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**U.S. ECONOMIC ASSISTANCE
PROGRAM IN EGYPT**

A.I.D. Project Number 263-0226

LOAN AND GRANT AGREEMENTS
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**PROJECT
GRANT AGREEMENT
BETWEEN
THE ARAB REPUBLIC OF EGYPT
AND THE
UNITED STATES OF AMERICA
FOR
EXPORT ENTERPRISE DEVELOPMENT PROJECT**

Dated: JAN 14 1992

**CONFORMED
COPY**

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Project Grant Agreement

For

Export Enterprise Development Project

Dated JAN 14 1992 , 1992.

Between

The Arab Republic of Egypt ("Grantee")

And

The United States of America, acting through the
Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties"), with respect to the undertaking by the Grantee of the Export Enterprise Development Project ("Project") described below and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will assist Egypt to increase private sector exports and foreign exchange earnings. It will have two interrelated components which will help stimulate Egyptian exports. The core component is export promotion, which will provide assistance to Egyptian producers to assure successful export transactions. The second component,

information services development, will assist the Egypt-US Joint Business Council (JBC) to develop and disseminate promotional materials, and to create and maintain an information base to respond to requests from potential Egyptian and foreign business partners for information regarding Egyptian exports.

Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2., without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Two Million United States ("U.S.") Dollars (\$2,000,000) ("Grant").

It is expected that A.I.D. will provide, over the life of the Project, subject to the availability of funding, an amount not to exceed Ten Million U.S. Dollars (\$10,000,000).

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is September 30, 1996, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation

Letters are to be received by A.I.D. no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Conditions Precedent to Disbursement.

SECTION 4.1. First Disbursement. Prior to any disbursement or to the issuance by A.I.D. of any commitment documents under this Agreement, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in satisfactory form and substance, a statement of the names and titles of the persons authorized pursuant to Section 8.2 to act as the representatives of the Grantee, together with a specimen signature of each person specified in such statement.

SECTION 4.2. Notification. When A.I.D. has determined that the conditions precedent specified above have been met, it will promptly notify the Grantee.

SECTION 4.3. Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 4.1 have not been met within 60 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 5: Special Covenants.

SECTION 5.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2. Ratification. The Grantee will take all necessary action to complete all legal procedures necessary to ratification of this Agreement and will notify A.I.D. as promptly as possible of the fact of such ratification.

SECTION 5.3. Authorization of A.I.D. to Execute Cooperative Agreement. The Grantee agrees that A.I.D. shall enter into a cooperative agreement with JBC, financed under the Grant, pursuant to which JBC will carry out its responsibilities as the implementing agency for the Project, as described in Annex I attached to this Grant Agreement.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements' pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as the Parties may otherwise agree in writing, their origin in Egypt ("Local Currency Costs").

Article 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs.

After satisfaction of conditions precedent, disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, will be as set forth in Section 5.5 of the Grant Agreement.

Section 7.2 Disbursement for Local Currency Costs.

After satisfaction of conditions precedent, disbursements of funds under the Grant for Local Currency Costs of goods and services required for the Project in accordance with the terms of this Agreement, will be as set forth in Section 5.5 of the Grant Agreement. The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. dollars by purchase. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Egypt by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that funds may be converted into currency of the Arab Republic of Egypt at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Arab Republic of Egypt.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by A.I.D. or the

Grantee to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Ministry of International Cooperation
8 Adly Street
7th Floor
Cairo, Egypt

To A.I.D.:

A.I.D.
U.S. Embassy
Cairo, Egypt

To the Implementing Organization:

Egypt-US Joint Business Council
20 Lotfi Hassouna Street
Dokki, Cairo, Egypt

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Minister of State for International Cooperation and/or the Administrator of the Department for Economic Cooperation with U.S.A., and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the

representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Language of Agreement. This agreement is prepared in both English and Arabic. In the event of ambiguity or conflict between the two versions, the English language version shall control.

SECTION 8.4. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

SECTION 8.5. Effective Date. This Agreement shall enter into force when signed by both Parties hereto.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

UNITED STATES OF AMERICA

BY : M. W. Makramallah

BY : R. H. Pelletreau

NAME : Dr. Maurice Makramallah

NAME : Robert H. Pelletreau

TITLE : Minister of State for International Cooperation

TITLE: American Ambassador

ARAB REPUBLIC OF EGYPT

UNITED STATES OF AMERICA

BY : Dr. Hassan Selim

BY : Henry H. Bassford

NAME : Dr. Hassan Selim

NAME : Henry H. Bassford

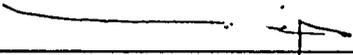
TITLE : Administrator of the Department for Economic Cooperation with U.S.A.

TITLE: Director, USAID/Egypt

FUNDS ORIGINATED	
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By <u>TA B&A TEB</u> MACS Date <u>1/14/92</u>	

Implementing Organization

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

BY : 
NAME : Hussein Sabbour
TITLE : Egypt-US Joint Business Council

EXPORT ENTERPRISE DEVELOPMENT PROJECT
Amplified Project Description

I. Introduction

Egypt's worsening trade and current account balance is a serious constraint to the economic growth of the nation. Improving this imbalance will clearly require an increase in foreign exchange earnings and a substantially higher level of productivity. Worldwide experience indicates that a higher growth of export earnings could follow from an Egyptian export promotion effort. A more active export sector would also serve to attract more investment. Egypt, however, has a long history of inward-oriented economic strategies.

The effect of these strategies has been a bias toward import substitution and a lack of export-oriented production and marketing incentives. The project is based on two premises, i.e., that Egypt needs: (a) to increase its exports to earn more foreign exchange; and (b) to introduce Egyptian producers to foreign markets and hence to the requirements of international competition.

II. Project Description

A. Project Goal and Purpose

Goal: To increase Egypt's sustainable economic growth through expanded foreign exchange earnings.

Purpose: To increase non-traditional exports produced by Egypt's private sector.

B. Project Activities

1. General

The project which is implemented through the Ministry of International Cooperation (MIC) will be carried out by the Egypt-U.S. Joint Business Council (JBC) over a 5-year period. Pursuant to this bilateral agreement, MIC authorizes A.I.D. to enter into a Cooperative Agreement with the JBC to implement the project. Under this agreement, the U.S. Investment Promotion Office (USIPO), the action arm of the JBC, will have the primary responsibility for implementing the project (It is expected that USIPO will change its name to better reflect the nature of its current activities).

2. Project Components

The project will have two components: Proactive export promotion and information services development.

a. Proactive Export Promotion

The project will target assistance to a selected group of high potential Egyptian producers to build Egypt's capacity to increase exports to Europe and the Middle East in two primary sectors: light manufacturing and fruits and vegetables.

Under the Proactive Export Promotion component, project activities will focus on export promotion initiatives. These include identifying high potential markets and market requirements, finding foreign buyers, matching up buyers with Egyptian producers, and continually following up to ensure that constraints faced by either party are reduced or eliminated, and that the transactions materialize. Four activities are included in this component.

(i) Export market identification and promotion. To identify markets USIPO will engage in a series of proven promotional techniques such as attending trade shows, conducting seminars, and soliciting potential buyers directly. Once potential foreign buyers have been identified, USIPO will assist by arranging meetings between Egyptian exporters and buyers. Foreign buyers will meet selected local producers, visit their production facilities and negotiate initial sales agreements or trial orders. USIPO will then follow up on possible transactions, make appointments, provide needed local information, and accompany the buyer representatives throughout the visit to ensure that potential buyer interest is maintained and sales are made.

(ii) Exporter identification and assistance. Under the project, assistance will be provided to Egyptian producers to identify the steps needed to improve product quality, packaging, shipping, etc., in order to enable the producers to export their products. Guidance will be provided to the private sector in identifying administrative and firm-specific constraints to expanding exports. When appropriate, USIPO will help Egyptian producers locate needed technical services in these areas, drawing upon both local and foreign sources.

(iii) Sector-specific promotion and assistance. The project will provide technical assistance to facilitate sectoral marketing and identify needed forms of exporter assistance. The latter might include such areas as quality control, packaging, joint transportation facilities, and so forth. The project would offer a limited amount of technical assistance in these areas at the product group level, and would help identify additional resources when required.

(iv) Institutional development. Technical assistance and

training will be financed under the project to assist USIPO to improve its organizational management, and to develop and implement a coherent strategic plan. Project financed TA and training will allow USIPO to benefit from the considerable advances made in export promotion techniques made recently (e.g., targeting, lead management, etc.).

b. Information Services Development

The project will provide financial and technical resources to assist USIPO to prepare highly professional promotional materials and to develop and disseminate information on commercial conditions and opportunities in target markets to Egyptian business audiences. USIPO will also develop and maintain an information base on Egyptian companies and potential partners in target sectors, data on local and foreign markets (e.g., input and product prices, transportation facilities, legal requirements, etc.), and sources of technical assistance, credit or financing and marketing support. The database may be accessed by all Egyptian producers who are interested in exporting their products.

3. Project Phasing

The project will be carried out in two phases. The first phase will require a budget of approximately \$6.7 million and will last three years. As a part of the Cooperative Agreement executed between JBC and USAID, a series of operational and quantitative targets will be identified to serve as a basis for determining whether or not to proceed to the second phase. Based on an assessment of the implementation progress in year three and based on the results of the mid-term evaluation of the project, the remaining funds would be made available to fund the last two years.

III. Implementation Responsibilities

USIPO will implement the project with the assistance of expatriate consultants who will be contracted directly by USAID. The consultant firm will procure the project-financed equipment required by USIPO. USAID will work closely with USIPO in developing quarterly and annual implementation targets and in reviewing progress in achieving these targets. USAID and USIPO will also work closely in developing and carrying out plans for regular project audits and evaluations, particularly the planned review in the third year which will provide the basis for a determination regarding continued USAID support during Phase two of the project.

IV. Monitoring, Evaluation and Audit

USIPO will conduct annual internal evaluations at the end of each year of the project as preparation to the development of annual work plans. These internal evaluations will focus on activities undertaken and on progress achieved toward meeting project goals. A financial assessment of USIPO's financial

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management and internal control systems will be carried out in the first year of the project. The first external mid-term evaluation will be completed during the first Phase of the project and will serve as an important basis for determining whether or not to continue with Phase Two of the project. This first external evaluation will use the USIPO/USAID agreed upon targets described above to assess project performance. A second evaluation will be completed during the last year of the project.

MIC will actively monitor the implementation of the project by participating in the review of the scopes of work for planned project evaluations, reviewing copies of evaluation reports provided by USIPO, and participating as a member of USIPO's Board of Directors in the executive reviews of evaluation findings.

V. Illustrative Financial Plan

AID's contribution of \$10 million will be provided over a five-year period subject to the availability of funds. The AID contribution will be used to finance the costs associated with USIPO's operating expenditures, foreign travel of USIPO export promoters, purchase of data processing equipment for USIPO, seminars and attendance of trade fairs, training of USIPO staff and needed expatriate and Egyptian consultant services to USIPO and Egyptian export-oriented firms. The USIPO contribution will be generated in large part from fees for services to private sector firms and fees for firm-specific assistance and will be used to defray the costs of the trade fairs, seminars and firm-specific services.

Table 1
Illustrative Financial Plan
(US \$ Thousands)

<u>Category</u>	FY 91				TOTAL ESTIMATED LOP				
	<u>AID</u>		<u>Private*</u> <u>Sector</u>		<u>- AID</u>		<u>Private*</u> <u>Sector</u>		
	<u>FX</u>	<u>\$LC</u>	<u>FX</u>	<u>\$LC</u>	<u>FX</u>	<u>\$LC</u>	<u>FX</u>	<u>LE</u>	
USIPO Expenses	295	574			1,950	3,358	-	2,500	
Operating Expenses	100	379			500	1,908	-	-	
Firm/Sector Specific TA	80	80			600	600	-	1,750	
Trade Shows and Seminars	115	115			850	850	-	750	
Central TA Contract	792				3,420	50			
Consultant Costs	594				2,972				
MIS	148				248				
Training	50				200	50			
TA Buy-ins	314				972				
Evaluation/Audit		<u>25</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>50</u>			
<u>Total</u>	1,401	599			6,542	3,458		2,500	

* Counterpart contribution breakdown is illustrative and will be subject to Phase I evaluation.
 The contribution will include cash and in kind inputs from the JBC and participating private sector firms.