

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: SO 1 Team Leader, Paul Deuster

SUBJECT: Approval of Private Sector Commodity Import Program PAAD (263-K-636) - Increase in FY 1997 Obligation by \$50,000,000

Purpose: Your approval is required for the addition of \$50,000,000 to the Private Sector Commodity Import Program (PRCIP) PAAD (263-K-636) for obligation in FY 1997.

Discussion: The PRCIP was approved in FY 1995 for \$600,000,000 with planned obligations of \$200,000,000 per year for FYs 1995, 1996 and 1997. The first obligation occurred on August 12, 1995 for \$200,000,000 (PAAD no. 263-K-632). The second obligation (PAAD no. 632-K-633) was on July 21, 1996 for an additional \$200,000,000. A third obligation (PAAD no. 632-K-636) of \$200,000,000 is also scheduled for FY 1997. This amendment of \$50,000,000 will increase the Program to \$650,000,000.

Current demand for funding under the PRCIP is approaching the \$250,000,000 per year pace. Demand remains strong and there is expectation that some critical procurements by the private sector in support of new investment activities (e.g. environment and tourism) may be about to materialize. In order to accommodate the increased demand in areas of strategic importance to the Mission, \$50,000,000 of FY 1997 funds will be programmed to the PRCIP. The demand for PRCIP funds exceeds the amount available just prior to the new obligation, so the addition of this obligation should smooth operations of the activity and avoid the usual end of year disruption. The PRCIP continues to demonstrate evidence of wider participation by an enthusiastic and growing private sector community. Recent data show increases of up to 30 new Egyptian importers per quarter.

The Mission's Strategic Plan includes the use of the PRCIP activity in achieving its first Strategic Objective "Accelerated Private Sector-led, Export-oriented Economic Growth". In the Strategic Plan the PRCIP is included for the entire life of Strategic

Objective (FY 2001) at the \$200,000,000 per year level. Early in FY 1998 Strategic Objective Team No. 1 plans to design a new Results Package, to allow the continuation of this activity through 2001.

Basic Terms of Approval:

Purpose: To expand and deepen financial services.

Completion Date: September 30, 2000

Planned Funding: \$650,000,000 (Grant)

FY 1997 Obligation: \$250,000,000
(The total of this action for \$50,000,000 and a prior obligation of \$200,000,000.)

Authority: Mission Order 5-4 dated March 25, 1997, Section 6, provides that the Mission Director may determine the approver of RPs and amendments. The Mission Director has not delegated the approval of CIPs and therefore retains the authority to approve this PAAD for the Private Sector Commodity Import Program.

Recommendation: That you sign below approving this fourth obligation (third amendment) to the Private Sector Commodity Import Program.

Approve _____

Disapprove _____

Date _____

Clearance:

OD/EG/CM, A. Laemmerzähl _____

(A)OD/SCS/SIS, T. Dailey _____

A/OD/PROC, A. Terio _____

A/OD/LEG, J. Doyle _____

FM/FA, M. Matta _____

DD, T. Christiansen-Wagner _____

The Mission Controller has reviewed and concurs with the proposed methods of implementation and financing.

Robert Bonnaffon,

AD/FM

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

PRIVATE SECTOR COMMODITY IMPORT PROGRAM (PRCIP)

PROGRAM NO. 263-K-636

I. Summary: This Program Assistance Approval Document (PAAD) amendment will increase the FY 1997 obligation to \$250,000,000 for the Private Sector Commodity Import Program (PRCIP). The program was designed and approved in 1995 when the 263-K-632 PAAD was approved for the initial \$200,000,000 of the planned \$600,000,000 life of program amount. When designed, the program was to obligate \$200,000,000 per year over three years (FYs 1995-97). Current demand by the private sector for additional credit to import goods from the United States has stimulated the USAID/Egypt Mission to increase the final year of funding from \$200,000,000 to \$250,000,000.

II. Background: The PRCIP was approved for \$600,000,000 with equal obligations extending over a three year period (FYs 1995-97 at \$200,000,000 per year). The planned life of program is approximately five years from the date of the initial obligation. The PRCIP finances the importation of commodities (raw materials, intermediate goods and capital equipment) from the United States thereby encouraging the adoption by Egyptian businesses of products and modern technologies originating in the United States.

The PRCIP is a key component of the USAID/Egypt Mission's Strategic Objective No. 1, "Increased Private Sector-Led, Export Oriented, Economic Growth." More specifically, the PRCIP contributes to Intermediate Result (IR) 1.2 "Increased Productivity of Private Enterprise," and has particular impact on IR 1.2.2 "Accelerated Adoption of Improved Technologies and Management Practices" and IR 1.2.3 "Expanded and Deepened Financial Services."

Historically, over a 12 year period, the private sector CIP has financed the importation of almost \$1,700,000,000 worth of products from the U.S., or an annual average of approximately \$140,000,000.

Recent trends, however, reveal many positive indicators of program growth, reflective of the recent rapid growth in the Egyptian private sector. For instance, program demand is increasing for capital equipment as opposed to raw materials and intermediate goods which were the primary commodities of the earlier CIPs. Also, accessibility to financing has improved with the growth in the number of local participating banks from nine at program inception to 23 today. New program users (importers) are being attracted at a rate in excess of 100 per year, a significant portion of the almost 300 Egyptian importers who annually access the program. The number of annual transactions has now reached an all-time high with more than 700 individual transactions approved during the recent 12 month period ending January 1997.

Rationale to increase funding for FY 1997: The original program design projected a strong demand, however, design members anticipated that \$200,000,000 per year would suffice during the implementation period. Program demand, however, has exceeded both design team and Mission expectations. During the past three fiscal years, program utilization as measured by the number of transactions concurred in by the Commodity Management and Trade Office (CMT) has grown dramatically:

- o \$84,500,000 in FY 1994 (the final obligation year of the prior 10-year private sector CIP program);
- o \$179,500,000 in FY 1995 (the initial year of the current program);
- o \$210,000,000 in FY 1996.

During FY 1997, transaction concurrences are averaging almost \$4,800,000 per week, an annualized rate of close to \$250,000,000. The result is a demand that exceeds the resources available to the program. In fact, only six months after the most recent obligation, the rate of transaction concurrences began to slow as the most active banks began running out of funds.

The CMT Office needs to increase the availability of funding to the PRCIP so that current demand can be met and new areas of program activity can be actively promoted. In order to avoid the ups and downs of program activity that reflect the ebb and flow of currently obligated program funds, an additional tranche of \$50,000,000 would help satisfy the immediate program demand of the participating banks and enable the Mission to pursue a wider array of priorities recently identified within the strategic objectives of the Mission's overall

development program.

Current program terms provide enhanced financing terms to Egyptian businesses that predominantly export their products and to Egyptian businesses importing equipment for use in selected less-developed Upper Egyptian governorates. This complements and supports present Government of Egypt (GOE) developmental priorities. New GOE priorities include and target eco-tourism, environmental technologies and land reclamation development in the New Valley Governorate. These newly expressed priorities are already attracting substantial interest from U.S. firms that carry a technological edge in such sectors. Similarly, by nature and extent of the developmental need in such areas as eco-tourism, land reclamation and the environment, many of the necessary commodity inputs represent large investments in capital. We anticipate that the thirst for investment financing by the Egyptian private sector will significantly increase as these sectors are developed by the GOE and new technologies are introduced by business.

A further factor in the increased program demand is the success of the GOE in privatizing many of its public sector organizations. Increasingly, public sector companies are successfully being privatized and are establishing their presence in the private sector marketplace. The PRCIP has already provided financing to several of the recently privatized land reclamation companies now operating in the less-developed governorates of Egypt. Investments by these land reclamation companies in capital intensive heavy machinery and equipment is expected to continue and represents an anticipated sustained future demand for program funds.

With the present rate of program demand exceeding available funding levels, it is imprudent to move forward with new promotional activities intended to introduce the PRCIP to prospective new users in the areas of development priority indicated above. If, however, additional funding could be made available USAID could aggressively expand the promotional calendar to include private sector businesses operating in selected new key sectors of the Egyptian economy. Particular emphasis would be placed on complementing USAID's economic growth activities. For example, closer coordination of new promotional activities with export development or privatization areas would likely result in new program synergy and higher achievement of desired program results. Similarly, greater efforts could be made to complement the activities and programs of the Mission's other strategic objectives in the areas of environment and health. The CMT Office has organized a two-day promotion to the medical sector entitled "USAID/Med" and a two-day promotion in the Sinai, the latter

intended to introduce the PRCIP to firms in the tourism and environmental sectors. More of these promotional activities could be undertaken with the addition of new program funds.

III. Program Description: The program description has not changed since the original design in FY 1995 and will continue as presented in PAAD 632-K-632. The program goal is **to increase the private sector's contribution to Egyptian economic output**. While the purpose is **to expand and deepen financial services**.

IV. Program Relationship to Strategy: This activity is one of the many under the Mission's Strategic Objective Number 1 "**Accelerated Private Sector-led Export-oriented Economic Growth**". The PRCIP Program provides a source of credit to private sector firms for the importation of capital goods, intermediate goods and finished goods. This program has encouraged lenders to extend longer credit terms and has facilitated the import of new technologies that will speed the "globalization" of Egyptian private sector businesses.

V. Summary of Analyses: With the exception of the updating of the Environmental Analysis (an Initial Environmental Evaluation for the additional \$50,000,000 was approved on June 30, 1997 and is attached as Annex A), all the analyses remain valid.

VI. Program Implementation: Implementation will continue as described in the original document.

VII. Mission Management: The existing staff in the CMT Office in Cairo and Alexandria is capable of managing this additional \$50,000,000 without an increase. The second Direct Hire position, which becomes vacant this summer, will be filled with a capable candidate as soon as possible.