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U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER
AMENDMENT # 1

EGYPT: Private Enterprise Credit
(263-0201)

February 15, 1988

U N C L A S S I F I E D

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
 1

DOCUMENT CODE
 3

2. COUNTRY/ENTITY Arab Republic of Egypt

5. PROJECT NUMBER

263-0201

4. BUREAU/OFFICE
 Asia Near East

5. PROJECT TITLE (maximum 40 characters)

Private Enterprise Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 09 30 93

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 86

B. Quarter 2

C. Final FY 90

8. COSTS (\$000 OR EQUIVALENT \$1 =)

| A. FUNDING SOURCE | FIRST FY | | | LIFE OF PROJECT | | |
|------------------------|------------|--------|------------|-----------------|--------|-------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | | | | | |
| (Grant) | (80,000) | () | (80,000) | (440,000) | () | (440,000) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | | 3,676 | 3,676 | | 20,000 | 20,000 |
| Other Donor(s) | | | | | | |
| TOTALS | 80,000 | 3,676 | 83,576 | 440,000 | 20,000 | 460,000 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|-----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) | | | | 180,000 | | 205,000 | | 440,000 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | 180,000 | | 205,000 | | 440,000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To expand investment of productive private sector enterprises, including a broad range of activities in manufacturing, agri-business and service industries such as tourism and health.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY
 03 88

Final MM YY
 03 92

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify):

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 10 page PP Amendment)

Increase LOP funding from \$235 to \$440 Million and extend PACD by 2 years.

Implementation plan and method of financing are included in the original Project Paper and meet with FM's approval.

Concurrence: AD/FM, William Miller

Signature 2/10/95

17. APPROVED BY

Signature

Title Marshall D. Brown
 Director

Date Signed

MM DD YY
 12 15 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY



1
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

FIRST AMENDMENT
TO PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt Name of Project: Private Enterprise Credit
Number of Project: 263-0201

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), the Project was authorized on July 30, 1986. Paragraph One of the authorization is hereby amended by deleting (a) the amount "Two Hundred Thirty-Five Million United States Dollars (\$235,000,000)" and substituting therefor "Four Hundred Forty Million United States Dollars (\$440,000,000)"; and (b) the last sentence thereof and substituting therefor the following sentence: "The planned life of project is approximately seven years from the date of initial obligation."

2. The authorization cited above remains in force except as hereby amended.

Marshall D. Brown
Marshall D. Brown
Director, USAID/Egypt
2/16/88
Date

Clearances:
DD, GLaudato _____ Date _____
AD/PDS, JPatterson JP Date 2/1/88
AD/FM, WMiller _____ Date _____
AD/IS, GHuger GH Date 2/16/88
OD/IS/CMT, RRichardson _____ Date 2/10/88
OD/IS/FI, JWatson JW Date 2/10/88

2

PRIVATE ENTERPRISE CREDIT PROJECT (NO. 263-0201)

PROJECT PAPER AMENDMENT

I. PURPOSE OF PROPOSED AMENDMENT

The Private Enterprise Credit Project encompasses three basic elements: the Project Finance Facility (PFF), the Private Sector Commodity Import Program (PSCI^o) and the Small Scale Credit Guarantee Fund.

The project is being amended to increase Life of Project funding from \$235 million to \$440 million and to extend the PACD by two years. The goal and purpose of the approved project are unchanged. Further, the overall design of the original project as well as the supporting project analyses remain valid.

Some implementation changes under the PSCIP will be accomplished through issuance of a new Operating Circular by the Government of Egypt. The implementation plan for the PSCIP, as set forth in the original project paper, envisioned an ongoing process of project modification to be effected through changes to the Circular. The proposed changes and the method of their implementation are fully consistent with the original project design.

II. PROJECT DESCRIPTION AND PRESENT STATUS

The Private Enterprise Credit Project was initiated in 1986 to address a variety of credit constraints facing the private sector. The project purpose is to expand investment in productive private sector enterprises, including a broad range of activities in manufacturing, agri-business and service industries. The three basic project components are as follows:

A. The Private Sector Commodity Import Program (PSCIP) which provides foreign exchange and short to medium-term credit to the private sector to finance raw materials, intermediate goods and capital equipment from the U.S.;

B. The Project Finance Facility (PFF), which was designed to provide medium to long-term credit to finance plant start up, modernization and/or expansion on a cofinancing basis with local banks; and

C. The local currency financed Small-Scale Credit Guarantee Fund, which is designed to encourage extension of credit to small-scale borrowers through formal banking channels.

An important feature of the Project is the flexibility to transfer funds between the PFF and the PSCIP elements to meet demand.

To date the project has obligated \$180 million out of the total authorized amount of \$235 million. Of this, \$20 million is currently earmarked for potential PFF activities with the balance of \$160 million allocated for the PSCIP. Since start-up in November 1986, 365 transactions valued in excess of \$51 million have been approved under the PSCIP. No transactions have been approved under the PFF. Efforts to streamline and simplify loan approval procedures for the PFF have not been supported by the GOE. The Small Scale Credit Guarantee Fund is in the final stages of design and should be operational in June 1988.

III. FINANCIAL PLAN

The tables on the following two pages present an update of the financial plan and projected schedule of expenditures. It is the preference of the GOE to obligate funds to both elements, PSCIP and PFF, with the intention of later moving funds between them as necessary. This point will be fully discussed with the GOE prior to signing the new Grant Agreement amendment. Both parties fully understand that the full amount obligated in FY 1988 will in fact be allocated to the PSCIP. As indicated, the dollar funds will be fully obligated in FY 1989 and the PACD extended to September 1993, allowing for orderly completion of transactions. The capitalization of the Small Scale Guarantee Fund (LE 60.0 million) from the Special Account will be completed in FY 1992.

TABLE 1
Estimated Obligations and Counterpart Fund Generations

| | <u>AID Grant (million \$)</u> | | | | <u>Participating Banks</u> (million LE) | |
|--|-------------------------------|----------|----------|-----------|--|--------------------|
| | FY 86 | FY 87 | FY 88 | FY 89 | LOP | LOP ^{2,3} |
| A. Private Sector Commodity Import Program | 60 | 100 | 130 | 129.7 | 419.7 | - |
| B. Project Finance Facility | 20 | 0 | | 0 | 20 | 44 |
| C. Evaluation/Audits | <u>0</u> | <u>0</u> | <u>0</u> | <u>.3</u> | <u>.3</u> | <u> </u> |
| Total | 80 | 100 | 130 | 130 | 440 | 44 |

1. Allocations between elements A and B may change to meet demand by mutual agreement of the parties.

2. It is anticipated that Participating Banks will cofinance with loans and/or guarantees in an amount equal to or in excess of the PFF life of project (LOP) funding.

3. For calculation purposes, the Egyptian pound amounts shown above were converted from U.S. dollars using the Free Bank Exchange Rate of LE 2.20 = US\$1.00. Actual conversions will be at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Government of Egypt.

TABLE 2

Projected Schedule of Expenditures
(millions \$)

| | PS CIP | PPF | Eval/Audit | Total |
|-------|--------------|-----------|------------|------------|
| FY 86 | 0 | 0 | 0 | 0 |
| FY 87 | 40 | 0 | 0 | 40 |
| FY 88 | 50 | 2 | 0 | 52 |
| FY 89 | 100 | 3 | 0 | 103 |
| FY 90 | 100 | 4 | 0 | 104 |
| FY 91 | 100 | 5 | 0 | 105 |
| FY 92 | 29.7 | 4 | 0 | 33.7 |
| FY 93 | 0 | 2 | .3 | 2.3 |
| TOTAL | <u>419.7</u> | <u>20</u> | <u>.3</u> | <u>440</u> |

IV. IMPLEMENTATION STATUS

The implementation plan presented in the Project Paper has not been modified. As previously noted, the plan included the flexibility to modify implementation details through the revision of the Circular which defines credit terms. Implementation progress of each project element is as follows:

A. Private Sector Commodity Import Program:

The PSCIP became operational in November 1986. From November until May of 1987, 344 transactions valued at over \$47.9 million were approved. The project's stated purpose is to increase investment in productive private sector enterprises. The PSCIP is designed to encourage transactions supportive of the project goal to the maximum extent possible and to distribute funds to a broad range of potential clients. A summary of transactions approved through May of 1987 shows:

- the average transaction size was \$137,000;
- 37% of all transactions were for first time users of the program;
- over 50% of all transactions by value were for firms outside the greater Cairo area;
- over 27% of all transactions by value were for capital equipment;
- 63% of all transactions were for firms with 50 or less employees; 13% had 10 or less;
- 46% of all transactions by value had credit terms extended equal to or more than 1 year;

In May 1987, the new Free Bank Market Rate of Exchange was established and the program closed down until September when the GOE agreed to utilize the new rate.

Movement to the new and higher rate of exchange had a predictable and adverse affect on demand. The program no longer contained any financial incentive while importers still had to comply with all of A.I.D.'s normal procedural requirements for source/origin, competition, shipping, etc. Nevertheless, scarce foreign exchange resources within the banking sector created demand for program funds. In November 1987, approximately \$1 million in new transactions were approved and in December approvals climbed to \$2 million.

The current procedures for the PSCIP were created at a time when the program used a highly discounted rate of exchange. Many artificial constraints to demand were built in to prevent the program from being monopolized by a few large firms.

The mission is currently negotiating the terms of a new Operating Circular with MIC. The proposed changes are designed to remove various constraints to demand and to expand the scope of the PSCIP into long-term credit. These proposed changes are:

- 90 day interest free grace period for payment of local currency;
- decrease downpayment requirement from 25% to 20%;
- admit importation for resale;
- increase transaction size limits to \$1 million per client per year; currently \$350,000 for raw materials and \$750,000 for capital goods;
- increase the number of Participating Banks from 12 to 14; and
- open a new window under the CIP for large scale equipment purchase of up to \$5 million in value and repayment period of up to 8 years.

The program will retain the flexibility to further modify the operating procedures through amendment to the Circular at any time upon mutual agreement of the parties.

The current pipeline for the PSCIP program is approximately \$118 million dollars. The proposed obligation in FY 1988 will raise this to over \$200 million. Congress has earmarked a minimum funding level for the CIP of \$200 million. The mission strategy is to meet this earmark by obligation of \$100 million to the public sector CIP and a minimum of \$100 million for the private sector.

The proposed changes to the PSCIP should allow the program to make a significant contribution toward meeting the private sector's foreign exchange needs through the Free Bank Market Rate. We anticipate that once the new Circular is issued, applications will be received and approved at a rate in excess of \$8 million per month. This would imply a disbursement level of approximately \$100 million per year. Further modifications can be made at any time to further enhance the attractiveness of the program if needed.

B. Project Finance Facility (PFF)

Currently, there are two term credit facilities available: (1) the Private Investment Encouragement Fund (PIEF) and (2) the Project Finance Facility (PFF) element of the Private Enterprise Credit umbrella project. In 1985 early drawdown of the PIEF and activation of the PFF were anticipated as a result of the GM car project and several feeder industries then being negotiated.

When the PEC PP was being designed, new leadership had recently been appointed to the Investment Authority, which is the implementing agency for the PFF and its predecessor project, the PIEF. Although the PIEF disbursements were very slow under the previous Investment Authority leadership, the Project Paper could not assess the changes/controls that the new Director would impose. We were optimistic that the new Director would do more to promote the program and would shift much of the project's implementing responsibility to the participating banks. However, in recognition of possible problems with the Investment Authority, flexibility was introduced in the design of the PFF element which:

1. Incorporates requirements to transfer approval responsibility to banks to make the application process more attractive;
2. Allows the activation of the PFF once \$10.0 million was committed under the PIEF; and
3. Provides for shifting of funds between PFF and PSCIP depending upon demand.

During the past year, the GM project has fallen through, the new Investment Authority Director has failed to take any action to stream-line the PIEF or shift authority to participating banks, and PIEF disbursements have been disappointingly slow.

The PEC's flexibility to shift funds between components was used in FY 1987 to transfer \$10 million from the PFF to the PSCIP and if the PFF remains dormant, the additional funds could also be transferred.

C. Small Scale Enterprise Credit Guarantee Fund (SSECGF)

The Project Paper specified the objectives and delineated the basic contours of the implementation mechanisms for this component. The detailed design and implementation plans are presently being finalized in IS/IR. As soon as all plans and arrangements are completed, implementation of the SSECGF will be initiated.

V. EVALUATIONS AND AUDIT RECOMMENDATIONS

Since the PEC only began implementation in 1986, there have not as yet been any evaluations or audits. However, during 1986 an audit was conducted of the Production Credit Project, the predecessor to the PSCIP, and its findings were extended to apply to the PEC.

The audit asserted that the connection between the project purpose and project outputs was too vague. USAID agreed that when the Project was amended in FY 88 to increase the authorization they would revise the log frame by redefining the EOPS indicators to link them more specifically to project outputs. All five audit recommendations have now been closed.

In keeping with this agreement, a new log frame is attached to this PP amendment. The project's goal and purpose remain unchanged. Only the verifiable indicators and assumptions have been modified.

LOGICAL FRAMEWORK

Life of Project: 7 Years

From: FY 86 to FY 93
Total U.S. Funding: \$440 Million
Date Prepared: Dec. 1987

Project Title and Number: Private Enterprise Credit (263-0201)

| <u>NARRATIVE SUMMARY</u> | <u>OBJECTIVELY VERIFIABLE INDICATORS</u> | <u>MEANS OF VERIFICATION</u> | <u>IMPORTANT ASSUMPTIONS</u> |
|---|--|---|--|
| Program or Sector Goal (broader objective to which this project contributes): | Measures of Goal Achievement: | | Assumptions for Achieving Goal Targets: |
| To increase the private sector's contribution to Egyptian productive output. | <ol style="list-style-type: none">1. Output of Egyptian private sector increases in real terms.2. Private sector share of output increases relative to public sector. | <ol style="list-style-type: none">1. GOE published economic statistics2. IMF published reports | GOE continues to liberalize economy, and foster private sector growth initiatives by: - unifying exchange rates, - reducing regulations on imports, exports, investments, and price changes, and - reducing factors that favor public sector companies. |
| Project/Sector Purpose: | End of Project Status (conditions that indicate that purpose has been achieved), Sector Level: | | Assumptions for Achieving Purpose: |
| To expand investment of productive private sector enterprises | <ol style="list-style-type: none">1. Increase private sector productive plant capacity and output.2. Increase in establishment of new companies.3. Increase in productive employment.4. Increased lending through additional credit available from banks. | <ol style="list-style-type: none">1. AID records2. Bank records3. Special studies and evaluations4. Sector evaluations | <ol style="list-style-type: none">1. General business climate in Egypt favorable.2. Foreign exchange availability does not further deteriorate.3. Central Bank does not further restrict access to credit.4. Egyptian banks continue to expand own capacity and capabilities. |

Project Title and Number: Private Enterprise Credit (263-0201)

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|--|--|---|---|
| Outputs: | Magnitude of Outputs (Project Level): | | Assumptions for Achieving Outputs: |
| 1. Credit mechanism for Private Sector CIP and Project Finance Facility. 2. Guarantee Fund for small scale businesses on self-sustaining basis. | 1. 20 PFF Loans; Minimum of 350 Private Sector CIP loans/year. 2. LE 60 million in loan guarantee fund: approx. 300 guarantees. | 1. AID records 2. Bank records 3. Evaluations | 1. GOE willing to modify program as needed consistent with economic reform. 2. Banks need FX at market rate and are willing to participate in program. 3. Private sector projects requesting financing are viable from banker's perspective. 4. Private sector is interested in loans at terms offered and willing to go through program loan approval process. 5. Small-scale enterprises willing to pay guarantee fees. |
| Inputs: | Implementation Target (Type and Quantity): | | Assumptions for Providing Inputs: |
| Credit facilities | <u>Credit</u> | Project records | 1. Grant agreement negotiations are successful. 2. Requirements Precedent are met in a timely manner. |
| | Private Sector CIP Project Finance Fac. Small-Scale Enterprise Credit Guarantee Fund Evaluation/Audits Total | U.S.\$ (000's) \$420,000 19,674 --- 326 \$440,000 | |