PD-AAS-388

42722

FILE COPY

Auditor General

AUDIT REPORT
ON
THE PRIVATE SECTOR ALLOCATIONS OF
THE COMMODITY IMPORT PROGRAMS OF EGYPT
AID LOANS NO.263-K-(036), (038), (045), (052)
AND
GRANT NO.263-0119

Audit Report Number 6-263-80-10

Issue Date August 10, 1980

Area Auditor General / EGYPT
Agency for International Development

AUDIT REPORT

ON

THE PRIVATE SECTOR ALLOCATIONS OF

THE COMMODITY IMPORT PROGRAMS OF EGYPT

AID LOANS NO. 263-K-(036),(038), (045), (052)

AND

GRANT NO. 263-0119

Audit Report Number 6-263-80-10
Issue Date August 10, 1980

TABLE OF CONTENTS

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Introduction

Since 1975, when the economic assistance was initiated, there have been nine loans and one grant signed which obligate $1.5 billion for the Commodity Import Program. This program was designed to assist Egypt in meeting foreign exchange costs of commodities and commodity related services as required by the borrower in (a) meeting a serious foreign exchange shortage, (b) achieving development objectives, (c) improving the standard of living; and (d) maintaining political stability.

About 95.5% of the obligated funds ($1.5 billion) are managed and channelled through the Public Sector of Egypt. The remaining balance, about $68.5 million, was allocated to the Private Sector and is the subject of this report.

Earmarking of these funds to the Private Sector meets the intent of Section 601 of the Foreign Assistance Act (FAA) which encourages free enterprise and private participation.

In the past, the Private Sector had been totally neglected by the government. Therefore, initially, the idea met with strong resistance on the part of the GOE and the Mission was instrumental in influencing an attitudinal change and including the allocation within the agreement. The activity was intended as a showcase on how private enterprise can help the country with its development programs. Accordingly, the Letters of Implementation included a description of eligible importers which required them to have a commercial registry and a tax card. To permit the broadest possible access to CIP funds by individual importers, the letters established a $500,000 limitation, subject to certain guidelines, for all importations. These ground rules were made known by the GOE to all participating Egyptian banks.

As of March 30, 1980, commitments for this program amounted to about $56.5 million and disbursements by AID totalled $26.1 million.

Purpose and Scope

Our audit purpose was to : (a) evaluate program guidelines used by USAID/E and GOE to implement this program; (b) evaluate procedures used to implement the program; (c) evaluate progress of the program towards the achievement of stated goals; (d) evaluate the adequacy of USAID/E program monitoring; and (e) determine proper usage of imported commodities.

To accomplish our objectives, we examined planning and implementing documents, files, reports, procedures and systems. We also visited P Sector importers and participating banks to assess effectiveness of assistance and use of procured equipment.

Conclusions

Funds are concentrated with five importing family groups.

Commodities imported under this activity have been steel products, construction equipment, air conditioners, refrigeration equipment, vehicles, pre-fabricated buildings, tools, etc. The funds allocated are therefore helping the Egyptian economy in several ways.

However, this has not been a showcase on how private enterprise can help the government in its development programs. To the contrary, private importers or importing family groups found, and exploited, weak areas of the ground rules of this activity to both qualify--at least on paper--as eligible importers and to bypass the $500,000 limitation that was designed to broaden the base of the users. These violations totalled $19.2 million. In addition, the MOE issued waivers, totalling about $6.0 million, to some of the importers of the above groups. As a result, five family groups have received a total of $25.2 (of $56.5) million of committed funds (page 7).

We believe there were five essential reasons why this occurred; these are explained in the succeeding sections.

The description of the "eligible importer" was too loose.

Under the ground rules of the program, the eligible importer had to have a commercial registry and a tax card. Commercial registries in Egypt are easily obtained. Consequently some importers created, and used, paper companies to bypass the limitation (page 12).

The USAID/E and GOE differed on goals and objectives of activity.

Beyond the broad terms stated by the agreements and the mechanics of the guidelines stated in the Letters of Implementation, there is no clearly stated policy on the goals and objectives of the activity. This was due to a difference in program concept between USAID/E and the GOE. The USAID/E viewed the program as one designed primarily to assist the GOE with its Balance of Payment problem in line with the loan paper justification; the GOE viewed it as designed for investment purposes. This difference existed during time the bulk of the funds were being used and was a contributing factor for not adequately controlling the fund limitations. Controls were not established to adequately check the transactions (page 13).

Program monitoring was deficient.

There were six Egyptian banks who were to manage the funds allocated through the CIP Private Sector. The USAID/E expected them to perform certain monitoring functions such as checking commercial registries, controlling the $500,000 limitations, etc. The banks did not accept this responsibility; they felt this was not a proper banking function. Consequently, this monitoring function should have been reassumed by USAID/E and, to a certain extent, it was. But, the monitoring was deficient. (page 16)

Procedures for issuing Letters of No Objection were inadequate.

Closely related to the above monitoring problems was the fact that the USAID/E did not exercise proper controls over issuances of Letters of No Objection (NOLs). For instance, NOLs were issued on the same day to nine different companies, each for the exact amount of $499.680. Six different NOLs were processed for three different companies who used the Arabic name in one and then the English name on the other. One importer obtained three separate NOLs by merely exchanging the sequence of his name. (Page 16)

Letters of Credit (L/C) were also not reviewed.

Also missing from the monitoring process was a review of Letters of Credit opened by importers or groups for transactions being financed under the CIP. As a result, some groups opened "transferable letters of credit" for an amount which exceeded the cost of the transaction being financed by AID. They tried to use the excess to finance commodities not authorized under the CIP (page 16).

Summary of Management Comments.

Because of the nature of the conclusions drawn in our audit, the USAID/E formed a committee and examined documentation relevant to the transactions, obtained certain supplementary information, reviewed an active case of IIS, and performed other extensive analysis.

The Mission's response was given careful consideration in finalizing this report. In some instances, the response added explanations and a different perspective; the report now includes this added view. In other instances, the USAID/E took exception with some of our facts or conclusions drawn; however, our additional work did not alter the substantive aspects of our findings.

The USAID/Egypt did not agree that there had been a difference in the program concept, especially at the high policy level. We reviewed our work and revisited the MOE. Our conclusions are reconfirmed: the difference existed during the period stated in our report. At the present time, however, the USAID/E and GOE are working closer together towards formulating a policy which will be published as a GOE decree.

The USAID/Egypt did not share our conclusions regarding the concentration of funds in the five family or inter-related groups. Their response analyzed each importer presented in our report and included some insight on business practices of the family groups. One of the central arguments is that each "company" within the group has a different commercial registry. We reviewed our work and reconfirmed our conclusions in all substantive aspects. We have, however, clarified the original comments of the report and the description of the importers in question. We have also added one more explanatory exhibit (Exhibit D).

Before the completion of our final report, USAID/Egypt had suspended Importing Family Group A from further participation in AID financed programs. We had recommended similar action for Groups B through E in our draft report. However, in its response, USAID/Egypt felt that there was no legal basis for taking this action against the other importers. After a careful evaluation of the USAID/E response, we still believe that ample bases exist to effect a suspension and debarment for Groups B and E; these groups obtained some NOLs through deceptive practices (application in Arabic and English names, exchanging sequence of importers name, paper companies, non-existing companies, etc.) In the case of Group C, they met the criterion of the description of eligible importers, but there are no prior authorizations to exceed the importation limitation; thus we feel, the USAID/E has an option to either approve the transactions retroactively or suspend the importers in the group. Regarding Group D, we agree with USAID/E that no legal basis seem to exist to suspend or debar this importer (pages 12 to 13).

Recommendations

This report makes the six recommendations listed on Appendix II.

INTRODUCTION

Background

Since resuming diplomatic relations with Egypt, in 1973, the U.S. Government has been providing assistance programs which are directed towards promoting economic and political stability of the country. From a development point-of-view, AID has followed an economic strategy which encompasses dual objectives:

(a) to maintian a large net inflow of U.S. and other foreign resources in the short-run; and,

(b) to achieve a lower need for foreign resources inflows over the medium-and long-run through expansion of Egypt's productive capacity.

Two of AID's programs--the Commodity Import Programs and P.L. 480, Title I Programs--are designed to address the short-term needs of Egypt. The medium and long run requirements are being addressed through numerous individual projects and programs.

A more complete background information on the entire Commodity Import Program (CIP), which totals $1.5 billion, is found on Appendix I. This report limits its coverage to about $68.5 million allocated to the Private Sector within the funding provided by the following agreements:

Loan (K) or Grant (G) Agreement No.	Funds in U.S. $ Millions Sub-obligated	Disbursed	Balance
263-K-036	$ 10.0	$ 7.9	$ 2.1
263-K-038	15.0	10.3	4.7
263-K-045	10.0	2.5	7.5
263-K-052	25.0	5.4	19.6
263-G-0119	8.5	-	8.5
	$ 68.5	$ 26.1	$ 42.4

Exhibits A and B show the status of these funds in a more exact form as of March 31, 1980.

Earmarking of these funds to the Private Sector meets the intent of Section 601 of the Foreign Assistance Act (FAA) which encourages free enterprise and private participation. However, the idea initially met with strong resistance on the part of the GOE. The Mission was instrumental in the inclusion of the allocations within the agreements; the success of the Mission in persuading the GOE marks a major shift in attitude towards the Private Sector, which in the past had been almost totally neglected by the Government. Most industry is owned and managed by the Government through Public Ministries and different organizations; this has only aggravated budgetary problems of the GOE because the overburdened organizations have not worked efficiently. Consequently, AID has had an interest in developing the Private Sector of Egypt.

A wide range of commodities are eligible, as described in the AID Commodity Eligibility Listing. Commodities not eligible include: certain commodities designated as ineligible by the Ministry of Economy and Economic Cooperation, luxury goods, household appliances, food commodities, and items for resale to military or police.

Exhibit C shows the differenct types of commodities that have been or will be imported into Egypt according to the Letters of Credit and information as of March 31, 1980.

Audit Purpose and Scope

This is the first review--in a series of four--to be made of the CI Program. The objectives of this first audit were to: (a) evaluate program guidelines used by USAID/E and GOE to implement this program; (b) evaluate procedures used to implement the program; (c) evaluate progress of the program towards the achievement of stated goals; (d) evaluate the adequacy of USAID/E program monitoring; and (e) determine proper usage of imported commodities.

Our examination covered the most current period from inception of the program to March 31, 1980 with emphasis on procedures in effect. The review was conducted in accordance with sound auditing principles and standards. To the extent deemed necessary, we examined planning and implementing documents, files, reports, procedures, systems. We also visited Private Sector importers and participating banks to assess effectiveness of assistance and use of procured equipment.

The draft of this report was reviewed by USAID/E. Because of the nature of the conclusions drawn in our audit, a committee was established which included members of the Director's Office, legal, controller, and the commodity import offices. This committee examined the documentation relevant to the transactions, obtained certain supplementary information and had access to the information detailed in IIS Case 6593 dated May 11, 1980. In the case of the five importing groups, the committee prepared a list of importers and in some cases, particularly in importation of steel, the importer's letter of credit was compared with the "No Objection Letter" to determine whether the same was used.

As a result, the response of the USAID/E required reverification work on our part. Accordingly, supplementary material furnished by the committee was analyzed, our workpapers were reviewed once again, one ministry was revisited, and the draft report was again reviewed. In sum, all comments and statements in the USAID/E response were given due careful consideration before finalizing this report. Our additional work resulting from the USAID/E response to the draft audit report re-confirmed all substantive aspects of our initial findings and conclusions.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

1. An Overview of the CIP Private Sector Program

As stated in the Background section, a total of $68.5 million was obligated through five agreements in line with provisions of the FAA. The intent of AID has been to encourage expansion and participation of free enterprise within Egypt. Throughout these past three years, however, there has been a difference between the Mission and the host country on the goals and targets and beneficiaries of this program. Consequently, a clear and definitive policy of what the assistance to the Private Sector should achieve has not evolved to guide the program.

The two parties, however, did agree on the mechanics to operate the program. For AID, the mechanics of the importations are guided by Letters of Implementation to the Agreements and by AID Regulation No 1. The internal operations within the country are guided by Ministry of Finance Circular No. 8. A brief explanation of some of the provisions of these documents follows.

Letters of Implementation issued for the projects covered by Loan Agreements No. 036, 038, 045, and 052 state the following:

> "Eligible private importers are those of Egyptian nationality who have a commercial registry number and tax card. Joint venture Law 43 companies are not permitted to participate in this program....
>
> "The maximum value of any single transaction cannot exceed U.S. $500,000 unless prior approval is granted by the Ministry of Economy and A.I.D./Cairo....
>
> "No importer can open multiple letters of credit totalling more than $1 million within a 12-month period, nor can an importer during the same period open more than one letter of credit in excess of $500,000 to the same supplier for the same commodity, unless specifically authorized in writing by the Ministry of Economy and AID/Cario...
>
> "If the proposed transaction is valued at more than U.S. $500,000 or the importer is exceeding U.S. $500,000 in purchases for the same supplier and commodity, or wishes to open multiple letters of credit totalling more than $1 million within a 12-month period, the importer must obtain the written approval of the Ministry of Economy and AID/Cairo prior to the issuance of AID's letter to the Egyptian bank."

As discussed later in the report, the above terms and the established controls were loose and certain violations were experienced with this program.

AID rules normally require that importers solicit offers from many American suppliers and select the supplier offer that is most advantageous to the importer. Formal sealed bids and public tenders are not required. In recognition of Commercial practices, AID has four different purchasing procedures:

--Special Importer--Supplier relationships.
Solicitation of offers not necessary.

--Proprietary Procurements.
Solicitation of offers not necessary.

--Multi-source purchases less than $ 25,000.
Solicitation of offers not necessary.

--Multi-source purchases over $ 25,000.
Solicitation of offers is necessary.

A proforma invoice is normally obtained by a prospective importer. This invoice is submitted to USAID Office of Commodity Import and Procurement Services, who verifies conditional eligibility of the commodity and which issues a "Letter of No Objection"; this is subsequently taken to a participating Egyptian bank for financing.

The GOE has sub-allocated the agreement funds to the following Egyptian banks:

	US$ Millions
Bank of MISR	$ 17.0
National Bank of Egypt	17.5
Bank of Cairo	12.0
Bank of Alexandria	15.8
Suez Canal Bank	1.2
Development Industrial Bank	5.0
	$ 68.5

The participating banks are responsible for evaluating the importer's financial standing, credit worthiness, and the economic soundness of the proposed transactions. In lending the funds to the Private Sector, the banks must adhere to certain terms established by the Ministry of Finance and Economy (MOE) in its Circular No. 8. This circular, issued in 1978, provides for debts and terms by the banks to the GOE, but does not include the limitations and guidelines stated in the Letters of Implementation. The importation limitations were made known to all Egyptian banks by means of a separate letter dated July 1979. In any event, Circular No. 8 makes funds available to the banks on the following terms:

-Interest Rate:
2 1/2 % for intermediary commodities, 5% for capital commodities.

-Period of Repayment:
Maximum of 3 years for intermediary commodities and maximum of 5 years for capital commodities.

-Currency of Repayment:
Egyptian pounds.

-Downpayment Requirement:
25% which can be loaned by any bank on commercial terms.

-Banking Fees & Commissions:
As established by the Central Bank of Egypt.

The financial terms between the commercial banks and the importer are not stated in the circular.

Our review concluded that a total of about $56.5 million has been committed for importation through irrevocable letters of credit. Over 52.8% of the importations have been for steel products and construction equipment, but there have also been or will be importations for spare parts, refrigeration equipment, vehicles, pre-fabricated buildings, tools, insecticide spraying aircraft, office equipment, etc. These importations are similar in nature to those imported by the Public Sector. Thus, the funds allocated to the Private Sector portion of the CIP will be providing the Egyptian Economy with foreign exchange it needs in different parts of its ecomonic development programs. 'rom the committed funds, AID has disbursed a total of $26.1 million. These funds and the related commodities are now having some impact on the Egyptian economy. The examination also showed that importers in most instances were obtaining commodities at the lowest price available by following accepted procurement practices. The importers we visited also liked the quality of products received from the U.S.

During our review, however, we also found instances where the $500,000, set by the Letters of Implementation, was deliberately bypassed by several importing groups or waived by the MOE. The end result of this practice was that five family importing groups have received a total of $25.2 million of the $56.5 million committed as of March 31 1980. Some of the members of the five different groups are either family members or are closely related to the family. For the purpose of this report, these are referred to as "importing family groups". They either use the same commercial business registry as the principal or have independent commercial registry and could pass, under the description of the Letters of Implementation, as a separate business. In its response to the draft report, the USAID/E pointed out the following:

> ".....our experience of most sectors of the Egyptian economy is that families tend to join together in business ventures and sons frequently follow fathers and relatives into the same kind of business ventures. In many sectors of the economy there are extensive networks of family relations which characterise the sector. These groups have become the traditional importers of certain commodities..... Moreover, certain sectors of the economy such as construction could not be supplied with raw materials and light capital equipment without the participation on these traditional importers. This has arisen as a matter of economic necessity where, in the case of for example the construction industry, only large scale importers can make discounted purchases which can be passed down to the proliferation of small entrepreneurs. These traditional importers, including family groups, have been engaged in the importation of such items long before the advent of the Private Sector CIP program. Their participation in such importation will continue after the termination of the program."

Although "need for loan funds" was not established as a criteria for the use of CIP loans, we found it interesting that the groups are not in need of concessionary loan terms. They, themselves, said that they had no problems in obtaining credit from the Egyptian banking system. The importers visited by us told us that the main reason for using AID funds is because it offers advantages in the interest rate and foreign exchange repayment terms. These are normal practices and as the USAID/E pointed in the response " ... the very nature of a private sector transaction is that it offers financial benefits for the participants. If the program did not offer a possibility of profitable return on investment the private importer would not even consider participation in the program ..."

Irrespective of USAID/E's clarifications, the fact remains that close to 45% of all funds used in this portion of the CI Program have benefited five family groups and the wide dissemination of funds expected through the incorporation of the $500,000 limitations in the Letters of Implementation have not been realized. In addition, "Transferable Letters of Credit" are being used by some importers to by-pass program restriction of both AID and GOE. We believe there are four reasons why the violations took place; (a) the lack of clear goals and program objectives, mutually agreed to by USAID/Egypt and GOE; (b) inadequate controls by the Mission over "no objection letters" issued to importers; (c) lack of a mechanism to review letters of credit; and, (d) a lack of a clear understanding on the part of the participating banks and USAID/E on each other's monitoring role.

2. Concentration of CIP Funds by Importing Family Groups.

As stated previously, the implementation letter limits the amount of funds available to any single private importer to $500,000. The intent of this limitation was to permit the broadest possible access to CIP funds by individual importers within the Private Sector. To further expedite importation with these funds, the MOE waived its normal requirements of import licenses and review of transactions under $500,000. Such a review by the MOE was intended to provide coordination between importations by the Private Sector and stock on hand at the Public Sector companies.

We reviewed 50 (of 288) transactions processed through the program as of March 31, 1980. The study showed that the MOE authorized two importers to import commodities which exceeded the importation limitation; this waiver was granted in line with the provisions of the Letters of Implementation; the amounts of these importations were $6.0 million. However, our review also showed repeated violations of this same importation limitation by five family groups; these transactions were not approved by anyone and totalled $19.2 million. At our cut-off, over $25.2 million of AID's assistance through the CIP allocations was concentrated on these five importers (names and specific details are available, on a need to know basis, within our workpapers):

Importing Family Groups	In US $ MILLIONS Not Approved by MOE	Approved by MOE	Total
A	$2.8	$ -	$ 2.8
B	9.4	-	9.4
C	5.5	2.5	8.0
D	0.5	3.5	4.0
E	1.0	-	1.0
Totals	$19.2	$ 6.0	$25.2

Several methods were used to by-pass this limitation. However, the most common was for a Private Sector importer to have an affiliated company or different members of the family to obtain from the USAID/E a "Letter of No Objection" by representing themselves as individual and independent importers. This Letter of No Objection would then be taken to a bank and the "principal" importer would guarantee the irrevocable letter of credit.

The examples which follow will illustrate the different methods and the depth of the practice.

Procurement by Importing Family Group A - The principal importer of Group A is both a private Egyptian importer and the Sales Representative (agent) for three U.S. manufacturers. His line of business is concentrated on air-conditioners and refrigerators. As a private importer, he obtained $2.6 million in CIP funds for the Calendar Year 1979, as follows:

	Amount
His Own Name	$ 774,000
Company No.1 Name	492,000
Company No.2 Name	496,000
Relative's Name	549,000
Fictitious Name	280,000
	$2,591,000

In one of the above transactions, the principal importer of this group purchased air-conditioning equipment at a cost of $35,000. At a subsequent date--this time as a Sales Representative--the principal importer prepared the proforma invoice used by three other importers to obtain a Letter of No Objection to purchase $454,000 of equipment manufactured by one company represented by this agent. For one importation, the Sales Representative in his proforma invoice quoted a unit cost of $78,000 each for the identical air-conditioning equipment that had previously cost him $35,000. The $43,000 difference probably represents the profit as an agent; this profit is excessive. In any event, it should be in local currency and should not be financed by AID from foreign exchange.

USAID/E suspended this importer from participating in this program after it found that this importer was opening letters of credit in names other than those indicated by the USAID/E Letter of No Objection. The MOE was informed by USAID/E regarding this suspension.

Procurement by Importing Family Group B - The main business of this group is related to steel and steel products. The principal member of the family group has a financial interest, according to the commercial registry, in many of the other related companies of the Group; the exact amount and control over the other companies is not known. During the month of December 1979 and February 1980, this Group applied for and received $9.4 million in Private Sector financing. They used different procedures to bypass the limitation. In our draft report, we made the following statements:

> "This importer used his name and 20 other different personal and company names to obtain 20 "no objection letters". All of these letters of no objection were issued to a family member or a company owned by Importer B. In one instance, two letters of no objection were obtained for the same company, one letter under its Arabic name and another letter in the company's name translated into English."

The USAID/E did not agree with our conclusions and the committee did extensive analysis which resulted in questioning facts contained in the report. The USAID/E response stated:

> "In reviewing the steel transactions in which Importer B and other importers were involved, the committee prepared a list of steel importers that received Private Sector CIP financing. Each of the steel importers' letters of credit was compared with the NOL to determine whether the same name was used. Moreover, the committee advised each steel importer verbally that USAID/E needed copies of their commercial registry and tax documents. We compared the total number of steel transactions that were financed with data sheets that were contained in the Private Sector CIP files for each company and the supplementary information developed. Up to the date of this response, we have been able to verify that $10.3 million of the total $15.5 million in steel transactions were undertaken by 15 importers each of them having his own commercial registry number and tax card. Copies of the supplementary documents are being submitted to AAG along with this response. We have also reviewed the IIS ROI Report No.6593 dated May 11, 1980 upon which the allegations concerning Importer B seem to have been based. The report does not contain any documentary evidence which verifies the information developed by interview. Our strong view is that information appearing in that report should be treated as hearsay unless verified by supplementary documentary evidence. Given the lack of verified evidence, we do not believe that there is any basis on which the conclusion could be reached that one importer financed all the transactions in question or even to reach firm conclusions as to relationships of the importers. Furthermore, even if we could verify the family and other relationships referred to in the report, the evidence of these relationships would not necessarily be reason for a recommendation of suspension of some or all of the related importers under the rules which were established under the Implementation Letter.

Based on reverification of audit facts, including evaluation of the additional data submitted by USAID/E in their response to the draft report, it is still our opinion that the principal importer and other members of Importing Family Group B deliberately bypassed the $500,000 limitation. The following facts are presented and explained in more detail in Exhibit D of this report:

- Six Letters of No Objection totalling $2,928,830 were obtained by translating the English name of the Company into Arabic. Commercial registry numbers were submitted for only the English named companies. No commercial registry numbers were submitted for the Arabic named companies.

- Three Letters of No Objection totaling $1,464,870 were obtained by a member of the Group by switching the sequence of his name which gave the apperance that three separate individuals were applying for Letters of No Objection. No commercial registry numbers were submitted to support these transactions.

- Two Letters of No Objection totaling $999,360 were issued to two Companies of the Group. These did not have a commercial registry number. Registry numbers were obtained after receipt of the NOLs.

- One Company obtained a NOL for $498,300 by using the commercial registry number of another Company.

- As noted in Exhibit D, a series of nine NOLs were issued to ostensibly nine different Companies; all of these NOLs were applied for and 37 issued on the same day, and all for identical amounts ($499,680).

We do not believe the above facts can be dismissed or treated as hearsay material.

Procurement by Importing Family Group C - The principal importer of this Group is an agent of a U.S. car manufacturer. Together with various members of his family, this importer owns an interest or is affiliated with three subsidiary companies. The group of inter-related companies received $8.0 million which were used to import commodities through the CIP. The $500,000 limitation was exceeded. One of the importer's affiliates received approval from the MOE for the importation of about $2.5 million of bulldozers and tractors. The other $5.5. million were used by the importer and affiliates, to import trucks, blazers, sportvans, prefabricated building and spare parts, as follows:

	Vehicles	Tractors & Spare Parts	Prefabricated Building	Total
Company No.1	$1,112,362	-	$789,900	$1,902,262
Company No.2	-	$2,608,576	-	2,608,576
Company No.3	983,561	-	-	983,561
Total	$2,095,923	$2,608,576	$789,000	$5,494,399

These amounts were used during the period May 1979 through March 31, 1980. These transactions exceeded, without the required authorization, the limitations as set forth in the Implementation Letter, which states that importers cannot procure more than $500,000 from the same supplier during a 12-month period.

In its response to the draft report, the USAID/E addressed the criteria of importer eligibility, but not the violation of the $500,000 importing limitation.

Procurement by Importing Family Group D - The importer received a total of $4.0 million of the CIP funds for procurement of steel bars. In accordance with the provisions of the Implementation Letter, the MOE gave prior authorization for the importation of $3.5 million. The importer, however, told us that the additional $.5 million was obtained by his son in his name. In their response to the draft report, the USAID/E stated that the report did not contain any "documentary evidence" to prove the father-son relationship or that the importer violated the existing rules. Also, that the " ... transactions were conducted in the open by the importers with no apparent intent, as our records show, to deceive USAID and/or to circumvent regulations in effect at the time."

We agree that the existing rules--as stated in the Letters of Implementation of the agreement--were general and the eligibility of importers too relaxed.

Procurement by Importing Family Group E - This importer operates both as an import and export agent and has a paper company that is called El K....k Steel Factory. His cumulative importations under the CIP Private Sector amounted to about $1.0 million. They were made under two separate transactions. The first Letter of No Objection was issued by USAID/E for $498,525 in the name of El K....k Steel Factory. The second Letter of No Objection, for $500,000 was issued in the name of Importer E. A review of the two applications for NOL does not show that they are for the same importer. However, during our end-use visits, we went to the address of the above-mentioned factory, but the address is that of an apartment building. We located Importer E the next day in an address that was just around the corner from the one listed as the location of the factory. Importer E told us he was the owner of the factory, but could not supply any address other than the one we had attempted to visit. He also could not satisfactorily explain the reason why he found a need to import steel under his registry as an Agent and then again under his paper company of El K....k Steel Factory.

In sum, the controls intended by the Implementation Letters and the plans of the program to spread the CIP funds among more individual importers have not operated the way they should have. Importation limitations under the program were either not observed or repeatedly bypassed by some importers. As a result, $25.3 million, or about 45% of all committed loan funds under this portion of the program, have been concentrated in only five family or inter-related groups. These groups are well established and able to obtain financing from commercial banks.

The draft report had included a recommendation to debar all five importers from participating in CIP funding for one year. However, the USAID/E, in its response, pointed out that there was no legal basis, under the terms of the agreement, to debar or suspend the importers, except Importer A. In effect, the definition of the importers is loose: "...eligible private importers are those of Egyptian nationality who have a commercial registry number and a tax card. Joint venture law 43 companies are not permitted to participate in this program..." In Egypt, it is relatively easy to obtain commercial registries. Consequently, as our previous analysis showed, there were importers who used paper companies to bypass the $500,000. Others obtained several commercial registries through different means. And still others obtained commercial registries subsequent to receiving a Letter of No Objection from the Mission. For this reason, we believe that the USAID/E should take proper steps to amend, and tighten the terms of, the Letters of Implementation. In this connection, we were told by the MOE that it is including in a Decree to be published a restriction regarding family groups and principal stockholders of various companies. The MOE officials stated that family groups will be limited to $500,000. It does not matter if different members of the family have a separate commercial registration card or different affiliated companies are involved; the maximum these groups can obtain is the above amount. Accordingly, we believe both regulating documents should be compatible.

<u>Recommendation No.1</u>

USAID/E, in coordination with the MOE, should amend the terms of all CIP Private Sector Agreements to tighten the language on eligibility of importers and importation limitations.

Regarding the basis for debarment and suspension of the importing Family Groups:

(a) We believe USAID/E was correct in suspending Group A.

(b) We still believe similar action should be pursued in connection with Groups B and E. As a reminder, members of Group B obtained Letters of No Objection from USAID/E through deceptive means--three NOL's were obtained in the Arabic name of the company, and three in the English version of the name; also, three NOL's were obtained on companies that had no Commercial Registries (these were obtained later). Importer E, on the other hand, obtained a NOL on the basis of a paper company which effectively bypassed the restriction of the eligible importer.

(c) We agree that Importing Group C is an eligible importer. However, the $500,000 limitation was exceeded and has not been authorized by anyone. USAID/E would seem to have an option of granting such a waiver retroactively or suspending the importer.

(d) We agree with USAID/E that there does not seem to be any basis for such an action against Group D.

Accordingly, we feel the following recommendations are in order:

Recommendation No.2

USAID/E should suspend and debar Importing Family Groups B.and E from obtaining AID financing for one year.

Recommendation No.3

USAID/E should review the circumstances surrounding the importations of Importing Family Group C and either approve the violations to the $500,000 limitation retroactively or inform members of this group they are suspended or debarred from using AID financing for one year.

The ensuing sections analyze the reasons why the violations and abuses took place in the program:

3. Objectives and Goals of the CIP Private Sector Program

The five agreements set aside $68.5 million to assist the expansion and participation of the Private Sector in Egypt. In reality, this minor amount (compared to total CIP) was intended to demonstrate how private enterprise can assist a host country in its development programs. However, beyond the broad terms stated by the agreement, there is no clearly stated policy on the goals and objectives of this assistance. This lack of policy is due to a difference in program concept or philosophy between USAID/E and the GOE.

On the one hand, USAID/E views the program as one designed primarily to assist the GOE with its Balance of Payment problems. The main concern of the Mission in the implementation of this program has been for the funds to be used rapidly by the Private Sector. Consequently, USAID/E has considered that the funds allocated to the Private Sector should be used to meet working-capital type financing for raw materials, spare parts, replacement equipment and items for resale. USAID/E believes that projects such as the Private Investment Encouragement Fund and the Development Industrial Bank can meet more effectively the needs of the Private Sector for investment financing. Under this concept, the funds should be quickly disbursed for impact on the economy.

On the other hand, the GOE views the program as designed for investment purposes. It believes that funds available to the Private Sector should be used to finance commodities that will increase the productivity of the Private Sector. Their main concern is that commodities imported should be industrial type commodities to be used by industrial activities. Under this concept, commodities imported for the purpose of resale or for consumption would not be financed. This GOE concept implies closer scrutiny of transactions to be imported with the inherent slower pace for disbursement of funds.

In response to the draft report, the USAID/E disagreed with our conclusion that there were basic policy differences. They felt the goals and purpose statements of the original CIP agreements were fairly consistent with the contents of GOE Circular 8. The response went on to say:

> "While there are inevitably some misunderstandings among the many officials involved in administration of a program of this sort, there has been a consistent understanding at the policy level with Egyptian officials that the CIP private sector program is not an investment program per se but rather is intended to help in meeting the shorter term of the private sector. The general pattern of imports financed by this part of the program reflects this understanding. This was spelled out in specific detail in a letter to the Deputy Prime Minister for Economic and Financial Affairs dated March 20, 1980."

After receipt of the USAID/E response, we revisited and held conversations with high officials of the MOE. Our initial conclusions are hereby reconfirmed. This basic policy difference remained in effect during a time when funds were being heavily used. Consequently, controls which should have been instituted as a result of a unified policy were not in place. The MOE, for example, waived its right to review all importations which were less than $500,000. Import licenses were not required. Checks to coordinate importations by the Private Sector with stock on hand held by the Public Sector were discontinued. With these absences in basic controls, abuses and violations by the private importers and particularly traders went undetected.

It now appears that the GOE has decided that hereafter the remaining allocated funds should be in line with its concept. On May 13, 1980, the Ministry of Economy issued General Circular No. 3, without prior consultation with USAID/E. This circular states in part "Amounts allocated to the commercial banks for the Private Sector will be used for the development process of the country and for the execution of projects that will increase the small industries production. These amounts should be used in the import of investment and intermediate commodities. These imported commodities should be productive and for the use of the productive activities and should not be edible, consumable, luxury or resale commodities."

USAID/E Officials disagreed with the elimination of resale commodities and the issuance of the decree without prior review and coordination with the Mission. Since then, the two parties have held discussions and reached agreement, according to USAID/E, on a better definition of eligible resale items. The circular will be revised in the very near future.

However, we believe that past experience should be used by the Mission to formulate its policy for the future. In our opinion, hindsight leans heavily against continuation of importations along the program concept of the Mission. More to the point, our review showed the types of commodities being imported are more in line with the Mission concept; that is to say, about 70% of the funds committed in the program have been for the importation of commodities for resale or consumption and not for industrial production purposes. The funds have been disbursed in a relatively quick manner. But the program has not been a good example of how private enterprise can help in development; too many abuses by "trading companies" have concentrated $25.0 million of our assistance with five family groups.

Therefore, we believe the USAID/E may want to reexamine its position on the program concept. The past experience in this program should be used advantageously to formulate a more realistic policy that will guide this portion of the CIP in the future.

Recommendation No. 4

USAID/E should reach agreement with the GOE and clearly define, for the Private Sector portion of the CIP, the purpose, objective, and target groups, and controls to be implemented over the assistance to achieve defined Private Sector goals.

4. Monitoring by USAID/Egypt

As stated earlier in this report, the program regulating documents lacked the proper language to ensure a more wider distribution of CIP funds to Egyptian importers; this had been the intent of the importation limitations of the Letters of Implementation. These documents created problems in the implementation and monitoring phase because the USAID/E was approving transactions using a deficient point of reference. In addition, monitoring responsibilities of the USAID/E for this program need to be reexamined and made more effective in the future. One area relates to the responsibilities of the participating Egyptian banks. The Mission believed that the participating banks would perform certain monitoring functions, but the banks will not accept this as a banking function. Consequently, this responsibility must be effectively reassumed by the Mission. In addition, present review procedures related to the issuance of Letters of No Objection are weak and lend themselves to abuses by the importer. Procedures used in connection with Letters of Credit have also been misused. More details are stated in the subsections that follow.

(a) Role of Participating Banks

The role and responsibilities of the participating Egyptian banks have not been fully clarified, understood, or agreed by the parties (USAID/E and banks). Consequently, our visit to three banks showed differing positions on what these responsibilities should be. On the one hand, USAID/E has been expecting the participating banks to perform certain monitoring functions of the systems such as enforcing the $500,000 limitation, controlling wording of Letters of Credit, granting credit to legitimate importers, etc. On the other side, the participating banks do not see this as a banking function. The bank officials told us their sole interest was to safeguard the repayment of sub-loans. If the importers show them a "Letter of No Objection" from USAID/E, the banks assume all necessary checks have been made. It follows, then, that the bank will automatically give the sub-loan to the importer if he has the collateral or the guarantee to qualify for a loan.

The banks told us that they would not assume any additional responsibilities than those belonging to them as a banking institution. The USAID/E should consequently move to fill this vacuum. We believe that the implementation of Recommendation No.5 will provide some assurance that this area will be covered.

(b) Letters of No Objection

The Letters of No Objection issued by the Mission are not numbered nor controlled. They only attest to the commodity eligibility. To obtain such a letter, the importer is not required to submit documentation to prove that he has a bona fide requirement for the commodities. He does not have to submit documentation that would indicate his line of business, names of company's officials, business registration number, or whether he can financially qualify to obtain a loan from the bank. Consequently, anyone requesting a Letter of No Objection can obtain one.

Letters of No Objection have also been issued on the basis of inaccurate and inadequate proforma invoices; these documents represent the suppliers' prices for the commodity to be imported and conditions of sale. The Mission does not seem to be reviewing the proforma invoices. Had such a review been done, it would have (a) made it more difficult for Importers A through E to bypass the MOE limitations; (b) prevented the financing of luxury items under the Private Sector; and, (c) prevented misuses of such letters by importers who subsequently opened letters of credit in their own names. Some examples follow:

- The proforma invoices for Importer A show that they were prepared by himself; they lacked sales terms and certification by the U.S. suppliers.

- The proforma invoice submitted by Importer B was not specific and lack U.S. supplier certification.

- One importer submitted a proforma invoice to USAID/E totalling $448,823 for 27 sportvans and 20 blazers. There is no clear definition on whether sportvans are luxury or utility vehicles. However, the invoices did include certain luxury accessories which cannot be financed with AID funds. These accessories were:

	Unit Cost	Total Cost
20 Blue Custom Vinyl	$ 143	$ 3,660
20 All Weather A/C - Blazer	436	8,720
27 Two Additional Rear Seats	306	8,262
27 All Weather A/C -Sportsvan	510	13,770
27 AM/FM Radio with 8 Track Stereo	262	7,074
27 Custom Vinyl	36	972
27 Additional Lighting Pack	56	1,512
27 Tinted Glass	55	1,485
27 Special Two-Tone Paint	53	1,431
27 Electric Clock	20	540
27 Customized Equipment	309	8,343
Total		55,769

Prior to the release of this report, the USAID/E was told by the importer that the items were bought for resale to a car rental company. Therefore, action has been initiated by USAID/E to obtain a waiver from AID/W. However, the procedural weakness related to the issuance of Letters of No Objection must still be addressed to preclude continued abuses in the future.

In its response to the draft audit report, USAID/E stated that subsequent to March 3, 1979, it began to have each importer provide copies of the tax card and commercial registry number and fill data sheets before applications were considered for NOLs. All this data would be reviewed by the CIP Private

Sector Branch Office prior to approving financing. Also, the Private Sector Office makes a check of subject importer to determine if commodities and funds have been previously approved. These controls would seem adequate to prevent abuses, however, the USAID/E does not appear to have followed the procedures. For instance, all transactions initiated by Group B occurred after these procedures were in effect. Most of the transactions for Importer A, C and D also took place after the abovementioned controls were established. Thus, we feel that the following recommendation is still appropiate and should remain open pending further work by the Mission.

Recommendation No. 5

USAID/E should establish and implement adequate procedures to perform an in-depth review of importer(s) requests and proforma invoice prior to granting the No Objection Letters.

We would suggest that USAID/E acquaint the MOE and the participating banks of the procedures and controls so that there can be understanding and adequate assignment of responsibilities of all the parties to the program.

In our draft audit report we had included a recommendation which would have required a procedure to pre-number letters of no objection and cross reference them to recipients. The USAID/E, in its response, said that the CI Office is able to match NOL and Letters of Credit without the former being numbered. This is possible since both documents are for same individual or company. For this reason, no recommendation has been included in this report.

(c) Letters of Credit

Normally, participating Egyptian banks open an "Irrevocable Letter of Credit" on behalf of the U.S. suppliers. These letters may only be used for the purpose stated therein. The banks are required to--and do--submit to USAID/E copies of L/C issued under this program. However, the Mission does not have a mechanism to review routinely the issued Letters of Credit (L/C) and abuses are taking place. For instance, our review showed that three of the L/Cs opened by Importer A are transferable Letters of Credit. These L/Cs state "this credit may be transfered in favor of individuals or firms provided your obtaining our prior approval to the name and address of the new beneficiaries". One example of how one L/C (No.10726) was misused follows:

> The L/C was opened by the principal importer of Group A (Importer A), payable to Airflow Co., a U.S. Vendor, in the amount of $450,000. However, the total C.& F..value of the contract was $235,000. The L/C beneficiary was informed by Importer A that the remaining amount ($215,000) should be paid to other suppliers. Payments were to be made to Mullier Brass Co. ($78,827)

for C. & F. value of copper coils previously shipped in September 1979 (on Liberian flag) and about $137,000 to General Electric for ocean freight only (flag and dates not yet known).

The above misuse was accidentally found by AID/W. The records show that Airflow Company informed SER/COM of the condition of the L/C and requested advice on how to handle the situation. The $215,000 was not financed by the Agency, although initially intended, by Importer A, to be so financed. However, we believe that the USAID/E must address the procedural problem to preclude its continuation in the future. The procedure of opening transferable L/Cs can result in a complete breakdown of AID's control over the importers. With transferable L/Cs, there is no assurance that importer pays only for commodities he has contracted for or that the commodites are shipped according to AID regulations.

Recommendation No.6

USAID/E should establish the required procedures to (a) review all copies of L/Cs received from the participating banks; and (b) justify or cancel all those that are transferable.

Audit of the Private Sector Allocation of CIP
Summary Status of Funds By Agreements
As Of March 31, 1980

Loan (K) or Grant (G) Agreement No.	Earmarked Program Funds $	Disbursements $	Balance of Undisbursed Funds $
263-K-036	$10,000,000	$ 7,904,000	$ 2,096,000
263-K-038	15,000,000	10,293,000	4,707,000
263-K-045	10,000,000	2,516,000	7,484,000
263-K-052	25,000,000	5,413,000	19,587,000
263-G-0119	8,500,000	-0-	8,500,000
Totals	$68,500,000	$26,126,000	$42,374,000

Note: Column (1) represents amounts earmarked or sub-obligated by Letters of Commitment issued under the Agreements.

Audit of The Private Sector Allocation of CIP
Summary Status of Commitment of Funds By Agreements
As Of March 31, 1980

Loan (K) Grant (G) Agreement No.	Earmarked Program Funds $	Letters of Credit Issued $	Uncommitted Balance Fund $
263-K-036	$10,000,000	$ 9,701,000	$ 299,000
263-K-038	15,000,000	14,993,000	7,000
263-K-045	10,000,000	8,837,000	1,163,000
263-K-052	25,000,000	18,866,000	6,134,000
263-G-0119	8,500,000	4,102,000	4,398,000
Totals	$ 68,500,000	$56,499,000	$12,001,000

21

Audit of the Private Sector Allocations of the CIP
Summary of Types of Commodities Imported By Private Sector
As Of March 31, 1980

	Amount US $ 000	Percentage %
Steel Products	$ 15,780	27.6%
Construction Equipment	14,277	25.2
Spare parts	4,891	8.6
Vehicles	3,562	6.2
Refrigeration Equipment	3,253	5.8
Electric Supplies	2,021	3.6
Machine Tools	1,712	3.0
Prefabricated Building	1,684	3.0
Raw materials	1,639	2.9
Agriculture Equipment	1,385	2.5
Aircraft	947	1.7
Chemicals	889	1.6
Lumber	828	1.5
Office Equipment	772	1.4
Photo Equipment Supplies	712	1.3
Textiles	495	0.9
Agriculture Commodities	256	0.5
Laboratory Equipment	107	0.2
Others	1,289	2.3
	$56,499	100.0

Audit of The Private Sector Allocation of The CIP
Statement of Methodologies Used By Importing Family Group B and
Associated Companies To Bypass Loan Limitations

No.	Initial of Companies Used	* Tax Card	* Commercial No.	* Registry Date	No Objection Letter Date	No Objection Letter Amount	Note
1.	ESEMLW	-	-	-	12/27/79	493,350	(1a) (2)
2.	ECFIT	51,734	48,622	5/1/79	12/20/79	485,760	(1a) (2)
3.	IOFIE	-	-	-	1/17/80	485,760	(1a) (3)
4.	EABFIE	50,683	49,363	1/17/80	2/3/80	485,760	(1a) (3)
5.	EBOFT	-	-	-	1/20/80	479,900	(1a) (4)
6.	TBEFCS		49,363	1/17/80	1/24/80	498,300	(1a) (4) (7)
7.	MHEMAKC	-	-	-	9/21/79	493,350	(1a) (5)
8.	MHEM	-	-	-	12/26/79	485,760	(1a) (5)
9.	EMEC	-	-	-	12/20/79	485,760	(1a) (5)
10.	TMAH	10,485	203,562	5/13/80	2/28/80	499,680	(1b) (6)
11.	EHTFIM	10,452	49,822	3/12/80	2/28/80	499,680	(1c) (6)
12.	EATS	5,471	171,910	4/1/75	2/28/80	499,680	(1d)
13.	WP	3,739	193,769	7/1/77	2/28/80	499,680	(1e)
14.	CCFCA	-	168,797	2/15/75	2/28/80	499,680	(1f)
15.	ARM	41,561	46,070	11/23/77	2/28/80	499,680	(1e)
16.	FMS	9,126	190,673	1/1/60	2/28/80	499,680	(1g)
17.	SMHB	-	201,006	1/16/80	2/28/80	499,680	(1f)
18.	ETCFIM	-	140,348	1/11/70	2/28/80	499,680	(1f)
19.	MAE	41,315	45,815	1/1/78	1/10/80	498,410	(1a)
						$9,389,230	

(1) These companies are owned by either Importer B or his family and relatives.

a. This firm is owned by brother No.1 of Importer B.
b. This firm is owned by Importer B.
c. This firm is owned by brother No.2 of Importer B.
d. This firm is owned by brother No.3 of Importer B.
e. This firm is owned by the brother-in-law of Importer B.
f. This firm is owned by Importer B and his brothers and sisters.
g. This firm is owned by a family relation of Importer B's brother-in-law.

(2) These two "companies" are one and the same. The importer requested and obtained two NOL; one using the Arabic name and the other English name.

(3) These two "companies" are one and the same. The importer requested and obtained two NOL; one using the Arabic name and the other English name.

(4) These two "companies" are one and the same. The importer requested and obtained two NOL; one using the Arabic name and the other English name.

(5) These three "companies" are one and the same. The importer requested and obtained three NOL; he merely switched his own name around.

(6) The commercial registry was obtained after the NOL was issued.

(7) Letter of application for a NOL shows commercial registry number as 49363 which is the same as company EABFIE.

* This information was not available on file during our review. This information was obtained and furnished to us by USAID/E in connection with this reply to our draft audit report.

A MORE COMPLETE BACKGROUND INFORMATION ON THE COMMODITY IMPORT PROGRAMS OF USAID/EGYPT

Since 1975, when the economic assistance was initiated, there have been nine loans and one grant signed which obligate $1.5 billion for the CIP. These funds are appropriated through the Economic Support Fund as authorized under Section 532 of the Foreign Assistance Act (FAA). The following table shows the amount of the obligated funds and their status, by loans or grant, as of March 31, 1980:

		Amounts in US$ Millions			
Loan/Grant No.	CIP	Obligated	Committed	Disbursed	Balance
026	I	$ 80.0	$ 80.0	$ 79.9	$ 0.1
027	II	70.0	70.0	69.2	0.8
029	III	100.0	100.0	98.5	1.5
030	IV	150.0	150.0	131.4	18.6
036	V	65.0	65.0	52.8	12.2
038	VI	440.0	440.0	353.9	86.1
045A	VII	226.0	226.0	160.1	65.9
045B	VIII	74.0	74.0	54.2	19.8
052	IX	250.0	249.5	42.2	207.8
Loans Sub-Total		1,455.0	1,454.5	1,042.2	412.8
Grant 119		85.0	70.0	-	85.0
TOTAL		$ 1,540.0	$ 1,524.5	$1,042.2	$ 497.8

The Program Assistance Approval Document (PAAD), which is signed by the AID Administrator, presents, in capsule form, the intent of the program; this is subsequently incorporated into the loan or grant agreements.

> "The proposed loan will assist Egypt with its balance of payments deficit during the coming year. The loan proceeds will finance imports of agricultural and industrial machinery, equipment, spare parts and other essential commodities and related services. The loan will assist Egypt in its program to utilize full production capacity of existing industrial enterprises and to provide agricultural inputs essential to increase agricultural production."

The above statements have not changed significantly for the nine loans and grant, except that some loans add wording such as (a) "... and for new industrial expansion...", or (b)"...imports of food..."

The purpose of the loan or grant amounts were basically the same for the first five loans (026, 027, 029, 030, 036):

" ... not to exceed ... Million Dollars (the Loan) for the foreign exchange costs of commodities and commodity related services, as such services are defined by AID Regulation 1, needed to assist the Borrower to increase its industrial and agricultural production ..."

The purpose of the loan or grant amounts changed somewhat for the next five agreements (038, 045A, 052 and 263-0119):

" ... not to exceed ... Million Dollars for the foreign exchange costs of commodities and commodity related services, as such services are defined by AID Regulation 1, needed to assist the Borrower in meeting a serious foreign exchange shortage, achieving development objectives, improving the standard of living and maintaining political stability ..."

In sum, the objectives of the loans and grant are to finance types of commodities which will assist the GOE to diminish continued crisis in their Balance of Payments through maximizing production of existing or new industrial enterprises and increasing agricultural production. Importation of some food is also authorized so that political stability can continue.

About 95.5% of the obligated funds ($1.5 billion) are managed and channelled through the Public Sector of Egypt. The remaining balance, about $68.5 million, was allocated to the Private Sector.

This is the first audit report of the CIP. The series of four reviews contribute, individually or collectively, toward the following audit objectives:

To (a) evaluate the adequacy of USAID/Egypt monitoring; (b) evaluate coordination within USAID/E for the purpose of determining how CIP projects considered in regard to the overall USAID program; (c) evaluate the progress of the CIP program toward specific objectives in industry, agriculture and the Private Sector of the economy; (d) evaluate the actual impact of the CIP program on Egypt's foreign exchange needs; (e) evaluate the extent of GOE involvement in the determination of items to be procured under the CIP program and whether the items procured are in line with the GOE economic goals; (f) evaluate the extent of coordination between the GOE ministries in the acquisition and use of the commodities imported; (g) determine the adequacy of both GOE and USAID/E arrival accounting systems; (h) evaluate whether the planned computer system will be adequate for the proper control of the CIP programs; (i) determine the extent of action taken on prior recommendations.

LIST OF REPORT RECOMMENDATIONS

LIST OF REPORT RECIPIENTS

USAID/Egypt	
Director	5
Inspections and Investigations Staff (AG/IIS/Cairo)	1
AID/Washington	
Deputy Administrator	1
Assistant Administrator/Near East	5
Office of Middle East Affairs (NE/ME) (Egypt Desk)	1
Bureau for Near East (Audit Liaison Officer)	1
Bureau for Program and Management Services (AA/SER/SA)	1
Bureau for Program and Management Services (AA/SER/CM)	1
Bureau for Program and Management Services (AA/SER/COM)	3
Bureau for Program and Policy Coordination (PPC/E)	1
Bureau for Development Support (DS/DIU)	4
IDCA's Legislative and Public Affairs Office	1
Auditor General	1
Auditor General (AG/PPP)	1
Auditor General (AG/EMS/C&R)	12
Auditor General (AG/IIS)	1
AAG/Washington	1
Other AAGs	
AAG/East Africa	1
AAG/East Asia	1
AAG/Near East	1
AAG/Near East, New Delhi Sub Office	1
AAG/Latin America	1
AAG/Latin America, LaPaz Sub Office	1