PD-AAR-814

41343

AUDIT OF EGYPT'S SUEZ AND QUATTAMIA
CEMENT PLANT PROJECTS
USAID/EGYPT PROJECT NOS.
263-0012 AND 0052
Audit Report No. 6-263-85-8
September 18, 1985

UNITED STATES GOVERNMENT

memorandum

DATE: September 18, 1985

REPLY TO ATTN OF: Joseph R. Ferri, RIG/A/Cairo

SUBJECT: Audit Of Egypt's Suez And Quattamia Cement Plant Projects - USAID/Egypt Project Nos. 263-0012 And 0052 - Audit Report No. 6-263-85-8

TO: Mr. Frank B. Kimball, Director USAID/Egypt

This report represents the results of audit of Egypt's Suez and Quattamia Cement Plant Projects. The objectives of the audit were to determine compliance with the project agreements and to determine if the major objectives of reducing Egypt's foreign currency outlays and establishing a private sector venture were being achieved.

After the expenditure of $195 million of AID and $175 million of other financing, the Suez Cement Company has yet to become a viable cement producing company because of the many financial and operational problems experienced by the Company. Consequently, the project goal of reducing Egypt's foreign currency outlays has not been realized. Also, the objective of establishing a private sector venture has not been fully achieved because ninety percent of Suez Cement Company stock is still owned by fourteen public sector companies.

Project planners placed several conditions precedent or covenants related to the accomplishment of project goals and objectives. Two key conditions relating to cement pricing and divestiture of Company stock have not yet been fully met.

We are making two recommendations directed to increasing the prospects of the Suez Cement Company becoming a viable private sector venture, including measures for correcting the financial and operational problems hindering the success of the Company. Your July 3, 1985 written comments on the draft report recommendations were considered in finalizing this report. Comments are discussed in appropriate sections of the report, and attached as an appendix to this report.

Please advise us within 30 days of any actions taken or planned to close the recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

EXECUTIVE SUMMARY

The Office of the Inspector General made a review of AID's Sue and Quattamia Cement Plant Projects in Egypt. The audit was mad to determine if the major project objectives of reducin Government of Egypt (GOE) foreign currency outlays for cement an establishing a private sector venture were being achieved. W also reviewed the Government of Egypt and Suez Cement Compan (SCC) compliance with critical covenants and conditions preceden placed on the disbursement of project funds. The internationa management and engineering firm of Stone and Webster Managemen Consultants, Inc. under contract to the AID Inspector General assisted the audit staff in completing this review.

AID contributed $195 million of about $370 million needed for th construction of these two cement plants in Egypt. The majo objectives of the cement projects were to reduce foreign currenc outlays by offsetting cement imports with local production an enhancing private enterprise by establishing a major industrial complex with private participation. The projects were managed b the Suez Cement Company, a private sector company establishe under legislation designed to encourage foreign investment. The Suez Cement Company is the only cement company in Egypt with private sector participation.

Egypt has imported large quantities of cement each year since about 1976. Annual consumption increased by about seven million tons from 1977 to 1984 while annual domestic production increased by only one million tons. The combined annual production of 2.4 million tons from the two AID financed plants, when and if the plants reach designed output levels, will make an important contribution to alleviating Egypt's balance of payments deficit. Likewise, the required divestiture of common stock currently held by public sector owners will enhance private sector participation in Egypt's economy.

After the expenditure of $195 million of AID financing and over $175 million of other funds, the SCC has yet to become viable private sector cement producing company. Consequently, foreign currency outlays have not been reduced as planned. The cement plants have not reached production goals and domestic cement sales by the SCC have yet to materialize. Further, the cement companies viability as a private sector venture remains in jeopardy because 90 percent of the stock is still owned by fourteen public sector companies.

The Suez Cement Company has experienced many financial and operational difficulties affecting its capability to produce cement. The Company's long-term debt has not allowed a positive cash flow to meet short term operating needs. Also, technical problems have prevented the plant from becoming fully operational and meeting cement production goals.

The AID project agreements included provisions for offering, at the time of original issue, up to 20 percent of the common stock to private sector owners and a plan for subsequent divestiture of a major portion of the 80 percent of the publicly held stock. At the time of our audit, 90 percent of the SCC stock remained in the public sector. Also, the GOE controlled the price of fuel and the selling price of cement. With controlled production costs and selling prices, SCC may not be an attractive investment. SCC, therefore, may be unable to sell stock to the public and become a private sector enterprise.

In an attempt to ensure accomplishment of the projects' objectives, project planners placed critical conditions on the disbursement of funds. Important conditions relating to pricing and divestiture, however, were either not sufficiently developed during the planning process or effectively monitored for compliance by USAID/Egypt. Consequently, the success of the project as originally designed still remains questionable. No formal recommendation was made concerning compliance with the conditions for the disbursement of funds because the Office of the Inspector General plans to make a worldwide audit of this area. The audit will determine AID's overall effectiveness in developing and monitoring project agreement conditionality and the success of this type of legal leverage in accomplishing development objectives.

We are recommending that USAID/Egypt in cooperation with the GOE, and prior to additional AID funding, assess whether the success of SCC as a private sector venture is currently a viable objective. If the objective still is viable, we are recommending additional actions to ensure the divestiture of stock to the public and establishment of equitable energy and cement pricing. USAID/Egypt should also negotiate with the Government of Egypt and the Suez Cement Company to resolve debt to equity problems, including possible rescheduling of the Company's long-term debt and ensure that the Company establishes a plan to correct technical operational problems.

In response to the recommendations in our draft report, USAID/Egypt cited several actions being taken to resolve the many difficult problems discussed in this report. The Mission said it continues to assess the resolution of problems related to production, financing and pricing. The Mission also said it is working with the GOE and SCC to resolve the technical problems at the Suez plant. These actions by the Mission are positive steps but more needs to be done. The text of the USAID/Egypt's written comments to the draft audit report are attached as Appendix 1.

Office of the Inspector General

Office of the Inspector General

AUDIT OF EGYPT'S SUEZ AND QUATTAMIA
CEMENT PLANT PROJECTS

TABLE OF CONTENTS

AUDIT OF EGYPT'S SUEZ AND QUATTAMIA CEMENT PLANT PROJECTS

PART I - INTRODUCTION

A. Background

The construction of the Suez and Quattamia Cement Plants has been the largest industrial venture funded by AID in Egypt. In July 1976, AID provided a grant of $90 million to the Government of Egypt (GOE) for construction of the Suez Cement Plant (Grant No. 263-0012). This funding was increased in September 1980 to $100 million. In September 1978, AID agreed to loan the GOE $95 million under Loan No. 263-K-051 (Project No. 263-0052) to help finance the construction of the Quattamia Cement Plant.

The two plant projects were managed by Suez Cement Company (SCC). In 1975, Egyptian Prime Minister Mamdouh Salem requested that an Egyptian joint venture company be established and that both the public and private sectors participate. Consequently, SCC was established in 1977 as a joint stock company under the provisions of the GOE Investment Law of 1974 (Law Number 43, as amended).

Two major objectives of the projects are to enhance private enterprise in Egypt through a private sector venture and to reduce foreign currency outlays by producing more cement within Egypt. The Suez and Quattamia Cement Plant Projects were funded by AID to obtain these goals.

The Suez Cement Company is the only private sector cement company in Egypt, although the public sector owns 90 percent of its stock. In addition to AID funding, SCC had also borrowed from the International Finance Corporation (IFC), Union Bank of Switzerland (UBS), and a consortium of Egyptian Banks. The total principal liability of SCC is $300.7 million. A summary of SCC's principal liabilities are shown in Exhibit 2.

Despite large increases in foreign exchange earnings resulting from oil exports, Suez Canal revenues, tourism and expatriate remittances, Egypt continues to have balance of payment deficits because of the gap between imports and exports. This gap has increased Egypt's need for foreign exchange. Exhibit 3 shows Egypt's balance of payment status from 1978/1979 through 1981/1982.

Large imports of cement had also adversely affected Egypt's balance of payments. The country has had severe shortages in cement since 1976. To meet these shortages, Egypt has had to import large quantities of cement. In 1983/1984, Egypt consumed 11.5 million metric tons of cement. Four-and-one-half million tons were produced locally and the balance was imported, principally from Greece and Spain. From 1977 to 1983/1984, annual cement consumption had increased by seven million tons while annual domestic production increased by only one million tons. Both domestic consumption and production are forecasted to grow in the future with a supply/demand balance possible by the mid-1990's. In the interim period, domestic consumption will exceed production. See Exhibit 4 for a schedule of cement consumption activity in Egypt and Exhibit 5 for information on Egyptian cement imports.

This is the fourth audit of the Suez Cement Company. Two previous Audit Reports issued by the Regional Inspector General for Audit in Cairo (RIG/A/C) were:

> No. 6-263-82-2, An Audit Of The Suez Cement Company Project No. 263-0012, Dated November 29, 1981
>
> No. 6-263-82-9, Addendum To Audit Report 6-263-82-2, Dated November 29, 1981, "An Audit of the Suez Cement Company" Project No. 263-0012, Dated August 30, 1982

The third RIG/A/C Audit Report was:

> No. 6-263-84-2, Delays In Completing The Suez Cement Plant Project 263-0012 And The Quattamia Cement Plant Project 263-0052 Have Caused A Drain Of Egypt's Foreign Exchange, Dated June 13, 1984

All audit recommendations made in these three reports were closed.

B. Audit Objectives And Scope

The Office of the Inspector General made an audit of the Suez and Quattamia Cement Plant projects in Egypt. The audit reviewed the operations of the Suez Cement Company (SCC) relating to the $195 million AID-funded grant and loan projects for the two cement plants. The audit covered the period from SCC's inception in 1977 through November 30, 1984.

The purpose of the audit was to review compliance with the project agreement requirements and evaluate whether the objectives of establishing a private sector venture and reducing foreign currency outlays were accomplished. Specific audit objectives were to:

-- evaluate compliance with the provisions of the project agreements,
-- assess prior management of the two projects, and
-- determine the current status of the two projects.

To accomplish these objectives, we reviewed project files and interviewed officials of USAID/Egypt, the COE, and the SCC. We also relied upon the work done by Stone and Webster Management Consultants, Inc. which is an internationally recognized management and engineering consultant firm. Stone and Webster was contracted by the AID Inspector General to (1) identify and assess the significance of economic, financial, and other implementation problems which might have impact on the successful operation of the project as planned in the grant and loan agreements and (2) perform a current economic analysis of SCC's viability and ability to survive as a private company as planned. A list of contacts made by Stone and Webster during its study is shown in Exhibit 1. The audit was made in accordance with generally accepted government audit standards.

AUDIT OF EGYPT'S SUEZ AND QUATTAMIA
CEMENT PLANT PROJECTS

PART II - RESULTS OF AUDIT

A. Findings And Recommendations

1. Achieving The Private Sector Objective

SCC's viability as a private enterprise company has yet to be achieved. To carry out the provisions of Section 601(a) of the Foreign Assistance Act (FAA), AID conditioned the $95 million loan to SCC as a private sector initiative to enhance private enterprise in Egypt. However, public sector companies control 90 percent of SCC stock, the GOE controls the pricing of energy - a key production cost affecting profitability, and also the Government of Egypt (GOE) determines the selling price of SCC's cement output. Consequently, because of these controls, the GOE considers SCC to be an extension of the public sector cement companies. Unless major changes are made, the projects' major objectives of reducing foreign currency drain and enhancing private enterprise cannot be achieved.

Recommendation No. 1

We recommend that USAID/Egypt:

a. in cooperation with the Government of Egypt and prior to any additional funding for Suez Cement Company or refinancing of the $95 million loan, assess the current viability of Suez Cement Company becoming a private sector venture under the context of the Government of Egypt Investment Law of 1974; and

b. having determined the viability of the Suez Cement Company as a private sector venture, negotiate a new agreement or amend the current project agreement to:

   (1) require a formal stock divestiture plan approved by the Government of Egypt which includes a timetable for offering the publicly held stock and AID approval of the disposition of stock proceeds;

   (2) include a provision which equitably charges energy prices among Suez Cement Company and the public cement companies; and

   (3) include a provision for cement pricing which permits Suez Cement Company to be competitive.

Discussion

AID funded the two cement projects to achieve a major U.S. foreign policy objective, i.e., to enhance private enterprise. Section 601(a) of the FAA recognizes the vital role of free enterprise in achieving rising levels of production and standards of living. The Act describes free enterprise as being essential to economic progress and development. Therefore, AID's policy is to encourage the efforts of other countries to foster private initiative and competition.

SCC had not become a private sector venture as envisioned by the AID project documents or the FAA. Major obstacles preventing SCC from obtaining private sector status were (1) public control of 90 percent of SCC stock and (2) government control of energy prices and cement selling prices.

Public Control Of SCC Stock

Prior to 1974, private enterprise ventures in Egypt were virtually non-existent due to government controls and taxing policies. The Egyptian market system operated in a closed economy. The system began to open along with opportunities for private investments with the enactment of the Government of Egypt Investment Law of 1974 (Law 43, as amended). Law 43 allowed AID to initiate funding of two cement projects.

The AID grant and loan agreements provided for ownership of SCC's stock by public sector companies. The companies received the stock at no cost because SCC received payment for the stock from AID funds. The 1978 loan agreement to construct the Quattamia plant did contain a provision for divesting this no cost stock to the private sector. A divestiture plan submitted by SCC was accepted by USAID/Egypt in February 1981 (See Exhibit 10). The plan calls for divestiture to begin within 120 days after start-up of production at the Quattamia Cement Plant. Since the Quattamia plant is currently scheduled to begin production in January 1986, the divestiture provision had not yet been implemented. The plan does not address disposition of the proceeds from the sale of the stock.

The above conditions combined with lack of private interest resulted in 90 percent of SCC's stock being owned by 14 public sector companies. The table below shows the ownership distribution of SCC stock at the time of our audit.

Stockholders	No. of Shares	Percent of Total
Public Sector Cement Companies (4)	4,725,000	33.8
Other Public Sector Companies (10)	7,885,140	56.3
Private Investors	1,389,860	9.9
Total	14,000,000	100.0

Before committing additional U.S. resources to SCC, USAID/Egypt should require SCC to develop a viable stock divestiture plan approved by the Government of Egypt as required. The plan should ensure major private sector involvement in SCC.

Government Control Of Energy Pricing

Egypt has a complex system of price control. The system includes direct and indirect price-monitoring mechanisms and subsidies. Although abating somewhat recently, the GOE has consistently followed a policy of insulating the majority of consumers from the pressures of world inflation. The primary vehicle for this policy is the subsidy program. Prior to October 1984, SCC was required to pay international prices for energy. SCC was at a tremendous cost disadvantage with public sector cement companies which were provided energy at subsidized prices.

During the course of our audit, a significant event occurred which greatly improved SCC's ability to survive and compete as a private sector venture. On October 7, 1984, the GOE High Committee for Investment, recognizing the strategic importance of cement, issued a decree which established a one-tier price for energy to all cement companies. The effect of the decree was to reduce SCC's cost of cement production by about 30 percent from LE64.5 to LE45.6 (Egyptian Pounds).

Although the October decree corrected a competitive deficiency, USAID/Egypt should ensure that energy prices are equitably charged to all cement companies by including such a provision to any future agreement with the GOE.

Government Control Of Cement Selling Prices

Marketing of the cement produced in Egypt was undertaken by the GOE Egyptian Cement Office (ECO). The ECO is a public sector corporation owned by the four public sector cement companies. Through this office, the entire output of the Egyptian cement industry was purchased from cement companies and was distributed to consumers. ECO was administered by a board of directors composed of officials of the four publicly owned cement companies.

Since 1946, the selling prices of cement in Egypt have been subject to government control in the form of fixed prices. The prices were based on the costs of production, cost of imported cement, and government, society, economic and political goals. Separate price schedules were established for subsidized users and non-subsidized users. Through September 1984, subsidized prices were LE38.50 per ton and non-subsidized prices were LE58 per ton. The October 1984 High Committee of Investment decree abolished the two-tiered pricing system of cement and established a unified selling price of LE53 per ton.

During our audit, the Ministry of Housing (MOH) was also in the process of revising the prices ECO pays for cement from the Egyptian cement companies. The revised price system will be based on the actual costs of production for cement plus an allowance of 10 to 12 percent for operating profit. The prices were being determined by an audit conducted by GOE cost accountants. While this action has presently helped SCC, there could be future negative results because market forces affecting supply and demand,—so important to private enterprise, are discounted by the MOH process. Again, any future AID funding of SCC as a private sector company should be contingent on GOE providing for competitive cement pricing within the industry.

Management Comments

In response to our draft report USAID/Egypt said there are a number of factors which bear on the question of whether the Suez Cement Company can become a viable private sector venture. Among these are the resolution of production problems, equality of treatment with public sector companies, financing, and output pricing. The Mission said it has and will continue to assess these factors and also encourage the Government of Egypt to comply with provisions in the Quattamia agreement concerning divestiture of stock to the private sector.

USAID/Egypt also stated that the divestiture plan accepted by the Mission for satisfaction of the condition precedent, does address the question of disposition of sales proceeds.

Concerning cement pricing, the Mission agreed that further work was required in order to develop a rational pricing system as required by the loan agreement (Condition Precedent Sec. 5.2(f)).

In summary, the Mission believed it was already implementing Recommendation No. 1 in this report, and did not believe it was practical at this point to re-negotiate provisions of the existing agreements. It suggested that the recommendation be deleted.

Office of Inspector General Comments

The SCC divestiture plan which was accepted by USAID/Egypt in February 1981, was not approved by the SCC Board of Directors until the question was raised during the re-audit of SCC in 1982 (RIG/A/C Audit Report No. 6-263-82-9). The SCC Board of Directors approved the plan on July 13, 1982. The divestiture plan should have been approved by the GOE in accordance with the terms of the loan agreement. In the absence of such formal approval, we have retained our recommendation.

Management Comments

In their response to our draft report, USAID/Egypt said that: "throughout the draft report, it is stated that the major objective of the projects is to enhance the private sector. In fact, none of the agreements, authorizations, or project papers indicate that the major objective is enhancement of the private sector. The Mission suggests that this misleading language be revised to be consistent with project objectives as stated in the two project papers."

Office of Inspector General Comments

The grant and loan agreements did not specifically state that a major objective of the project is enhancement of the private sector and the report has been revised accordingly. However, AID included conditions precedent and covenants in the project agreements which required that 20 percent of the stock issued be offered for sale to the private sector and a plan for subsequent divestiture of shares held by the public sector. Given these requirements, private sector ownership of SCC was obviously one of the major objectives of the AID financing.

2. Addressing Current Financial And Operational Difficulties

Several financial and operational obstacles currently jeopardize SCC's capability of becoming a successful private sector enterprise. SCC's long-term debt will have to be rescheduled to generate a positive cash flow to meet short term operating needs. The selling price and delivery schedule for cement to be delivered to the ECO in the future will have to be finalized to determine SCC's true revenue/financial position. Current plant technical problems must be corrected to achieve production goals. Without prompt resolution of these problems, SCC cannot operate at designed capacity, and the drain on GOE's foreign currency cannot be reduced as intended.

Recommendation No. 2

We recommend that USAID/Egypt:

a. negotiate with the Government of Egypt and the Suez Cement Company solutions to the Company's debt to equity problems, including the rescheduling the Company's long-term debt if necessary;

b. negotiate with the Government of Egypt the selling price of cement used to repay the cash advances from Egyptian Cement Office; and

c. ensure that the Suez Cement Company establishes a formal plan to resolve the technical operational problems hindering the Company's production potential.

Discussion

Current Financial Difficulties

Many of SCC's current financial problems began several years ago. As a result of the 1973 Middle East war, the entire world experienced severe inflation. Egypt was one of the countries most affected by this inflation. This situation was particularly severe in Egypt because Egypt changed its economic system from a closed economy to an open economy which encouraged more international trade. Also during the 1970's, the international cement market became depressed and the price of cement imported by Egypt decreased from LE66.4 (Egyptian Pounds) per ton in 1978 to LE50.6 in 1982. The combination of inflation which caused cement production costs to rise and a depressed international cement market which caused the cement selling price to decline adversely affected SCC. The company was placed in a position in which its production costs exceeded the market price for cement. The October 1984 decree establishing a one-tier price for energy to all cement companies should substantially improve SCC's competitive position.

When SCC was formed in 1977, the company's capitalization was based on estimated local construction and start-up costs of LE16.0 million. By 1980, estimated construction and start-up costs more than tripled to LE57.4 million, an increase of LE41.4 million. SCC was forced to increase its borrowing to compensate for this initial under-estimation. Because of SCC's weak financial condition the Egyptian Cement Office (ECO) advanced SCC LE25 million (as of November 6, 1984) for future cement production. This advance, in our opinion, has negative aspects. There was no written evidence to indicate the agreed upon sale price per ton, or delivery schedule. Also, the advance was apparently based on an informal arrangement between the chairman of SCC and the ECO.

Delays in plant start-up dates and the need to finance under-estimated project costs have caused SCC's borrowing and debt service obligations to increase significantly. As of December 1982, SCC's long-term debt to equity ratio was 2.8 to 1.0 (LE186.9 million to LE67.4 million). The two AID agreements do not allow distribution of dividends to shareholders if the long-term debt to equity ratio exceeds 2 to 1. Therefore, dividends, which are incentives to private sector investment, cannot be distributed until the debt to equity ratio is brought into line with the terms of the AID agreements.

Stone and Webster Management Consultants, Inc., in its study concluded that SCC cannot service its long-term debt because the plants are not expected to operate at full capacity until 1985/1986. However, with a selling price in excess of LE50 per ton of cement, SCC has a good prospect of servicing its long-term debt if the debt is rescheduled. Rescheduling would reduce the debt service burden to a manageable level and the company should be able to repay the rescheduled debt in the 1990's. Stone and Webster also expected the Egyptian demand for cement to exceed supply until the mid-1990's, when a local supply and demand balance should occur. Ample time would be provided for SCC to market cement, earn income, and repay its debt.

Unless prompt action is taken to reschedule SCC's long-term debt, the company will be unable to pay its bills. To enhance the prospects of achieving the original projects' objective of a private sector venture, USAID/Egypt should work with the GOE and SCC to solve the company's debt to equity problems, and to establish the selling price used to repay cash advances to ECO.

Current Operational Difficulties

The current Egyptian Five-Year Plan cited cement as a strategic commodity needed to meet GOE goals for housing and industrial development. Five companies in Egypt produce cement. These companies include SCC and four government-owned facilities: (1) Tourah Cement Company, (2) Helwan Cement Company, (3) Alexandria Cement Company, and (4) National Cement Company.

SCC's Suez plant has an estimated capacity of 1.0 million tons per year. Actual production totaled only 136,000 tons for the 12-month period ending June 1984. The Quattamia plant, which was still under construction, has a projected capacity of 1.4 million tons per year.

Exhibit 9 details the history of cement production at each of the country's four public sector cement plants. Cement production at the four plants steadily increased from 130,000 tons/year in 1930 to 3.8 million tons/year in 1970/1971. Production declined to 2.9 million tons/year in 1979 because of declines in the capacity of older kilns. Production increased again as new cement lines were introduced at the four plants. In 1980/1981 production reached 3.4 million tons/year. Nevertheless, many kilns were more than 25 years old and consisted of the older, less efficient wet process technology.

The Suez Cement Plant was originally scheduled for completion by March 1980 and the Quattamia Plant was to be completed by May 1982. Because of construction and operational problems, neither plant was completed on time. The Suez Cement Plant construction program was completed in August 1983 and performance tests were started in September 1983. The performance tests showed the plant had significant technical problems. As of September 1985 the plant had still not operated at its designed capacity. (Exhibit 11 highlights major events delaying construction of the Suez Plant.)

The plant was not accepted by SCC due to remaining technical difficulties, and an additional $4 million will be required to correct the problems. Specific plant areas affected and itemized costs are shown in Exhibit 12. Another factor of importance is the time required to complete these modifications because of the impact on the cash generation capability of SCC. The Quattamia Cement Plant construction program was expected to be operational in January 1986.

During the construction period of the two plants, the construction industry in Egypt was constrained by the shortage of a skilled labor force. This shortage was primarily due to (1) the demand for skilled labor in neighboring countries which paid higher wages and (2) the lack of adequate training facilities in Egypt. The quality of workmanship at the two plants was adversely affected by this situation. Our Audit Report Number 6-263-84-2, dated June 13, 1984, detailed many of these labor related problems. Also, USAID/Egypt had placed SCC in the position of acting as the general contractor for the construction of the two plants. SCC was ultimately responsible for the performance of all project contractors; however, the company had no prior experience in construction project management.

In conclusion, GOE's goal of reducing foreign currency outlays was not achieved because Egypt's cement imports have not been reduced by the planned SCC cement production of 2.4 million tons per year. SCC must resolve its current technical problems at the Suez Cement Plant to facilitate the company's production potential. In its study, Stone and Webster makes the point:

> ". . . another aspect of SCC's viability deals with a view which inquires why these issues (capitalization requirements, cash flow and debt refinancing) were not addressed sooner by the company, and corrective action taken prior to this late date. A private sector company surely would have taken action on each of these issues in a more timely manner, and pursued agressive solutions . . . ."

<u>Management Comments</u>

In response to our draft report, USAID/Egypt stated that: A solution to the Company's debt to equity problem seems to lie along two paths: (1) rescheduling of debt; and/or (2) increasing the Company's equity. As of this date no formal rescheduling of long term debt has been agreed upon by any of SCC's lenders (Bank of Alexandria, Banque du Caire, Bank Misr, National Bank, IFC, Union Bank of Switzerland, and the GOE), although most have accepted the fact that SCC can not meet current obligations. An increase in the company's equity in the amount of LE56 million was agreed to by the Company's shareholders on June 11, 1985. Company financial experts believe that this is the amount needed to resolve the current debt to equity imbalance and to meet all obligations over the next few years. However, it is uncertain whether a sufficient number of existing shareholders and/or outsiders will actually subscribe to the new shares to make it successful.

The Mission said it has and will continue to explore ways in which AID can assist in resolving the Company's debt problems. However, it would be unrealistic to expect that AID, working alone with the GOE and SCC, can resolve the company's debt problems. AID can assist in resolving these problems by agreeing to a rescheduling of AID funded debt, or alternatively, a conversion of some debt to equity. However, resolution will also require that other lenders also reschedule debt and/or that the company increases its capital.

Office of Inspector General Comments

Any decision to increase company's equity has to be approved by the majority of the shareholders. It will be difficult for any investor to subscribe to the new shares, while the old shares are being traded at the Cairo Stock Market at 50 percent of par value. Moreover, an increase in capital by LE56 million would have a negative effect on the debt to equity ratio. This capital increase is intended to finance the new extensions which will double capacity at Suez and Quattamia plants. The cost of these two extensions is about LE200 million. This will require borrowing another LE144 million (Egyptian Pounds).

Management Comments

USAID/Egypt said that the SCC and the ECO agree that all advances will be liquidated at a price of LE52/ton, the price which SCC receives for all cement sold through the ECO. The Mission requested that Recommendation No. 2b be closed.

Office of Inspector General Comments

At the end of our audit, there was no official agreement signed between the SCC and the ECO with regard to the price of cement sales. We will close Recommendation No. 2b when a copy of this agreement is provided.

Management Comments

USAID/Egypt said that SCC has already developed a plan to resolve technical problems at the Suez plant, and major contracts have been signed with Polysius Corporation for modifications at the raw mill and with Claudius Peters for modifications in the clinker cooler. It also said that it is expected that many of the required changes will take place during a 6 to 8 weeks shut down of the plant now scheduled to start at the beginning of September 1985. USAID requested that Recommendation No. 2c be closed.

Office of Inspector General Comments

We will close Recommendation No. 2c when USAID/Egypt provides a formal plan to resolve technical problems at the Suez plant.

3. Lessons Learned From Administering The SCC Project

The private sector objectives of the Suez and Quattamia projects have not yet been realized and SCC's viability as a private enterprise is still in jeopardy. AID Handbook 3 requires Project Implementation Letters (PIL) be prepared for documenting and communicating critical requirements to project implementation and related accomplishment of project objectives. Our review showed that conditions precedent and covenants of the project grant and loan agreements with the GOE may not have been either sufficiently developed or monitored by USAID/Egypt through the PIL process. Serious problems were encountered by USAID/Egypt in obtaining both a cement pricing process which permitted continued profitability and a stock divestiture plan which permitted the accomplishment of private venture objectives. Even though major progress has recently been made on these two issues, formal assurances of future compliance in these areas have not been agreed upon by the GOE.

The projects' major objective was to reduce foreign currency outlays in Egypt by establishing a private sector cement company. Project planners placed critical conditionalities on the disbursement of funds as leverage to accomplish project goals.

Agency management should ensure that critical conditions precedent and covenants, especially conditions related to the disbursement of funds, are fully and realistically developed. Also, management should require that critical project conditionalities be supported with evidence of formal compliance.

Discussion

AID bilateral agreements (loans and grants) include implementation tasks that are to be taken during the course of a project. The responsibility for implementation tasks is divided between the borrower and AID. Some tasks, such as overall project management, contracting and accounting, are continuous and may be repetitive; other have to be taken once during the implementation of a project. Conditions precedent to disbursement, and covenants, are types of implementation tasks that are incorporated into AID loans and grants.

Conditions precedent to disbursement are a means used by AID to ensure that borrowers and grantees act promptly and satisfactorily on agreed upon policies, procedures or prescribed courses of action. Conditions precedent are stringent in that disbursement of loan or grant proceeds is limited, or is not permitted, until agreed upon actions by the borrower are implemented to the satisfaction of AID. Covenants also represent agreed upon actions between the borrower and AID. However, covenants are less stringent in that loan and grant proceeds are disbursed on the basis of the host country's promise to act at some time in the future.

Communications dealing with implementation tasks are documented by AID in a formal and standardized format called the Project Implementation Letter (PIL). PILs are AID's formal and standardized format for communicating matters critical to prompt and efficient implementation of projects. PILs are used by AID to document the satisfaction of conditions precedent. AID Handbook 3, Chapter 8 requires that PILs for each project are to be serially numbered. The AID Handbook notes that some missions obtain borrower countersignatures on all, or at least some, PILs that contain guidance to the borrower. Also, the AID Handbook recommends that countersignatures be obtained for all PILs that relate to actions the borrower must take in the future or that require the borrower's agreement.

According to the AID Handbook, PIL No. 1 is commonly referred to as the Basic Implementation Letter. It gives the borrower more detailed guidance on matters covered in the project agreement, and it normally contains matters having legal implications and other subject matters that require the professional expertise of members of the mission staff other than the project officer. The Basic Implementation Letter should, therefore, be cleared by the Mission Controller, Legal Advisor, Technical Specialist and other knowledgeable mission staff.

USAID/Egypt's Mission Order No. 3-5 dated March 29, 1977 fixed responsibility on Mission project officers to prepare PILs, including those that notify the GOE whether or not conditions precedent have been satisfied.

Conditions Precedent And Covenants

According to project documents, major objectives of the projects are to enhance private enterprise in Egypt through a private sector venture and to reduce foreign currency outlays by producing more cement within Egypt. In accordance with the Foreign Assistance Act, the Suez and Quattamia Cement Plant Projects were funded by AID to obtain these goals.

The grant and loan agreements included numerous conditions that were critical to the success of the Suez and Quattamia projects, and to the viability of SCC as a private concern. With the exception of a condition precedent on cement pricing (see page 6 of this report), covenants on cement pricing, and a condition precedent on divestiture of stock owned by the public sector (see page 5 of this report), all conditions have been met or are satisfactorily progressing.

The 1978 loan agreement to construct the Quattamia Plant contained a condition precedent calling for the GOE to submit to USAID/Egypt a plan by which public sector stockholders would sell SCC stock to the private sector. The 1976 grant agreement and the 1980 amendment for the Suez Plant contained no condition precedent or covenant concerning divestiture of SCC stock by public sector companies. A divestiture plan addressing the condition precedent of the loan agreement was prepared and submitted by SCC to USAID/Egypt (see Exhibit 10). The plan, which was accepted by USAID/Egypt in February 1981, should have technically been prepared by the GOE not SCC. However, the divestiture plan addressed the provisions of the loan agreement condition precedent. The 1976 grant, which had no conditions precedent or covenants addressing divestiture, did have a condition precedent which required that 80 percent of the SCC stock be subscribed to by GOE public sector companies. This condition precedent, in the absence of a provision requiring divestiture of SCC stock by public sector owners, inhibited the chances of SCC becoming a private sector venture, an objective of the project. Consequently, as of November 30, 1984, ninety percent of SCC stock was publicly owned.

With respect to cement pricing, marketing of the cement produced in Egypt was undertaken by the GOE Egyptian Cement Office (ECO). Through this office, the entire output of the Egyptian cement industry was purchased from cement companies and was distributed to consumers.

Since 1946, the selling prices of different types of cement in Egypt have been subject to government control in the form of fixed prices. The prices were based on the costs of production, cost of imported cement, and government, society, economic and political goals. Separate price schedules were established for subsidized users and non-subsidized users. Through September 1984, subsidized prices were LE38.50 per ton and non-subsidized prices were LE58 per ton.

The Egyptian Cement Office (ECO) advanced SCC LE25 million (as of November 6, 1984) for future cement production. This advance, in our opinion, has negative aspects. There was no written evidence to indicate the agreed upon sale price per ton, or delivery schedule. Also, the advance was apparently based on an informal arrangement between the chairman of SCC and the ECO. It is apparent that the GOE considers SCC as an extension of its public sector cement companies. The GOE controls 90 percent of SCC shares held by public sector companies; the GOE controls input prices of energy through the Egyptian Electric Authority that establishes electric rates and the Ministry of Petroleum that sets prices for fuel oil, to public and private sector companies. The GOE controls output cement prices through the Egyptian Cement Office (ECO).

Monitoring Of Compliance With Disbursement Conditions

USAID/Egypt approved the disbursement of the funds even though confusion existed over the status of compliance with the covenants or conditions precedent for disbursement. The status of cement pricing and divestiture of stock conditions is unclear because USAID/E issued two versions of PIL No. 1 for the Quattamia loan. The first version, dated April 2, 1981, was cleared by the USAID/E Controller, Legal Advisor and other knowledgeable Mission staff in accordance with AID Handbook instruction. It states that the GOE had satisfied conditions precedent on cement pricing and divestiture. The second PIL No. 1, dated July 19, 1981, was not cleared by knowledgeable Mission staff and deletes reference to the satisfaction of the conditions precedent on cement pricing and divestiture.

As noted earlier, PIL No. 1 was commonly referred to as the Basic Implementation Letter. USAID/Egypt attempted to obtain GOE countersignature on the April 2, 1981 PIL No. 1. The GOE refused. The GOE countersigned the July 19, 1981 PIL No. 1 even though the PIL deleted reference to the status of conditions precedent on cement pricing and divestiture. Apparently, the GOE and SCC were working on one set of conditions precedent while USAID/Egypt monitored another.

During the course of our audit, and notwithstanding the confusion over the PILs, a significant event occurred which greatly improved SCC's ability to survive and compete as a private sector venture. On October 7, 1984, the GOE High Committee for Investment, recognizing the strategic importance of cement, issued a decree which unified cement prices, and simultaneously established a one-tier price for energy to all cement companies, both privately and publicly owned.

Prior to this decree, SCC, the only private sector cement company, was required to pay international prices for energy. SCC was at a tremendous cost disadvantage with public sector cement companies which were provided energy at subsidized prices. The effect of the decree reduced SCC's cost of cement production by about 30 percent (LE64.5 to LE45.6). Also the Ministry of Housing (MOH), has established a review committee (cost accounting specialists) to determine each cement company's costs of production, and to set a profit limit of between 10 to 12 percent for each company. While this action has presently helped SCC, there could be future negative results because market forces affecting supply and demand, so important to private enterprise, are discounted by the MOH process. SCC survival as a private sector company will be contingent on GOE providing for competitive cement pricing within the industry.

Conclusions

Project planners included cement pricing and stock divestiture in the grant and loan agreements to assure that SCC had a fair chance to survive, and to ensure that Egypt would obtain reasonable benefit from AID funds. Project planners further recognized that the Suez and Quattamia projects could demonstrate to Egypt the benefits of a market-based system of product and input pricing, marketing, and project formulation and financing that would provide a model for the efficient future development of basic industries in Egypt.

Even though conditions precedent and covenants were included in the original agreements as conditions to disbursement, funds were provided without compliance to the conditions, or at least, when confusion existed over compliance. These conditionalities still remain critical today for the success of SCC's survival as a private venture. Additional measures are needed to ensure compliance with critical conditions early in the funding process. Without timely or early enforcement/resolvement of compliance, during the early stages of disbursement, AID is almost helpless or without leverage to ensure attainment or success of project objectives.

AUDIT OF EGYPT'S SUEZ AND QUATTAMIA
CEMENT PLANT PROJECTS

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.
STUDY CONTACTS

1. United Nations
2. International Cement Bureau
3. U.S. AID (USA and Cairo, Egypt)
   - Project Staff
   - Program Staff
4. U.S. Embassy (Cairo, Egypt)
   - Political
   - Economic
   - Commercial
5. Egyptian Government
   - Egyptian Cement Office (ECO)
   - Ministry of Housing (MOH) + General Organization for Construction Industries
   - Helwan Cement Company
     Chairman of General Organization for Building Material
   - Tourah Cement Company/FCB Babcock
   - Egyptian Power Authority (EPA)
   - Egyptian General Petroleum Corp.
   - National Bank of Alexandria
6. Federation of Egyptian Industries for Construction Industries
7. World Bank - International Finance Corp. (IFC)
8. Suez Cement Company
   - Fuller
   - Polysius
   - H. K. Furgeson
   - Arab Contractors
   - Holderbank

EXHIBIT 2

SCC Principal Funding Sources and Liabilities
($ Millions)

	Total Funded	SCC Liability
A. U.S. AID		
1. Grant to GOE for:		
-- EEA (for transmission line)	$ 5.8	-
-- SCC (for training, equipment escalation, and foreign exchange	29.3	-
	$ 35.1	-
-- SCC (for Suez Plant)	64.9	$ 64.9
	$100.0	$ 64.9
2. Loan to GOE for:		
-- SCC	$ 36.5	-
-- SCC (for Quattamia Plant)	58.5	$ 58.5
	$ 95.0	$ 58.5
Total U.S. AID	$195.0	$123.4
B. Other Sources		
1. World Bank (IFC)	$ 30.0	$ 30.0
2. Union Bank of Switzerland (UBS)	19.6	19.6
3. Consortium of Egyptian Banks	127.7	127.7
	$177.3	$177.3
Grand Total	$372.3	$300.7

EXHIBIT 3

GOVERNMENT OF EGYPT
BALANCE OF PAYMENTS
1978/1979 - 1981/1982

Item	1978/79	1979/80	1980/81	1981/82
	------ (Millions	of L.E.)	-----	
Receipts:				
Exports	1541.4	2369.9	3003.8	2820.0
Navigation & Insurance	104.0	225.5	334.2	400.0
Suez Canal Revenues	377.4	463.9	546.3	620.0
Transfers & Other Profits	1514.9	2129.4	2120.1	1770.0
Tourism & Other Receipts	588.3	640.7	714.9	870.0
Total Receipts	4126.0	5829.4	6719.3	6480.0
Payments:				
Imports	4205.0	5095.9	6105.5	6500.0
Navigation & Insurance	61.7	123.3	111.7	120.0
Profits & Interests	284.1	349.1	521.3	650.0
Commercial Payments	84.3	81.6	100.4	120.0
Tourism & Transfers	186.9	181.0	168.2	200.0
Government Expenditure	128.1	130.1	117.2	170.0
Other Payments	352.1	421.6	510.7	750.0
Total Payments	5302.2	6379.6	7635.0	8510.0
Current Balance of Payments	(1176.2)	(550.2)	(915.7)	(2030.0)

22

EXHIBIT 4

CEMENT CONSUMPTION ACTIVITY IN EGYPT
1950 - 1983/84

Year Calendar/Fiscal	Production	Imports: Public Sector	Imports: Private Sector	Exports	Consumption	Percent Change in Consumption
	----------	----------	Thousands	of Tons	----------	----------
1950	987	8	-	2	993	-
1951	1,119	14	-	4	1,129	13.4
1952	957	12	-	5	964	(14.6)
1953	1,090	7	-	143	954	(1.0)
1954	1,238	7	-	144	1,101	15.4
1955	1,365	8	-	55	1,318	19.7
1956	1,345	85	-	13	1,417	7.5
1957	1,475	-	-	128	1,347	4.9
1958	1,525	-	-	219	1,306	(3.0)
1959	1,755	-	-	481	1,274	(2.5)
1960	2,070	-	-	632	1,438	12.9
1961	2,093	-	-	511	1,582	10.0
1962	2,374		-	537	1,837	16.1
1963	2,607	10	-	101	2,516	37.0
1964	2,410	138	-	191	2,357	(6.3)
1965	2,577	345	-	335	2,587	9.8
1966	2,611	155	-	272	2,494	(3.6)
1967	2,904	6	-	595	2,315	(7.2)
1968	3,448	-	-	868	2,580	11.4
1969	3,403	-	-	620	2,783	7.9
1970/1971	3,811	-	-	888	2,923	5.0
1971/1972	3,641	-	-	1,165	2,476	15.3
1972/1973	3,729	-	-	971	2,758	11.4
1973	3,618	-	-	520	3,098	12.3
1974	3,259	-	-	184	3,075	(0.1)
1975	3,576	197	-	89	3,684	19.8
1976	3,363	674	-	7	4,030	9.4
1977	3,232	893	333	2	4,456	10.6
1978	3,076	953	464	-	4,493	0.8
1979	2,951	1,822	739	-	5,519	22.8
1980/1981	3,447	2,562	1,840	-	7,849	42.2
1981/1982	3,638	3,059	1,170	-	7,867	0.2
1982/1983	3,777	3,669	2,110	-	9,556	21.5
1983/1984	4,560	2,287	4,653	-	11,500	20.3
1950-1965						6.6
1965-1974						1.9
1974-1978						9.9
1978-1981/1982						15.0
1974-1981/1982						11.0

Sources: Egyptian Cement Office
Central Agency for Public Mobilization and Statistics (CAPMAS)

EXHIBIT 5

CEMENT IMPORTS INTO EGYPT BY COUNTRY
1981 and 1983

Reported by Export Nations	1981[a]	1983[b]	1984[b] 1st Quarter
	- - - - -	000 Tons -	- - - - - - -
Greece	2,382	3,046	500
Spain	1,070	-	-
Yugoslavia	43	-	-
France	16	41	20
Korea	8	-	-
United States	7	-	-
Italy	6	9	16
Remaining Countries	2	-	-
Subtotal of Imports	3,534		
Other	695		
Total Imports (Reported by Egypt)	4,229		

Sources:

[a] United Nations: 1981 Yearbook of International Trade Statistics

[b] United Nations: preliminary data

EXHIBIT 6

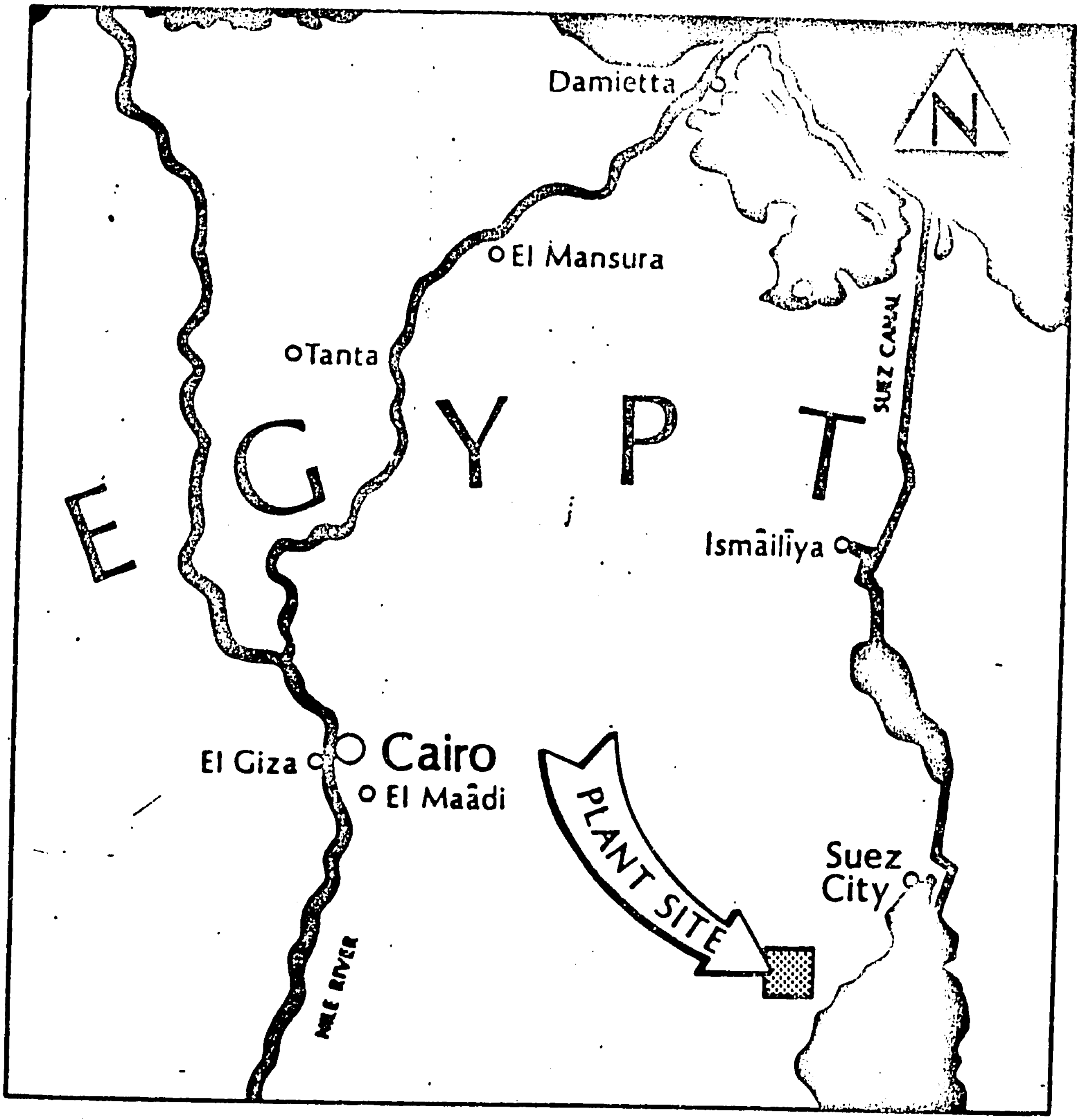
SUEZ CEMENT, PLANT PRODUCTION DATA

		Kiln Operating Hours	% Operating Hours	Raw Mill Production Hours	% Available Hours	Clinker	% Operating Efficiency
1983	June	32.5		26.0	3.6%	1,700	4.5
	July	9.5		4.0	0.5	600	1.3
	August	0.0		21.0	2.8	0	0.0
	September	27.5		50.5	7.0	1,075	3.8
	October	116.0		35.5	4.8	8,529	15.6
	November	156.0		133.0	18.5	11,950	21.7
	December	96.5		865.0	11.6	9,629	13.0
1984	January	119.5		121.0	16.3	11,645	16.1
	February	190.0		197.0	28.3	21,286	37.3
	March	266.0	35.7	150.0	20.2	31,337	35.7
	April	0.0	0.0	24.0	3.3	0	0.83
	May	149.0	20.0	113.0	15.2	15,692	20.0
	June	210.0	29.0	161.5	22.4	24,015	29.2
	July	246.0	33.0	215.7	29.0	24,486	32.9
	August	326.0	43.8	280.0	37.7	34,069	43.0
	September	161.0	22.4	198.0	27.5	17,278	23.0
	October	- - - - - -	NOT AVAILABLE	- - - - -	- - - - -	28,083	38.3
						241,374	

25

EXHIBIT 7

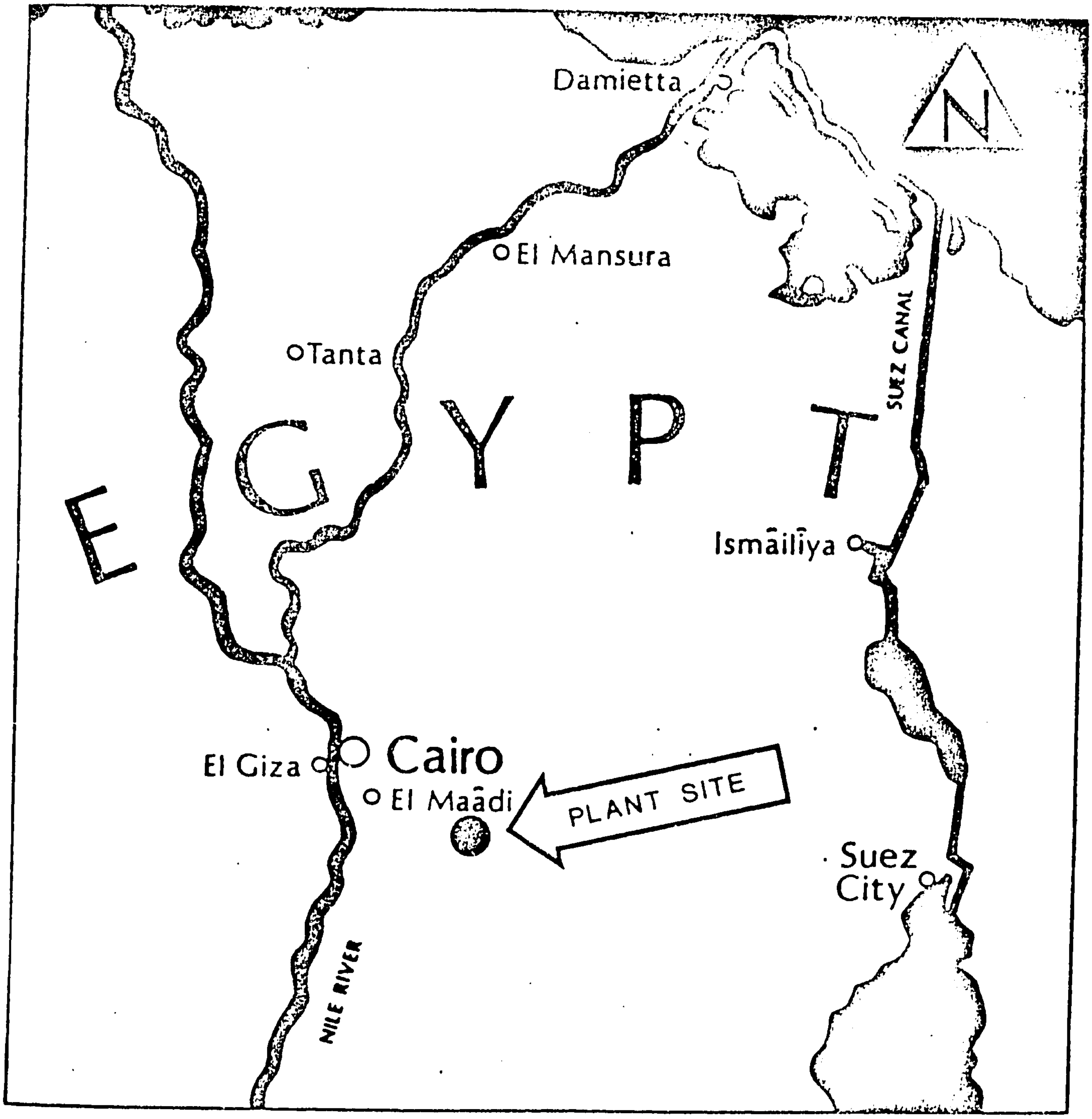
SUEZ PLANT LOCATION



26

EXHIBIT 8

QUATTAMIA PLANT LOCATION



27

HISTORY OF CEMENT PRODUCTION IN EGYPT
1930 - 1983

Year Calendar Fiscal	Tourah	Helwan	Alexandria	National	Total
	- - - - -	- - - - -	-Thousands of Tons-	- - - - -	- - - - -
1930	133	-	-	-	133
1931	157	49	-	-	206
1932	177	67	-	-	244
1933	210	72	-	-	282
1934	218	75	-	-	293
1935	268	89	-	-	357
1936	249	83	-	-	332
1937	227	91	-	-	318
1938	259	106	-	-	365
1939	253	102	-	-	355
1940	257	102	-	-	359
1941	259	133	-	-	392
1942	268	150	-	-	418
1943	218	105	-	-	323
1944	271	150	-	-	421
1945	271	158	-	-	429
1946	348	242	-	-	590
1947	368	270	-	-	638
1948	419	359	-	-	778
1949	509	368	-	-	877
1950	606	354	27	-	987
1951	577	421	121	-	1,119
1952	473	365	119	-	957
1953	527	441	122	-	1,090
1954	588	529	121	-	1,238
1955	648	601	116	-	1,365
1956	610	611	122	-	1,345
1957	669	670	136	-	1,475
1958	693	687	145	-	1,525
1959	813	776	166	-	1,755
1960	827	873	165	205	2,070
1961	841	837	127	288	2,093
1962/63	917	941	198	318	2,374
1963/64	950	977	301	379	2,607
1964/65	902	884	250	374	2,410
1965/66	897	940	370	370	2,577
1966/67	851	1,000	421	389	2,611
1967/68	846	1,136	473	449	2,904

HISTORY OF CEMENT PRODUCTION IN EGYPT
1930 - 1983

Year Calendar/ Fiscal	Tourah	Helwan	Alexandria	National	Total
	-Thousands of Tons-				
1968/69	1,222	1,283	495	448	3,448
1969/70	1,236	1,242	335	590	3,403
1970/71	1,320	1,332	524	634	3,811
1971/72[a]	1,313	1,287	349	692	3,641
1972/73[a]	1,275	1,246	528	680	3,729
1973	1,236	1,204	509	669	3,618
1974	1,082	1,084	482	611	3,259
1975	1,167	1,179	525	705	3,576
1976	1,053	1,116	533	661	3,363
1977	1,011	1,130	525	566	3,232
1978	936	1,111	500	529	3,076
1979	886	1,103	498	464	2,951
1880/81	1,130	976	702	639	3,447
1981/82	1,113	951	702	872	3,638
1982/83	1,229	1,024	700	824	3,777

[a] Fiscal year figures based on Stone & Webster interpolation of calendar year data.

Source: Egyption Cement Office, "Cement In 50 Years", 1982.

PLAN FOR DIVESTITURE OF STOCK
ISSUED TO PUBLIC SECTOR COMPANIES
SHAREHOLDERS OF SUEZ CEMENT COMPANIES
ACCORDING TO THE SUBGRANT AGREEMENT DATED SEPTEMBER 30, 1980
BETWEEN THE ARAB REPUBLIC OF EGYPT
AND SUEZ CEMENT COMPANY

Preamble

A project loan agreement between the Arab Republic of Egypt (ARE), the United States of America (USA) and Suez Cement Company (SCC) for Quattamia cement project has been duly signed among the said parties on 28 September 1978.

According to section G.3 of this agreement a sub-grant agreement has to be signed between ARE and SCC whereby a part of the funds shall be granted to SCC under that sub-grant agreement provided that SCC issue stock in an equivalent amount to public sector company shareholders of SCC, and that such companies concurrently with the receipt of such stock shall agree to a plan for divestiture of stock issued to them pursuant to the sub-grant agreement mentioned above including without limitation provision for sale of such stock to the private sector and disposition of the proceeds of such sale.

The purpose of this document is to set out the understandings of the public sector companies in that regard and their plan to divest such stock to private sector.

1. The public sector company shareholders admit that its final goal is to sell the private sector all stock issued to them under the sub-grant agreement dated September 30, 1980 between ARE and SCC.

2. The divestiture of the stock to private sector will begin within 120 days after start-up of production at Quattamia Cement Plant, and in a manner which can be absorbed by the private sector according to the market forces and in the same time not to affect the company stock situation in the stock exchange room.

3. The public sector companies will convene together at least once a year and through the Board of SCC to discuss the ways and means of promoting the sales of stock to private sector and the different measures and steps to be taken to encourage the private sector to buy such shares. Unless otherwise agreed to by AID, the public sector companies shall distribute at least ten (10) percent of their shares, mentioned herein, each year.

4. The public sector companies will use the proceeds of such sales in its activities with the objective of making new investments in different areas which lead at the end to strengthen and consolidate the Egyptian economy and serve the Egyptian people.

EXHIBIT 11

MAJOR PROJECT EVENTS
SUEZ CEMENT PLANT

Description	Date	Duration For Repair (Months)
1- Home Silos Fire	September 20, 1979 May, 1980	8
2- Concrete Batch Plant Production Stoppage (Concrete quality under requirement)	October 10, 1979 December 12, 1979	2
3- Fuel Tank Damage	November 28, 1979 February 1980	3
4- Clinker Silos Foundations remodelling (Concrete under requirement)	October 8, 1979 April 1980	7
5- Clinker Silo Tower Crane damaged due to wrong operation	September 16, 1980 October 27, 1980	1
6- Erection Works Reorganization SCC	March 1980 August 31, 1983	42
7- Electrical Equipment Fire (Motors)	April 19, 1980 April 1982	24
8- Limestone Storage Building Structural Steel Collapse	July 13, 1980 February 21, 1981	7
9- Limestone Crusher Building Fire	August 22, 1980 December 31, 1980	4
10- Homo Silos Fire	March 19, 1981 May 1981	2
11- Clinker Silo Wall damaged by Mobile Crane	June 24, 1981 October 18, 1981	4
	Total	104

ITEMIZED COSTS
FOR
SUEZ CEMENT PLANT IMPROVEMENTS

	Estimated Cost
Limestone Crushing	
Limestone Crusher Speed Change	$ 200,000 (P)
Limestone Dust Collectors Capacity Increase	67,300
Limestone Dust Return Improvement	44,600
Limestone Dust Suppression System	235,000
Conveyor Idler Maintenance Program	114,000
Conveyor Idler Spacing Change	245,000
Limestone Hopper Beam Change	200,000
Crusher Motors Cooling Ducts Relocation	10,000
Limestone Magnetic Separator Relocation and Metal Detector Addition	12,000
Limestone Conveyors Belt Plows Addition	4,200
Gamma Ray Level Device Replacement	1,950
	$1,134,050
Clay Crushing	
Clay Conveyor Transfers Improvement	$ 20,600
Clay Dust Collectors Capacity Increase and Dust Return Improvement	28,600
Clay Conveyors Belt Plows Addition	2,900
Clay Metal Detector Addition	9,500
Gamma Ray Level Device Replacement	1,950
	$ 63,550
Raw Milling	
Dust Collector C41 Return to Limestone Bin	$ 6,300
Limestone Conveyor Transfers Improvement	29,900
Raw Mill Building Silo Venting	17,500
Raw Material Dust Collectors Capacity Increase	21,100
Raw Mill Feed System Chutework and Conveyor Improvements	55,000
Raw Mill Modifications	1,000,000
F-K Pump Standby Compressor	150,000
	$1,279,700

	Estimated Cost
Blending & Kiln Feed Storage	
Relocate Air Slide Conveyor Air Intake Filters	$ 1,500
Kiln Feed Bucket Elevator Dust Collection	28,800
Kiln Feed Bucket Elevator Repair	6,000
Blending System Dust Collector Addition	47,500
Silo Aeration Blower Upgrade	9,300
Blending Silo Outlet Valves	15,200
Timer for Blending Silo Aeration	500
	$ 108,800
Burning & Cooling	
Clinker Cooler Discharge Dust Collector Additior	$ 21,500
Clinker Cooler Discharge Chute Improvement	2,100
Kiln Burner Replacement	340,000
Oxygen/Combustible Analyzers	80,000
	$ 443,600
Clinker Storage Silos	
Clinker Handling System Chutework Improvement	$ 10,500
Revisions to Clinker Dust Collectors Discharge Venting	12,500
Material Level Sensor Replacement	9,000
Relocation of Vent Fan	500
	$ 32,500
Gypsum Crushing	
Gypsum Dust Collectors Capacity Increase	$ 56,800
Gypsum Conveyor Transfers Improvement	45,000
Gypsum Conveyor Belt Plows Addition	4,400
Gypsum Chutework and Dust Hopper Improvements	10,800
Gypsum Storage Silo Vibrators	4,000
	$ 121,000
Cement Storage	
Material Level Sensor Replacement	$ 9,000
Other	
Engineering Management	$ 200,000 (P)
Project Management and Construction Supervision	500,000 (P)
	$ 700,000
Total Material & Labor Costs -	$3,892,200

July 3, 1985

Frank B. Kimball, Director USAID/Egypt

Draft Audit Report of Suez and Quattamia Cement Plant Project.

Harold Gill, RIG/A/Cairo

Attached are the comments of USAID/Cairo on the draft Audit Report.

35

"Part I - Introduction"

Mission Comments:

Throughout the draft report, it is stated that the major objective of the projects is to enhance the private sector. In fact, none of the agreements, authorizations, or project papers indicate that the major objective is enhancement of the private sector. The Mission suggests that this misleading language be revised to be consistent with project objectives as stated in the two project papers.

The objective of the Suez project is stated in Section III, Part A of the project paper as follows: The Objective of the proposed project is to support investments in badly needed improvements of the infrastructure of the Egyptian economy and in industrial and agricultural projects designed to increase the ouput of the economy. By increasing the capacity of the cement industry, availability will be firmed up and foreign exchange will be saved by reducing import requirements."

In the Suez project log frame the project goal is stated as: "To stimulate continuing industrial expansion and recovery", while the project purpose is stated as: " To furnish a major share of the current requirements of the Suez and Sinai regions in accordance with the GOE's development and reconstruction goals for those regions."

The purpose of the Quattamia project as stated in Section III, Part A of the project paper is as follows: "The purpose of the proposed project is to provide Egypt with a new cement plant which will supply a portion of its projected increased cement requirements. By increasing the productive capacity of the cement industry, Egypt will save valuable foreign exchange it would otherwise have to use to import cement."

The goals of the Quattamia project are stated in the project log frame as the following: "To stimulate continuing industrial expansion and economic recovery", and " To effect a liberalization of GOE Cement pricing policy". The purpose is stated in the log frame as follows: " To furnish a large share of the cement requirements of the greater Cairo area as well as the Delta area in accordance with the GOE development and expansion goals for this area."

As stated above, neither the grant agreement for the Suez project nor the loan agreement for the Quattamia project indicate that a major objective is enhancement of the private sector. It would be more accurate to state that the Quattamia agreement included a condition precedent and a covenent concerning divestiture of stock to the private sector; the Suez grant agreement included no provisions for disvestiture.

"Part II - Result of Audit"
"Achieving the Private Sector Objective"

Mission Comments on Findings:

1. FAA: The statement that "Law 43 allowed funding of the two cement projects under the provisions of 601 (a) of the FAA" is incorrect. Funding for the two projects was made available under the provisions of the FAA concerning Economic Support Funds. While Section 601 (a) states that " it is the declared policy of the United States ... to foster private initiative and competition," it does not restrict the use of Economic Support Funds to only private sector ventures.

2. Divestiture Plan: The audit report indicates that the divestiture plan developed by Suez Cement Company pursuant to a condition precedent in the Quattamia agreement does not address the question of disposition of sales proceeds. The divestiture plan, as accepted by USAID for satisfaction of the condition precedent, indicates the following:

"The public sector companies will use the proceeds of such sales in its activities with the objective of making new investments in different areas which lead at the end to strengthen and consolidate the Egyptian economy and serve the Egyptian people."

Mission Comments on Recommendations.

Recommendation 1a: There are a number of factors which bear on the question of whether the Suez Cement Company can become a private sector venture. Among these are the resolution of production problems, equality of treatment with public sector companies, financing, and output pricing. The Mission has and will continue to assess these factors and encourage the Government of Egypt to comply with provisions in the Quattamia agreement concerning divestiture of stock to the private sector. In summary, we believe that the Mission is already implementing this recommendation.

Recommendation 1b:

The Mission does not believe it is practical at this point to re-negotiate provisions of the existing agreements. We suggest that the recommendation be deleted.

"2. Addressing Current Financial and Operational Difficulties"

Mission Comments on Findings :

1. ECO Advances: The Suez Cement Company and the Egyptian Cement Sales Office agreed that all advances will be liquidated at a price of LE 52/ton, which is the price that Suez receives for all cement sold through the ECO. Mission reqests that references in the report to the absence of such an agreement be deleted.

Mission Comments on Recommendations :

Recommendation 2a: A solution to the Company's debt to equity problem seems to lie along two paths: 1) rescheduling of debt; and/or 2) increasing the Company's equity. As of this date no formal rescheduling of long term debt has been agreed upon by any of SCC's lenders (Bank of Alexandria, Banque du Caire, Bank Misr, National Bank, IFC, Union Bank of Switzerland, and the GOE), although most have accepted the fact that SCC can not meet current obligations. An increase in the company's equity in the amount of LE 56 Million was agreed to by the Company's Shareholders on June 11, 1985. Company financial experts believe that this is the amount needed to resolve the current debt to equity imbalance and to meet all obligations over the next few years. However, it is uncertain whether a sufficient number of existing shareholders and/or outsiders will actually subscribe to the new shares to make it successful.

The Mission has and will continue to explore ways in which AID can assist in resolving the Company's debt problems. However, it would be unrealistic to expect that AID, working alone with the GOE and SCC, can resolve the company's debt problems. AID can assist in resolving these problems by agreeing to a rescheduling of AID funded debt, or alternatively, a conversion of some debt to equity. However, resolution will also require that other lenders also reschedule debt and/or that the company increases its capital.

Recommendation 2b: The price used to liquidate cash advances from the Egyptian Cement Sales office has already been set at LE 52 per ton, the price which SCC receives for all cement sold through the ECO. The Mission requests that this recommendation be closed.

Recommendation 2c: Suez has already developed a plan to resolve technical problems at the Suez plant. A special committee composed of representatives of Arab Swiss Engineering Company (ASEC) and Holderbank has been at work since late 1984 examining technical problems and developing solutions. Major contracts have been signed with Polysius Corporation for modifications at the raw mill and with Claudius Peters for modifications in the clinker cooler. It is expected that many of the required changes will take place during a 6-8 weeks shut down of the plant now scheduled to start at the beginning of September, 1985. The Mission requests that this recommendation be closed.

"3. Lessons Learned From Administering The SCC Project"

Mission Comments on Audit Findings:

1) Conditions Precedent in Quattamia Loan Agreement Concerning Pricing and Divestiture.

a. Divestiture of Stock: Section 5.2 (e) of the Quattamia loan agreement required as a condition precedent to additional disbursement " a plan for divestiture of stock issued to the public sector companies pursuant to Section 6.3 below, including, without limitation, provision for sale of such stock to the private sector and disposition of the proceeds of such sale."

Under Section 6.3, " Sub-grant Agreement", the Borrower, i.e. the Government of Egypt, was required to grant to Suez Cement $36.5 million. This section states that among the terms and conditions to be included in the agreement were the following:

"(1) provision for the issuance of stock to public sector company shareholders of SCC, and (2) that such companies, concurrently with the receipt of such stock, shall agree to comply with whatever provisions for divestiture may later be included in the plan required by Section 5.2 above":

The draft audit report, either directly or by inference, raises three sets of questions with respect to the condition precedent regarding a divestiture plan:

42

1) Was there in April 1981 a stock divestiture plan which complied with the terms of the condition precedent? Is there one today?

2) Did the public sector companies who received the stock agree to accept the divestiture plan at the time they received the stock? Did they subsequently agree?

3) Was the divestiture plan submitted by the Borrower, i.e. the Government of Egypt as required by the condition precedent? Is there today a divestiture plan approved by the Borrower?

In answer to the first set of questions the Mission believes that the draft divestiture plan developed by the Suez Cement legal officer did, in fact, include the essential elements required by the condition precedent, i.e. provision for sale to the private sector and the disposition of sales proceeds. The original draft plan did include a timetable (i.e. "the divestiture of the stock to private sector will be gradually along the life of project, and in a manner which can be absorbed by the private sector."), which the project officer subsequently revised to include more specific language. This revised plan is the plan in effect as of this date.

Second, it is not known by the USAID/Cairo whether the public sector companies who recieved the stock agreed to accept the divestiture plan at the time they received the stock. However, as these companies are represented on the Suez Cement Company Board of Directors, they did subsequently agree to the divestiture plan in the Board of Directors meeting on 7/13/82. Attached to these comments are the minutes of that meeting (translation from the Arabic).

Third, the divestiture plan originally submitted to satisfy the condition precedent was indeed from the Suez Cement Company, not the Borrower (i.e. the Government of Egypt, as represented at the time of the loan agreement by the Minister of Economy and Economic Cooperation). As of today the Mission is not aware of any approval of the divestiture plan by the Borrower. While the Suez Cement Company cannot in the strict language of the loan agreement be considered the Borrower, the Company was in fact a signatory to the loan agreement, and as such undertook certain responsibilities for project execution. As the audit report notes, however, it would have been technically appropriate for the Borrower rather than the company to submit the divestiture plan.

b. Cement Pricing: Section 5.2 (f) of the loan agreement required the Borrower to submit a plan for the implementation of a rational cement pricing system, as one of the conditions precedent to additional disbursement. While the term "rational cement pricing system" is not separately defined in the Agreement, Section 6.4 of the Special Covenants does provide some guidance. That covenant requires that the Borrower set prices and taxes at a level which allows a reasonable profit after paying all production and other costs, raise prices to world levels, and enter into periodic consultations with AID.

The Egyptian Cement Sales Office letter of February 1981 was used as justification for the Mission's acceptance of satisfaction of the intent of the condition precedent. The price of LE 31/ton mentioned in the letter represented a substantial increase over the controlled price, as shown in the September 1978 project paper , of LE 18/ton for bagged Portland cement as of July, 1977. In fact, LE 31/ton was more than the price (LE 26) used in the project paper financial analysis to arrive at an internal financial rate of return of 10.7%. Also, the price of LE 31/ton would have allowed Suez Cement Company to earn a "reasonable profit", if it had been permitted to purchase fuel and electricity at subsidized prices. However, in 1981 the cost of fuel to SCC rose to about LE 15.42 per ton of cement produced, and in November 1982 the cost of electricity rose to LE 11.726 per ton of cement, conditions not anticipated by the project paper analysis.

While the preceding discussion demonstrates some justification for the Mission's accepting the ECO letter of February 1981, we agree that further work is required in order to develop a rational pricing system. See comments below on covenants concerning prices.

c. <u>Implementation Letters:</u>

The draft audit report notes the confusion that exists concerning AID's notification to the Government of Egypt that certain conditions precedent have been met. The Mission issued two implementation letters numbered 1. The first implementation letter No. 1 was issued on April 2, 1981. This implementation letter addresssed several matters including the extension of the project assistance completion date (PACD). For this and possibly other reasons, the Mission requested the Government of Egypt official to whom the letter was addressed to sign the letter agreeing to its content. For reasons which are still not clear in total, the Government of Egypt did not sign the implementation letter No.1 dated April 2, 1981. The Auditors discussed this matter with Dr. Hussein Refaat at the

Ministry of Planning and International Cooperation, and Dr. Refaat remembered that there were some discussions with the then senior Under Secretary for Economic Cooperation with the U.S.A., Mr. Fouad Eskander. Dr.Refaat explained to the auditors that there was a note in the files that indicated that there had been modifications made to the letter which would allow it to be signed by the Government of Egypt. However, the note did not explain what modifications were involved.

The second letter was issued on July 19, 1981, and it was addressed to Mr. Fouad Eskander who in due course signed the second letter. The second letter has no changes to it except for the addressee and except for the fact that one of the pages is missing. Apparently, the auditors have concluded that the deletion of the missing page is in response to the discussions that supposedly were held with Fouad Eskander. However, a review of the second letter shows that the page before the one that is missing contains a partial sentence and the page afterwards starts in the middle of a paragraph. The clear impression is that the missing page was, in fact, just left out rather than the substance of the contents being deleted on purpose by the Mission. There is no indication in AID files or in the GOE files (other than the note to which Dr. Refaat refers) that indicates that modifications or deletions were actually carried out. To the contrary there is circumstantial evidence that the Mission did believe that it had notified the GOE that the CPs were met. In a prior review of the recommended audit finding, the Senior Legal Advisor to the Mission wrote a memorandum to the Mission Director that concluded, in his opinion, that the Mission had indeed adequately notified the Government through the implementation letter No.1 dated April 2, 1981, that these conditions precedent had been met.' The Mission has concluded that the deletion of the page dealing with conditions precedent was an administrative oversight.

2) Conditions Precedent in Suez Grant Agreement: The draft report argues that the inclusion of a condition precedent which required that 80% of the SCC stock be subscribed by public sector companies, absent a provision requiring divestiture, "inhibited the chances of SCC becoming a private sector venture, a major goal of the grant agreement."

In fact, and as mentioned previously, the Suez grant agreement does not indicate that the creation of a private sector venture was a "major goal."

3) Covenents Concerning Pricing:

The Mission believes that it is important to clarify three questions raised in the audit report discussion of covenants: a) the extent to which the GOE is in compliance with the Suez and Quattamia agreements, b) current pricing practices; and c) actions that might be taken now and in the future concerning pricing issues to facilitate the competitiveness of the Suez Cement Company.

Under Section 5.02 "Cement Pricing" of Article V, Special Covenants and Warranties of the Suez Grant Agreement the following is stated:

"The Grantee agrees to: (a) Set cement prices and the level of taxes imposed on cement at a level which will allow SCC to generate a reasonable profit on its investment after paying for all production and other costs of operation, as shown in the Feasibility Study Cement Plant at Suez Zone, Final Report of Arab Swiss Engineering Company dated February 1976.

(b) To prepare within one year from signature of the agreement a study of its pricing policies relating to the cement industry and to consult with AID from time to time on the financial situation of the cement industry."

Under Section 6.4, "Cement Pricing, of Article 6, Special Covenants of the Quattamia Loan Agreement the following is stated:

"The Borrower agrees (1) to set cement prices and the level of taxes imposed on cement at a level which will permit SCC to generate a reasonable profit on its investment after paying for all production and other costs of operation, as shown in the Engineering and Economic Feasibility Study for New Portland Cement and Related Facilities, H.K. Ferguson International Co., August 1978, (2) to raise the prices of domestic cement towards those of imported cement as quickly as practicable, and (3) to hold periodic consultations with A.I.D. concerning cement pricing."

By unifying the market price for cement at LE 53/ton (Audit report incorrectly states the new price as LE 55/ton) the GOE has taken an important step towards complying with the requirement to raise prices of domestic cement towards those of imported cement. The new price, when converted at the parallel rate in effect on 6/22/85 (LE 1.3433/$), is equivalent to $39. The latter figure is within the range of prices being paid by Egypt for imported cement early this year: about $36 for ECO imports versus $42-$44 for private sector imports. It should be noted though that these prices are at their lowest level in about 10 years and they are still significantly lower than prices paid in the U.S. The prices quoted in the May 9, 1985 edition of Engineering News Record ranged from $55 - $76 per ton for Portland cement delivered in bulk.

The audit report notes that the "cost plus" method of determining prices could have negative results because it ignores marked forces, "so important to private enterprise." The Mission would like to offer two additional points for consideration: 1) the cost plus system employed by ECO is used to determine the prices paid to producers, not the final consumer; and 2) the forces currently affecting the local cement market include the dumping practices of major exporters like Greece and Spain, who are selling cement at less than full production costs.

The Mission believes that over the long run the competitiveness of the Egyptian cement industry domestically and internationally depends upon the elimination of all input subsidies and a stronger commitment by the GOE to free market determination of output prices. Should such conditions develop we believe that the Suez Cement Company would be well positioned to compete against other domestic and foreign companies.

Mission Comments on Recommendations:

The Mission provided comments on Recommendations 3a and 3b which were contained in the draft report. These recommendations concerned development of and compliance with conditions precedent or covenants. These recommendations were deleted in the final report. Accordingly, this portion of the Mission's comments to the draft report have been deleted by the Office of Inspector General. The IG's audit planning process has shown that problems of compliance with conditions precedent, covenants, and other conditionalities in project agreement documents exist in other development projects. Rather than make specific recommendations in this report on AID's development of these conditionalities and evidence accepted as compliance, the IG plans to make a worldwide audit of the Agency's practice and procedures in this area. The audit objectives will be to determine how effectively these conditionalities contribute to development goals.

Minutes of 53rd Meeting
for the Company's Board held on
July 13, 1982

According to the invitation of the Board Chairman and the Representative member, the Board of the Suez Cement Company met on Tuesday, July 13, 1982 in the Company's headquarters in Cairo at 12:00 noon.

The meeting was chaired by Eng. Ahmed Ali Shaker, Chairman and Representative member. It was attended by the following Board members:

- Mr. Ahmed Mohye El-Din Mostapha Salem
- Mr. Mahmoud Ahmed Saleh
- Mr. Mohamed Hassan Abdallah
- Mr. Hassan Ibrahim Abu Halawa
- Mr. Ahmed Hussein El Sawi
- Mr. Mahmoud Kadry El-Sherkawi
- Eng. Gamal El-Din Abdel Rahman
- Mr. Hatem Mohamed Khalil

The following apologized for not attending the meeting:

- Chemist Gad El-Karim Fahmy
- Mr. Medhat Shafei Abdel Gelil
- Mr. Gamal El-Din Zayed

Also attended the meeting Mr. Nabil Sadek, the Company's Financial Manager, Mr. Adel Sadek Abdel Rahman acted as the Secretary.

The Chairman and the members started the meeting by congratulating each other for the month of Ramadan and the Bairum, wishing prosperity and success for the Company.

1. Approving the minutes of the previous meeting:
   The Board approved the minutes of the previous meeting held on 6/20/82.

2. A follow-up report on the Company's activities.
   - Suez Project
   - Quattamia Project

3. A plan to renounce the shares of the public sector.

The Chairman said that in 9/28/78 an agreement was signed between the Egyptian and American Governments to finance the Quattamia Cement Plant.

According to the articles of this agreement and the subgrant agreement a grant is to be specified for public sector companies to pay part of its shares in increasing the capital and that a plan should be prepared for approval by the USAID which includes selling these shares to the private sector at a later stage, and what to be done with the selling price.

As preparing this plan is part of the necessary conditions that make the grant beneficial, the required draft plan has been prepared, as was seen necessary by the Board in a previour discussion of the subject, and this draft has been discussed with the USAID where the latter suggested some changes.

The plan is submitted to the Board in the form that has been agreed upon.

The Board discussed the submitted plan and its necessity for the execution of the grant agreement and to start applying it within 120 days after the Quattamia plant starts production, i.e., during 1984, and the way of selling 10% of the shares every year for the private sector through the stock exchange which will be defined by the public sector companies represented by the Board of Directors which will meet to discuss this subject at least once every year, and on the basis that the value of the shares will not be affected in the stock exchange, and that the market permits that the private sector can absorb the amount the Board decides to be sold. As for what is to be done with the selling price, it has been agreed to use it for financing projects that serve the national economy.

The Council authorized, after discussion, a plan to sell the shares of the grant owned by the public sector to the private sector gradually in the future, and to invest the selling price in projects that serve the national economy.

List of Recommendations

Page

Recommendation No. 1 4

We recommend that USAID/Egypt:

a. in cooperation with the Government of Egypt and prior to any additional funding for Suez Cement Company or refinancing of the $95 million loan, assess the current viability of Suez Cement Company becoming a private sector venture under the context of the Government of Egypt Investment Law of 1974; and

b. having determined the viability of the Suez Cement Company as a private sector venture, negotiate a new agreement or amend the current project agreement to:

   (1) require a formal stock divestiture plan approved by the Government of Egypt which includes a timetable for offering the publicly held stock and AID approval of the disposition of stock proceeds;

   (2) include a provision which equitably charges energy prices among Suez Cement Company and the public cement companies; and

   (3) include a provision for cement pricing which permits Suez Cement Company to be competitive.

Recommendation No. 2 9

We recommend that USAID/Egypt:

a. negotiate with the Government of Egypt and the Suez Cement Company solutions to the Company's debt to equity problems, including the rescheduling the Company's long-term debt if necessary;

b. negotiate with the Government of Egypt the selling price of cement used to repay the cash advances from Egyptian Cement Office; and

c. ensure that the Suez Cement Company establishes a formal plan to resolve the technical operational problems hindering the Company's production potential.

APPENDIX 3

REPORT DISTRIBUTION

	No. of Copies
Mission Director, USAID/Egypt	10
Assistant Administrator, Bureau For Asia And Near East (ANE)	5
Office Of Egypt Affairs	1
Audit Liaison Office (AA/ANE)	1
Assistant To The Administrator For External Affairs (XA)	1
Office Of Legislative Affairs (LEG)	1
General Counsel (GC)	1
Assistant To The Administrator For Management (AA/M)	2
Office Of Financial Management (M/FM/ASD)	2
Office Of Contract Management (M/SER/CM)	1
Center For Development Information And Evaluation (PPC/CDIE)	3
Inspector General	1
Assistant Inspector General For Audit (AIG/A)	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections/Cairo (RIG/II/C)	1
RIG/A/Dakar	1
RIG/A/Karachi	1
RIG/A/Tegucigalpa	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1