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PRIVATE SECTOR FEASIBILITY STUDY PROJECT (PSFSP) 263-0112
PROJECT ASSISTANCE COMPLETION REPORT (PACR)
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID)

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Summary

The private sector feasibility study project (PSFSP) was created in 1979 to take advantage of the open door policy initiated by the Government of Egypt in 1974 by furnishing capital and technical assistance to speed the development of the private sector. Project rationale was based on the fact that despite institutional and policy weaknesses, the Egyptian economy possessed many strengths and opportunities, based on the nation's labor resources, geographic position, large domestic market and tourism assets. The project was also designed to reduce the high cost of a feasibility study, a requirement of the Government of Egypt (GOE) prior to investing, for American businesses; especially small and medium sized firms.

The PSFSP initially provided \$5.0 million in grant funding for the following:

A). **Sector studies** - identify markets, import requirement, state of manufacturing, raw materials availability, labor availability, potential for export, price restrictions, etc; B) **Reconnaissance surveys** - to finance short-term trips for a maximum of two business executive per company to Egypt to investigate investment possibilities; C) **Feasibility studies** - to reimburse 50% of eligible costs of a feasibility study with the other 50% being met by the U.S. investor. 100% of eligible costs is reimbursed if investment actually occurs; D) **Investment promotion** - to financed activities such as conferences, seminars, special projects etc. which promotes investment opportunities in Egypt; E) **evaluation component** funded periodic evaluations of the PSFSP.

In 1985 an additional \$3.0 million was granted under an amendment to the project authorization and grant agreement. The Government of Egypt (GOE) implemented the project from September 22, 1979 to December 8, 1988 thru the General Authority for the Investment and Free Zone (GAFI) with the support from the General Organization for Industry (GOFI) and the Ministry of Finance. GAFI served as the implementing agency for the project, serving as a clearing house for investment opportunities and coordinating GOE processing of foreign investment applications.

GAFI's performance was inconsistent, hampered by a cumbersome application review and approval process and general bureaucratic inertia. In 1988, USAID advised the GOE that it would not continue funding the project under exiting GAFI management arrangements.

Commencing December 8, 1988, project implementation was assumed by the Egypt/U.S. Joint Business Council which established the United States Investment Promotion Office (USIPO) as the implementing institution for PSFSP. Despite the difficult investment environment USIPO increased the usage and effectiveness of the PPSFSP until its PACD of September 21, 1991.

Contributions

USAID Funding

<u>PSFSP Project Elements</u>	<u>LOP Obligation</u>
Sector Studies	\$1,830,000
Reconnaissance Surveys	643,000
Feasibility Studies	4,600,000
Investment Promotion	727,000
Evaluation	<u>200,000</u>
	\$8,000,000

GOE Contribution

Whereas USAID provided funds to finance specific PSFSP activities, the GOE's made in-kind contributions as follows:

Director
Staff professionals
Secretaries
Driver/messenger
Staff indirect costs

Facilities

Office space, utilities, phones

Background

GOE as Implementing Entity

Subsequent to the 1979 USAID agreement to provide GAFI with PSFSP funds to undertake activities to stimulate and promote U.S. private sector investment to Egypt, GAFI put into operation plans to complete sectoral studies, promote the PSFSP in the U.S., train staff and develop procedures for serving the needs and interest of U.S. business executives. After considerable delay, GAFI contracted a consultant which helped them design sector studies, employee training sessions and a promotional campaign for the U.S. By 1982 10 industrial sector studies were completed for the benefit of potential U. S. investors. Each study included profiles of sector investment opportunities such as competitors in the market, estimates of local supply vis a vis demand, raw material availability, and current production and distribution systems. As part of the investment promotion campaign, 365 U.S. companies were mailed copies of the sectorial studies. GAFI also launched a direct mail campaign promoting the PSFSP which was to cover 4500 companies in the U.S. GAFI screened and examined the responses of the American companies to determine which ones were promising investors.

Companies which expressed serious interest, were offered reconnaissance trips (RV) to Egypt which reimbursed each company a maximum of \$6,000 per trip. These trips were designed to give serious U.S. business executives the opportunity to meet and talk directly with Egyptian business executives about specific investment opportunities in Egypt prior to a feasibility study.

At that point in time, those American companies who conducted a feasibility study the GOE, through the PSFS Program, reimbursed them 50% of their feasibility study cost - up to \$200,000 - or the entire amount if they invested; up to \$200,000. The ceiling for maximum reimbursement was later lowered to \$150,000.

To provide institutional support for and increase the skill level of officers managing the PSFSP local training, with a one month tour in the U.S., was made available to 15 Egyptian government officers.

Three years after the start of the project, the PSFSP fell short on 2 of 3 projected goals in investment promotion:

	<u>Goal</u>	<u>Actual</u>
(1) Sector studies	10	10
(2) Reconnaissance Visits	20	5
(3) Feasibility Studies	20	8

Many factors contributed to project shortfalls. One factor was the effectiveness of GAFI's promotional campaign. Some sector studies were nearly out-dated after completion, and others did not contain enough information. Also, the campaign was not well targeted. Instead of heavily pursuing specific companies with the most potential for Egypt the GAFI scattered its efforts over a broad spectrum of companies in the United States.

Second, the few businesses who did respond to the promotional campaign found procedures and detailed guidelines for follow-up support not properly established.

Complicating efforts of the GOE were staff that did not adequately serve U.S. business executives. Only seven of the 15 GAFI personnel received training and a one month trip to the U.S. and upon completion of training only two of the trained personnel worked on the PSFSP. The others were transferred to other departments. The staff that stayed either did not understand the complex business needs of U. S. investors or were unable to respond quickly and efficiently to U. S. investors because of the formidably dilatory GOE bureaucracy.

A number of other GAFI internal difficulties accounted for the reduced interest by American companies in using the PSFS program.

(A). The original application procedures established were vague and did not properly clarify the selection criteria used for approving applications; (B). GAFI did not precisely specify the type of information and documents required to apply to the PSFS program, this situation caused confusion and misunderstanding; and (C). Unreasonable delays in the approval process and inconsistent decisions by the PSFSP review committee frustrated and constrained many U.S. companies.

In an attempt to overcome its problems, GAFI instituted a number of middle management changes over time to improve its services to American investors. As a result, there were marginal increases in the marketing of the PSFS program and of services delivered to U.S. investors but not enough to significantly improve the number of investors coming to Egypt. The inherent nature of a cumbersome, multi-layered, ill-staffed bureaucracy did not allow GAFI the freedom to become effective.

GOE policy constraints also hampered the effectiveness of the project.

All of the PSFSP applications were approved by a GOE committee representing government ministries that operated numerous manufacturing parastatals, which enjoyed subsidized inputs, mandated monopolies, credit at less than market rate, etc. They often voted in their own self-interest which resulted in disapproving applications of American companies.

Moreover, even if an American business executives identified an investment opportunity and received approval from the PSFSP committee the multitude of rules and regulations affecting all aspects of investing and doing business, such as land acquisition,

commercial licenses etc. frustrated them. The sheer time and effort it took to work through and understand many of the often vague and inappropriate regulations deterred numerous American investors.

From 1979 to 1988 (9 1/2 years) the following PSFSP activities took place under GAFI:

- 10 Sector profiles completed
- 20 reconnaissance visits completed
- 25 feasibility studies completed
- 5 projects approved

Two companies invested 1) a sanitary wares fixtures plant expansion and 2) a food distribution venture

<u>PSFSP Project Elements</u>	<u>LOP Obligation</u>	<u>GOE Spent</u>
Sector Studies	\$1,830,000	\$1,667,058
Reconnaissance Surveys	643,000	375,734
Feasibility Studies	4,600,000	1,509,505
Investment Promotion	727,000	-0-
Evaluation	<u>200,000</u>	<u>-0-</u>
	\$8,000,000	\$3,552,297

Evaluation - GAFI

In 1984 Peat Marwick Management Consultants evaluated GAFI's performance. It focused on GAFI's lack of ability to effectively recruit U.S. investors, clarify PSFSP application requirements to American investors, and to reduce the amount of bureaucratic red tape needed for feasibility study approval.

Recommendations and suggestions were made to increase the efficiency and effectiveness of not only the procedures within the PSFSP itself but GAFI's organizational structure.

New promotional techniques were introduced, but follow-up strategy was strongly emphasized as the back-bone of successful marketing.

PSFSP Transfer to USIPO

As a result of GAFI's frustrating performance, USAID advised the GOE that it would not continue funding the project under existing GAFI management arrangements.

On December 8, 1988, project implementation was transferred to the Egypt/U.S. Joint Business Council which established the United States Investment Promotion Office (USIPO) as the implementing institution, a non-profit private sector organization. USIPO

implemented the PSFS Project until its PACD of September 21, 1991.

The small but private sector oriented staff, more experienced in serving American businesses, was critical to USIPO's ability to understand and absorb the PSFSP into its operations quickly and effectively. Under USIPO, administration and oversight of the system for approving projects and funding reimbursement improved. Staff response to American businesses was quicker, and USIPO improved the range and quality of support services to serious U.S. investors. USIPO's general marketing of the PSFS program was marginally better than GAFIs, but USIPO's follow-up of interested American companies was the significant difference.

Despite USIPO's efficiency and effectiveness in assisting them sorting through the GOE rules and regulations impacting the investment process was still a challenge for U.S. investors. Policy constraints related to the complex system of price controls on energy, agriculture products, some industrial goods etc. and intrusive GOE regulations continued to be a disincentive for American investors.

Nevertheless, during USIPO's 18 month management of the PSFS program the following investment promotion activities were completed:

- 12 feasibility studies completed
- 19 reconnaissance visits completed
- 6 investment promotion activities

Three companies invested, H.J. Heinz Co., Midamar Co., and Pioneer Seed Co.

<u>PSFSP Project Elements</u>	<u>Committed 1988</u>	<u>USIPO Spent</u>
Sector Studies	-0-	-0-
Reconnaissance Surveys	\$267,266	\$153,467
Feasibility Studies	3,090,495	563,936
Investment Promotion	727,000	130,167
Evaluation	<u>200,000</u>	<u>103,351</u>
	\$4,084,761	\$950,921

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Evaluation - USIPO

In November 1990 SRI, international evaluated the PSFSP managed by USIPO and came up with the following findings:

A) The overall management of the project appeared to be effective and the rate of useage of the PSFSP increased over the 18 months of USIPO control; B) A significant portion of PSFSP fund users were large firms with considerable financial resources; C) The project required considerable amounts of management time for both USIPO and USAID/Cairo, far in excess of its result, and was not cost effective. D) The investment climate in Egypt was too poor for the project to produce significant results; E) American business executives who were interviewed after their participation in the USIPO managed PSFS project considered it useful, though not necessarily critical.

SRI Recommendations

(1). Funds provided for investment promotion should be devoted to developing USIPO's promotional capabilities; (2). That the PSFSP be continued until the PACD of September 1991, then terminated; and

(2). The functions carried out under the PSFSP should be assessed in the context of a comprehensive USAID trade and investment strategy.

Lessons Learned

1. The Government of Egypt (GOE) economic policies, the implementing procedures for foreign investment and the projected return of investments are the most important factors in determining foreign investment decisions.

2. Financial incentives such as feasibility study cost sharing, reconnaissance cost sharing trips to Egypt were useful to U.S. business executives but not critical to a decision to invest though small and medium size businesses considered the cost sharing more important than larger firms.

3. A Government of Egypt (GOE) entity is not the preferred vehicle for promoting investment from the U. S. to Egypt.

4. Management of the PSFS project took too much GOE, USIPO and USAID staff time. A similar project in the future should be, by design, bureaucratically lean and streamline for quick, accurate, and informative responses to U.S. investor inquiries and for support on investment oportunities in Egypt.