal order which permits, protects and encourages rights and duties arising out of private contracts, but which also keeps the market free of unwarranted economic dominance by either public or private entities. Certainty, predictability, visibility, and enforceability are requisite components of the rules governing commercial and business transactions. In addition, a well-developed, efficient banking system offering a wide range of financial services to public and private enterprises in response to market forces is required to encourage trade and investment and to mobilize savings. Finally, the legal and financial infrastructure must facilitate a free flow of reliable financial and economic information to and from those operating within the marketplace. This subproject will assist Egypt to repair and build this essential infrastructure.

From 1974 through early 1981, Ford Foundation advisors, often with USAID assistance, identified problems and solutions regarding certain aspects of the financial and legal systems. Topics included the Investment Law (Law 43/1974), project evaluation procedures in the Investment Authority, laws affecting exports, income tax law modernization and laws relating to the formation and regulation of private sector companies. USAID continued the program through July 1982 by funding a legal consultant to the Economic and Financial Affairs Sector of the GOE's MIIC. These efforts identified the following matters, among others, which should be addressed to facilitate and encourage private investment:

- a. Development of a well-organized system for finding, classifying and indexing business-related statutes, regulations and precedents;
- b. Translation into English of important laws and regulations relating to private sector investment and business;
- c. Modernization of the Commercial Register;
- d. Improvement of the banking system to increase efficiency and encourage greater use of the banks by businesses and by the public;
- e. Development of financing facilities and credit mechanisms for private investment;
- f. Modernization of the Egyptian Commercial Code (which was passed in 1883 and has never been substantially amended), banking law patent and trademark law and land title index and law.

2. Objectives

This program will assist in modernizing the legal and financial system in Egypt by providing for professional technical assistance to: (a) investigate, among others, the above matters, identify solutions, and propose assistance where needed and appropriate; (b) assist relevant GOE agencies in implementing, monitoring and coordinating projects to modernize and improve the private sector's financial, legal and administrative environment; and (c) identify additional improvements in the legal and financial system needed to encourage private investment; and (d) to prepare proposals for further AID and other donor assistance.

3. Outputs

The consultant(s) for this program will identify, investigate and report on means to address the above-mentioned objectives and matters. Methods may include the following: (a) interviews with relevant government officials and legal advisors, as well as private sector lawyers, accountants, bankers and businessmen and USAID; (b) surveys and studies; (c) workshops or conferences with relevant government officials, private sector businessmen, bankers, lawyers or other professionals and international experts as participants; (d) short-term expert advisory assistance; and (e) observation-study abroad by host country nationals.

In addition, the program will assist in the compilation of statutes, regulations, rules and court decisions affecting private investment and doing business in Egypt; translations of important laws, regulations and rules with respect to business finance and investment in Egypt; and written reports, with respect to existing AID-financed projects to improve the financial, legal and administrative environment.

4. Inputs

AID will fund US dollar and Egyptian pound costs of: (a) 30 person months of technical assistance in the business law/financial field; and (b) logistical support for such assistance including office space and equipment, secretarial support, travel and per diem, communications, research assistance and materials, and translation services as necessary.

The GOE will provide appropriate counterparts and may provide office space and facilities *

*While the GOE should provide office space and counterparts for the advisor, given the crowded conditions of Egyptian government offices, this may not be possible and the USAID may therefore have to provide office space.

5. Implementation

The advisor will assist any relevant GOE or private sector agency. Relevant agencies may include the Ministry of Investment and International Cooperation, the Ministry of Economy, the Ministry of Finance, the Ministry of Industry, the Ministry of Commerce, the Ministry of Foreign Trade, the General Authority for Investment and Free Zones, the Capital Markets Authority, the General Organization for Industrialization, the Council of State, the Central Bank, public or private sector banks, organizations of businessmen, professional persons or university faculties. The advisor will report to USAID as well as to the GOE.

After signature of the Grant Agreement, USAID will contract for the services outlined in this sub-project. Services of long-term, short-term or part-time advisors may be contracted. The basic intention, however, is to seek a long-term technical advisor to provide most of the required advisory services. USAID will then work with the GOE to obtain the necessary office space and counterparts for the consultants.

The advisor will work with GOE and private sector personnel to identify and investigate specific problems, as well as existing local resources available to meet such problems. The advisor will then submit reports which analyze the problem(s) identified including: (a) description; (b) an analysis of how failure to solve the problem impedes, hampers and discourages private sector development and investment; (c) existing resources available from current related programs financed by the GOE and donors; (d) why such resources are not adequate or responsive to meet the need(s) identified; and (e) those government, private or mixed institutions concerned with the subject area, and an analysis of the nature and function of each such institution with respect to the subject area.

The advisor will make recommendations for each identified need, including: (a) an analysis of how the recommendation will either meet the need or provide facilities for finding a solution; (b) a description of the Egyptian Government public sector or private institution best suited to implement the recommendation; (c) a description of inputs needed to implement the recommendation from the GOE, USAID or other institutions; (d) estimated timing and costs for each proposed input; (e) proposed responsibility for provision of inputs; and (f) any coordination required. Following approval by all concerned parties for each implementation plan, the advisor will assist in its implementation as appropriate.

In addition to the problem-specific reports mentioned above, the advisor will submit monthly reports of activities to the USAID's Office of Finance and Investment, to whom he will report, and to other GOE or other Egyptian institutions as appropriate. Generally, it is expected that in addition to the regular reports, the contractor will submit a review and recommendations report every three months, or more frequently, depending on project needs.

6. Implementation Schedule

<u>Dates</u>	<u>Major Action</u>
06/1982	Consultant contract signed
07/1983	Activities Commence
10/1983	First Quarterly Report (and thereafter)
12/1983	Semi-Annual Review of Consultant activities (and thereafter)
09/1984	Interim Evaluation
06/1985	Final Evaluation
09/1985	PACD

7. Financial Analysis

The project component total costs amount to \$643,000 (equivalent). Approximately \$73,000 equivalent will be provided by the GOE in the form of counterpart support and office space. \$570,000 will be provided by AID of which \$485,000 will be for dollar costs and \$85,000 equivalent for local currency costs. Of the AID contribution, \$435,000 will provide approximately 30 person months of consultant services (estimated at \$14,500 per person month) and \$135,000 for office support, equipment and supplies, communications, research, translations, books, materials and international travel.

The above is an illustrative budget and major changes can be expected given the innovative and non static nature of this activity.

Table 7
Disbursements by Fiscal Year
(\$000)

<u>FY</u>	<u>AID</u>		<u>GOE</u>		<u>Total</u>
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	
1983	95.0	25	-	22	142.0
1984	195.0	35	-	29	259.0
1985	<u>195.0</u>	<u>25</u>	<u>-</u>	<u>22</u>	<u>242.0</u>
<u>TOTALS</u>	485.0	85	-	73	643.0

D. Investment Authority

1. Background and Problem Statement

Encouragement of foreign investment is a cornerstone of official Egyptian economic policy as expressed in Law 43 and its amendments. The principal government agency responsible for carrying out this policy is the General Authority for Investment and Free Zones ("GAFI" or the "Authority"). (See Annex P.) It is generally agreed by the GOE, AID, consultants, and potential investors that the Authority needs to be more effective. Its investment review and approval process has proven time-consuming and minimally effective and its development role stagnant.

There are a number of reasons for the limited level of foreign investment in Egypt. GAFI's performance is a contributing factor. The Authority has failed to meet its original objectives due to the following:

- a) GAFI's primary focus is regulatory rather than facilitative;
- b) Efforts to attract foreign investors are passive and dispersed;
- c) GAFI lacks functional integration and coordination of activities. Seen from the investor's viewpoint, the investment process is complicated, unpredictable, and discouraging;
- d) GAFI's limited capacity hinders provision of adequate data, information and analysis;
- e) The size and location of GAFI (a 1500 person organization with a promotion office 45 minutes from downtown Cairo) limits investor access to the Authority; and
- f) Limited development and ineffective management of industrial free zones prevents full realization of free zone potential.

USAID assistance to GAFI has included free zone planning studies, Investment Information Center design, priority sector studies, training funds (allocated annually for intensive English training and for studies or project evaluation and investment negotiation), short-term consultants, and a proposed \$6.0 million of public sector CIP funds for free zone infrastructure equipment (pending approval by the MIIC).

2. Objectives

The objective of AID assistance is to upgrade both the "inland" (non-free zone) and free zone capacity of GAFI and to organize GAFI more effectively. The objective is based on the premise that there is significant potential for foreign investment, that the GOE remains interested in attracting such investment, and that technical assistance and training are central to developing institutional capabilities.

The training and TA provided to the Investment Authority will concentrate on the provision of investor services such as inquiry and promotion facilities, data collection, policy study and analysis and library services. The training and TA provided to the Free Zone Sector will assist the Sector to use and maintain existing and proposed equipment, establish preventive maintenance programs at each Free Zone, implement environmental controls, and develop a consistent and valuable information, reporting and management system. (see Annexes Q and R for more detailed description of these activities.)

3. Outputs

Most of GAFI's eleven administrative units and the GAFI public Free Zones will be directly or indirectly involved in the project. Goals are to:

a. Strengthen GAFI's institutional capacity to serve investors. GAFI will apply more effective public administration processes and will improve its capacity to plan, analyze, implement and manage activities to attract and sustain foreign investment.

b. Provide a cadre of trained personnel. About 35-40 individuals will receive formal training in management operations related to investor services. Approximately 20 individuals will be trained in the concept and care of infrastructure, equipment maintenance, and management. Other professionals will gain skills and knowledge as the formally trained group transfers techniques and concepts through on-the-job training exercises.

4. Inputs

a. Technical Assistance and Training. AID will enter into IQC and host country contracts for technical assistance and training, (\$1.2 million). Annexes Q and R set forth proposed topics, schedules, and objectives. The major functional counterparts will be the GAFI Deputy Chairman's Office, office heads, and Free Zone Sector officials.

b. Evaluation. Institution building is the major purpose of this project activity. Because the activity envisages the possible creation of new GAFI departments and the improvement of management capability in others, the evaluation process can be a useful management tool. Therefore, AID will enter into a separate IQC contract, independent of the TA and Training contractors, to regularly evaluate this component.

5. Implementation and Administrative Analysis

a. Recipient. GAFI will nominate a staff to coordinate the grant assistance components for the Investment Authority elements and the Free Zone Sector elements. GAFI's Deputy Chairman's Office will channel technical assistance and training programs. GAFI also will assume responsibility for local support funding including the necessary office space.

GAFI responsibilities will be to implement project concepts, especially those regarding reorganization; monitor the performance of consultants' activities; review and act on policy recommendations; and revise operating guidelines for project appraisal.

b. Technical Assistance and Training Contracts. IQC and host country contracts with American and Code 899 consultants will provide participant training and technical assistance for the Investment Authority and Free Zone Sector programs. Contractors will work primarily with the GAFI counterparts.

Core contractor staffs will be small. For assistance to the Investment Authority organizational units, training and technical assistance may be provided from a Code 899 country entity such as the Irish Development Authority which has extensive African and Egyptian experience in applying training programs. Free Zone Sector assistance will use US contractors with previously demonstrated experience and capability in physical infrastructure emplacement and resolution of managerial problems.

The contractor will implement the project within the context of upgrading skills; will conduct annual reviews to assess needs and progress; and work with GAFI and AID on evaluations.

c. Monitoring and Reporting. USAID's Division for Industry and Trade (IT) will have overall AID management responsibility. Day-to-day activities will be assigned to an IT officer who will consult officers from other divisions as needed and who will coordinate annual evaluations of the project. Periodic consultations will be scheduled with GAFI to assess progress. Reports will be prepared by the Investment Authority, Free Zone Sector and by the consultant.

d. Implementation Schedule

<u>Major Action</u>	<u>Dates</u>
05/1983	GAFI CP's met
05/1983	Consultant Contracted
07/1983	Annual workplans approved
05/1984	First Evaluation
05/1985	Second Evaluation
09/1985	PACD

6. Financial Analysis

Financial plans for both AID and GOE contributions to the project are presented in Tables 8 through 10. The tables present the cumulative cost of the Investment Authority and Free Zone assistance at \$1,680,000 by adding the GOE local currency and in kind contributions to the AID dollar equivalent project contribution of \$1,320,000.

The AID contribution will be disbursed over FY 1983 - FY 1985, with funds authorized in FY 1982. US dollar funds cover (1) technical assistance and evaluation services to be carried out by US, Code 899 and Egyptian consultants; and (2) training costs. The total Egyptian contribution to the project is estimated at \$360,000 equivalent.

Table 8
Summary Cost Estimate and Financial Plan
 (\$000)

	AID		GOE	TOTAL	
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
Technical Assistance					
GAFI	\$300	\$ 90	\$120	\$300	\$210
Free Zones	100	90	120	100	210
Training					
GAFI	150	120	60	150	180
Free Zones	250	60	60	250	120
Evaluation	<u>100</u>	<u>60</u>	<u>-</u>	<u>100</u>	<u>60</u>
<u>TOTALS</u>	\$900	\$420	\$360	\$900	\$780

TABLE 9
Costing of Outputs (\$000)

	AID		GOE	TOTAL	
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
<u>GAFI</u>					
Organizational Analysis	\$ 40	\$ 12	-	\$ 40	\$ 12
Inquiry Services	150	66	60	150	126
Promotion	250	120	60	250	180
Library/Data Services	<u>10</u>	<u>12</u>	<u>60</u>	<u>10</u>	<u>72</u>
Sub-Total	450	\$210	\$180	\$450	\$390
<u>Free Zones</u>					
Advisory/Training Pgm	\$ 50	\$ 30	-	\$ 50	\$ 30
Infrastructural Mgt.	150	60	90	150	150
Management Imprvmt.	<u>150</u>	<u>60</u>	<u>90</u>	<u>150</u>	<u>150</u>
Sub-Total	\$350	\$150	180	\$350	\$330
<u>Evaluation</u>	<u>100</u>	<u>60</u>	<u>-</u>	<u>100</u>	<u>60</u>
<u>TOTALS</u>	\$900	\$420	\$360	\$900	\$780

Table 10
SUMMARY OF DISBURSEMENTS BY FISCAL YEAR
 (\$000 equivalent)

<u>AID</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>TOTAL</u>
1. Advisory Services - FX	\$150	\$150	\$100	\$400
- LC	\$ 50	\$ 70	\$ 60	\$180
2. Training - FX	\$100	\$200	\$100	\$400
- LC	\$ 60	\$ 60	\$ 60	\$180
3. Evaluation - FX	-	-	100	100
- LC	-	30	30	60
<hr/>				
<u>GOE</u>				
1. Advisory Services - LC	70	80	90	240
2. Training - LC	30	60	30	120
<hr/>				
<u>TOTAL</u>				
FX	\$250	\$350	\$300	\$900
LC (equivalent)	\$210	\$300	\$270	\$780

E. Business Support - Technology Transfer (IESC):

1. Problem Statement

Targeted, quick-response technical assistance, based on practical experience and which addresses direct business needs, is a valuable resource for improving both the skills and the productivity of Egyptian industry. Too often the capital equipment, organizational structure, and management skills of Egyptian industry have proven to be woefully antiquated and incapable of meeting minimum quality standards of international competition. This subactivity is designed to assist those businessmen demonstrating the desire to improve operations by sharing the cost of direct technical assistance. The International Executive Service Corps (IESC), a private voluntary organization, is ideally suited to provide this assistance.

2. Background

In February, 1982, the USAID developed a cost reimbursement approach for IESC assistance which could bring the IESC program more in line with an Egyptian client's ability to pay for services. This USAID intervention was experimental in nature and was designed to provide selected short-term services which would facilitate productivity

improvements. The USAID found the unique services offered by the IESC, a voluntary cadre of retired businessmen who devote their experience to businesses in the developing world, to be well suited to local business needs.

The selection of the IESC to perform services was based on: (a) their PVO status (VFA-187) and (b) their ability to find experienced professional personnel of high calibre to address operational problems restricting productivity improvements and the reasonable cost of these services compared to private consultants. \$250,000 covering the February 1982-January 1983 time period was reserved for project services. The \$250,000 represented approximately 20 reimbursable projects at an assistance level of approximately \$12,500 per project.

With USAID assistance, the IESC completed 33 projects in CY 1982 as opposed to 10 projects in 1981. As of February, 1983, the IESC had a pipeline of 34 projects which led USAID to request an additional \$400,000 from the MIIC. The MIIC has approved \$100,000 of the amount requested as a stop-gap measure. A further request has been made for an additional \$300,000 to provide funding until implementation of this project commences. While USAID funds are assisting in bringing the cost of IESC services to a broader clientele, the IESC has begun a marketing program based upon a refunds from the local banking community. Use of this mechanism is also assisting IESC growth.

USAID assistance, capped at \$12,500 per project, represented 50 percent of IESC cost for a typical three-month effort. Additionally, IESC assistance to small-scale enterprises and recipients of USAID funding through the Development Industrial Bank could, by exception, utilize the \$12,500 for 75 percent of project costs. The items financed by the \$250,000 were limited to per diem expenses, economy air fare and travel costs. All expense reimbursement was limited to levels authorized by AID for U.S. "Direct Hire" employees. USAID proposes to reduce this per project funding level each year, so that the IESC can demonstrate institutional vitality and direct its efforts to the most needy.

Requiring client participation for the IESC services (a) represented an innovative effort to leverage USAID technical assistance which usually is freely provided; (b) required a continuing need for IESC to market its product in order to provide services; and (c) placed the cost of IESC services within reach of local private sector companies. The continuation of assistance to IESC is based upon performance, accessibility to the private sector, and demonstrated attempts by the IESC to increase the client contribution.

3. Objective

The objective of this activity is to provide short-term, client specific technical services to solve a broad range of industrial, technical and managerial problems, e.g. quality control, materials handling, organizational structure, marketing etc. The activity will provide quick response to client needs, establish a meaningful one-to-one relationship and demonstrate client sincerity by obtaining increasing cost contributions from the clients. The USAID assistance to the IESC clientele will be targeted for activities which increase productive capacity, increase company efficiency and improve product quality.

4. Outputs

Approximately 130 individual project subactivities will be carried out under the activity. For appraisal purposes, the IESC will provide USAID a follow-up report on client progress six months after service is completed. These reports will serve to assist in a determination of the benefits derived by businessmen from IESC expertise.

5. Inputs

USAID will fund approximately 130 IESC project shortfalls in accordance with the funding levels listed in Table 11 below. Total USAID funding is limited to \$1,000,000. Based upon typical IESC project costs, Egyptian businesses are anticipated to contribute approximately \$1,500,000 for services designed to improve operations. The IESC will reallocate approximately \$750,000 from external contributions to cover its indirect costs. Based on an average 90 day assignment, over twelve thousand person-days of technical assistance will be provided. USAID assistance, at \$80/person-day, will significantly leverage the transfer of ideas and technology to indigenous business and amount to less than one-third of average project assistance cost over the three-year funding period.

6. Implementation

It is intended that USAID enter into a direct grant agreement with the IESC for the subactivity. It is anticipated that the final Project Agreement approved and agreed to by the GOE will allow for the direct grant mechanism to provide the necessary flexibility for the IESC to implement the activity, subject to the operating controls described below.

The IESC will target projects which are focused on needs particular to, and consistent with, Egypt's aspirations for a stronger industrial base. The IESC will review prospective client needs, evaluate them, determine viability, recruit a volunteer, establish a

project plan between the client and volunteer, monitor progress, and conduct the project inclusive of client/IESC final evaluation. The USAID involvement will be minimal despite the fact that technical transfer projects are usually labor intensive. Every effort will be made by the IESC to secure full contributory fees from the businesses being served. Requests for USAID support will be applied only where necessary. When the IESC requires USAID assistance, it will submit a letter of request to the USAID for funding approval.

USAID will review funding assistance requests from the IESC. Requests which favor large, profitable concerns, or those concerns with a clear ability to repay, will be discouraged. Requests for assistance to intermediate trading firms will also be discouraged. USAID funds may be utilized to fund 75 percent of the cost of IESC assistance to small firms (those with a capital base of less than LE 100,000) and 50 percent of the cost of IESC assistance to larger firms. However, the total amount of USAID assistance to any one project shall not exceed \$10,000 during the first year of assistance, \$8,000 during the second year, and \$6,000 during the third year. The USAID will also monitor the subactivity to assure the clear majority of financing is utilized for private sector firms.

Disbursement of funds under this subactivity will be on a cost reimbursement basis. Documentation for reimbursement will include a copy of the IESC final report and reasonable support for the costs incurred. The USAID Office of Finance and Investment, the responsible project office, will review the submissions and administratively approve payment. Examples of eligible costs for USAID support are economy air travel on a U.S. carrier, international and Egypt per diem at standard AID rates, and support costs for the local IESC office prorated on a project basis. The IESC will agree to maintain adequate books and records and allow USAID the right of audit.

The implementation schedule for this activity is as follows:

<u>Major Action</u>	<u>Date</u>
Grant Signed with IESC	05/83
First Year Activity Review	01/84
Second Year Activity Review	01/85
PACD	01/86
TDD	09/86

Each activity review will appraise the quality of services offered, review the client follow-up documentation, assess the program design concerning meeting objectives and outputs, and focus on the adequacy of budgetary resources to meet the objectives and outputs for IESC assistance to local businessmen. The activity reviews will be coordinated by the responsible project office and include a committee composed of the Office of Industrial Resources, the Program Office and the Controller's Office.

7. Post Project

The activity reviews should assist the USAID in determining if, and how, further assistance to the IESC should be continued. Prior to that determination, it is assumed that the IESC subactivity will have achieved a self-supporting position.

TABLE 11
IESC BUDGET PROJECTION

No. of projects	30	50	50	130
Reimbursement Ceiling	\$10,000	\$8,000	\$6,000	-
Total AID Reimbursement (\$000)	\$ 300.0	400.0	300.0	\$1,000.0
% of Project Cost-USAID	40%	32%	24%	31%
% of Project Cost-Client	30%	45%	60%	47%
% of Project Cost - IESC	30%	23%	16%	22%
TOTAL PROJECT COST (\$000)	\$750.0	\$1,250.0	\$1,250.0	\$3,250.0

TABLE 12
SUMMARY COST ESTIMATE
(\$000 Equivalent)

	<u>AID</u>		<u>IESC</u>		<u>Client</u>		<u>Total</u>	
	<u>FX</u>		<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
Technical Assistance	<u>1,000.0</u>		<u>715.0</u>	<u>1,535.0</u>	<u>1,715.0</u>	<u>1,535.0</u>		
TOTAL	1,000.0		715.0	1,535.0	1,715.0	1,535.0		

TABLE 13
SUMMARY OF DISBURSEMENTS BY FISCAL YEAR
(\$000 Equivalent)

<u>AID</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>Total</u>
Technical Assistance - FX	200.0	420.0	320.0	60.0	1,000.0
<u>IESC</u>					
Technical Assistance - FX	150.0	330.0	195.0	40.0	715.0
<u>Client Cost</u>					
Technical Assistance - LC	<u>150.0</u>	<u>500.0</u>	<u>735.0</u>	150.0	<u>1,535.0</u>
TOTAL - FX	\$350.0	750.0	515.0	100.0	1,715.0
- LC	\$150.0	500.0	735.0	150.0	1,535.0

V. SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

A. Social Considerations

A key element of the AID program in Egypt is the provision of capital and technical assistance to expand the private sector and to enable it to contribute to broadly-based economic development. The results of private sector expansion are expected to include greater mobilization of domestic and foreign financial resources, increased productivity, additional employment opportunities, higher wages and standards of living and an improved foreign exchange position.

The BSI project aims to develop a healthy domestic environment by improving specific aspects of the business infrastructure which affect private sector activities. Given the nature of the project we have not sought to quantify benefits, but gains will accrue to both Egyptian and US entrepreneurs, as well as to their employees. Strengthening accounting, financial reporting and auditing standards applicable to the private sector will improve the framework used by enterprises to evaluate past performance and plan future activities, and will lend to more widespread investor confidence in private enterprises. Revitalization of the capital market will generate new sources of capital available to private sector operations and will benefit both savers and users of funds, including institutions, households and individuals. An improved Investment Authority will serve both domestic and foreign investors, in directing investment into areas of high development priority, providing improved information to potential investors, and accelerating the time frame for investment appraisal and approval. Providing technical assistance to the Free Zones Sector of GAFI will facilitate the initiation of private sector projects in the Free Zones. Other activities contemplated for financing, such as modernization of the legal and financial infrastructure and investor facilitation services will assist in achieving general social and economic development objectives.

These project-supported improvements in the business environment should facilitate the continued growth of a competitive and dynamic private business sector. The key beneficiary of the project will be the private sector business community, including domestic entrepreneurs, international firms, and joint ventures. As a result of project activities, foreign and domestic enterprises should enjoy easier entry into Egyptian markets, smoother day-to-day operations, greater stability and predictability in commercial transactions, and consequently, more rapid growth. Private sector operations should gain from an improved position vis-a-vis their public sector counterparts, GOE support of private sector initiative and a less regulated environment. Investors will benefit from increased availability of business capital, as well as improved average rates of returns on that capital. Egyptian workers should gain more employment opportunities and higher incomes through increased wages resulting from increased demand for their services.

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B. Environmental Considerations

Because the Project is based on the provision of technical assistance, there is no reason to expect any environmental impact resulting from its implementation. Therefore, in accordance with the provisions of 22 CFR 216(c) dealing with exemption of technical assistance projects from environmental analysis, the project is exempt from environmental analysis requirements.

VI. EVALUATION

This project consists of five component activities, all of which are intended to work toward the achievement of the purpose and goal levels of the overall activity which are to encourage private sector investment and development. Each component has a separate logical framework, outlining the specific activities to be implemented and the means by which achievement of those activities can be verified. The progress of all of these component projects can be checked by routine project monitoring and regular assessment of the monitoring records by the project manager -- i.e., no special evaluation activities are anticipated during the life of each component activity, unless problems in implementation should arise such that a separate evaluation effort is deemed necessary at the time.

A monitoring and review system will be required for each project component. Records, documents, reports, and other status indicators will be routinely gathered and maintained and regularly reviewed and assessed for progress and problems.

At the end of project, an overall evaluation will be held in which the combined impacts of all project components are assessed for their overall impact on the Egyptian private sector and its ability to function in the local economy. This evaluation will be performed immediately following completion of the project by an external team, composed of representatives of Egyptian private business and experts on legal, financial and administrative systems involving public/private sector interaction and activities. This final evaluation will use the various components' monitoring records as the means of quantifying changes resulting from the project, but it will also rely heavily on interviews and discussions with both public and private sector representatives as a means of qualifying important project impacts, e.g. changes in the business and legal infrastructure such that it is easier for private sector entrepreneurs and investors to function in the Egyptian business environment.

VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

A. Conditions Precedent to Disbursement

Prior to disbursement or issuance of documentation pursuant to which disbursement will be made under the Business Support and Investment project, the Grantee shall have completed the following in form and substance satisfactory to AID:

1. General: A statement of the name(s) of the person(s) authorized to represent the grantee and a specimen signature of each.

2. Capital Markets Development:

a. Prior to initial disbursement, execution of an agency contract with the International Finance Corporation (To be completed within 120 days of grant agreement signature):

b. Prior to additional disbursement, execution of contract with program coordinator/advisor.

3. Accounting, Financial Reporting and Auditing:

a. Prior to disbursement of Phase One funds, execution of contract between the Syndicate and consultant for the provision of technical assistance and other services for Phase One.

b. Prior to disbursement of Phase Two funds, (1) approval of Phase Two Plan and Budget by the Syndicate; and (2) execution of contract between the Syndicate and consultant for the provision of technical assistance, training, and other services for Phase Two.

4. Investment Authority:

a. Prior to initial disbursement, execution of contracts for project advisory services.

b. Evidence that adequate GAFI staff will be assigned to the project.

c. Prior to disbursements for the Free Zone subactivity, evidence that appropriate public sector CIP proceeds will be made available to GAFI for priority equipment.

B. Covenants

The following covenants shall be applied to GAFI and the Investment Authority activity:

1. Establishment of a customs/security/Free Zone Sector Task Force to improve free zones/customs coordination and to develop uniform procedures.

2. Development of satisfactory environmental criteria to apply to the investor application/approval process and subsequently to the implementation phases of investor projects.

BUSINESS SUPPORT AND INVESTMENT

(263-0159)

ANNEXES

- A. GOE Grant Application
- B. Statutory Checklist
- C. Grant Authorization
- ~~D. Section 611(c) Certification~~
- E. Logical Framework
 - Overall Project
 - Capital Markets Development
 - Strengthening Accounting, Financial Reporting and Auditing
 - Legal and Financial Infrastructure Modernization
 - Investment Authority
 - Training and Technical Assistance
- F. NEAC Project Paper Guidance Cable
- G. Macro Economic Setting for Egypt's Private Sector
- H. GOE Actions to Support Private Sector Investment and Development
- I. USAID Assistance Programs for the Egyptian Private Sector
- J. AID-Financed Studies, Conferences and Seminars in Respect to the Egyptian Private Sector
- K. Pre-Authorization Waivers
 - 1) International Finance Corporation (IFC)
 - 2) National Association for Accountants (NAA)
- L. PART I: Capital Markets Action Program
PART II: Comprehensive Capital Markets Law
- M. Capital Markets Authority Organizational Chart
- N. Budget: Capital Market Action Program
- O. Presidential Decree Establishing the General Authority for Financial Markets
- P. Functions of the General Authority for Investment and Free Zones
- Q. Investment Authority Project Description
- R. Free Zone Project Description

BUSINESS SUPPORT AND INVESTMENT PROGRAM

DRAFT APPLICATION

Dear Mr. Stone:

The Government of Egypt (GOE) wishes to encourage and facilitate private investment in productive enterprise. To accomplish this objective, it will be necessary to modernize and improve the investment, financial, legal and administrative environment in which business operates and to remove obstacles to private investment. For this purpose, the GOE requests AID grant assistance in the amount of \$9.1 million for an initial three-year program.

The Business Support and Investment Project consists of five specific activities which are described below. Each addresses areas of need where constraints on productive investment have been identified by Egyptian and foreign investors, experts and the GOE. All build upon or continue activities jointly undertaken in the past by the GOE, on one hand, and AID, the World Bank or the Ford Foundation on the other. The activities are as follows:

1. Capital Market Development. (\$4.130 million). Mobilization of capital for long term investment in productive enterprise is essential to Egypt's economic development. Accordingly, the GOE is committed to revitalizing the capital market to provide companies with access to long term capital and to allocate capital to productive enterprise. AID funds will finance technical assistance and training, to be provided by Egyptian and foreign experts. The program will be administered by the Capital Markets Authority (CMA). It will implement a detailed Action Program prepared by the CMA and USAID, based on recommendations from a 1981 investigation and report by CMA and International Finance Corporation (IFC) experts.

Both the private and the public sectors will be involved in reactivating the capital market, by engaging representatives of both sectors in addressing the following Action Program topics:

- a. Enhancing the market development role of the CMA;
- b. Education and promotion to demonstrate the benefits and potential of securities markets;
- c. Improving the capability of the stock exchanges in Cairo and Alexandria;
- d. Encouraging formation of new firms; and
- e. Training securities professionals.

2. Strengthening Accounting, Financial Reporting and Auditing. (\$2.080 million). Reliable, comprehensive financial reporting based upon sound accounting and confirmed by competent independent auditors, is vital to widespread long term investment in productive enterprises. Reliability depends upon well trained accountants and auditors using uniform and comprehensive high standards. Uniformity is necessary to enable investors and creditors to compare financial reports and to help ensure that companies have been audited pursuant to certain minimum standards and procedures. This activity arises out of proposals by the Egyptian Syndicate of Commerce Professions and will assist it to:

- a. Create a professional institute with the capacity to provide practical professional training; examine and certify accountants and auditors at all levels; conduct the research necessary to design and update standards; exchange views with those affected by accounting and auditing standards; and operate on a self-sustaining financial basis;
- b. Form an initial set of basic accounting, financial reporting and auditing standards for Egypt; and
- c. Develop effective means of exercising its authority to communicate and enforce standards within the profession.

3. Legal and Financial Infrastructure Modernization. (\$0.570 million). A number of obstacles to private productive investment in the financial and legal infrastructure have been identified by Egyptian and international organizations, both governmental and non-governmental. Specific programs, however, have not been developed because scarce human resources and skills are already fully employed on other matters and therefore are not available to undertake this development task. Programs which may be included would:

- a. Establish an organized system for finding and classifying statutes and regulations affecting investment and business;
- b. Modernize and possibly computerize the commercial register to provide information about business in Egypt to creditors, suppliers, investors and the government; and
- c. Modernize the 1883 Commercial Code.

This activity will finance 30 person months of technical assistance and support services in the business law/financial field. It will provide the GOE with professional assistance in identifying, developing and implementing activities to modernize the financial and legal infrastructure and to encourage productive private investment.

4. Investment Authority. (\$1.320 million). AID funds will finance technical assistance and training for the General Authority for Investment and Free Zones (GAFI) to develop and upgrade GAFI's ability to respond to

inquiries; provide investor information, promote investment in Egypt, and improve free zone operations. Training will be directed at middle and senior management to demonstrate what others are doing in the field, and at younger staff to teach investment fundamentals. Training and technical assistance in the Free Zone Sector will help it improve and maintain physical infrastructure, reduce administrative and legal deterrents to investment, and improve the productivity of employees and managers through training, advice and establishment of a management information system.

5. Training and Technical Assistance (\$1.0 million). This activity will assist Egyptian businesses by sharing the cost of direct technical assistance. The International Executive Service Corps (IESC) will obtain partial cost reimbursement for approximately 130 clients. This activity will bring the cost of IESC services within the reach of deserving firms.

Each activity will be implemented by the organization which receives assistance. Overall coordination will be provided by the Ministry of Investment and International Cooperation.

Procurement will be in accordance with the regular operating procedures of AID except where otherwise indicated in connection with a specific activity. Follow-up activities may be required in which case this Grant may be amended accordingly. In addition, the parties to this Grant shall have the authority to agree to reallocate funds among the various activities provided that, as a general rule, no activity shall have its funds increased or reduced by more than 20% of its original budget.

On behalf of the Government of Egypt, I would appreciate your favorable consideration of this grant assistance request based on the design criteria set forth above.

Sincerely yours,

Ahmed Abdel Salam Zaki
Administrator of the Department
for Economic Cooperation with U.S.A.

5C(2) PROJECT CHECKLIST

ANNEX B

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:
B. 1. applies to all projects funded with Development Assistance Funds,
B. 2. applies to projects funded with Development Assistance Loans, and
B. 3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes Yes

A. GENERAL CRITERIA FOR PROJECT:

1. FY 1982 Appropriate Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;

(a) Congress shall be notified in accordance with regular agency procedures.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(b) The intended obligation is within the level of funds appropriated for Egypt.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000 will there be:

- (a) engineering, financial or other plans necessary to carry out the assistance and
(b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- (a) Yes
(b) Yes
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? None required.
4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) N.A.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N.A.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. (a) Project will increase level and flow of trade by provision of credit for imports and domestic production. (b) Project will foster private initiative through improvements in the domestic business environment. (c) N.A. (d) See (b) above. (e) N.A. (f) N.A.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.) Project will encourage U.S. trade and investment abroad through the improvement of the private sector business environment in Egypt.

9. FAA Sec. 612(b), 636(h); FY 1982 appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. procedures of the same, similar or competing commodity?
13. FAA 118(c) and (d) Does the project comply with the environmental procedures set forth in AID Regulation 16?
- GOE will provide such necessary support in local currency as agreed upon in the grant agreement and USAID will provide local currency through a 612(b) determination.
- The projected availability of excess currency pounds is fully programmed for other activities and is not available for this project.
- Yes.
- N.A.
- N.A. See Environmental Analysis in Section V.

Does the project or program take into consideration the problem of the destruction of tropical forests? N.A.

14. FAA 121(d). If a Sahel Project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N.A.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; N.A.

(c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1) defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilize the country's intellectual resources to encourage institutional development; and supports civil education and training in skills

required for effective participation in governmental processes essential to self-government.

2.

<u>Development Project</u>	<u>Criteria</u>	<u>Assistance (Loans Only)</u>
		N.A.

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

3. Economic Support Fund Project Criteria.

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

Project will contribute to economic and political stability and reflects Section 102 policy directions by improving economic infrastructure.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No.

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

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

N.A.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes, as per AID standard procedures.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N.A.

4. FAA Sec. 604(e), ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is N.A.

there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.).

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? N.A.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? N.A.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, Yes.

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such services is available? Yes
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N.A.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N.A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprise in Egypt that were described in the CP)? N.A.

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loans, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N.A.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? Yes.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525:
(1) To pay for performance of abortions as a method of Yes

family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortion or involuntary sterilization as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

d. FAA Sec. 662. For CIA' activities? Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guarantee of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted Yes

service compensation for
military personnel?

g. FY 1982 Appropriation Act, Sec. 505. To pay U.S. arrearages or dues? Yes

h. FY 1982 Appropriation Act Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? No

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes

PROJECT AUTHORIZATION

ANNEX C

Name of Country: Arab Republic of
Egypt

Name of Project: Business Support
and Investment

Number of Project: 263-0159

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Business Support and Investment Project (the "Project") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed Nine Million One Hundred Thousand United States Dollars (\$9,100,000) in grant funds over one year from the date of authorization, subject to availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign-exchange and local-currency costs of the Project. The planned life of the Project is three years from the date of initial obligation.

2. The Project will assist the GOE to achieve its policy of encouraging private sector investment and development by supporting private and public sector efforts to modernize and improve the financial, legal and administrative environment in which the private sector operates.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with each other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

b. Conditions Precedent to Disbursement

(1) First Disbursement

Prior to any disbursement or to the issuance of any commitment documents under the Grant, the Cooperating Country shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A statement of the names and titles of the persons who will act the representatives of the Cooperating Country, together with a specimen signature of each person specified in such statement;

(b) Such other information and documentation as A.I.D. may reasonably request.

W. J. W. Shaw
Director, USAID/Cairo

8-8-83
Date

Clearances:

IT/FI:SMeyer SMeyer
IT/FI:JSuma SM For CS (per original)
AD/IT:VMcCutcheon VM
AD/DPPE:NSweet RE
LEG:DLPressley DL
AD/FM:TMacMahon TM

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 1983 to 1985
 From FY: 1983, 1984, 1985
 Total U.S. Funding: \$4,130 million
 Date Prepared: August 12, 1982

Project Title & Number: Capital Markets Development

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>To assist Egypt in development of its capital markets.</p>	<p>Measure of GOE Achievement: (A-2)</p> <p>Aggregate securities, as a percentage of GDP, increase from 2.5% in 1979 to 5.0% in 1984.</p>	<p>(A-3)</p> <p>CMA records Cairo and Alexandria Stock Exchange records</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>GOE continues to pursue private sector development initiatives.</p>
<p>Project Purpose: (B-1)</p> <p>To stimulate savings, encourage investment in longer term securities (especially equity), and provide industry increased access to capital through use of market forces to allocate capital to productive enterprises.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <p>Increased equity and debt underwritings in the primary markets; increased trading activity in secondary markets; increased listings on Cairo and Alexandria Stock Exchanges.</p>	<p>(B-3)</p> <p>CMA records Stock Exchange records</p>	<p>Assumptions for achieving purpose: (B-4)</p> <p>GOE financial sector policies supportive of longer term savings activity.</p>
<p>Project Outputs: (C-1)</p> <p>(1) Capital Market Conference; (2) CMA undertaking development activities (via regulatory); (3) increased supply and demand for securities in primary and secondary markets; (4) improved stock exchanges; (5) new financial legislation; (6) improved Companies Dept.</p>	<p>Magnitude of Outputs: (C-2)</p> <p>(1) Conference takes place; (2) CMA fostering capital market development actions; (3) increased aggregate trading volume for debt and equity securities; (4) new legislation/regulations published in Official Gazette (5) Companies Dept. operating with improved procedures.</p>	<p>(C-3)</p> <p>CMA records Stock Exchange records AID records</p>	<p>Assumptions for achieving outputs: (C-4)</p> <p>Conference well-attended; private sector elements participate fully in action program; team efforts; needed legislation and regulations enacted; investors acquire more confidence in market.</p>
<p>Project Inputs: (D-1)</p> <p>(1) Technical Assistance (2) Training</p>		<p>(D-3)</p> <p>AID project records</p>	<p>Assumptions for providing inputs: (D-4)</p> <p>No problems regarding Grant Agreement execution. Conditions Precedent met in timely manner.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK
 Life of Project 1983 to FY 86
 Total U.S. \$ 2.080
 Date Prepared:

Project Title & Number: ACCOUNTING, Financial Reporting, Auditing

NARRATIVE SUMMARY	OBJECTIVELY MEASURABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS										
Program or Sector Goal: The broader objective to which this project contributes: (A-1) To assist in development of the Egyptian private sector.	Measures of Goal Achievement: (A-2) Increased investment in the private sector. Improved, comparable financial reports. Improved management information systems in the private sector.	(A-3) GOE records USAID records World Bank records	Assumptions for achieving goal targets: (A-4) GOE continues policy of economic liberalization and support to private sector.										
Project Purpose: (B-1) To strengthen accounting, financial reporting and auditing in Egypt.	Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2) Increased numbers of accountants and auditors capable of serving private sector needs. Uniform, reliable accounting and auditing standards applied within the private sector. Syndicate communicating and enforcing standards	(B-3) Syndicate records Project records	Assumptions for achieving purpose: (B-4) Phase I plan is feasible and practical. Phase II can be implemented in timely fashion.										
Project Outputs: (C-1) 1. Comprehensive accounting, financial reporting and auditing standards. 2. Professional institute 3. Practical training in accounting/auditing.	Magnitude of Outputs: (C-2) 1. Standards published by Syndicate 2. Institute established and operating 3. 50 person months of training	(C-3) Syndicate records Project records	Assumptions for achieving outputs: (C-4) (same as Purpose level assumptions)										
Project Inputs: (D-1) 1. Short and long-term TA 2. Training 3. Equipment and materials	Implementation Target (Type and Quantity) (D-2) (\$000) <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">FX</td> <td style="text-align: center;">LE</td> </tr> <tr> <td style="text-align: center;">1.770</td> <td style="text-align: center;">335</td> </tr> <tr> <td style="text-align: center;">2.445</td> <td style="text-align: center;">210</td> </tr> <tr> <td style="text-align: center;">3.200</td> <td style="text-align: center;">120</td> </tr> <tr> <td style="text-align: center;"><u>1415</u></td> <td style="text-align: center;"><u>665</u></td> </tr> </table>	FX	LE	1.770	335	2.445	210	3.200	120	<u>1415</u>	<u>665</u>	(D-3) Grant Agreement PILs Project Records	Assumptions for providing inputs: (D-4) Grant Agreement negotiations successful CPs met in timely fashion.
FX	LE												
1.770	335												
2.445	210												
3.200	120												
<u>1415</u>	<u>665</u>												

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1983 to FY 1986
Total U.S. Funding \$0.576 million
Date Prepared: August 12, 1982

Project Title & Number: Legal and Financial Infrastructure Modernization
Sub-activity of Project: 261-0159

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goals: The broader objective to which this project contributes: (A-1)</p> <p>To assist the GOE in modernizing the legal and financial systems which affect the Egyptian Private Sector.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>Changes in laws, financial systems toward greater flexibility for private sector participation in the Egyptian economy.</p>	<p>(A-3)</p> <p>Monitoring & review of changes in laws, legal infrastructure and financial systems.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>GOE willing and able to enforce new laws and regulations enacted. Consultant effective in providing assistance.</p>
<p>Project Purpose: (B-1)</p> <p>To assist the GOE in coordinating existing AID programs to promote private sector development and to identify additional legal and financial infrastructure improvements needed.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <p>New laws and regulations considered and debated, at least some adopted into GOE legal/financial system.</p>	<p>(B-3)</p> <p>Monitoring and review of new legislation and regulation.</p>	<p>Assumptions for achieving purpose: (B-4)</p> <p>GOE willing and able to pass recommendations in new laws and/or regulations.</p>
<p>Project Outputs: (C-1)</p> <p>1. Investigations of legal and financial systems to encourage private investment. 2. Preparation of proposals for USAID assistance. 3. Assistance in implementing existing and future USAID financed projects.</p>	<p>Magnitude of Outputs: (C-2)</p> <p>Proposals for new areas of assistance submitted to USAID. Investigations and analysis made in the form of recommendations, reports, proposals, discussions, etc.</p>	<p>(C-3)</p> <p>Records of interviews Documentation of conference, workshops, other research Reports of field trips proposals to USAID.</p>	<p>Assumptions for achieving outputs: (C-4)</p> <p>GOE willing and able to consider all aspects of legal/financial systems for possible change and modernization.</p>
<p>Project Inputs: (D-1)</p> <p>USAID: 1. 30 person months of technical services. 2. Logistical support 3. International travel GOE: 1. Counterparts 2. Office space and facilities</p>	<p>Implementation Target (Type and Quantity) (D-2)</p> <p>Advisor in place.</p>	<p>(D-3)</p> <p>Project documents including advisor's review and recommendations, reports and regular quarterly progress reports.</p>	<p>Assumptions for providing inputs: (D-4)</p> <p>Appropriate advisor can be quickly contracted.</p>

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: ...
 From FY 1983, FY 1986
 Total U.S. Funding \$1.32 million
 Date Prepared: August 12, 1982

Project Title & Number: Investment Authority

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Position or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>To assist the GOE in strengthening the Investment Authority's ability to provide adequate/efficient services.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>On-going dialogue exchange of information between I. Authority & investors.</p> <p>Authority's ability to consistently & regularly provide user services.</p>	<p>(A-3)</p> <p>Observation of Authority by project manager.</p> <p>Interviews with private sector firms utilizing Authority (and not utilizing it).</p> <p>Authority records of utilization, provision of services.</p>	<p>Assumptions for achieving goal targets: (A-4)</p>
<p>Project Purpose: (B-1)</p> <p>To improve the Investment Authority's ability to organize in support of overall investment and investment promotion policy on a self-sustaining basis.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <p>-Increased utilization of Authority by private sector firms.</p> <p>-Increased private sector confidence in Authority's information services.</p> <p>-Increased Free Zone Investment</p>	<p>(B-3)</p> <p>Observation of Authority's activities by project manager.</p> <p>Authority documents on investor utilization.</p> <p>Authority's documents and status of free zones.</p>	<p>Assumptions for achieving purpose: (B-4)</p>
<p>Project Outputs: (C-1)</p> <p>To build the Investment Authority's internal capacity to develop, assess & formulate investment and management policies and provide true investor services on a self-sustaining basis.</p>	<p>Magnitude of Outputs: (C-2)</p> <p>Increase in Authority's level of activity in developing, assessing and formulating investment policy.</p> <p>Increase in Authority's provision of investor services.</p> <p>Increase in Authority's ability to manage facilities and staff.</p>	<p>(C-3)</p> <p>Authority records and documents; observation and review of Authority activities.</p>	<p>Assumptions for achieving outputs: (C-4)</p>
<p>Project Inputs: (D-1)</p> <p>1. Technical assistance in investment promotion, investor services and facility management.</p> <p>2. Training in the above fields</p> <p>3. Evaluation assistance.</p>	<p>Implementation Target (Type and Quantity) (D-2)</p> <p>1. TA funding of \$580,000 equivalent.</p> <p>2. Training funding of \$580,000 equivalent</p> <p>3. Evaluation funding of \$160,000 equivalent.</p> <p>4. Egyptian resident advisory services.</p> <p>5. Short-term training specialists/training courses.</p>	<p>(D-3)</p> <p>Project documents</p>	<p>Assumptions for providing inputs: (D-4)</p>

PROJECT DESIGN SUMM.
LOGICAL FRAMEWORK

BSI (203-0159)

Project Title & Number: Technology Transfer (IESC)Life of Project:
From FY 83 to FY 85
Total U.S. Funding \$1.0m
Date Prepared: April, 1983

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To assist in development of the Egyptian private sector</p>	<p>Measures of Goal Achievement:</p> <p>Increased productivity in the private sector</p>	<p>GOE, USAID Analysis and records.</p>	<p>Assumptions for achieving goal targets:</p> <p>GOE continues policy of economic liberalization and support for the private sector</p>
<p>Project Purpose:</p> <p>To improve the skills and productivity of Egyptian industry through provision of short-term, client-specific technical services</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>Improved operations, greater productive capacity, higher company efficiency and improved product quality of selected businesses</p>	<p>Business firm records IESC records Project records (IESC follow-up reports)</p>	<p>Assumptions for achieving purpose:</p> <p>Egyptian businesses follow recommendations of IESC advisors</p>
<p>Outputs:</p> <p>Improved operations, organizational structure and management skills for Egyptian businesses</p>	<p>Magnitude of Outputs:</p> <p>130 project (client) subactivities for resolution of industrial, technical and managerial problems</p>	<p>IESC records Project records</p>	<p>Assumptions for achieving outputs:</p> <p>Client use of IESC services</p>
<p>Inputs:</p> <p>Technical assistance</p>	<p>Implementation Target (Type and Quantity)</p> <p>AID - \$1.0m IESC - \$.715m, 130 volunteers Clients - \$1.535m</p>	<p>Grant Agreement Project records</p>	<p>Assumptions for providing inputs:</p> <p>Timely signature of sub-grant agreement with IESC</p>

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(FORM 800 2 2000)

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STATE 119789

AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: BUSINESS SUPPORT AND INVESTMENT PROJECT: AID
PROJECT NO. 263-0159; PID NEAC
REF: STATE 027953

1. THE SUBJECT PID WAS REVIEWED BY THE NEAC ON APRIL 14, 1982. THE NEAC CONSENSUS IS THAT THIS REVISED PID PROVIDES THE NEAC WITH A BETTER PERSPECTIVE OF THE DEVELOPMENT PROBLEM TO BE ADDRESSED. WHILE RAISING NEW ISSUES, THE NEAC IS SATISFIED WITH THE MISSION'S RESPONSE TO THE ISSUES/QUESTIONS RAISED IN REFTEL. THE NEAC APPROVES THE PID AND RECOMMENDS PP DEVELOPMENT TAKING INTO CONSIDERATION THE ISSUES RAISED AND RECOMMENDATIONS/SUGGESTIONS OFFERED AT THE NEAC MEETING.
2. NEAC ISSUES, SUGGESTIONS AND RECOMMENDATIONS FOLLOW:

(A) GOE POLICY DELINEATION

PAGE 24, PARAGRAPH 4 OF THE PID SAYS IN ESSENCE THAT THE RECOMMENDED DOLS 40 MILLION LIFE-OF-PROJECT FUNDING LEVEL IS NECESSARY TO CONVINCE THE GOE AND EGYPTIAN PRIVATE SECTOR OF THE SERIOUSNESS OF AID'S COMMITMENT TO THE
UNCLASS 2

PRIVATE SECTOR. THE NEAC TAKES ISSUE WITH THIS POSITION. WITH ALMOST DOLS 400 MILLION IN ON-GOING PRIVATE SECTOR ACTIVITY (INCLUDING TFF), THE NEAC'S POSITION IS THAT AID HAS DEMONSTRATED ITS COMMITMENT TO THE GOE'S "OPEN DOOR POLICY" AND STATED PRIVATE SECTOR INITIATIVE. IT IS NOW TIME FOR THE GOE TO DELINEATE ITS POLICIES AND OBJECTIVES FOR PRIVATE SECTOR DEVELOPMENT OVER THE NEXT FEW YEARS AND TARGET THOSE SECTORS IN WHICH THE PRIVATE SECTOR CAN OPERATE. THE NEAC FEELS THAT THE MISSION SHOULD VIGOROUSLY PURSUE A POLICY DIALOGUE WITH THE GOE AT THIS TIME IN AN ATTEMPT TO ASCERTAIN THIS DELINEATION. A CLEAR STATEMENT FROM THE GOE IS ESSENTIAL TO THE MORE EFFICIENT AND EFFECTIVE UTILIZATION OF EXISTING AND FUTURE AID RESOURCES DIRECTED TO THE EGYPTIAN PRIVATE SECTOR.

(F) QUANTIFICATIONS OF PROJECT OUTPUTS

WHILE THE MISSION HAS INCLUDED A LOGFRAME FOR THE PROPOSED PROJECT, THE NEAC FEELS THAT IT DOES NOT

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PROVIDE AN ADEQUATE QUANTIFIABLE BASIS FOR MEASURING PROJECT SUCCESS. THE MEASURES PROVIDED ARE TOO QUALITATIVE TO BE OF SIGNIFICANT VALUE IN MEASURING GOAL ACHIEVEMENT. THE NEAC SUGGESTS THAT THE PP PROVIDE, IN ADDITION TO THE QUALITATIVE DISCUSSION, QUANTITATIVE MEASURES WHICH WILL PROVIDE QUANTITATIVE ILLUSTRATIONS OF PROJECT PROGRESS AND SUCCESS. THE MISSION SHOULD CONSIDER DEVELOPING A LOGFRAME FOR EACH SUB-ACTIVITY PLANNED IN THE FIRST YEARS STAGE OF THE PROJECT AS A MEANS OF DEVELOPING THESE MEASURES.

(C) IMPLEMENTING ENTITY

THE MINISTRY OF INVESTMENT AND INTERNATIONAL COOPERATION (MIIC) HAS TENTATIVELY BEEN IDENTIFIED AS THE COUNTERPART ORGANIZATION FOR PROJECT IMPLEMENTATION. THE NEAC QUESTIONS THE WISDOM OF THIS CHOICE GIVEN MIIC'S CURRENT STAFF RESPONSIBILITIES AS OPPOSED TO LINE OR PROJECT ORIENTED TYPE RESPONSIBILITIES. IT IS FELT THAT MIIC'S STAFF RESPONSIBILITIES ARE NOT CONDUCIVE TO THE IMPLEMENTATION OF ACTIVITIES NECESSARY FOR PROJECT SUCCESS (I.E., PROMOTION, CONTRACTING, ETC.) IN ADDITION, THE NEAC IS CONCERNED ABOUT THE QUALITY OF THE MIIC STAFF, PARTICULARLY GIVEN THE PROBLEMS CURRENTLY BEING ENCOUNTERED BY THE MISSION IN GETTING MIIC TO INSTITUTIONALIZE A MINISTRY WHERE NONE ACTUALLY EXISTS TODAY. THE NEAC RECOMMENDS THAT THE MISSION CONSIDER IN ITS PP DESIGN OTHER GOV ORGANIZATIONS OF EQUAL OR HIGHER STATURE AND AUTHORITY WITH OPERATIONAL AND/OR PROJECT DEVELOPMENT/IMPLEMENTATION EXPERIENCE (I.E., MINISTRY OF ECONOMY) THAT MAY BE BETTER SUITED TO ASSUME THIS RESPONSIBILITY. IN DOING SO THE NEAC SUGGESTS TO THE MISSION THAT IT PURSUE THIS MATTER WITHIN THE FRAMEWORK OF THE SUGGESTED POLICY DISCUSSIONS WITH THE GOE DISCUSSED IN PARAGRAPH A. ABOVE. RELATED TO THIS ISSUE, THE NEAC SUPPORTS THE PID'S CONCEPT OF A MIXED PUBLIC/PRIVATE SECTOR ADVISORY PANEL OR POLICY BOARD FOR PROJECT GUIDANCE SUGGESTED ON PG 21 OF THE PID AND THAT THIS APPROACH BE ACTIVELY DEVELOPED AS AN ELEMENT OF THE PP DESIGN TO ENSURE PRIVATE SECTOR INPUT FOR ALL SUB-PROJECT ACTIVITIES, NOT ONLY THOSE AREAS TO BE IDENTIFIED IN THE FUTURE.

(D) CONTRACTING APPROACH

THE NEAC AGREES THAT AN UMBRELLA TYPE CONSULTING CONTRACT INCORPORATING A TASK ORDER CONTRACTING MODE, UTILIZING PRACTITIONERS RATHER THAN CONSULTING FIRMS TO PROVIDE CONSULTING ASSISTANCE, WOULD BE A KEY FACTOR IN ENSURING FLEXIBILITY IN RESPONDING TO DEVELOPMENTS IN THE PRIVATE SECTOR AND THE TIMELY IMPLEMENTATION OF THE

VARIOUS PROJECT ELEMENTS, HOWEVER, GIVEN THE WELL KNOWN DIFFICULTIES OF WORKING IN EGYPT, IS IT REASONABLE TO EXPECT THAT A CONSORTIUM OF PRACTITIONERS CAN BE ORGANIZED AND THAT ONE OF THESE FIRMS WILL BE WILLING TO TAKE THE LEAD IN ASSUMING THE ADMINISTRATIVE RESPONSIBILITIES IN MANAGING THE CONSORTIUMS ACTIVITIES? THE NEAC SUGGESTS THAT THE PRACTICALITY OF THIS APPROACH BE ASCERTAINED EARLY ON IN THE PROJECT DESIGN PROCESS TO ALLOW FOR ALTERNATIVE DESIGNS IF THIS APPROACH IS NOT VIABLE. THE NEAC RECOMMENDS THAT THIS CONCEPT BE DISCUSSED DIRECTLY WITH A REPRESENTATIVE CROSS-SECTION OF THE TYPES OF FIRMS REQUIRED. ASSOCIATED WITH THIS ISSUE IS THE MATTER OF THE PARTICIPATION OF MINORITY AND WOMEN FIRMS IN THE CONTRACTING EFFORT FOR THIS PROJECT, AN AREA OF CONCERN TO THE NE BUREAU. THE NEAC RECOMMENDS THAT A CONCERTED EFFORT BE MADE TO INCLUDE MINORITIES AND WOMEN IN THE PROJECT DESIGN FOR THE CONTRACTING FOR TECHNICAL SERVICES.

(E) FUNDING LEVEL

THE PID HAS DONE AN EXCELLENT JOB OF DELINEATING THE ELEMENTS OF THE "FIRST YEARS STAGE" OF THE PROJECT. HOWEVER, THE IDENTIFICATION OF DEFINABLE AND DEFENSIBLE ACTIVITIES FOR THE "SECOND YEARS STAGE" WHICH WOULD JUSTIFY DOLS 20 MILLION OF THE DOLS 40 MILLION LIFE-OF-PROJECT FUNDING HAS NOT BEEN MADE TO THE NEAC'S SATISFACTION. ACCORDINGLY, THE LEVEL OF PROJECT AUTHORIZATION WILL BE CONSIDERED AT THE PP REVIEW STAGE AND THE LEVEL OF FUNDING AUTHORIZATION WILL DEPEND UPON THE DETAIL PROVIDED, AS WELL AS, OUR SUCCESS IN OBTAINING RELEVANT POLICY AGREEMENT

(F) EGYPT-U.S. BUSINESS COUNCIL

THE NEAC SUGGESTS THAT IN PP DESIGN, THE MISSION GIVE CAREFUL CONSIDERATION TO WHAT ROLE THE EGYPT-U.S. BUSINESS COUNCIL CAN PLAY IN IMPACTING THE BUSINESS ENVIRONMENT AND IN MAKING INPUTS TO THE PROJECT ELEMENTS.

(G) PROJECT BUDGET

THE PRELIMINARY AID BUDGET PROJECTION DOES NOT ATTEMPT TO RECONCILE LOCAL CURRENCY PROJECTIONS WITH THAT ESTIMATED ON THE PID FACE SHEET. NOR DOES IT ADDRESS WHETHER AND IN WHAT AREAS AID WILL FUND A PORTION OF LOCAL CURRENCY COSTS. IF AID IS TO FINANCE LOCAL COSTS, REASONS SHOULD BE SET FORTH IN THE PP.

(H) SOCIAL/BENEFICIARY ANALYSIS

PAGE 27, PARAGRAPH B. (1) CONCERN'S PP CONTENT AND AN EXPLANATION OF WHY THIS PROPOSED PP CANNOT CONFORM TO AID HDBK III GUIDELINES. THE NEAC SUGGESTS THAT THE MISSION MAY BE ABLE TO DEVELOP THE TYPE OF ANALYSIS ON

THE PRIVATE SECTOR/BUSINESS CLASS AS THE BENEFICIARY. THE ANALYSIS SHOULD COVER AN EXAMINATION OF PUBLIC VS PRIVATE SECTOR ATTITUDES REGARDING PRIVATE SECTOR GROWTH AND DEVELOPMENT AND THE CURRENT RELATIONSHIP BETWEEN THE GCE AND THE PRIVATE SECTOR. THE NEAC SUGGESTS THAT THE MISSION CONTINUE THE DIALOGUE INITIATED AT THE NEAC BETWEEN NE/TECH/SARD W. FOX AND AD/IT VAN MCCUTCHEON.

(I) INVESTOR FACILITATION AND INFORMATION

THIS ONE ACTIVITY IN THE "FIRST YEARS STAGE" OF THE

PROPOSED PROJECT CONSTITUTES ALMOST 30 PERCENT OF THE FOREIGN EXCHANGE BUDGET PROJECTIONS AND IS OBVIOUSLY A VERY IMPORTANT ELEMENT OF THE PROJECT. BEFORE THE MISSION BEGINS TO DESIGN THIS PROJECT ELEMENT THE NEAC SUGGESTS THAT AID PAST EXPERIENCE IN PROVIDING TECHNICAL ASSISTANCE TO INVESTMENT PROMOTION/FACILITATION AGENCIES AROUND THE WORLD BE EXAMINED FOR LESSONS LEARNED. THE NE/PD PROJECT OFFICE WILL ACCESS THE AID REFERENCE CENTER AND PROVIDE THE MISSION WITH AVAILABLE INFORMATION. HAIG

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MACRO ECONOMIC SETTING FOR EGYPT'S PRIVATE SECTOR

The period from 1978 through 1981 witnessed sustained high growth rates in the economy, dramatic expansion in the foreign trade sector and growth in capital investment in both infrastructure and productive capacity. In aggregate terms the past five years has been a period of comparatively high performance in the Egyptian economy. Beneath the surface, however, lie a number of structural problems which have persisted through the high growth period and which have the potential to jeopardize economic performance in Egypt in the 1980s.

The foreign exchange boom of the late 1970s was fueled by the rapid growth in oil profits and the repatriation of wages from a large number of Egyptians working abroad, mostly in OPEC nations. Both of these phenomena were, to a significant degree, one-shot quantum gains which are unlikely to be matched. While Egypt can probably consolidate and sustain most of the increased levels of FX earnings from these sources, there are already significant signs that the growth rates have leveled off (and have even turned negative in the short run).

The high GNP growth rates of the past few years parallel the FX situation. Sectoral sources of growth reveal the prominence of exogeneous influences and the relative insignificance of domestic production as an engine of growth. Sectoral growth has been concentrated in transport, communications, petroleum, trade and finance. Agricultural growth has barely kept pace with the natural increase in Egypt's population. Industrial growth (at about 7 percent per year) has lagged behind the aggregate 8.5 percent increase in GDP. Additionally, industrial and agricultural growth have been the indirect result of growth in other economic sectors. As a consequence of these trends, the commodity producing sectors have declined in overall contributions to GDP. The industrial sector, in particular, declined in terms of contribution (at factor cost) to the economy over the 1970s and now accounts for less than 17 percent of Egypt's GDP.

The commodity producing private sector in Egypt has grown dramatically over the past five years and the private sector now has a dominant share in a number of production subsectors: foodstuffs, printing, clothing, footwear and leather products. The public sector, however, still dominates not only heavy and "basic" industries, but a wide range of intermediate and light engineering subsectors: beverages, tobacco, spinning and weaving, transport equipment, and other light and intermediate subsectors.

The 1980s will present major opportunities for private sector growth -- both for expansion in areas where the private sector is already strong and for an increasing private share of those subsectors where public sector expansion will be limited by amounts available for public investment in new capacity. Increased efficiency and productivity in the public sector can be promoted as a result of an expanded private sector. This poses a major challenge to the private sector in Egypt in terms of its contribution to national economic growth in the 1980s.

GOE ACTIONS TO SUPPORT PRIVATE SECTOR INVESTMENT AND DEVELOPMENT

The GOE has signaled its support of private sector development in a series of steps since 1973 to remove institutional obstacles to private sector investment and development. Milestones representing the GOE's effort in this regard are the following:

- Opening the country to foreign investment by passage of Law 43 of 1974 — the cornerstone of the "Open Door Policy" proclaimed by President Sadat in October 1973. This law, together with its amendment by Law 32 of 1977, permits qualified projects to repatriate profits and capital, to receive significant tax holidays and to avoid many of the legal obstacles to doing business found in Egypt's corporations and labor laws;
- Formation in 1975 of the Egypt-US Joint Business Council under the auspices of both governments to promote US investment in Egypt;
- Significant liberalization of foreign exchange controls under Law 97 of 1976 which permits Egyptians to hold accounts in foreign currencies;
- Permitting the operation of the "own exchange" market for foreign exchange;
- Formation in 1979 of the Capital Market Authority to develop and revive capital markets in Egypt;
- Slow but persistent relaxation of price controls;
- Liberalization of the income tax system by laws passed in 1978 and 1981 which: 1) reduced marginal tax rates on individuals from 95% at LE 10,000 to 50% at LE 75,000; 2) reduced the corporate tax rate from 41% to 32%; and 3) granted significant incentives to corporate shareholders and investors in certain priority industries;
- Liberalization of the private sector companies law in 1981;
- A bilateral investment treaty with the US; The "telemission" efforts to attract private U.S. investment; The increases in interest rates to approach market levels; and repeated public overtures to the private sector by President Mubarak.

USAID ASSISTANCE PROGRAMS FOR THE EGYPTIAN PRIVATE SECTOR

In a February 1978 report, a special interagency task force identified the following major areas for possible USAID assistance to support Egyptian private sector development:

- Provision of foreign exchange resources to the private sector either directly by USAID or through the financial institutions;
- Institutional reforms through technical assistance in the areas of policy formation, management training and technical skills;
- Legal reform of economic, commercial, tax and trade laws governing private sector investment; and
- Encouragement of joint ventures between Egyptian and US business organizations.

In 1978 an internal USAID Mission private sector task force was charged with developing projects in accordance with the needs listed above. In January 1979 a private sector office was created within USAID to carry out these objectives. The office became the Office of Finance and Investment located in the Division of Industry and Trade. Major activities of the Office are discussed below.

A. Provision of Foreign Exchange Resources

Three projects have been initiated to provide foreign exchange capital to the private sector through intermediate credit institutions:

1. Development Industrial Bank (DIB) Under this project, local private sector firms may borrow foreign exchange at an interest rate fixed below prevailing international rates and repay the loan in local currency.

2. Private Investment Encouragement Fund (PIE Fund) The PIE Fund obligated at \$33 million in FY 1979 to provide medium to long term foreign exchange debt and equity financing to local and US/Egyptian joint venture private sector enterprises with Egyptian bank co-financing.

3. CIP Private Sector Set Aside \$35 million was authorized through FY 1981 for this program which provides favorable exchange and interest rate terms to the Egyptian private sector.

B. Institution Building

USAID private sector strategy recognizes that in order to assist and encourage private sector development in Egypt, the policy planning apparatus of public sector institutions involved with private sector activities must be upgraded, and reoriented. The following such institution building activities have been undertaken with USAID assistance:

1. Investment Authority

a. In association with the Arthur D. Little investor center study, USAID has funded the following "pre-project" activities: (i) preparation of an "Investor Guide;" (ii) compilation, description and ranking of approximately 120 investment opportunities in Egypt; (iii) development of revised investment application forms; (iv) training for Investment Authority personnel in reviewing and evaluating applications; and (v) development of a data base for use by the Investment Authority and potential investors.

b. Activities associated with the Private Sector Feasibility Studies Project include: (i) training of Investment Authority personnel to accommodate potential foreign investors during investment reconnaissance and feasibility study visits; and (ii) preparation of 10 sector surveys to provide baseline data for potential US investors.

2. Capital Market Authority (CMA)

During 1980, USAID financed a study sponsored by the International Finance Corporation of the World Bank and the CMA which set forth an extensive examination of the Egyptian financial and capital markets. Recommendations for the CMA to fulfill its mandate to develop capital markets included preparation of a comprehensive capital markets law, modernization of the stock exchanges and the provision of a major conference on capital markets.

3. Central Bank of Egypt (CBE) Technical Assistance

During 1980 - 1981, USAID financed a number of pre-project technical assistance activities for the CBE provided by the US Federal Reserve Banking System. Those activities included recommendations on the reorganization of the CBE's International Department, training of bank examiners, revision of bank reporting forms and a seminar for key CBE officials on monetary policies.

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4. Other Assistance

Training programs, management advisory services and other forms of technical assistance have been major elements of the DIB, PIE Fund and Private Sector Feasibility projects.

C. Law Modernization

Considerable restructuring of the legal system is necessary in order to encourage and stimulate private sector investment. Accordingly, USAID has provided the following assistance to the GOE in the field of legal infrastructure and law modernization.

1. GOE Legal Consultant.

Since February 1981 USAID has financed a legal consultant to the GOE Financial and Economic Affairs Sector who has provided advice and assistance on a wide range of activities including: the revised 1981 companies law; income tax modernization; strengthening auditing, accounting and financial reporting; and elimination of legal obstacles.

2. Income Tax Law Modernization

Studies are funded by this project and are prepared by Egyptian experts with the assistance of American specialists. Preparation of draft tax legislation will lead to a global income tax system to replace the present schedular tax system. The goal is to eliminate tax distortions, provide a more broadly based, equitable tax system and encourage investment.

3. Tax Administration

The Tax Administration Project, indirectly related to the Tax Modernization Project, is designed to assist the Ministry of Finance to reorganize and improve the Department of Taxation. Assuming passage of the above mentioned draft income tax law by the People's Assembly, it is imperative that the Taxation Department be reorganized to implement and administer the law.

4. Conferences

In conjunction with the Ford Foundation, USAID has financed four major conferences on laws and procedures affecting investment, exports and the companies law.

5. Seminars

Again with the Ford Foundation, USAID helped finance the 1977, 1978 and 1979 Harvard Law School Seminars on Foreign Investment in Egypt.

D. Encouragement of Egypt-US Joint Ventures

In keeping with Egypt's Open Door policy, USAID has developed a program with the GOE to provide incentives for US business investment in Egypt and to facilitate the investment process. Projects in this area include:

1. Private Sector Feasibility Studies Project

The purpose of this \$5 million project, obligated in FY 1979, is to partially reimburse US companies for reconnaissance visits and pre-investment feasibility studies. In addition, ten baseline data surveys have been prepared for potential investors.

2. Egypt-US Joint Business Council

Initiated in September 1981, the purpose of this grant is to encourage US investment in Egypt by facilitating, through the JBC, visits to Egypt by U.S. companies. Services include the provision of investment finance and other data and matching of potential US investors with possible Egyptian partners.

AID-FINANCED STUDIES ON THE EGYPTIAN PRIVATE SECTOR

Arthur D. Little, Inc., Alternative Designs for the Investment Information Center (1980)

Arthur D. Little, Inc., Study on Small Scale Industries, (1982)

Boston University, Study of the Industrial Sector Including the Private Sector (1981)

Bentley, John, Recommendations and Review Report on Strengthening Auditing, Accounting and Financial Reporting in Egypt (1981)

IFC, Report and Recommendations on Development of Capital Markets in Egypt (1980)

Reynolds, Smith & Hills, General and Organization Structural Analysis and Prefeasibility Review for Suez City Free Zones, (1979)

Reynolds, Smith & Hills, Scoped Environmental Assessment of the Public Free Zones, (1980)

Coopers & Lybrand, Industrial Free Zones--Financial Analysis and Evaluation Design, (1980)

Reynolds, Smith & Hills, Capital Requirements and Technical Assistance, (1982)

USAID Private Enterprise Bureau, The Report of the Private Sector Reconnaissance Team Visit to Egypt, May 5 - May 15, 1982. (1982)

Foda, Ahmed, Banking Sector Survey (1982)

Industrial Development Authority Ireland, The Investment Information Centre - A Practical Approach (1982).

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ANNEX K

CLASS: UNCLASSIFIED
CHRG: AID 05/11/82
APPRV: OCYLKE
DRFTD: SEIFMAN/KARNS
CLEAR: LORIS
FOREY/MCCUTCHEON
DISTR: AID C AMP DCM
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AIDAC

T.C. 12350: N/A
SUBJECT: BUSINESS SUPPORT AND INVESTMENT PROJECT
- (263-0159)

PRE-AUTHORIZATION WAIVER REQUESTS

REF: (A) BUSINESS SUPPORT AND INVESTMENT PID (MARCH 25,
1982)
(B) STATE 19789
(C) CAIRO 15490
(D) DELEGATION OF AUTHORITY NO. 113.3C (MAY 21,
1982)

1. FOR TAUPENHATT, NE/PI.

2. SUMMARY: USAID REQUESTS AID/W PRE-AUTHORIZATION -
APPROVAL TO ALLOW NON-COMPETITIVE TECHNICAL SERVICES
PROCUREMENT FROM ENTITIES WITH PREDOMINANT CAPABILITY FOR
SUBJECT PROJECT. ENT SUMMARY.

3. AS AID/W AWARE, USAID HAS DESIGNED BUSINESS SUPPORT
AND INVESTMENT PROJECT (BSI) ALONG LINES OUTLINED IN CAIRO
15490. THIS 9.3 MILLION BSI IS NOW IN FINAL PRE-
PREPARATION PHASE, CONTAINS NO SIGNIFICANT POLICY ISSUES
REQUIRING AID/W CONSIDERATION, AND WILL BE REVIEWED AND
AUTHORIZED BY USAID IN FY 1982 IN ACCORDANCE WITH
DELEGATION AUTHORITY CONTAINED REF. D. NEVERTHELESS
AID/W ACTION IS REQUIRED ON REQUESTS DETAILED BELOW, TO
ACHIEVE FY 82 OBLIGATION TARGET WE WILL NEED EXPEDITIOUS
AID/W RESPONSE.

4. USAID PROPOSES ALLOWING EGYPT TO NON-COMPETITIVELY
CONTRACT WITH SOURCES OF TECHNICAL SERVICES CONSIDERED TO
HAVE PREDOMINANT CAPABILITY BY REASON OF EXPERIENCE,
SPECIALIZED FACILITIES AND UNIQUE TECHNICAL COMPETENCE.
DECISION OF WHETHER CONTRACTS WILL BE HOST COUNTRY OR AID
DIRECT HAS NOT BEEN MADE. THEREFORE WAIVER SHOULD BE MADE
UNDER BOTH AID RF 11, CHAPTER 1, SECTION 2.4.2.3 AND
AIDPR SECTION 7-3. 101-50(D)(3). SPECIFICALLY USAID
PROPOSES WIVER OF COMPETITION FOR CONTRACTS BETWEEN (1)
INTERNATIONAL FINANCE CORPORATION (IFC) AND CAPITAL-
MARKETS AUTHORITY (CMA) FOR IMPLEMENTATION OF CAPITAL
MARKETS DEVELOPMENT PROGRAM SEGMENT OF BSI PROJECT AND (2)
NATIONAL ASSOCIATION OF ACCOUNTANTS (NAA) AND SYNDICATE OF
COMMERCE PROFESSIONS FOR STRENGTHENING OF EXISTING

INSTITUTIONAL RELATIONSHIP AND FULFILLING TECHNICAL ASSISTANCE NEEDS IN ACCOUNTING AND AUDITING PROGRAM SEGMENT OF PSI. DISCUSSION FOR EACH FOLLOWS:

IFC: (A) IFC HAS BEEN INVOLVED IN THE CAPITAL MARKETS DEVELOPMENT EFFORTS IN EGYPT SINCE 1975. IN 1975 IT PREPARED A LIMITED FINANCIAL SECTOR SURVEY, MAKING RECOMMENDATIONS CONCERNING FISCAL, LEGAL, AND ADMINISTRATIVE SECTIONS AIMED AT DEVELOPMENT OF THE MARKET, INCLUDING THE ESTABLISHMENT OF THE CAPITAL MARKET AUTHORITY ("CMA") TO TAKE THE LEADING ROLE IN THIS EFFORT. IN 1978 IFC PARTICIPATED IN THE DRAFTING OF THE DECREE ESTABLISHING THE CMA AND CHARGING IT WITH SUBSTANTIAL DUTIES FOR THE DEVELOPMENT OF THE MARKET AND ITS REGULATION. IN RESPONSE TO A CMA REQUEST, IFC AND THREE CONSULTANTS, WITH USAID AND UNDP FUNDING, PREPARED THE 1981 REPORT AND RECOMMENDATIONS ON CAPITAL MARKET DEVELOPMENT IN EGYPT. THESE RECOMMENDATIONS HAVE BEEN ACCEPTED BY THE GOE AND THE CMA, AND THE PRESENT CAPITAL MARKET PROJECT IS DERIVED FROM THE 1981 IFC REPORT. IN ADDITION, SINCE ITS FUNDING, THE CMA AND ITS PERSONNEL HAVE RELIED HEAVILY FOR GUIDANCE ON THE IFC AND HAVE RECEIVED SUBSTANTIAL DIRECT ASSISTANCE AND SUPPORT FROM IFC, CONSISTING OF ADVICE ON ORGANIZATION AND WORK, ARRANGING FOR TRAINING PROGRAM AND SEMINAR ATTENDANCE, AND RECOMMENDATIONS AS TO ACTIONS TO IMPROVE ITS WORK.

(B) THE CAPITAL MARKET DEVELOPMENT PROGRAM WILL FOCUS ON THE FOLLOWING AREAS: (1) EDUCATION AND PROMOTION TO DEMONSTRATE THE BENEFITS AND POTENTIAL OF SECURITIES MARKETS, BOTH FOR SAVERS OF FUNDS AND USERS OF FUNDS, (2) EFFORTS TO INCREASE THE SUPPLY OF AND DEMAND FOR SECURITIES, (3) INTRODUCTION OF NEW TYPES OF SECURITIES AND NEW SECURITIES INTERMEDIARIES, (4) EMPHASIS OF THE DEVELOPMENT ROLE OF THE EGYPTIAN CAPITAL MARKETS AUTHORITY, (5) IMPROVEMENT OF ACCOUNTING AND AUDITING FOR COMPANIES TRADED IN THE MARKET, (6) NEW FINANCIAL LEGISLATION COVERING THE CAPITAL MARKET, UNDERWRITING AND LEASING AND IDENTIFICATION AND REMOVAL OF LEGAL IMPEDIMENTS TO CAPITAL MARKETS ACTIVITIES, (7) TRAINING OF SECURITIES PROFESSIONALS, AND (8) MODERNIZATION OF PROCEDURES AND FACILITIES FOR TRADING SECURITIES.

- (C) THE ROLE OF THE CAPITAL MARKETS SEGMENT OF THE PSI PROJECT IS TO HELP DESIGN AND DEVELOP A CAPITAL MARKET NOW IN ITS INITIAL DEVELOPMENT STAGES. IT WILL BE NECESSARY TO APPLY AN APPROACH AIMED AT IDENTIFYING, ADJUSTING AND IMPLEMENTING POLICY FOR THE DEVELOPMENT OF THE MARKET, RATHER THAN SIMPLY ADOPTING SPECIFIC OPERATIONAL DEVICES AND METHODS FROM DEVELOPED MARKETS IN OTHER COUNTRIES. FULL AWARENESS OF THE PRACTICALITIES OF CAPITAL MARKET, RATHER THAN SIMPLY ADOPTING SPECIFIC OPERATIONAL DEVICES AND METHODS FROM DEVELOPED MARKETS IN OTHER COUNTRIES. FULL AWARENESS OF THE PRACTICALITIES OF CAPITAL MARKET ACTIVITIES AND OPERATIONS TO PERMIT THE IMPLEMENTATION OF A PRO-DEVELOPMENT POLICY WILL BE REQUIRED. A DETAILED ACTION PROGRAM COVERING TWO YEARS HAS BEEN DESIGNED FOR EGYPTIAN CAPITAL MARKET DEVELOPMENT AND IT WILL BE NECESSARY TO PROVIDE EXPERT OVERSIGHT ON BOTH THE POLICY AND THE PRACTICAL STEPS TO BE PURSUED. THROUGH THE COORDINATE APPLICATION OF POLICY ANALYSIS AND PRACTICAL MARKET EXPERIENCE THE FOUNDATION CAN BE LAID TO ENCOURAGE INDIGENOUS SKILLS AND TECHNIQUE TO DEVELOP IN EGYPT OVER TIME.

- (D) FOR THE PURPOSE OF THIS PROGRAM THE POLICY AND PRACTICAL DEVELOPMENT SKILLS NEEDED WOULD BE BEST OBTAINABLE THROUGH THE INTERNATIONAL FINANCE CORPORATION ("IFC") OF THE WORLD BANK AND SPECIFICALLY ITS CAPITAL MARKETS DEPARTMENT, WHICH HAS SPECIALIZED SKILLS AND EXPERIENCE IN DEVELOPING CAPITAL MARKETS IN MANY (OVER 30) DEVELOPING COUNTRIES. IFC, THROUGH ITS CAPITAL MARKETS DEPARTMENT, ADVISES GOVERNMENTS ON POLICIES AND APPROACHES TO BE FOLLOWED BY COUNTRIES, SUCH AS EGYPT, SEEKING TO DEVELOP A CAPITAL MARKET. IFC ALSO MAKES DIRECT EQUITY INVESTMENTS IN THE FINANCIAL INFRASTRUCTURES OF DEVELOPING COUNTRIES; IT ACTS AS A FINANCIAL INTERMEDIARY ITSELF, AND PARTICIPATES IN BOKKFRAG ACTIVITIES AND UNDERWRITING FIRMS IN DEVELOPING COUNTRY MARKETS. (THESE INTERVENTIONS ARE DIRECTED AT THE "FINANCIAL DEEPENING" OF THE FINANCIAL SYSTEMS OF DEVELOPING COUNTRIES.) IN SUM, IFC IS UNIQUE IN ITS COMBINATION OF POLICY-ORIENTED DEVELOPMENT GOALS AND EXPERIENCE AND IN PRACTICAL MARKET OPERATIONS.

- (E) IFC'S ROLE WOULD BE TO BUILD ON ITS DIAGNOSTIC WORK IN EGYPT AND FURTHER DEFINE WHAT MUST BE DONE, AND THEREAFTER, ACT AS THE "EXECUTING AGENT" FOR THE PROGRAM. AS THE EXECUTING AGENT, IFC WOULD DEVELOP AND REVIEW WITH AID AND THE CMA THE POLICY APPROACHES AND TECHNICAL ADVISORY SERVICES TO BE FOLLOWED. ADJUSTMENTS WOULD BE MADE THROUGHOUT THE COURSE OF THE PROGRAM TO ENSURE PROPER SELECTION AND TIMING OF STEPS TO BE TAKEN. IFC'S BROAD POLICY FORMULATION EXPERIENCE WILL BE RECOMMENDING AND SELECTING APPROPRIATE EXPERTS, CONSISTING OF INDIVIDUALS AND FIRMS WHO WILL CARRY OUT THE WORK, UNDER IFC SUPERVISION. IFC IS FREQUENTLY PROVIDED A BUDGET BY A DONOR FUNDING SOURCE (SUCH AS THE UNDP) AND CONSISTENT WITH AN AGREED-UPON PLAN, DRAFTS SCOPES OF WORK, CONTRACTS WITH EXPERTS, AND DISBURSES FOR SERVICES. FOR THIS SERVICE AS "EXECUTING AGENT", IFC

WAS INDICATED A WILLINGNESS TO CONSIDER A MODEST OR
AT-COST FEE ARRANGEMENT OF COST PLUS 11 PER CENT.

- (F) IN CONSIDERING HOW BEST TO IMPLEMENT THE CAPITAL
MARKETS DEVELOPMENT PROJECT, USAID CONFERRED WITH
EXPERTS IN EGYPT AND THE UNITED STATES ON THE SUBJECT
INCLUDING SECURITIES PROFESSIONALS. IT BECAME CLEAR THAT
WHAT IS NEEDED ARE THE SERVICES OF AN ENTITY THAT (1) HAS
THE ABILITY TO DEAL WITH POLICY FORMULATION AND PRACTICAL
STEPS TO BE TAKEN FOR DEVELOPMENT OF THE MARKET, NOT
SIMPLY FOCUSING ON UNSPECIFIC TECHNICAL ASPECTS OF THE
MARKET OPERATIONS, (2) HAS BREADTH OF UNDERSTANDING OF
THE FULL RANGE OF DISCIPLINES INVOLVED, SUCH AS
ECONOMICS, LAW, REGULATION, AND ADMINISTRATIVE
PRACTICE, (3) HAS ACCESS TO QUALIFIED EXPERTS FROM
DIFFERENT FIELDS AND ENVIRONMENTS EXPERIENCED BOTH IN
PRACTICAL OPERATIONAL ASPECTS OF THE MARKET AND
DEVELOPMENT NEEDS AND TECHNIQUES, (4) HAS
DEMONSTRATED EXPERIENCE IN AND ADMINISTRATIVE CAPABILITY
IN CAPITAL MARKET DEVELOPMENT WORK. IFC HAS THE CLEARLY
PREDOMINANT, IF NOT THE SOLE, CAPABILITY TO PROVIDE
BOTH THE NEEDED POLICY AND PRACTICAL IMPLEMENTATION OF THE
DEVELOPMENT PROJECT.

- (G) FINALLY, MANY OF THE SECURITIES PROFESSIONALS
AND FIRMS MADE AVAILABLE THROUGH THE IFC AS EXECUTING
AGENT WOULD NOT BE AVAILABLE THROUGH COMPETITIVE SELECTION
OR CONTRACTING WITH ANOTHER ENTITY. MANY SUCH INDIVIDUALS
AND FIRMS HAVE INDICATED THEY WOULD NOT ENGAGE IN
COMPETITIVE BIDDING, BECAUSE THEIR SERVICES ARE
PROFESSIONAL, OR PERSONAL, OR THEY SIMPLY DO NOT DO
BUSINESS THIS WAY. IN ADDITION, IF A FIRM WERE
CONTRACTED TO PROVIDE ALL THE SERVICES, THEN IT WOULD
LIKELY USE ITS OWN PEOPLE, WHICH WOULD EXCLUDE OTHERS
WHO MAY BE MORE QUALIFIED AT DEVELOPMENT. FINALLY,
THERE DOES NOT APPEAR TO BE A PRACTICAL WAY TO PREPARE A
REQUEST FOR PROPOSAL THAT WOULD EVOKE DESIRED RESPONSES
WITH THE MYRIAD OF SKILLS REQUIRED, EACH OF WHICH MUST
BE ACCOMPANIED BY DEVELOPMENT SKILLS AND ORIENTATION. IFC
HAS THE BEST CAPABILITY TO ASSURE THAT THE SIGNIFICANT
TIME SCHEDULES OF THE DEVELOPMENT PROGRAM ARE MET,
BECAUSE IT HAS EXPERIENCE IN THIS, SPEAKS WITH A DEGREE
OF EQUALITY TO GOVERNMENTS, AND, UNLIKE A PRIVATE
FIRM, IS NOT ENGAGED PRINCIPALLY IN SOME OTHER LINE OF
WORK. IN CONCLUSION, IFC OFFERS PRELIMINANT
CAPABILITY AT REASONABLE COST, WITH THE BROADEST
POTENTIAL REACH TO ALL QUALIFIED EXPERT CANDIDATES.

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C. NAA: (A) EGYPT FACES A SEVERE SHORTAGE OF PROFESSIONAL ACCOUNTANTS AND AUDITORS WITH THE PRACTICAL TRAINING NEEDED TO SERVICE THE PRIVATE SECTOR. IN ADDITION, THERE IS A CRUCIAL NEED TO REPLACE OUTDATED AND INADEQUATE ACCOUNTING, FINANCIAL REPORTING AND AUDITING STANDARDS WITH MODERN, COMPREHENSIVE UNIFORM STANDARDS.

IN EGYPT, THE PROFESSIONAL ASSOCIATION INVESTED BY LAW WITH AUTHORITY OVER AND RESPONSIBILITY FOR THE ACCOUNTING AND AUDITING PROFESSION IS THE EGYPTIAN SYNDICATE OF COMMERCE PROFESSIONS (SYNDICATE).

- (B) THIS PSI PROJECT SEGMENT WILL STRENGTHEN EXISTING TIES BETWEEN THE SYNDICATE AND NAA WHICH HAVE SIMILAR MANDATES. AS SUCH IT INCLUDES A TECHNICAL ASSISTANCE PROGRAM: FIRST, TO ASSIST THE SYNDICATE TO CREATE A PROFESSIONAL RESEARCH AND TRAINING INSTITUTE; SECOND, TO HELP THE SYNDICATE COMPILE AN INITIAL SET OF UNIFORM ACCOUNTING AND FINANCIAL REPORTING STANDARDS FROM EXISTING AND AVAILABLE U.S. AND INTERNATIONAL LITERATURE AND TAILOR IT TO EGYPTIAN NEEDS, AND THIRD, TO HELP THE SYNDICATE DEVELOP EFFECTIVE MEANS OF CARRYING OUT ITS AUTHORITY AS A PROFESSIONAL ASSOCIATION TO COMMUNICATE AND ENFORCE STANDARDS WITHIN THE PROFESSION.

- (C) THE CURRENT NEED FOR AN INITIAL SET OF BASIC MODERN UNIFORM STANDARDS IS DISCUSSED IN THE PSI PROJECT PAPER. THE IDEA IS NOT TO DEAL AT THIS TIME WITH QUESTIONS AT THE EDGE OF ACCOUNTING THEORY IN THE UNITED STATES, BUT TO DEVELOP QUICKLY A SET OF WORKABLE STANDARDS DEALING WITH BASIC PROBLEMS WHICH ARE APPROPRIATE FOR EGYPT. "APPROPRIATE FOR EGYPT" WILL MEAN NOT MERELY "IMPORTING" U.S. STANDARDS WHOLESALE INTO EGYPT, BUT CONSIDERING ALSO WHAT HAS BEEN DONE INTERNATIONALLY BY THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE AND THE IEC, FOR EXAMPLE.

- (D) ACCESS TO DIVERSE SKILLS WILL BE NEEDED TO PROVIDE THE ASSISTANCE CALLED FOR BY THIS PROJECT I.E., PERSONS WITH PRACTICAL EXPERIENCE IN RUNNING A PROFESSIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS, PERSONS WITH PRACTICAL EXPERIENCE IN OPERATING A PROFESSIONAL INSTITUTE WHICH PROVIDES PRACTICAL TRAINING TO ACCOUNTANTS AND AUDITORS AS WELL AS EXAMINATION AND CERTIFICATION; BOTH PRACTICING "MANAGEMENT" ACCOUNTANTS AS WELL AS PRACTICING "PUBLIC" ACCOUNTANTS AND AUDITORS, EXPERTS IN BOTH PUBLIC AND MANAGEMENT ACCOUNTING WITH KNOWLEDGE OF THE BASIC MATERIALS NEEDED TO PERFORM RESEARCH ON STANDARDS; ACADEMICS AND PRACTITIONERS WITH A KNOWLEDGE OF INTERNATIONAL AS WELL AS U.S. STANDARDS FOR ACCOUNTING AND AUDITING. USAID BELIEVES THAT THESE DIVERSE SKILLS CAN BEST BE PROVIDED AT REASONABLE COST BY THE NAA.

- (E) THE NAA IS THE LARGEST NONPROFIT ASSOCIATION FOR PROFESSIONAL ACCOUNTANTS AND AUDITORS IN THE UNITED STATES WITH FRANCHES IN A NUMBER OF OTHER COUNTRIES INCLUDING THE U.K., FRANCE, W. GERMANY, SWITZERLAND, BELGIUM AND, MOST RECENTLY, EGYPT. IT HAS BOTH "PUBLIC"

ACCOUNTANTS AND "MANAGEMENT" ACCOUNTANTS AMONG ITS MEMBERS. THE NAS HAS THE CAPABILITIES WHICH THE SYNDICATE WISHES TO ACHIEVE THROUGH CREATION OF THE INSTITUTE. INDEED, THE NAA OPERATES ITS OWN PROFESSIONAL INSTITUTE WHICH TRAINS, EXAMINES AND CERTIFIES ACCOUNTANTS AND OPERATES IN PROGRAMS ON A SELF SUSTAINING FINANCIAL BASIS THROUGH A SYSTEM OF USER FEES AND MEMBERSHIP DUES.

- (F) THE NAA HAS A STRONG PROFESSIONAL RELATIONSHIP WITH AND INTEREST IN EGYPT. THE NAA HAS BEEN INVOLVED WITH THE SYNDICATE IN ASSISTING THE EGYPTIAN ACCOUNTING AND AUDITING PROFESSION SINCE 1980. IN THE YEAR, THE PRESIDENT OF THE SYNDICATE TRAVELLED TO THE U.S. AND ADVISED THE NAA AND THE AICPA. AT THAT TIME THE NAA, WHICH HAS CHAPTERS IN A NUMBER OF OTHER COUNTRIES, EXPRESSED INTEREST IN OPENING AN NAA CHAPTER IN EGYPT. RECENTLY, IN 1982, THE NAA APPROVED THE EGYPTIAN CHAPTER'S APPLICATION AND CHARTER.

- (G) IN 1981, THE NAS MADE RECOMMENDATIONS TO THE SYNDICATE WITH RESPECT TO A PROGRAM TO STRENGTHEN ACCOUNTING AND AUDITING IN EGYPT WHICH SERVED AS THE BASIS FOR THE PROPOSALS BY THE SYNDICATE FOR THE PROGRAM SET FORTH IN THE PROJECT PAPER. THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS RESPONDED TO THE SAME REQUEST STATING THAT IT REGRETTED THAT IT COULD NOT ASSIST WITH A PROGRAM IN EGYPT. THE NAA THUS HAS DEMONSTRATED CONTINUING COMMITMENT TO ASSIST THE EGYPTIAN ACCOUNTING AND AUDITING PROFESSIONS AND HAS ESTABLISHED A PROFESSIONAL RELATIONSHIP WITH THE EGYPTIAN ACCOUNTING PROFESSION THROUGH ITS NEWLY FORMED BRANCH HERE. BECAUSE OF THIS PROFESSIONAL RELATIONSHIP, THE SYNDICATE HAS INDICATED THAT IT DESIRES THAT THE NAA PROVIDE IT WITH THE TECHNICAL ASSISTANCE AND TRAINING CALLED FOR UNDER THIS PROJECT. THE PROPOSED CONTRACT BETWEEN THE NAA AND THE SYNDICATE WOULD FOSTER THE GROWTH OF THIS RELATIONSHIP AND PROVIDE FOR A STRENGTHENING AND DEEPENING OF THE LINKAGE BETWEEN THE TWO INSTITUTIONS. IN TERMS OF MANDATE, ORIENTATION AND COMPOSITION OF MEMBERSHIP, THE NAA AND THE SYNDICATE ARE SIMILAR ORGANIZATIONS. UNDER THE PROPOSED CONTRACTUAL ARRANGEMENT, THE NAA WOULD SERVE NOT ONLY AS A CONSULTANT FOR THE ESI PROJECT ACTIVITY BUT

ALSO WOULD INITIATE A PROJECTED LONG-TERM INSTITUTIONAL BOND WHICH BOTH ORGANIZATIONS DESIRE AND WHICH WILL ENDURE FAR BEYOND THE LIFE OF THE ISI PROJECT. THROUGH THE COMPLETE TECHNICAL SERVICES OFFERED BY THE NAA, THE SYNDICATE WOULD BE ABLE TO DEVELOP AS AN ORGANIZATION WITH THE EXPERTISE TO ASSIST IN THE DEVELOPMENT OF EGYPT'S PRIVATE SECTOR.

- (F) FROM ITS OWN STAFF AND FROM ITS EXTENSIVE MEMBERSHIP ROLLS, THE NAA CAN RECRUIT THE TEAM OF EXPERTS NEEDED FOR THIS EFFORT. THE NAA HAS STATED THAT IT COULD INCLUDE AMONG MEMBERS OF THE TEAM AT LEAST ONE EGYPTIAN-AMERICAN ARABIC SPEAKING MEMBER WHO COULD BRIDGE THE LANGUAGE GAP, WHICH WILL BE SPECIFICALLY USEFUL IN TRAINING INSTITUTE STAFF, ACCOUNTANTS AND AUDITORS AS WELL AS PREPARATION OF ARABIC LANGUAGE TRAINING MATERIALS AND STANDARDS. THE NAA CAN BEING THE REQUIRED INTERNATIONAL PERSPECTIVE TO THE PROJECT THROUGH ITS BRANCHES IN OTHER COUNTRIES.

- (I) NO OTHER ORGANIZATION BY ITSELF HAS ACCESS TO THE ARRAY OF SKILLS NEEDED FOR THIS PROJECT. FOR EXAMPLE, WHILE THE FINANCIAL ACCOUNTING STANDARDS BOARD MIGHT BE ABLE TO ASSIST WITH STANDARDS, IT DOES NOT OPERATE A PROFESSIONAL ASSOCIATION OR A TRAINING INSTITUTE WHICH EXAMINES AND CERTIFIES MEMBERS OF THE PROFESSION OR A PROGRAM OF CONTINUING EDUCATION COURSES. ALSO, THE SYNDICATE HAS INDICATED TO USAID THAT A PRIVATE ACCOUNTING FIRM WOULD NOT BE ACCEPTABLE TO THE PRESIDENT AND BOARD OF THE SYNDICATE BECAUSE THEY ARE CONVINCED THAT SUCH A FIRM WOULD OBTAIN AN UNFAIR ADVANTAGE IN THE EGYPTIAN MARKET FROM CARRYING OUT THIS PROGRAM. MOREOVER, A PRIVATE ACCOUNTING FIRM LIKELY WOULD NOT HAVE THE IN HOUSE CAPACITY TO FIELD THE DIVERSE TEAM REQUIRED. WHILE IT COULD PROVIDE THE AUDITOR, IT WOULD NOT HAVE THE UNIVERSITY PROFESSOR, THE CONTROLLER OF PERSONNEL EXPERIENCE IN RUNNING A PROFESSIONAL ASSOCIATION WHICH ALSO OPERATES A RESEARCH AND TRAINING INSTITUTE. IN ADDITION, UNLIKE THE NAA, A PRIVATE FIRM IS NOT PRIMARILY ENGAGED IN OPERATING A PROFESSIONAL ASSOCIATION AND INSTITUTE. ANOTHER PROFESSIONAL ACCOUNTING ASSOCIATION WOULD NOT BE A PROBABLY CASE AS THE NAA. THE CLOSEST IN RANGE OF CAPABILITIES TO THE NAA WOULD BE ITS SISTER PROFESSIONAL ORGANIZATION, THE AICPA. BUT, ALTHOUGH THE AICPA IS A PROFESSIONAL ASSOCIATION LIKE THE NAA AND OFFERS MANY OF THE SAME SERVICES AS THE NAA, IT SERVES ONLY CERTIFIED PUBLIC ACCOUNTANTS--I.E., THE PUBLIC ACCOUNTING PORTION OF THE PROFESSION, WHILE THE NAA; ON THE OTHER HAND, LIKE THE EGYPTIAN SYNDICATE, INCLUDES ALL ACCOUNTANTS BOTH CPA'S AND NON CPA'S AND "MANAGEMENT" ACCOUNTANTS AS WELL AS "PUBLIC" ACCOUNTANTS. IN ADDITION, THE AICPA HAS ALREADY INDICATED THAT IT CANNOT PARTICIPATE IN THIS PARTICULAR PROGRAM. IN CONCLUSION, THE NAA OFFERS PREDOMINANT CAPABILITY AT REASONABLE COST TO PROVIDE THE DIVERSE EXPERTISE NEEDED FOR THE PROGRAM TO STRENGTHEN ACCOUNTING, FINANCIAL REPORTING AND AUDITING IN EGYPT.

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7. REQUEST RAPID AID/W REVIEW AND DECISION OF PREDOMINANT
CAPABILITY ARGUMENTS MADE IN PARAS 5 AND 6 TO PERMIT USAIL
AUTHORIZATION OF BSI PROJECT FOR FY 1982. (FYI: RICHARD
SEIFMAN A/JAI/IT ARRIVED AID/W AUGUST 5 WITH PRODUCTION
CREDIT (263-0147) PP AND DRAFT COPY OF BSI PP.)

8. PLEASE ADVISE ASAP. PRECET

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17 MAR 1983

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: AA/NE, W. Antoinette Ford 

SUBJECT: EGYPT - Business Support and Investment Project; AID Project Number 263-0159; Pre-Authorization Request for Non-Competitive Procurement and Government Ownership/ Nationality Waivers

Problem: To authorize for the proposed Business Support and Investment Project (BSI) the non-competitive host country procurement of technical services from the International Finance Corporation (IFC) and to waive applicable private ownership and nationality requirements for the procurement. The estimated cost of the contract is \$4,133,000.

Background: USAID/Cairo has designed the BSI Project to support Government of Egypt (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. This proposed \$8.5 million project will fund five discrete activities which build upon or continue past AID efforts. They include:

- Capital Market Development;
- Strengthening and Modernizing, Accounting, Financial Reporting and Auditing Standards and Systems;
- Strengthening and Modernizing the Investment, Financial and Legal Infrastructure;
- Improving Investor Information Systems and Services; and
- Continuation of the Egypt-U.S. Business Council Investment Promotion and Facilitation Program.

BSI is now in its final project paper preparation phase. The mission has not identified any significant policy issues and is planning to authorize the project in accordance with Redelegation of Authority No. 113.3C dated May 21, 1982.

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Discussion: Prior to project authorization, USAID requests AID/W approval for the non-competitive procurement of technical services from IFC for the Capital Markets Development component of the BSI Project. In addition, AID policies concerning contracting with privately owned enterprises and existing nationality requirements associated with the procurement will require waivers.

Procurement from a non-private entity. Handbook 11, Chapter 1, Section 2.6.2.3 proscribes contracting with organizations wholly or partially owned by governments except if their eligibility has been established by a waiver.

This project element is not conducive to normal competitive procurement from private sources. Services for this project component require an entity that: (1) has the dual capacity to assist in policy formulation and operational technical assistance; (2) understands the full range of disciplines required to achieve project objectives; (3) has access to and can field the diverse expertise needed within the timeframes required; and (4) has demonstrated experience and administration capability in capital market development work. The Capital Markets Department of the International Finance Corporation (IFC) has been identified as the entity best suited to meet the technical service requirements for this project component.

It will be necessary to apply an approach at both identifying, adjusting and implementing appropriate market development policy and adopting specific operational devices and methods from developed markets in other countries. In considering how best to implement this project component USAID conferred with securities and consulting firms in both the U.S. and Egypt and reviewed their capabilities and availabilities for project implementation. It became apparent from these discussions that the alternative of using a private U.S. investment banking firm or U.S. consulting firm for project implementation would not be desirable because there does not appear to be a practical way to prepare a request for proposal that would evoke desired responses with the myriad of skills required, each of which must be accompanied by development skills and orientation. While some private sector entities have performed elements of the services required, none have been involved in implementing a project that required the supply and coordination of all of the services needed. Most of the companies interviewed, while having no interest in undertaking the entire effort, expressed interest in participating in the program if an entity such as IFC were involved to coordinate the effort. Others had no interest in

taking on such an effort or participating under any circumstances, recognizing their limited capability in the development context. Securities firms interviewed included, inter alia, Saloman Brothers, Drexel Burnham Lambert, Morgan Stanley and Goldman Sachs. Consulting firms contacted included Peat Marwick and Mitchell, Price Waterhouse and Arthur Young and Co. The New York Institute of Finance was also interviewed.

IFC's role will be to build on its diagnostic work in Egypt and further define what must be done, and thereafter, act as the "executing agent" for the program. As the executing agent, IFC would develop and review with AID and the Capital Markets Authority (CMA), the policy approaches and technical advisory services to be followed. IFC's broad experience will be used in recommending and selecting appropriate experts, consisting of individuals and firms who will carry out the work, under IFC supervision. Sources of technical assistance which IFC has used extensively around the world and would use in this instance include: (1) U.S. investment banking houses; (2) U.S. institutional investors and independent securities professionals; (3) U.S. stock exchanges such as the New York Stock Exchange, Pacific Coast Stock Exchange and the American Stock Exchange; and (4) associations of securities professionals such as the National Association of Securities Industry Association. Because IFC is not engaged principally in some other line of work it offers the broadest potential reach to all qualified private and public U.S. expert candidates for project implementation. IFC is frequently provided a budget by a donor funding source (such as the UNDP) and consistent with an agreed-upon plan, drafts scopes of work, contracts with experts, and disburses for services. Under this arrangement IFC has indicated that it can comply with A.I.D.'s U.S.-only-source-and- origin-of-services requirement in Egypt. ✓ IFC's contract will cover the entire action program of \$4.133 million equivalent out of which \$298,000 and LE52,000 will cover IFC's own costs and the rest will be used to subcontract U.S. entities and individuals.

Predominant Capability. Handbook 11, Chapter 1, Section 2.4.2.(a)3 requires competitive procedures in procuring services except where it can be demonstrated that "one firm has the unique capability by reason of special experience or facilities, or specialized personnel who are recognized as predominant experts in the particular field to perform the services required for the project".

IFC, through its Capital Markets Department, has been identified as having the predominant capability, in experience and specialized facilities and to have unique technical competence in executing this project component. As you are aware, IFC has assisted in the development and implementation of capital market

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programs in over 30 countries advising governments on policies and approaches. It also makes direct equity investments, participating in brokerage activities and underwriting firms.

Of critical importance in selecting IFC for this effort is their involvement in capital market development efforts in Egypt since 1976 when they completed their limited financial sector survey. They were instrumental in the drafting of the decree establishing Egypt's Capital Markets Authority (CMA). With AID and UNDP financing, IFC updated its financial sector survey in 1981, with their proposed two year action plan the basis of the Capital Markets Development component of this Project. Since the completion of this effort the CMA has relied heavily on IFC for guidance and has received substantial direct assistance and support from IFC, consisting of advice on organization and work, arranging for training programs and seminar attendance and recommendations as to actions to improve its work. IFC is currently coordinating an activity similar to this project, with PRE Bureau and Mission participation, in Indonesia.

IFC has the best capability to assure that the significant time schedules of the development program are met because of its extensive experience in this area, it speaks with a degree of equality to governments, and is not engaged principally in some other line of work. An IFC/CMA contract would also serve to strengthen the institutional relationship between IFC, CMA, and A.I.D., an arrangement A.I.D. wishes to encourage as an element of our private sector initiative and our relationship with IFC.

Nationality. The authorized supply of project services financed as foreign exchange costs is normally restricted to A.I.D. geographic code 000 (U.S. only). IFC is a self-sustaining multinational financing and technical assistance member of the World Bank Group. Although it has its headquarters here in the U.S., it does not meet U.S. nationality requirements because the U.S. government, while having a plurality of the voting stock with 29.4 percent, has less than the majority (50 percent) of the voting shares on IFC's Board. Approximately 98 percent of the IFC Capital Stock is held by Free World countries. The remaining ownership includes Vietnam (.03 percent), Yugoslavia (.49 percent) and the People's Republic of China (.84 percent). However, the proposed procurement of technical services from the IFC would not benefit these non-free world countries because only IFC staff guidance will be procured with project implementation provided through subcontracts with U.S. firms.

Recommendation: That you authorize the waiving of competition in the procurement of the above described technical services pursuant to A.I.D. Handbook 11, Chapter 1, Section 2.4.2.(a) 3 because of the unique capabilities of IFC to satisfy the requirements in this case, and that you authorize the GOE to negotiate directly with IFC for the project component described in the attachment.

Approved JB Kroll

Disapproved _____

Date March 18, 1983

Recommendation: That A.I.D. Handbook 11, Chapter 1 requirements concerning the use of Government-Owned Organizations (Section 2.6.2.3) and Nationality (Section 2.5) be waived because of the existence of a multinational institution determined to be most appropriately suited to undertake the implementation of the subject activities (which circumstance is not specifically treated in A.I.D. policy and procurement guidance). This waiver is based on your certification that the interests of the United States are best served by permitting this procurement of service from a multinational organization.

Approved JB Kroll

Disapproved _____

Date March 18, 1983

Clearances:

- NE/PD: SA Taubenblatt (Draft)
- NE/E: GGower (Draft)
- GC/NE: GDavidson (Draft)
- CM/SD/FSR: ECordaro (Draft)
- DAA/SER: JOwens 2/22/83
- NE/DP: CJohnson 2/22/83
- DAA/NE : BLangmaid 2/22/83
- PPC/PB: EHughes-Leonard (Draft) 2/22/83
- AA/PPC: JBolton 2/22/83
- GC: JEMullen 2/22/83

NE/PD:KEBrown:bjn:2/22/83:X29735:doc#0313b

04 FEB 1983

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: AA/NE, W. Antoinette Ford 

SUBJECT: EGYPT - Business Support and Investment Project; AID.
Project Number 263-0159; Pre-Authorization Waiver
Request

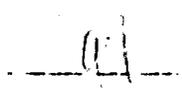
Problem: To authorize the non-competitive procurement of technical services for the proposed Business Support and Investment Project (BSI).

Background: USAID/Cairo has designed the BSI Project to support Government of Egypt (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. This proposed \$8.5 million project will fund five discrete activities which build upon or continue past AID efforts. They include:

- Capital Market Development;
- Strengthening and Modernizing, Accounting, Financial Reporting and Auditing Standards and Systems;
- Strengthening and Modernizing the Investment, Financial and Legal Infrastructure;
- Improving Investor Information Systems and Services; and
- Continuation of the Egypt-U.S. Business Council Investment Promotion and Facilitation Program.

BSI is now in its final project paper preparation phase. There are no significant policy issues and it will be authorized by USAID/Cairo in accordance with Redelegation of Authority No. 113.3C dated May 21, 1982.

03.0185



Discussion: Prior to project authorization, USAID requests AID/W approval for the non-competitive procurement of technical services for the Strengthening and Modernizing Accounting, Financial Reporting and Auditing Systems component of the BSI Project. This project element is not conducive to the normal "consultative" type of technical services Host Country Contracting encouraged by AID. Technical services will require: (1) the dual capacity to assist in policy formulation and operational technical assistance; (2) understanding of the full range of disciplines required to achieve project objectives; and (3) access to and fielding the diverse expertise needed within the timeframes required. The National Association of Accountants (NAA) has been identified as the entity best suited to meet the technical service requirements for this project component.

Egypt faces a severe shortage of professional accountants and auditors with the practical training needed to service the private sector. In addition, there is a crucial need to replace outmoded and inadequate accounting, financial reporting and auditing standards with modern, comprehensive uniform standards. A set of workable standards appropriate for Egypt dealing with basic problems needs to be developed quickly. This means not merely importing U.S. standards wholesale in to Egypt, but considering also what has been done internationally by the international accounting standards committee and the EEC, for example.

The diverse skills needed include individuals with practical experience in running a professional association of accountants and auditors; people with practical experience in operating a professional institute which provides practical training to accountants and auditors as well as examination and certification; both practicing "Management" accountants as well as practicing "Public" accountants and auditors, experts in both public and management accounting with knowledge of the basic materials needed to perform research on standards; and academics and practitioners with a knowledge of international as well as U.S. standards for accounting and auditing. The NAA can bring the required international perspective to the project through its branches in other countries. From its own staff and its extensive membership rolls, the National Association of Accountants (NAA) can recruit the team of experts needed for this effort (See Attachment for a detailed description of this project component). No other organization by itself has access to the above array of skills needed for this project. For example, while the Financial Accounting Standards Board might be able to assist with standards, it does not operate a professional association or a training institute which examines and certifies members of the profession nor a program of

continuing education courses. A private accounting firm likely would not have the in-house capacity to field the diverse team required. While it could provide the auditor, it would not have personnel experienced in running a professional association nor would it operate a research and training institute. In addition, unlike the NAA, a private firm is not primarily engaged in operating a professional association and institute. Another professional accounting association would not be as broadly based as the NAA. The closest in range of capabilities to the NAA would be its sister professional organization, the American Institute of Certified Public Accountants (AICPA). Although the AICPA is a professional association like the NAA and offers many of the same services as the NAA, it serves only certified public accounts -- i.e., the public accounting portion of the profession, while the NAA includes all accountants both CPAs and non CPAs and "management" accountants as well as "public" accountants.

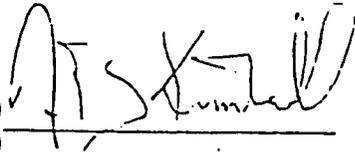
The NAA has a strong professional relationship with and interest in Egypt. The NAA has been involved with the Egyptian Syndicate of Commerce Professions (Syndicate) in assisting the Egyptian accounting and auditing profession since 1980. In 1981, at the request of the Syndicate, the NAA made recommendations to the Syndicate for a program to strengthen accounting and auditing procedures in Egypt which served as the basis for the proposals by the Syndicate for this project element. The AICPA responded to the same request stating that it regretted that it could not assist with a program in Egypt. The NAA has demonstrated a continuing commitment to assist the Egyptian accounting and auditing professions. An Egyptian chapter of the NAA was established in 1982. Because of this commitment, the Syndicate has indicated that it desires that the NAA provide it with the technical assistance and training called for under this project. Also, the Syndicate has indicated that a private accounting firm would not be acceptable to the President and Board of the Syndicate because they are convinced there can be a conflict of interest potential - that such a firm would obtain an unfair advantage in the Egyptian market from carrying out this program.

A NAA/Syndicate contract would serve to strengthen the institutional relationship already begun between these two entities, a relationship AID wishes to encourage in our private sector initiative. Under the proposed contractual arrangement, the NAA would serve not only as a consultant for the BSI Project activity but also would initiate a projected long-term institutional bond which both organizations desire and which will endure far beyond the life of the BSI Project. The estimated \$2,088,000 budget for this project component will be channeled through the NAA contract.

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In conclusion, the NAA offers predominate capability to provide the expertise needed for this program.

Recommendation: Pursuant to A.I.D. Handbook 11, Chapter 1, Section 2.4.2.(a)(3) that you authorize the waiving of competition in the procurement of technical services and allow the GOE to negotiate directly with the NAA for the project elements described in the Attachment.

APPROVED 

DISAPPROVED _____

DATE Feb 8, 1983

CLEARANCES:

NE/PD: SATaubenblatt(DRAFT)

NE/E :GGower GG 1/1/83

GC/NE:GDavidson GD 2/1/83

CM/SD/FSR:ECordaro(DRAFT)

M/DAA/SER:JOWens JOW 2/2/83

PPC/PB:EHLeonard(DRAFT)

NE/DP:CJohnson

DAA/NE:ELangmaid EL 2/2/83

NE/PD:KEBrown:bjn:01/29/83:X29735:doc#0350b

Strengthening and Modernizing Accounting,
Financial and Auditing Systems.

This program will strengthen accounting, financial reporting and auditing in Egypt. A professional institute will be created and will: (a) provide practical professional training, (b) examine and certify practicing accountants and auditors at all levels; (c) conduct the research necessary to design and update standards; (d) exchange views with those affected by accounting and auditing standards to incorporate changing needs; and (e) operate on a self-sustaining financial basis. The program will also assist in the formulation of an initial set of basic accounting, financial reporting and auditing standards for Egypt as soon as possible and in the development of effective means to communicate and enforce standards within the profession.

The implementing and disbursing authority for this activity will be the Egyptian Syndicate of Commerce Professions (the "Syndicate"). A quasi-governmental organization established by Law 40/1972, the Syndicate has power to enact rules governing the accounting and auditing profession in Egypt and, concomitantly, the authority to discipline accountants and auditors who violate these rules. Disciplinary penalties which the Syndicate is empowered to impose range from warning notices to suspension and dismissal from the Syndicate, in which case the offender loses the right to practice his profession. By law, all accountants and auditors (along with all graduates of the faculties of commerce in Egypt) must belong to the Syndicate. Thus the Syndicate has official powers and responsibilities for maintaining professional ethics and standards similar to those of a state bar association or a state society of certified public accountants in the United States.

Following signing of the Grant, the Syndicate will enter into a host country contract for the technical assistance and training services necessary to implement the program.

Implementation will take place in two phases. Phase One will entail an evaluation of current standards and options, a detailed action plan and a preliminary set of accounting standards. Phase Two will consist of implementation of the detailed plan. The consultants will submit quarterly progress reports to the Syndicate and USAID.

A. Phase One

A team of five U.S. experts will be chosen to work with a counterpart team of Egyptians. The U.S. team will consist of: a university professor specializing in management

accounting; a university professor specializing in public accounting and auditing; a practicing management accountant with hands-on experience in developing and operating management information systems; a practicing CPA auditor; and a specialist with solid experience in organizing the operations of a professional accounting association or institute. Preferably one or more of the members of the team will be fluent in Arabic. The Syndicate will nominate the Egyptian counterpart team to work with the U.S. team and will coordinate any necessary discussions with ministries and entities.

The teams will work together to:

- (1) Assess and evaluate the current state and needs of the Egyptian accounting profession;
- (2) Set forth a detailed plan stating how program objectives can be achieved in the most cost-effective manner. Such a plan may include: (a) a statement including precise steps needed to achieve individual objectives, time phasing and coordination needed with other entities; (b) a proposal for the creation of the professional training and research institute; (c) a preliminary budget including the nature and amounts of external assistance required and the contributions to be made by the Syndicate; and (d) recommendations for putting the Syndicate program (with respect to accounting standards, research and training on a self-sustaining basis through user fees or other means).
- (3) Prepare a preliminary set of basic comprehensive accounting and auditing standards for promulgation by the Syndicate along with a plan for communicating such standards to accountants and auditors, the business community and relevant government agencies.

By the end of six months, the results of Phase One would be incorporated into a final evaluation of current standards and a detailed plan and budget for Phase Two. Simultaneously, the U.S. and Egypt teams will be working on the preliminary set of basic accounting and auditing standards for completion within one year.

B. Phase Two

Phase Two will implement the Phase One plan and budget as approved by the Syndicate and USAID. A detailed description of Phase Two must therefore await the completion of Phase One. The Syndicate will require the following assistance in Phase Two.

- (1) Expert consultant services
- (2) Training:
 - (a) Overseas training of Egyptian auditors, accountants and institute or Syndicate staff consisting of: (i) short-term observation study tours by senior members of the profession; and (ii) long-term training (1/2-2 years) for persons who will later structure and implement the training and research program.
 - (b) In-country training of Egyptian accountants, auditors, and institute of Syndicate staff.
- (3) Equipment and materials
 - (a) An initial library of books and periodicals plus assistance to keep publications current while the overall program becomes self-sustaining.
 - (b) Educational and training aids such as overhead projectors, cassette equipment, cassettes, video equipment, etc.
- (4) Translation of key training and other materials into Arabic (including an initial manual setting forth accounting, auditing and financial reporting standards); translation into English of key documents concerning the accounting and auditing profession in Egypt.

CAPITAL MARKET ACTION PROGRAM

The Action Program detailed in the following pages is the net result of the combined efforts of the CMA, IFC, and USAID to develop a broad strategy with detailed technical assistance and training interventions appropriate to the present development stage of the Egyptian capital markets. The CMA participated in developing the Action Program and fully supports its approach, substance and proposed method of implementation.

Specific Steps

1. Capital Markets Conference. The CMA, with IFC and USAID assistance, will hold a major conference in Cairo during December 1982 on "Capital Market Development in Egypt."

USAID already has secured funding for the Conference from Project 263-0042 and the AID Activity Trust Fund (FT-800). The Conference, however, is a fundamental and extremely important precursor action for the program. The Conference will serve as the starting point for the Action Program and will consider most, if not all, of the subjects discussed in the following pages.

The Conference will follow a "how to" or practitioner approach and will focus on practical, non-academic actions that can be taken to develop the market. Theory will be introduced only to the extent necessary to start practical, action-oriented discussions. Experts from developed countries (United States, Canada, Japan, France, the United Kingdom, for example) and developing countries (Brazil, Korea, Jordan, etc.) may be invited to present their experiences in developing their respective securities markets. Presentations will focus on actions which worked in different circumstances and on actions which proved unproductive. To the extent possible, all presentations will be oriented to the Egyptian market and its development requirements. Major topics will include: increasing the supply of and demand for securities, the role of securities intermediaries (underwriters, brokers, etc.), encouraging a broader range of securities (equity, bonds, debentures, commercial paper, unit and other mutual funds, certificates of deposit, etc.), stock exchanges, the role of the CMA, and similar related matters.

In sum, presentations will be aimed at opening substantive debate on how Egypt can best pursue capital market development. The Conference will signal the government's commitment to market development and will educate (100+) participants including numerous private sector representatives and interested parties from abroad (brokerage houses, etc), about the problems, prospects and possibilities in Egypt. Additionally, the

Conference will assist in identifying Egyptian firms, individuals or other groups which have a demonstrated interest in developing the capital markets. As the Action Program is implemented, these groups will be able to participate as potential investors in securities firms, consultants to the CMA, and collaborators with other interested organizations.

Major Conference objectives include:

- (a) Provision of a wide, free forum for discussion of the merits of capital markets in assisting development of private, productive enterprise.
- (b) Exposure of the Egyptian financial community to the manifold benefits of a more developed and active capital market.
- (c) Education and promotion of the concept that capital markets serve both savers and users of funds by providing different risk/reward investment alternatives for savers and more flexible alternative sources of funds for productive enterprises.
- (d) Presentation of various approaches to capital market development appropriate to the Egyptian case and discussion of practical aspects of market activation which could be employed in the short-term.
- (e) Discussion of the different functions of institutions in a more active market and how Egyptian financial institutions could develop and become active capital market participants.
- (f) Discussion of how the Egyptian financial system could be "deepened" through development of securities firms and more diversified financial instrumentation.
- (g) Identification of ways in which the GOE could actively and affirmatively assist in the development of capital markets.
- (h) Identification of an affirmative, development-oriented role for the CMA and discussion of the form and content of a Comprehensive Egyptian Capital Markets Law.

2. Supply of and Demand for Securities. A series of vigorous actions is contemplated over the implementation period to increase the supply of and demand for securities. These include the following:

- (a) Incentives and Inducements. Time will be required to determine the effectiveness of the incentives provided in the recent tax law revision (Law 157/1981) and Companies Law (Law 159/1981) to increase the supply and demand for securities. The IFC Report on Capital Market Development recommended certain additional incentives. (The CMA plans to examine these as a part of the preparation of a comprehensive capital

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markets law which will consider a broad range of incentives to increase the supply of and demand for securities.)

(b) Institutional Investors. Financial institutions, such as banks, insurance companies, pension funds and investment companies need to be encouraged to make portfolio investments in publicly traded securities in Egypt. Institutional investors currently limit their investments to Law 43 Companies and treat them more as joint ventures than as portfolio investments in which subsequent marketability of the securities would be a concern. Commercial banks will be encouraged to diversify their investments. According to the CMA, commercial banks have increased their involvement in publicly traded securities, but there is considerable room for further expansion. Insurance companies have increased substantially their investment in equities, but most are in Law 43 companies which are closely held.

Institutional investment guidelines will be investigated to delineate maximum proportions of assets that can be invested in different sectors such as real estate, and (as has been done in other countries seeking to develop their capital markets) minimum required levels of investment in securities, particularly to encourage insurance companies to shift from purchase of securities in closely-held joint ventures towards portfolio investment in publicly traded securities. The possibility of diversifying investment of certain proportions of GOE Social Security funds in securities will be investigated. Examination of these questions will be conducted by the CMA during the Action Program with assistance from qualified Implementing Teams and through technical assistance and training activities.

(c) Securities Firms. Egypt lacks skilled securities professionals to undertake the mechanics of securities work and to develop capital market activities. The CMA, in conjunction with technical advisors, will encourage the formation of underwriting houses, brokerage houses, and full line securities firms. These could be built on the existing investment/venture capital companies in Egypt, of which there are currently over 50. (Others are under formation.)

In many developing countries, new securities firms have been established with relatively small initial investments. Korea, Jordan and Uruguay represent excellent examples of such activity. In such ventures, an international merchant banking house usually takes a small equity interest and the majority of investors are local, such as banks, insurance companies and entrepreneurs. This type of approach will be pursued in the Action Program and the CMA will identify and encourage Egyptians interested in such ventures. Technical advisors will study its feasibility and advise on the establishment and operations of such firms. In addition, the CMA will consider the role of banks in the securities field, such as the use of bank branch offices to accept securities orders and the manner in which banks could be used to expand and activate the secondary trading market.

The 5-year tax holiday available under Law 43 is not currently granted by the Investment Authority for underwriting and brokerage activities. The project will assist the CMA to explain to the Authority that these activities are needed and that Law 43 tax holiday should be expanded to cover them.

(d) New Types of Securities. The CMA plans to educate potential issuers of, and investors in, a broader range of securities that could be used to finance activities, as alternatives to bank lending. These will include equities, debentures (both straight and convertible), warrants, commercial paper, floating rate certificates of deposit in Egyptian Pounds, etc.

(e) Listing of Foreign Securities. The project will investigate whether trading of shares of foreign companies (which is already allowed on the exchanges) should be actively encouraged and promoted in the Egyptian stock exchanges. Significant policy issues are involved. Foreign listings could quickly expand trading opportunities on the stock exchanges. On the other hand, they could cause a diversion of saving from domestic investment to foreign securities. These questions/issues will be examined closely during the Action Program and the experience of other developing country markets will be analyzed.

3. Development Functions of CMA. Given the current state of development of the capital markets, it is necessary that the CMA act primarily as a development entity to stimulate and promote capital market activities rather than concentrate on their regulation. Decree 520/1979, establishing the CMA, clearly empowers it to be a development organization for the capital market. The development functions of the CMA require further expansion and the policy making aspects of its operation require continual emphasis on developmental vs. regulatory orientation. The project will assist in development of a comprehensive capital markets law providing clear authority to the CMA to participate in activities of other governmental bodies that may affect development of the market.

4. Stock Exchanges. It is critically important that the Cairo and Alexandria Stock Exchanges serve both to develop the market and to act as self-regulatory organizations to assure that the markets and securities professionals operate fairly and honestly. The project will assist the exchanges to encourage and develop new listings. In addition, major promotional efforts will be undertaken to demonstrate to businesses the advantages of obtaining long-term finance through public issues of securities. In the self-regulatory area, the stock exchanges should ensure that they operate for the public purpose of providing a market to all investors (and not, as in many developing countries, to act solely as a private club for the trading profit of members), to provide membership to all qualified candidates, to regulate themselves and their members to assure compliance with legal requirements, and to provide communications linkages between the exchanges to assure that investors obtain the best execution of their orders.

Project efforts to accomplish these objectives will involve: a detailed evaluation by the stock exchanges with CMA personnel and expert technical advisors (as used in similar efforts in other countries), and specific recommendations for improvements in listing requirements, practices, rules and trading procedures.

5. New Financial Legislation: Capital Markets, Underwriting and Leasing Laws.

(a) Comprehensive Capital Markets Law. When Decree 520 of 1979 was drafted to establish the CMA, it was recognized as being necessarily general in scope. It was understood that the Decree would have to be amplified to address the specifics of the capital market as needs were identified. The CMA has reviewed numerous other developing country capital markets laws and has expressed agreement as to the scope and coverage of a comprehensive law for Egypt. Preparation will involve the participation of CMA personnel and GOE legal counselors, extensive consultation and draft review by the private sector, and the assistance of a qualified technical advisor.

(b) Underwriting Legislation. It will be necessary to specify the powers and requirements applicable to the new securities professionals and underwriters emerging with development of the primary capital markets. This may be included in the comprehensive Capital Market Law or may be addressed separately in other decrees or legislation.

(c) Leasing Legislation. Because the legal situation for leasing in Egypt is not clear, a number of changes in laws must be made to clarify it. For example, leasing requires the establishment of specialized leasing companies which will seek Law 43 approvals. Law 43, however, does not specifically recognize foreign investments in joint venture leasing activities as qualifying for incentives and guarantees provided under the law. In addition, leasing requires a legal mechanism to obtain and maintain effective security interests over equipment and other moveable property leased to industry. The Egyptian Commercial Code and other legislation such as the Companies Law 159/1981 do not specifically recognize leasing as a secured financing agreement in which the lessor has rights to recover possession of property in the event of lessee default. Law 159/1981 also does not recognize lessor's rights to match depreciation on assets to lease terms, and does not grant the lessor exemption from tariffs and other duties where the lessee would qualify for such exemptions. The project will investigate the necessary actions to be undertaken by the CMA and other groups to prepare appropriate leasing legislation and to address these and other issues.

6. Companies Law 159/1981 and Executive Regulations.

(a) Company Law and Regulations. The Egyptian Company Law 26/1954 has been recognized as inadequate to spur new corporate activity. In 1980, the Ministry of Economy and the Investment Authority sponsored a

major conference on revision of the Companies Law, partially financed by AID, leading to preparation of the new Companies Law 159 passed in 1981. The implementing regulations were issued recently.

The CMA and other responsible GOE authorities will monitor closely the new Companies Law and its executive regulations and with technical assistance, will determine the adjustments needed to be made to facilitate capital market development. Probable actions will deal with: (i) required annual reports and policy statements, (ii) minimum capital for companies and limitations on issuance of securities (bonds, debentures), (iii) when securities must be listed on the exchanges and what trading can occur before listing, and (iv) numerous issues relating to protection of investors.

(b) The CMA has indicated that its organization may be expanded in late 1982/early 1983 by the addition of a "Companies Department" which would serve as the nexus of screening and approval for companies newly formed under Law 159. Assistance will be provided to the CMA to develop the terms of reference of this Department and to provide for a rapid review/approval process.

7. Training. The project will undertake an ambitious program to educate the CMA staff and personnel from banks, insurance companies, institutional investors, investment companies, brokers and dealers on the diverse subjects that are needed to more fully understand and activate the capital market. This task will be approached by (i) selecting foreign advisors to come to Egypt to give briefings on various appropriate subjects, and (ii) visits by Egyptian personnel to foreign securities organizations engaged in these subjects for "hands-on training" for short periods of time.

The CMA expects 20 of its personnel will be available for training (released in groups of 5 each at any one time), and has identified over 40 candidates from other interested entities outside the CMA (banks, brokers, institutional investors). The CMA previously has undertaken training with the development agencies of France and the UK in which 25 CMA staff and 40 outside personnel received training primarily in stock exchange workings.

Training will cover the following broad topics:

- (1) Development of Capital Markets
- (2) Incentives, Inducements
- (3) Underwriting
- (4) New Types of Securities
- (5) Brokerage and Selling Securities
- (6) Stock Exchange Activities
- (7) Corporate Finance/Financial Analysis
- (8) Securities Regulatory Bodies
- (9) Accounting/Auditing related to securities and preparation of prospectuses.

Training will involve approximately three to four groups in each of the next two years. Each group will consist of up to 5 CMA persons and up to 20 non-CMA persons. Each person in the group will be required to prepare a detailed report on the results of the training and how he/she will integrate course content into his/her work. Post training discussions will be held in work groups to discuss the relevance of the experience to Egyptian capital market development needs. Prospective sites of training in the US include selected brokerage houses, the New York Institute of Finance, and possibly universities such as Harvard, Wharton, etc. Training programs may be custom-designed for specific needs if sufficient numbers of personnel can be located. In this area, USAID will enlist the support of DS/IT in AID/W when training needs cannot be met by existing programs. The purpose of the training is to provide focused, on-the-job instruction in specific areas, and to apply what is learned directly to the work place.

Implementation Approach

Implementation will sequence technical assistance and training activities in a manner consistent with the development state of the capital market, the capacity of the CMA to digest and manage the manifold program, and the participation of other GOE and private sector organizations and individuals.

Each task will be implemented through a "team" approach comprised of CMA, other GOE, public and private sector representatives. The CMA will form a "team" for each task or specific subject matter to be treated. The project will require a general plan describing formation and operation of the Teams. Technical advisors recruited by the IFC will lead/manage these teams, provide focused attention to addressing the specific substance of each task, and work with those teams to fully investigate the task at hand. Teams will be assigned definite completion timetables and objectives flowing from the IFC advisor(s) scope(s) of work and from GOE policy objectives pertaining to financial system development. The team's activities and resulting performance will be necessarily based on the assumption that all participants have the interest, capacity, time and will to carry out implementation. Team members drawn from the CMA will include Department Heads and the promising members of their professional staffs. Private sector members will be drawn from brokers at the Cairo/Alexandria Exchanges, bank officers, insurance company professionals, institutional investors, Egyptian private consultants, institutional investors, accounting/auditing firms, and from companies that are potential issuers of securities. GOE ministries and public sector organizations also will be sources of team personnel. Teams will submit periodic reports to the CMA on activities, progress and problems. The initial report will outline the team's approach to investigation of its task(s). The final report will be supplemented by a Team briefing of CMA members and other interested parties.

Training will follow the general task outline of the Action Program and will focus on "how to" practical, non-academic aspects of capital markets which can be applied in the short term. Members of the teams will be likely candidates for training, which would improve their understanding of and input to the team work effort.

A concentrated effort will be made to identify qualified candidates for membership in the implementing teams and training assignments. The CMA, with its training coordinator and Executive Committee, will prepare descriptions of each employee who is a candidate for membership on an Implementing Team and for training assignments, and will be charged with ensuring that only fully qualified candidates are chosen according to reasonable criteria. The candidates descriptions will, at a minimum, include the following information: (i) the Action Program task and/or related training opportunity for which the person is a candidate; (ii) name and age; (iii) position, job description and responsibilities; (iv) educational background; (v) full details of experience, including practical experience relevant to the Action Program task; and (vi) a justification of why he/she is a prime candidate. The information will be obtained from written resumes and from Executive Committee interviews of both the candidates and their previous employers. All other GOE and private sector participating organizations will be required to undertake the same approach and to make recommendations to the CMA.

Training activities largely will be tailored to meet specific CMA, other GOE, and private sector requirements, as appropriate to capital market development needs. The duration of training will vary from 4-12 weeks and will be undertaken both in the US and in Egypt. The training program has two broad objectives: (i) to supplement the technical assistance activities for each task through an affirmative, practical learning experience for Egyptians, and (ii) to train a sufficient and diverse cadre of professionals in capital market subjects to ensure that there are trained persons available in Egypt to carry on the work of further developing the market after the program ends.

Projected sources of technical assistance include the following: (i) IFC, (ii) US investment banking houses, (iii) US institutional investors and independent securities professionals, (iv) US stock exchanges such as the NYSE and the Pacific Coast Stock Exchange (PCSE), (v) associations of securities professionals such as the National Association of Securities Dealers (NASD) and the Securities Industry Association (SIA), and (vi) foreign merchant banks and securities companies. IFC will coordinate the search and recruitment of technical personnel from these sources through its executing agency relationship with the CMA.

The main source of specific practical training is expected to be the New York Institute of Finance (Institute). The Institute has trained all of the CMA Executive Committee, including the CMA Chairman; it has indicated to the CMA a willingness to set up tailored courses in specific subjects

macro-development approaches and policy formulation, etc. Certain US investment banks also may undertake training although their participation is expected to be limited due to high costs and lack of the necessary "development" orientation.

The Comprehensive Capital Markets Law would cover, at a minimum, the following subjects:

(a) Development. Development duties of the CMA.

(b) Incentives. Incentives to companies and controlling shareholders to sell their shares to savers to invest in securities and to securities firms to form and become active in underwriting and designing new types of securities, and in forming securities brokerage and research activities.

(c) Market Structure. Determination of whether all trading in securities should be required to occur solely on the stock exchanges, in order to increase depth and liquidity, employ the auction process and be subject to regulation by the exchanges; or whether some securities may be traded outside of the exchanges, in the dealer market which may be more fractionalized and less well regulated.

(d) Stock Exchanges. Development functions of the stock exchanges and oversight by the CMA to function for specified goals, such as providing fair, orderly self-regulated markets, providing access to membership by all qualified applicants.

(e) Securities Professionals. Requirements for underwriters, brokers, investment advisors, money managers and other securities professionals, such as registration, qualifications, required capital, relationship with customers, conduct in the market and possibly a self-regulatory organization.

(f) Disclosure. Required disclosure to the market by issuers of securities, both in public offerings and on a continuing basis, of current information necessary for informed investment decisions. These subjects have been addressed already in the Companies Law and the Executive Regulation. However, it will be necessary to monitor them and to make adjustments, if needed, in the Capital Markets Law.

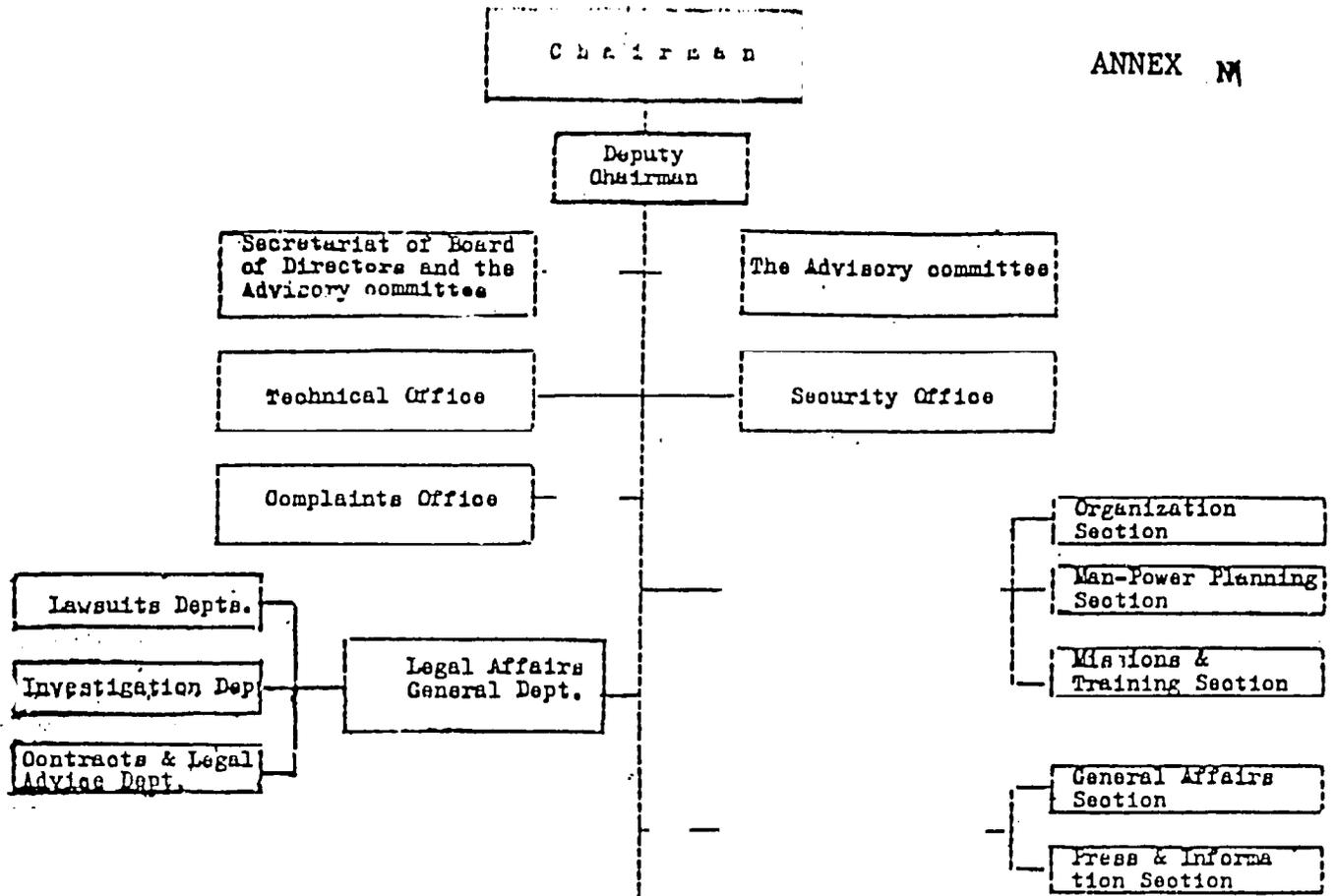
(g) Auditing and Accounting. Means of establishing and enforcing auditing and accounting standards, independence of auditors from companies they audit, and a self-regulatory organization.

(h) Prohibitions. Activities in the market which should be prohibited (such as fraud, planned manipulation) or closely circumscribed (such as stabilization).

(i) Bondholders. Requirements for the protection of bondholders, such as a common representative or trustee to protect their interests, required reports, bondholders' meetings and limitations on amendments to bondholders' rights. These subjects have been addressed in the Companies Law and Executive Regulations. However, it will be necessary to monitor the success of these and to make adjustment, if needed, in the Capital Markets Law.

(j) Sanctions, Civil Liabilities. Sanctions for violations of the law, including civil liabilities to reimburse persons harmed by violators.

(k) CMA Powers. Explicit power of the CMA to make rules and regulations, having the force of law, and to enforce actions to carry out the provisions of the law.



Development and Research Sector :

- 1) Legal and Legislation Studies General Dept.
- 2) Economic & Financial Studies General Dept.
 - Finance and credit policies.
 - Investments & planning policies.
- 3) Saving & Investment Development General Dept.
 - Investment Financing.
 - Public Sector Studies.
 - Private and Joint Sectors Studies.
- Documentation & Information General Dept.
 - A. Statistics & Publication Dept.
 - Statistic & Reports sec.
 - Local & periodical publication section.
 - B. Documentation & Translation Dept.
 - Documentation Section.
 - Translation Section.
 - C. Library Dept.
 - D. Computer & Micro-Film Center.
 - Programming Section.
 - System analysis Section.
 - Perforation Section.

Market Operations Sector :

- 1) Issuance & Registration General Dept.
 - Permissions and public offerings publication.
 - Issuance Registers.
- 2) Securities Marketing & Trading General Dept.
 - Companies Financial Position Evaluation.
 - Securities Trading Statistics.
- 3) Stock Exchanges General Dept.
 - Middle-men and Market Stock-brokers.
 - Committees.
 - Publications.
- 4) Follow up and Evaluation General Dept.
 - Follow up.
 - Contraventions.

International Cooperation Sector :

- 1) International Institutions & Conferences General Dept.
 - United Nation Agencies.
 - Conferences & International Meetings.
- 2) Foreign Offices General Dept.
 - Europe & America Offices Affairs.
 - Arab offices Affairs.
 - Far-East offices Affairs.
- 3) International Markets & Financial Center General Dept.
 - International Securities Markets.
 - Foreign Exchange Markets.

Administrative & Financial Affairs General Dept.

- 1) Financial Affairs General Dept.
 - Accounts Section.
 - Budget Section.
 - Purchase Section.
 - Cashing Section.
- 2) Administration & Services Affairs General Dept.
 - Filing & Publication & Secretary Section.
 - Stores Section.
 - Transportation Section.
 - Services & Maintenance Section.
- 3) Personnel Affairs General Dept.
 - Services Affairs Section.
 - Payment Section.
 - Registration & Files Section.

CAPITAL MARKETS PROGRAM BUDGET

ANNEX N

		COST		(P/M)	COST	
		\$ (000)	L.E. (000)*		\$ (000)	L.E. (000)
1)	<u>Supply & Demand for Securities</u>					
	(a) Incentives	(3) 52.5		(4) 70.0		
		(4)	12.0	(4)		12.0
	(b) Institutional Investors	(3) 52.5		(4) 70.0		
		(2)	6.0	(3)		9.0
	(c) Securities Firms	(2) 35.0		(3) 52.5		
	(d) New Types of Securities	(3) 52.5		(4) 70.0		
		(2)	6.0	(3)		9.0
2)	<u>Development Role of CMA</u>	(2) 35.0		(2) 35.0		
		(4)	12.0	(6)		18.0
3)	<u>Stock Exchange</u>	(2) 35.0		(2) 35.0		
	(a) Development Role	(2)	6.0	(2)		6.0
	(b) Self Regulatory	(2) 35.0		(2) 35.0		
		(1)	3.0	(1)		3.0
4)	<u>Financial Legislation</u>					
	(a) Capital Markets Law, Legal Impediments, and Underwriting	(10) 175.0		(10) 175.0		
		(10)	30.0	(12)		36.0
	(b) Leasing	(4) 70.0		(5) 87.5		
		(3)	9.0	(4)		12.0
5)	<u>Companies Law and Companies Department</u>					
	(a) Securities Aspects	(1) 17.5		(1) 17.5		
		(1)	3.0	(1)		3.0
	(b) Companies Dept. Operations	(1) 17.5		(1) 17.5		
		(1)	3.0	(1)		3.0

State Council
Legislation Department
Draft of Presidential Decree of the Arab Republic of Egypt
No. ____ of year ____
For Establishing the General Authority for Financial Markets

The President of the Republic, after perusal of the Constitution,

- The Maritime Commercial Law;
- Law No. 326 of 1953, concerning dealings in stocks and securities;
- Law No. 26 of 1954, on provisions relative to joint stock companies, limited joint stock companies, and limited liability companies and subsequent laws;
- Law No. 161 of 1957 on the General Rules of the Stock Exchanges;
- Law No. 163 of 1957 on bank and credit and amended laws;
- Law No. 61 of 1963 on General Authorities and amended laws;
- Law No. 43 of 1974 promulgating the system of investment of Arab and foreign capital, the free zones and subsequent amended laws;
- Law No. 120 of 1975, on the Central Bank and the banking structure;
- The approval of the Council of Ministers; and
- In accordance with the opinion of the State Council, has decided:

Article 1: A general authority shall be established having its own independent juridical personality and affiliated to the Minister of Economy, Foreign Trade and Economic Cooperation. It shall be called the General Authority for Financial Markets, its headquarters shall be located in Cairo. By decision of its administrative board, it may have branches and offices in the capitals of the governorate in the country, as well as overseas financial centers.

Article 2: The Authority's purpose shall be to organize and develop the financial markets, control its proper functioning and direct the capital to contribute to economic development, and to achieve the following objectives:

1. In the field of development

- A. To devise, develop and consolidate a suitable atmosphere for savings and investment necessary for economic development.
- B. To encourage and develop the stock exchanges for present and future issues, including stock to be issued for capital increases, and to stabilize value of stocks.
- C. To encourage finding and training of stock exchange brokers and other professionals to work in the financial markets, and provide them with training facilities necessary to raise their professional standards.

D. To prepare studies and proposals for the various governmental bodies to introduce necessary amendments to the laws and regulations in force and to promulgate new legislation necessary for the developemnt and organization of the financial markets.

2. Provision of Information

To control the provision of sufficient and suitable information on stocks and issuers, on the market's brokers and other professionals, as well as making sure of the validity of the information and particulars obtained and rendering them regularly and periodically available so as to serve their purpose.

3. Registration

To make sure that the sale of new stocks to the public is made after correct and sufficient information has been made available to investors after applying procedures and regulations of issuance and to make sure that the competent authorities have provided correct and sufficient information on the stocks they have issued on the proper time.

4. Dealing in Stocks and Securities

To control the stock exchange to make sure that transactions are not tarnished by fraud, swindling or fancy speculations and that all transactions are done through the stock exchange.

5. Control of Brokers and Other Professionals

To ascertain that all market agents, such as brokers, competitors, advisors, organizations of all types, accountants and auditors, connected with activities of the stock exchange have been legally licensed to carry out their activity.

6. Professional Code of Honor, Censorship and Self-control

To establish a professional code of honor including censorship, self-control and ethics of the profession binding all those working in financial markets, such as brokers and other professionals.

Article 3: The Authority shall have the full authority to enable it to achieve its objectives and to meet the responsibilities for which it was established. To these objectives, the Authority has to undertake the following duties:

1. To study the rules, législation and regulations necessary for the practice of its responsibilities described in Article 2 and required to create a suitable atmosphere, and to study the basi that should be established for the developemnt of its own structure as well as of the stock market to realize an international standard.

2. To undertake inspection and test operations at governmental bodies which have activities connected with the Authority, to secure accuracy of the registers and books and their upkeep, and to draw attention to taking necessary procedures regarding the adjustment of activities.
3. To issue financial and administrative regulations regulating work at the Authority without being bound to governmental regulations.

Article 4: The Authority shall not be allowed to interfere in fixing the prices of stocks and securities, of all types, either by sale or purchase, directly or indirectly.

Article 5: The Chairman of the Authority and his Deputy shall be appointed by Presidential Decree, upon proposal by the Minister of Economy, Foreign Trade and Economic Cooperation. The Chairman of the Authority shall preside over its Board and his Deputy shall be the Board's Vice-Chairman. The term of the Chairman and his Deputy shall be for five (5) years, which may be renewed for one more term.

Article 6: The Administrative Board of the Authority shall consist of nine members; five (5) representing concerned governmental bodies and four (4) representing the private sector to be selected by the Minister of Economy, Foreign Trade and Economic Cooperation. The first term for a member will be five (5) years, but as from the third year, with the exception of the Chairman and his Deputy, one third of the Board members may be annually deprived of their membership by turn through secret ballot, but may be re-elected also by secret balloting of full-fledged members. No member can stay for more than two (2) terms.

Article 7: There will be a quorum at the Board's meeting when an absolute majority of members is present provided the Chairman or his Deputy is present. However, decisions are not valid unless approved by at least five of its members. The Board shall convene at least once every two months or whenever summoned by the Chairman, his Deputy or a majority of the members. The Administrative Board shall have a secretary who will keep records of all its proceedings and decisions.

Article 8: The Chairman of the Authority shall undertake the administration of the Authority and its affairs and represent it before the judiciary and others. He shall preside over its Executive Body which shall consist of technicians and administrative clerks appointed by the Board and nominated by the Chairman.

Article 9: The Administrative Board of the Authority is the highest authority controlling and managing its affairs and drawing up its general policy. It may take whatever decisions it may find necessary to achieve the purpose for which it was established, particularly:

1. To issue decisions and internal regulations on financial, administrative and technical matters of the Authority without being bound to governmental regulations;
2. To draw up regulations concerning employees and workers of the Authority, their promotion, transfer and discharge;
3. To approve the draft of the Authority's annual budget;
4. To consider periodic reports submitted on the Authority's activity and its financial position; and
5. to request assistance of whatever experts it finds necessary for the good performance of the Authority's activity.

The decision of the Administrative Board of the Authority should be reported to the Minister of Economy, Foreign Trade and Economic Cooperation for his approval.

Article 10: A consultative committee shall be formed by the Minister of Economy, Foreign Trade and Economic Cooperation, upon proposal by the Authority's Chairman and in agreement with the concerned ministries and private sector bodies. The committee shall consist of not more than fourteen members representing the ministries and bodies concerned with the stock market, in agreement with their respective ministers and heads of these bodies. The committee shall be in charge of advising the Authority of its duties and responsibilities and serving as a link between the Authority and the ministries and bodies to which the committee's members belong.

Article 11: The financial resources of the Authority shall be:

1. Funds allocated by the Government;
2. Local or foreign loans after their approval in accordance with the law; and
3. Local or foreign donations agreed upon by the Board and approved by the Minister of Economy, Foreign Trade and Economic Cooperation. The Authority shall have the right to receive these donations in hard currency and keep them for usage in its activities.

Article 12: This Decree shall be published in the official newspaper and shall come into force as from the date of its publication.

President of the Republic
Mohamed Anwar El Sadat

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FUNCTIONS OF THE GENERAL AUTHORITY FOR INVESTMENT AND FREE ZONES
MANDATED BY LAW 43

Following the declaration of the "Open Door Policy" in 1974 by President Sadat, the foundations for the new policy took form in Law 43 of 1974 (subsequently amended by Law 32 in 1977). Law 43 thus became a symbol of Egypt's commitment to open its economy to broader international participation as well as to restructure its economy and society, especially its previously moribund private sector. For both domestic and foreign investors, Law 43 also has come to signify the government's strong interest in fostering productive investment aimed at long-term and concrete economic benefits for the nation and its population.

The agent for transforming this policy into action, specified in Law 43, is the Investment and Free Zones Authority. The Authority, under the direction of its Board of Directors, was assigned specific functions including general research and information gathering relevant to developing investment, control and monitoring of the investment process, to promotion and facilitation of new investment, recommendations on changes in policy and laws to improve the investment development process. In short, the Authority was to deal with virtually all aspects of the investment cycle.

Article 26 of Law 43 is explicit with respect to the tasks to be performed by the institution. These are described generically as follows:

1. Research and Program Planning

The Authority is instructed to study the "laws, regulations, and resolutions" affecting foreign investment in Egypt, and "submit proposals" with respect to their interpretation and implementation, and assume a broad policy-making/recommending role with respect to the encouragement and control of investment.

The Authority's program planning function is to identify desired or priority investments. The Authority is directed to "prepare lists" of activities and projects where foreign capital is to be "invited"

Source: Alternative Designs for the Investment Information Center, A. D. Little International, Inc., July 1980.

2. Control and Monitoring

The Authority evaluates and recommends whether a proposed investment project should be granted official approval by the Egyptian Government (and entitled, therefore, to special benefits). By extension, this function implies that the Authority's staff has indirect control over proposed projects (the Board of Directors making the ultimate decision) since it is in a position to discourage or effectively eliminate those projects which it does not approve.

Paragraphs (iv) and (v) of Article 26 provide for the follow-up monitoring to be exercised by the Authority over projects which have been approved. For example, the Authority must register invested capital, review the valuation of that capital at the time of disposal or repatriation, approve profit remittances on the basis of an examination of relevant documents, and verify that all laws and standard accounting principles have been observed.

3. Promotion and Facilitation

The promotional role of the Authority is mandated by paragraph (iii) of Article 26, which specifies that the Authority will "offer projects for investment", "render advice", and "familiarize international capital markets and capital exporting countries" of the "approved lists" of the Authority. The Authority's role as an investment facilitator through the provisions of services to the investor is defined in paragraph (vii) in which the Authority is instructed to assist the investor in procuring permits (from itself and other agencies) and in handling general administrative matters.

ORGANIZATIONAL STRUCTURE AS A REFLECTION OF OBJECTIVES AND FUNCTIONS

Most successful investment development agencies perform the following functions in one form or another:

- Policy elaboration and guidance
- Investment program planning
- Research and analysis
- Investment promotion
- Investment regulation
- Facilitation of investors and the investment process
- Operations management

While virtually all of these functions are present in the operations of successful programs, the manner in which they are organized administratively varies greatly. They may be dispersed throughout several ministries, making coordination decentralized and frequently difficult, or overall authority may be concentrated in one organization which controls all the relevant functions in the investment development process.

1. The Authority's Functional Characteristics as Mandated by Law

The functions performed by the Investment Authority give it a character that falls between the two extremes of dispersion and concentration. While Law 43 defined extensive functions for the new organization, the Authority was not granted precedence over other agencies in the performance of these tasks, and in practice must share the field with a number of other bodies in the government. This shared authority is primarily in the control and regulation of investment, particularly the granting of approvals for investment under Law 43, over which other agencies have strong influence, and the monitoring of compliance with regulations. In the areas of program planning, research, promotion, and facilitation of foreign investment, however, the Authority has been given a virtually exclusive franchise.*

The functions which the Authority is mandated by law to carry out include both line and support functions. The line functions which the Authority is expected to perform include:

- The promotion effort to attract foreign investment into Egypt.
- The control function of screening and recommending investment applications for approval as a basis for obtaining the privileges conferred by Law 43.
- The facilitation function to assist the investor in establishing his operation.
- The inspection and follow-up activities to ensure compliance with regulations affecting Law 43 investors.

Support functions are also envisioned, both explicitly and implicitly, by the Law:

* The Authority also regulates domestic Egyptian investment in cases where the benefits of Law 43 are sought for purely domestic projects; here also other agencies of the Government have overlapping authority.

- Policy analysis to interpret laws, regulations, and resolutions affecting the development of foreign investment in Egypt.
- Program planning to designate priority investments to be pursued.
- Research and analysis to assist in the screening and evaluation of investment applications.

2. Allocation and Performance of Assigned Functions Within the Investment Authority at This Time

a. The Policy Elaboration and Guidance Function

Although Law 43 is explicit in giving to the Authority the mandate to "study the laws, regulations, and resolutions" in connection with investment in Egypt and "submit proposals" as appropriate, the actual responsibility for studying policy implications of Law 43 does not seem to have been assigned below the level of the Deputy Chairman. The Board of Directors and the Deputy Chairman are clearly the critical actors in policy decisions, and the Board, through the Deputy Chairman, may request studies of policy implications or interpretations of regulations. There is, however, no organizational unit in the Authority continuously and formally charged with the task of assessing the course of foreign investment program or "submitting proposals" for improvement or changes in the implementation of Law 43. Despite this fact, the Authority has successfully brought about amendment of Law 43 and is now initiating amendments of the Companies Law. Considerable reliance in this process seems to have been placed on advisory services from outside the regular Authority organization -- primarily foreign experts.

b. The Program Planning Function

If it is defined as the systematic identification of priority sectors, industries, or projects to be sought and promoted by the Authority, "program planning", as such, is not actively performed in the Authority at this time. Nominally and informally, some aspects of program planning are carried out by a few key individuals in the Research, Evaluation and Promotion Division; however, the Deputy Chairman himself frequently identifies key projects or sectors which the Authority is to pursue actively. The Research Department within the Research, Evaluation and Promotion Division would appear to be the logical home for such a program planning function but in practice the Research Department's activities are focused more on micro issues, such as economic analyses of rates of return of specific types of investments, analysis of individual projects, etc. Also the Research Department's operations at this time have a relatively short-term perspective rather than the longer-term orientation required for effective program planning.

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c. The Research and Analysis Function

Research and analysis functions are performed within many Divisions and Departments of the Authority.

Within the Research, Evaluation and Promotion Division, the Research Department and the two Evaluation Departments are, by definition, involved in research and analysis functions. While the Research Department is normally engaged in economic analysis of different types of inland investment, the Evaluation Department focuses on the data and feasibility studies presented to the Authority by potential investors in their investment applications. These departments are assigned the task of studying and verifying these submissions, and recommending action for the Board of Directors, including obtaining the expert opinions of other technical ministries.

Within the Investment Division, the Inspection and Follow-up Department, whose primary responsibility is regulatory control, is nominally charged with analyzing periodically the various procedures which the investor must pass through and with studying problems which confront the investor. In practice, however, this research and analysis function has not yet been an important task for the department.

Within the Free Zone Sector, a similar research and analysis activity is performed by its own Inspection Department. This department is instructed to study various impediments to investment in the free zones, undertake comparative studies of free zones in other countries, and review progress in the free zones.

Within the Statistics and Information Department, the official task is the collection and organization of data, both on current investors as well as relevant economic data for investor inquiries. This could be called "research and analysis". In fact, however, this department does not undertake original research and analysis, but is largely a repository or conduit for data needed elsewhere within the Authority.

d. The Promotion Function

Promotional efforts to attract foreign investment are carried out by the Promotion Department, within the Research, Evaluation and Promotion Division, and to some extent by the Statistics and Information Department which has responsibility for providing general statistical information to potential investors. The Promotion Department has only recently been constituted as a separate unit and is currently mounting new initiatives in the promotion area. Promotional efforts are also undertaken by the Deputy Chairman in his capacity as Managing Director of the Authority and as the leader of delegations to international missions and conferences.

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e. The Regulatory Function

The regulatory function is the most clearly defined and widely practiced in the Authority through the management of the investment approval process and its follow-up. The grant of privileges under Law 43 is essentially a form of regulation of investment and requires the participation of almost all elements of the organization prior to the Board's decision to grant or withhold approval of an investment application. An almost exclusive concern with regulation is seen in the Investment Division's activities, which are activated after an approval is granted, and which are focused on inspection and follow-up, aiming at ensuring compliance by inland investors with the terms of each investor's permit, Law 43 and other relevant regulations. Similarly, free zone investments are monitored closely by the Free Zones Sector's Inspection Department. The Legal Affairs Department frequently acts in a regulatory capacity through its review and interpretation of regulations, legal decisions, contracts, and articles of incorporation.

f. The Facilitation Function

Facilitation of the investment process through services to investors is a major function for two departments in the Investment Division (the departments which deal, respectively, with industry and service projects and with agricultural and construction projects) and is a subsidiary activity for several others. The two investment project departments assist investors in obtaining required approvals, permits, and licenses. Similarly, they advise the investor with respect to problems faced in the procedural process of investment.

To a lesser extent, the Promotion Department within the Research, Evaluation and Promotion Division is responsible for providing a measure of facilitation assistance to investors in the form of advice and assistance, during the pre-approval phases. This function, however, is performed on a largely ad hoc basis.

g. The Operations Management Function

Operations management functions reside primarily in the General Secretariat which is responsible for most managerial and financial matters concerning the internal administration of the Authority. In terms of analyzing the managerial requirements of the Authority, suggesting improvements and modifications, the Training and Organization Department also is nominally mandated to fulfill this role. In actual practice, the Managing Director of the Authority exercises primary decision-making authority with respect to the management system.

INVESTMENT AUTHORITY PROJECT DESCRIPTION

An AID-sponsored study conducted by A. D. Little, Inc., formulated two sets of recommendations to the Investment Authority for investment promotion. The first recommended the establishment of an Investment Center within the Authority which would have promotion, facilitation and information functions, and consist of a Cairo office, as well as regional and international offices. The second also recommended the establishment of an Investment Center, but confined the early years of the Center's activities to the investment information function. The two options are organizational alternatives for the Investment Authority, each requiring skills and capacity considerably beyond the Authority as analyzed by the Mission and the Irish Development Authority for AID in June 1982.

This project responds to the staff weaknesses of the Authority by tailoring investor assistance to a scale small enough to permit adequate counterpart staffing. A project which provides expatriate assistance at a sufficiently modest level to match the Authority's capacity to assign counterparts is preferable to the notion of expatriate staff performing GAFI functions.

This project will develop a compact entity (Investment Center) within the Authority which will concentrate on investor facilitation. Comprised of about 32 professionals, its function will be to service investors, not to regulate them. AID will finance technical assistance and training as well as a modest package of resident TA (perhaps two Egyptian professionals for 2 years). The objective will be to improve the Authority's ability to organize support for overall investment and investment promotion.

1. Sub-activity Demands

An early indication of GAFI intentions will be its willingness to create an Inquiry Services Department; if successful, it will be followed by the creation of a promotional core, an investor information library and data unit and, finally, by an investor services unit. These units are detailed below:

a. Inquiry Services Department

(1) Objective - To provide a reception and first contact service for all inquiries and visitors to GAFI so that suitable projects can be identified and investors can be encouraged to establish in Egypt.

(2) Nature of Function - A response-oriented marketing function which is the first opportunity that the potential investor and GAFI will have of evaluating proposals and operations.

(3) List of Activities - Respond to specific inquiries from potential investors. Where the information required is the responsibility of another department, whether within GAFI or not, the staff of the Inquiry Services should obtain this information for the potential investors.

- Communicate with potential investors and provide them with appropriate forms, brochures and other materials.
- Meet with potential investors, arrange any further meetings with appropriate staff, whether within GAFI or not, and accompany potential investors to all such meetings.
- Deal with all follow-up matters affecting potential investors until an identifiable project emerges, and then assign to the appropriate project Investment Sector.
- Evaluate projects to determine their economic and commercial viability and their conformance with GAFI guidelines.
- Collect and store published investment information such as brochures, leaflets, studies, application forms, investment guides, etc.
- Provide feedback on a regular basis to GAFI on the nature of the inquiries received in a particular time period and the current status of those enquiries which may result in projects.

(4) Organization - A limited number of staff is required. Staff should operate on a geographic specialty basis. Inquiries could initially be split on the basis of national origin. In this way, the operating staff will develop a level of expertise in a particular geographic region. Such experienced staff could form the basis for staffing foreign offices.

(5) Reporting - The Director of Inquiry Services should provide the GAFI Board with information every month concerning the number of inquiries, the number of serious inquiries and an analyses of them by country of origin and project type.

(6) Implications for GAFI - At present, first-time contacts are generated by GAFI: a) through the Deputy Chairman's office; b) through promotional events; and c) through Egyptian officials overseas reporting back to GAFI. Under the new approach all first-time contacts will be channeled to the Inquiry Services Department. This Department will service such potential investors and build a reputation of assistance and competence.

b. Library and Data Services Department

(1) Objective: - To assist the staff of the Inquiry Services by serving as a resource center for investment information documents, providing a comprehensive data base, and carrying out, as requested by Inquiry Services, short-term research activities involving economic or technical data which may affect decisions.

(2) Nature of Function - This is primarily a support function for the staff of the Inquiry Services.

(3) List of Activities

- Assist the staff of Inquiry Services in searching for information;
- Organize the acquisition and distribution of relevant newspapers and magazines;
- Collect, store and maintain investment-related documents, books, publications, etc.;
- Respond to requests from the Inquiry Services staff for economic and technical data;
- On request from Inquiry Services, produce short reports on investment-related subjects.

(4) Organization - Staff requirements will be minimal; therefore, no complicated organizational structure will be needed.

(5) Reporting Procedure - The Staff member in charge of Library and Data Services will report to the Director of Inquiry Services.

(6) Implications for GAFI - This project will not establish a major library and data processing facility rivaling existing departments.

c. Promotion Department

Contingent upon a functioning Inquiry Services Department, the GAFI could create a Promotion Department.

(1) Objective - To promote Egypt as a location for foreign investment to investors in foreign countries. Priority will be given to those investments which contribute positively to the progress of the approved investment plans.

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(2) Nature of Function - This is an initiative-oriented marketing function. Existing project profiles will be marketed to selected groups and individuals. Projects which fit within general guidelines will also be sought.

(3) List of Activities - Develop a promotional strategy and program for the year.

- Initiate contracts with potential Egyptian investors.
- Using Egyptian officials in foreign countries, make contact with potential investors who may establish projects in Egypt either as a joint venture or as a 100%-owned subsidiary.
- Maintain such contacts until a project outline emerges for channeling to Investor Services.
- On a selective basis, participate in conferences, institutions, and international fairs relating to investment.
- Organize a small number of promotional events in Egypt and abroad (use the staff of the Central Department for Public Relations to organize most of the work).
- Initiate and maintain contact with journalists, consultants, and other opinion molding professionals.
- Develop promotional materials, brochures and briefing documents.
- Assist in the design and distribution of the Investment Authority Newsletter.
- Undertake limited advertising in selected markets to promote activities.
- Regularly review the results of the promotion activities and modify as necessary.
- Maintain, in coordination with Inquiry Services, the current status of serious inquiries/contacts which have the potential to result in projects and make a joint regular report to GAFI.

(4) Organization - Again, only minimal staff will be required. Staff should be prepared to visit potential investors overseas, but should not become involved in the detailed organization of the small number of promotional events. (Public Relations should carry out this task under the supervision of Promotion.)

(5) Reporting Procedures - The Director of Promotion should report to the Deputy Chairman. He should provide information on: the number of investors contacted; the number of serious possibilities for projects identified by country origin and project type; the current status of all serious possibilities; brief details of promotional efforts that occurred during the month; and brief details of promotional efforts planned for the coming month.

(6) Implications for GAFI - Currently the work of Promotion is the responsibility of the Promotion and Overseas Offices sector based in Nasr City. There will be some need to make organizational decisions about promotion-related responsibilities.

d. Investor Services Department

(1) Objective - To facilitate the investment process when investors and projects have been identified by the staffs of the Inquiry Services and Promotion Departments.

(2) Nature of Function - This is a marketing oriented function designed to ensure that the investor is assisted in getting his project into operation.

(3) List of Activities - Guide investors in the procedures required to gain GAFI project approval and other government agencies, and assist them in completing application forms and other documents.

-Act as liaison for investors with GOE entities to obtain permits, licenses and other legal approvals.

-Anticipate problems and difficulties which the investors may encounter and assist investors in solving these problems.

-Maintain contact with the investors after their projects have been established so that further assistance can be provided as necessary.

(4) Organization - The size of the staff for Investor Services will largely be determined by the number of projects being handled. Staff should be specialized by project type/product sector so that expertise in specialist areas can

be gained. It is crucial that the staff have regular exposure to problem solving. The transfer of projects from Inquiry Services/Promotion should take place when an investor and a project have been clearly identified and further service becomes necessary.

(5) Reporting Procedures - The Director of Investor Services should provide information on: a) the projects handled during the month; b) the status of projects at the end of the month; c) problems encountered by projects; d) and matters which will require government action.

(6) Implications for GAFI - Currently there is an Investor Relations section and a number of project-oriented sections in GAFI. This proposal will effect these offices. One approach may be to place industrial and agri-business projects in the new department, and to deal with all other projects in the existing sections.

3. Staffing

The new investor facilitation entity will require capable people at all levels. A key personnel selection will be the choice of director. He will need to have both the management ability to get the job done, and the internal organizational skill to gain and keep support for the unit. Total staff is projected at 32 for the Investment Center, with office assignments as follows:

<u>Office</u>	<u>Total Staff</u>	<u>Grade Level Equivalent</u>						
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Director	(3)	1					1	1
Inquiry Services	(3)		1		4		2	1
Library Data								
Services	(5)			1	3		1	
Promotion	(8)		1		5		2	
Investor Services	(8)		1		5		1	1
TOTAL	(32)	1	3	1	17	0	7	3

The consultants will work with the Investment Center to execute the initial activity study; facilitate the development of the investor/investment center core; and conduct both on- and off-the-job training programs. A senior GAFI officer will work with the consultant and provide detailed knowledge of GAFI, as required.

Because of the particular nature of the type of assistance required, GAFI may seek assistance from other Development Authorities. One such Authority with extensive LDC training experience is the Irish Development Authority. (Allocation of funds for training from AID Code 899 countries will be required.)

4. Training

A major training effort will be required if the investor/investment service staff is to demonstrate knowledge, skills and attitudes. Off-the-job training could be provided prior to commencement of operations once the activities have started; however, most training will necessarily be on-the-job training.

The initial off-the-job training program will be carried out in Cairo by professionals with industrial development and training experience. Training will be directed at middle and senior management to demonstrate what others are doing in the field, and at younger staff, to teach/promote enterprise and investment fundamentals. Mid- and senior-level staff should have foreign language and communication skills. Those who do not have such skills will attend local training programs. They should also be thoroughly familiar with Egyptian Government investment policy and procedures. An "overseas" program, currently offered by the Industrial Development Authority (IDA) of Ireland, might be most suitable for staff members. IDA offers an extensive eight-week program in "The Promotion of Foreign Industrial Investment".

The Industrial Development Authority of Ireland also offers an eight-week program in "The Identification of Industrial Projects and Investment Opportunities." This program would be useful training for senior staff.

5. Development Staging

The proposed plan will be developed in phases, with the decision to go forward with a subsequent stage made based on the successful start-up and operation of the previous stage. Thus:

- Stage 1 Establishment by GAFI of the investor/investment services unit
- Stage 2 Selection of a qualified Director and the selection of a Board to facilitate the development of the unit
- Stage 3 Selection by the Board of a consultant to carry out the organizational analysis. This will include: determining the level of project activity in GAFI, confirming staff levels required for the unit, and analyzing implications for other units in GAFI.

- Stage 4 Selection and training of staff for the Inquiry Services Department
- Stage 5 Reasonably effective operation of the Inquiry Services Department
- *Stage 6 Selection and training of the staff for Library and Data Services
- *Stage 7 Reasonably effective operation of Library and Data Services
- Stage 8 Selection and training of staff for the Promotion Development
- Stage 9 Reasonably effective operation of the Promotion Department (6 months)
- Stage 10 Selection and training of staff for the Investor Services Development
- * Stage 11 Operation of the Investor Services Department

6. Evaluation of the Investment Unit

Performance criteria will be established to measure the cost-effectiveness of the unit. Criteria will include:

- Increases in numbers and size of foreign investment;
- Increases in employment attributable to these investments;
- Increases in inquiries from potential investors; and
- Reduction of time between initial inquiry, submission of application, decision on application, project implementation and operation.

Indicators could be developed annually and observed.

* May be started at any time
**Not funded in this project

The benefits from this project include: enhancing the effectiveness of the investment development process; generating more investment in the private sector and hence creating more jobs; and developing a cadre of young professionals employed by the Investment Authority but ultimately available to work in other sectors of the economy.

It should be noted that a major portion of the project's budget is in training and technical services (much of which may be considered as on-the-job training) and that, historically, these kinds of activities yield high benefits in a developing country.

Regarding the employment and investment impact, we will estimate that the unit will improve GAFI's performance by at least 25% over the present level, suggesting that the total annual investment under Law 43 and the corresponding jobs will increase by 25% annually over the levels expected without creating this unit.

FREE ZONE PROJECT DESCRIPTION

1. Egyptian Free Zone Development

The theory and practice of free zones in Egypt have been discussed in depth in several previous reports and studies to USAID(1). The following synopsis is provided for background.

Within Egypt, the Open Door policy was initiated to stimulate foreign investment for the purpose of developing the national economy. Free zones are an important part of this policy. The purpose is to offer incentives to foreign investment while generating: a) increased employment, b) dissemination of advanced technology and administrative techniques, c) increased exports and a more favorable balance of trade, d) increased local revenue sources, e) expansion of the national infrastructure, and f) increased flow of private foreign capital to Egypt.

GAFI's more important functions relating to the Free Zone Sector include: a) targeting projects and investments which are to be encouraged in the free zones, b) tabulating free zone data, c) evaluating investment applications, d) registering and evaluating incoming capital, e) facilitating coordination requirements between investors and government, and f) planning and managing the free zones.

GOE responsibility in the free zones was originally intended to be limited to infrastructure and management. This role has increased so that the GOE now will also provide modular buildings for general investor leasing.

(1) See General and Organizational Structure Analysis and Pre-Feasibility Review for Suez City Free Zones, Reynolds, Smith and Hills, 1979; Scoped Environmental Assessment of the Public Free Zones, Reynolds, Smith and Hills, 1980; Industrial Free Zones - Financial Analysis and Evaluation Design, Coopers & Lybrand, 1980; and Capital Requirements and Technical Assistance; Reynolds, Smith and Hills, 1982.

2. Free Zone Operations

The Free Zone Sector administers four Public Free Zones: Port Said, Alexandria (El Ameria), Cairo (Nasr City), and Suez (Port Tawfik). These zones essentially serve as large industrial estates which provide utilities and services for a broad mix of industrial and non-industrial projects. Each free zone has its own semi-autonomous organizational structure patterned after that of the Free Zone Sector. Employment of Free Zone Sector personnel approximates 343 people distributed as follows:

<u>LOCATION</u>	<u>PERSONNEL</u>
Cairo Headquarters	35
Alexandria	120
Cairo (Nasr City)	106
Port Said	65
Suez (Port Tawfik)	17
TOTAL	343 (from 1979 report)

By the end of 1981, the four zones contained a total of 164 projects representing a planned capital expenditure of LE 125.7 million. Table 1 portrays the yearly increments of approved projects in production since the public free zones were established.

The decline in approved projects in production since 1976 is largely attributed to delays incurred in completion of the zone infrastructures. As shown in Table 2, a large number of projects associated with each of the free zones are either approved or in the development process. It is probable that the majority of these projects will commence production after needed infrastructure is provided.

TABLE 1
TOTAL PROJECTS IN PRODUCTION
PUBLIC AND PRIVATE FREE ZONES
1975 - 1980

	1975	1976	YEAR OF APPROVAL			
			1977	1978	1979	1980
Total number of New Projects						
Public Free Zone	32	56	9	7	19	45
Total Capital (LE Million)*						
Public Free Zone	22.73	33.79	10.69	7.53	19.126	35.34
Total Investment Costs (LE Million)*						
Public Free Zone	24.41	36.04	11.38	8.99	43.58	44.10

*Figures represent planned estimates, rather than actual totals.
Source: Reynolds, Smith and Hills, General Authority for
Investment and Free Zones, 1982.

TABLE 2
STATUS OF FREE ZONE PROJECTS BY
YEAR-END 1981

	UNDER PRODUCTION	EXECUTION	APPROVED
* <u>Public Free Zones</u>			
Cairo (Nasr City)	22	16	45
Alexandria (El Ameria)	44	12	93
Suez (Port Tawfik)	20	10	43
Port Said	81	14	99

* 33 Projects Withdrawn During the Period of 1979-1982.

Source: Reynolds, Smith and Hills, General Authority for
Investment and Free Zones, 1982.

3. Free Zone Sector Organizational Structure

The Free Zone Sector (Sector) is one of 11 organizational units of GAFI. The Sector head reports to the GAFI Deputy-Chairman and is responsible for implementing policy as defined by his Board. This includes: (a) coordination of free zone planning; (b) acquisition of land and conversion to free zone usage; (c) approvals of budgets and accounts of individual free zones; and (d) performance of other functions related to the Free Zones. It is organized into three central departments:

Central Department for Inspection

- Inspect and audit all free zone operations
- Propose tariff and rental fees
- Prepare technical, administrative and financial regulations

Central Department for Zonal Affairs

- Collect data and prepare reports on zone activities
- Issue approvals, permits, and licenses
- Disseminate information to and coordinate work among free zones.

Central Department for Engineering:

- Prepare drawings, specifications, quantity surveys
- Call for tenders, analyze and award bids; supervise work in progress
- Operate water and sewerage systems; maintenance

Although the Sector is considered relatively effective and efficient, USAID and the Sector management have identified several areas for improvement. These areas are summarized in broad categories for conceptual purposes. In practice, many tasks will overlap and complement each other. AID project assistance will allow the Sector to:

- Improve and maintain physical infrastructure
- Reduce legal and administrative deterrents
- Improve Sector productivity

a. Purpose and Relationship

The broad purpose of this sub-activity is to develop Sector capability. The project will provide professional and technical services for a variety of advisory and training tasks. At the end of this project, the Sector is expected to use improved systems in such areas as zone management, accounting and financial management, and engineering and maintenance.

The specific purpose is to improve the Free Zone Sector's capacity to operate and manage its free zones by upgrading the quality of selected personnel in its higher management, technical, line and staff functions. This will be accomplished through a multi-faceted training program undertaken at different operational areas within both the Central Office and the free zones. Training and technical assistance will be provided at the following levels:

- Policy and Planning for senior personnel in the Free Zone Sector Office and each free zone.
- Technical operations staff
- Free Zone staff personnel

b. Technical Assistance - Operations

Training in this area will be aimed at engineers at the central office and at the free zones. Training will be given in both classroom and OJT formats on a short-term basis. It is anticipated that most training will be undertaken in Cairo with engineers working in the individual free zones being called in to the Central Office.

Training recommended for this group will be oriented towards preventive maintenance, general maintenance, and future construction. Various facets of planning, design, construction, contracting, materials, labor, equipment selection and use, and work force upgrading will be emphasized.

In addition to training in Cairo, selected Cairo staff engineers and various field engineers will be given field training in the US for approximately two months each. This training will encompass one month of instruction in and observation of maintenance procedures and one month of observation of and instruction in construction procedures on selected sites chosen by the Project Implementation consultants.

Selected engineers with appropriate technical backgrounds will be given training in environmental analysis procedures. The expertise gained from this training will be used to review the environmental implications and impacts of proposed free zone investments. Environmental training will be given in the US under the auspices of the project implementation consultants. After the trainees return to Egypt, it is expected that further OJT will be given, particularly with regard to modification and use of environmental screening procedures employed by the Free Zone Sector.

c. Technical Assistance - Management Operations

Training will be oriented towards middle management and will concentrate upon: (i) development of procedures for the different line departments of the Free Zone Sector and the free zones, and (ii) work flow task development. The objective will be to develop sets of consistent operating procedures in each department with regard to:

- record keeping
- scheduling of project follow-up actions
- inventory management/control and record keeping
- customs expediting
- financial reporting and budgeting including establishment of useful accounting reports
- security coordination

Training in and usage of forms compatible with modern data processing equipment also will be undertaken to modernize and speed procedures.

Technical services and training financed by the project address the needs of the free zones in improvement of the management and operations of the Sector. It forms part of a larger GOE effort to build and operate its free zones. (The GOE has considerable investment in free zones and a sizeable amount of infrastructure has already been installed. Since 1974 the GOE has invested approximately \$56 million in all free zones.)

At the end of the project the Sector is expected to have increased institutional capacity to manage existing infrastructure, plan for future expansion/modification of infrastructure and provide better service to free zone investor clients. The project design is straightforward and within the present absorptive capacity of the Department. Sector management understands the nature of the project and its design structure.

Training will improve the Sector's capacity to operate, manage and maintain the free zone system, and to provide a professional level of service to investors. This was a major recommendation in the feasibility studies. Advisory services are considered necessary to ensure a substantial technological transfer of method and professional expertise to free zone management and operations. In sum, the activities described above are recognized by GAFI and senior Free Zone Sector managers as high priority issues.

d. Implementation Plan and Procurement

(1) Consulting Firm

A consultant will be contracted under a host country contract to provide a broad range of services. These services will include assistance in (a) improvement of free zone management and (b) maintenance of infrastructure and equipment. The consultant will provide: (a) coordination and implementation of the advisory/training programs; and (b) training for international standards for procurement, maintenance and planning for the operation of each Free Zone. Services are to be provided by a combination of long- and short-term advisors depending upon project needs.

4. Monitoring and Reporting

a. Monitoring

Monitoring will be the responsibility of USAID/Cairo staff which will have frequent contact with the Sector staff. The USAID project manager will draw upon assistance from other USAID divisions including: engineering, legal and contracting as needed. In addition, periodic consultations will be scheduled with GAFI, the Free Zone Sector and others to assess project progress. Regular reviews of project progress will also be conducted by USAID/Cairo senior management.

b. Reporting

After signing of the Project Agreement, USAID will issue an implementation letter which will contain the necessary guidance on types of reports, formats and schedules to be followed. The reports will be prepared by the Sector, possibly with assistance from the consultant. In addition, the consultant will prepare periodic reports on its activities for the Sector with copies to USAID.

c. Baseline Data

Sector records provide adequate baseline data. The evaluation plan calls for reorientation of current information systems to monitor progress in achieving objectives. Investor application forms and supporting documentation is filed at the Cairo office, and monthly free zone status reports are available. In addition, the consultants will survey investors to acquire core data. Baseline data will be reviewed initially to determine such items as:

- employment operation, wages, value added;
- capital/labor intensity, capital investment;
- sector composition of free zone investors;
- amount of exports, type, destination, etc; and
- FX generation/saving

5. Consultant's Approach to Free Zone Needs

The Free Zone training plan is further detailed below:

a. Infrastructure and Equipment Management

(1) The Consultant will review Free Zone equipment and utilities and assist the Sector to evaluate, execute, administer, procure and supervise maintenance activities.

(b) Review existing plans and reports concerning equipment and utilities, revising any elements as needed, required to operate the Alexandria (Phase I), Cairo and Port Said Free Zones. (3 months) He/she will prepare a planning report consisting of: a preliminary design, identifying equipment items and opportunities for standardization; an implementation plan and preventative maintenance schedule for all equipment-related activities; and cost estimates for each item of equipment, materials and services which form the preventive plan.

(c) Train the Department in evaluation, data tabulation and contract preparation, negotiation, execution, and administration for performance of specialized preventive maintenance functions. (6 months)

(d) Train the Department to inspect and supervise all equipment delivery, all mechanical and electrical erection work and all civil construction work related to the zone infrastructure. (6 months)

(e) In conjunction with training element of project, assist the Sector to formulate and establish equipment/facilities operation and maintenance systems which will help ensure proper utilization. (6 months)

(f) Develop environmental analysis procedures for use in the monitoring of free zone investors, including both screening and control criteria. (3 months)

(g) Improve planning and design procedures including: physical planning, design standards, selection of building materials, construction scheduling and coordination. (3 months)

b. Advisory/Training Program

The Consultant will review the Department's training needs and recommend a phased plan acceptable to GAFI and AID for detailed advisory and training services related to the physical operation and management systems. The plan is expected to provide for advisors, on-the-job training, classroom presentations, observation visits, etc., as appropriate.

c. Implementation of Plan The Consultant will assist the Department in implementing the advisory/training component by furnishing its own staff members, by sub-contracting, and by drawing upon other institutions, as appropriate. The Consultant will also assist the Department in arranging for continuation of certain portions of the Plan, as appropriate, after completion of the project. It is anticipated that some items below will not be accomplished in the early stages of the project.

The areas are described in broad categories for conceptual purposes. In practice, many areas overlap and complement each other.

(1) Establish an interagency Task Force comprised of representatives from the Department and from Customs Agencies to improve interagency coordination and develop uniform procedures; (1 month)

(2) Develop procedures and train staff for speeding delivery and proper valuations by Customs authorities; (4 months)

(3) Introduce a new system for inventory documentation and control of goods awaiting customs clearance and train personnel in its usage; (4 months)

(4) Survey investors about legal and administrative problems within the Zones. (4 months)

(5) Establish a system to measure the length of time for processing investor applications, permits, and information requests. (3 months)

The Department has an internal reporting format which provides information to support management decisions and policy evaluation by the GAFI Board of Directors and senior management. Problems arise, however, from lack of any consistent approach to information gathering and use and from lack of standardization. The consultants will develop a Management Information System (MIS) better tailored to Department needs. The reports prepared by the consultants on project implementation will include the MIS reports.

The MIS will consist of a carefully thought-out flow of reports from individual free zones to the Department headquarters and back to the zones. Standardized report formats will permit later storage and retrieval on EDP machinery. The MIS will provide a documentation system which the Department and free zones understand, find useful, and which provides needed data for operating decisions, project evaluation and discussion of policy issues. Complementing the MIS, advisory/training programs will upgrade management and operations systems.

- Investor reports will cover employment levels by technical, skilled, and un-skilled categories; FX creation; and L.E. expenditures.
- Standardized financial reports will include balance sheets, income statements, sources and uses of funds statements, and budgets.
- Economic and financial reports will provide information on costs and benefits accruing to the economy (such as FX earned, employment, local purchases, etc.), thus providing more sophisticated evaluation of progress.