PD-AAQ-585

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Control Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
Production Credit	263-0147	USAID/Cairo

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)

☐ REGULAR EVALUATION ☐ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY___	B. Final Obligation Expected FY___	C. Final Input Delivery FY___	A. Total $ 68 million B. U.S. $ 68 million	From (month/yr.) 8/82 To (month/yr.) 12/85 Date of Evaluation Review

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
*1. Remove the maintenance of value (MOV) provision from the project.	IS/FI and MPIC	January 1985
2. Implement training activities.	IS/FI, MPIC	March 1985
3. A Project Committee meeting should be called to discuss how the evaluation will affect future programming.	IS/FI	January 1985
4. The following issues should be addressed under follow-on credit projects: a. A dialogue should be initiated with the GOE to encourage the development of an interest rate structure that encourages term lending. b. A flexible mechanism needs to be developed for adjusting effective foreign exchange rates, taking into consideration U.S. source and origin requirements. c. Project local currency generations should be used to encourage improvements in the credit market or to support export development. d. USAID should consider providing term credit in both foreign exchange and local currency, particularly to firms with export potential and/or comparative advantage. e. A private sector steering committee should be activated.	NA	NA

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- ☐ Project Paper
- ☐ Financial Plan
- ☐ Logical Framework
- ☐ Project Agreement
- ☐ Implementation Plan e.g., CPI Network
- ☐ PIO/T
- ☐ PIO/C
- ☐ PIO/P
- ☒ Other (Specify) PIL
- ☐ Other (Specify)

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. ☐ Continue Project Without Change
- B. ☐ Change Project Design and/or ☒ Change Implementation Plan
- C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

David Cowles, IS/FI
James Suma, IS/FI 1/16/85
Donald Pressley, AD/IS DLP 1/16/85
George Laudato, AD/DPPE
Arthur Handly, DD

12. Mission/AID/W Office Director Approval

Signature

Typed Name: Frank B. Kimball, DIR

Date: 13 FEB 1985

*Mission Director does not object to removal of MOV from present PCP program. Agreed, however, future program, i.e. FY86 and onwards, shall include mechanism and/or formula to adjust "cost of funds" to clients.

NEAR EAST EVALUATION ABSTRACT

PROJECT TITLE(S) AND NUMBER(S)	MISSION/AID/W OFFICE
Production Credit (263-0147)	USAID/Cairo

PROJECT DESCRIPTION

The Purpose of this project is to expand investment for productive private sector enterprises by financing the foreign exchange costs of raw materials, intermediate and capital goods imported for use by the productive private sector.

AUTHORIZATION DATE AND U.S. LOP FUNDING AMOUNT	PES NUMBER	PES DATE	PES TYPE
9/25/82 $68 million	85-8	January 1985	[X] Regular [ ] Other (Specify)
ABSTRACT PREPARED BY, DATE	ABSTRACT CLEARED BY, DATE		[ ] Special
N. Shafik, DPPE/PAAD January 1985	D. Cowles/J. Soma January 1985		[ ] Terminal

The evaluation was conducted by a four person team with expertise in evaluation, banking, economics, and commodity procurement. Three team members were from AID/W and the development banker was recruited through the International Executive Service Corps. The team was tasked with evaluating project purpose achievement and with making recommendations applicable to this and other USAID industrial credit activities.

The team concluded that, while the project was very successful in providing foreign exchange to finance private sector imports, its credit market and institutional development objectives were constrained by implementation problems and macroeconomic policy issues. The project has financed 288 transactions valued at $54 million for an extensive list of raw materials and capital equipment such as plastic inputs, poultry production experiments, construction machinery, and textile raw materials. The team found that effective interest rates under the project, estimated at between 22 and 28 percent, are positive given Egypt's inflation rate of approximately 20 percent. Sixty-eight percent of the transactions have been for end-users of raw materials and capital goods. The vast majority of the commodities financed were identified as appropriate to Egypt's development needs. The training component of the project has not been implemented due to delays in developing an adequate training plan and institutional problems. The Private Sector Steering Committee, originally intended to provide guidance on project-related macro-level issues, never met.

The report identifies many lessons learned from this project. The Central Bank of Egypt's interest rate structure, to which project interest rates are tied, has tended to discourage term lending. The maximum interest rate of 13 percent on industrial credit and the minimum of 16-18 percent on short-term trade credits have encouraged banks to concentrate on more profitable short-term, commercial lending. The existence of a Maintenance of Value (MOV) provision, originally intended to insure that importers would pay a more realistic price for foreign exchange, actually discouraged the use of the project's credit term. Rather than risk of an official devaluation, many importers paid cash during the negotiation of documents and converted the risk to local currency. The Maintenance of Value provision, along with the increasingly subsidized foreign exchange rate (L.E. 84 = $1 U.S.), encouraged the use of the project as a foreign exchange window instead of a productive credit mechanism. Some of the difference between the official rate at which the project provides foreign exchange and the free market rate is justified as appropriate to offset U.S. source and origin requirements that add approximately 20-30 percent to the cost of imports. However, this difference has increased steadily since the beginning of the project and now needs adjustment.

The evaluation affirmed the original purpose of the project but made several recommendations that would make a follow-on project more effective. USAID should pursue an active policy dialogue with the GOE on the need to address interest rate distortions that inhibit the flow of available credit into longer term productive investments, particularly in areas where Egypt has a comparative advantage and that have export potential. However, given the limits of this project, the foreign exchange and interest rate issues should be pursued primarily in the context of the Mission's broader policy dialogue with the GOE. The report did recommend that the maintenance of value provision should be eliminated to promote project credit. Institutional development, training, and the establishment of a Private Sector Steering Committee continue to be critical areas for USAID involvement. The team also recommended that local currency generations of the project should be used to encourage improvement ~~in the credit market or to support export development in the future.~~