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UNCLASSIFIED
DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, DC. 20523

PROJECT PAPER

EGYPT: PRIVATE SECTOR FEASIBILITY STUDIES

PROJECT NO. 263-0112

SEPTEMBER 1979

UNCLASSIFIED

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT PAPER, FACESHEET

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2. DOCUMENT CODE
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3. COUNTRY/ENTITY
 Arab Republic of Egypt

4. DOCUMENT REVISION NUMBER

5. PROJECT NUMBER (7 digits)

6. BUREAU OFFICE
 A. SYMBOL: NE
 B. CODE: 04

7. PROJECT TITLE (Maximum 40 characters)
 Private Sector Feasibility Studies

8. ESTIMATED FY OF PROJECT COMPLETION
 FY 82

9. ESTIMATED DATE OF OBLIGATION:
 A. INITIAL FY: 79
 B. QUARTER: 4
 C. FINAL FY: 79
 (Enter 1, 2, 3, or 4)

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -

A. FUNDING SOURCE	FIRST FY				LIFE OF PROJECT	
	B. FY	C. L/C	D. TOTAL	E. FY	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	4914	86	5000	4914	86	5000
GRANT	4914	86	5000	4914	86	5000
LOAN						
OTHER U.S.:						
1. U.S.						
2. OTHER COUNTRY		1155	1155		1155	1155
OTHER DONORS:						
TOTALS	4914	1241	6155	4914	1241	6155

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
ESF	730	840		5000					
TOTALS				5000					

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. DEPTH EVALUATION SCHEDULED
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
					5000		
TOTALS					5000		

12. DEPTH EVALUATION SCHEDULED
 1 82

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE P10 FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN P10 FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED P10 FACESHEET.

1: NO
 2: YES

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: R.M. Dangler
 TITLE: Assistant Director

15. DATE DOCUMENT RECEIVED IN AID # 30 FOR AID # 300. DENTS, DATE OF DISTRIBUTION

DATE SIGNED: 1 82

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EGYPT - PRIVATE SECTOR FEASIBILITY STUDIES
SUMMARY AND RECOMMENDATIONS

1. Grantee: The Government of the Arab Republic of Egypt
2. Implementing Entity: Investment and Free Zone Authority
3. Grant Amount: \$5.0 million (Five Million U.S. Dollars)
4. Purpose: Create a mechanism which will provide incentives to U.S. firms to carry out pre-investment feasibility studies.
5. Project Description: To finance the costs of 1) U.S. companies making pre-investment feasibility studies in Egypt, 2) Developing the institutional capabilities of the Egyptian Investment Authority 3) Training, 4) Equipment, 5) Technical Assistance, 6) Sectorial Surveys, 7) Reconnaissance Visits.
6. Total Project Cost: \$5.0 million through this AID grant plus LE 808,000 (\$1.1 million) from the Investment Authority for a total project cost of \$6.1 million.
7. Application: The GOE's application is included as Annex A.
8. Source of Funds: Fiscal Year 1979 Economic Supporting Funds.
9. Waivers: a) 612 b - Authorize local cost financing up to \$86,000, b) Waive Supplier Nationality Requirement for Vehicle Procurement, c) Authorize Direct AID Procurement. (Annex B, C, and D)
10. Project Committee Views: The Project Committee has recommended that this grant be authorized.
11. Environmental: The Initial Environmental Examination resulted in a negative determination. (Annex E)
12. Recommendation: That a grant of \$5.0 million be authorized to the GOE on terms and conditions described in the authorization shown in Annex F.
13. Statutory Checklist and 611(e): All criteria have been satisfied (Annexes G and H)
14. Project Committee:

USAID/Cairo

Chairman: M. Briggs
Economist: P. Davis
Counsel: T. Carter
Program: G. Flores
Social: J. Blackton
Controller: R. McClure

ANNEXES

- A. Grant Application
- B. Local Currency Determination - 612 (b)
- C. Nationality Requirement Waiver
- D. Policy Determination Exception
- E. Environmental Determination
- F. Grant Authorization
- G. Statutory Checklist
- H. Section 611 (e) Certification
- I. Private Sector Development Strategy
- J. OPIC Letter to AID
- K. Investment Opportunities
- L. OPIC Feasibility Survey Program Guidelines
- M. OPIC Reconnaissance Visit Guidelines
- N. Project Log Frame
- O. Commodity List
- P. PID Review Cabies(2)
- Q. Social Analysis
- R. C.B. D. Notice

DEFINITIONS

- 1. Reconnaissance Visit = Reconnaissance Survey=Survey
- 2. Sector Profile Study = Sector Study
- 3. Pre-investment feasibility=Feasibility Study:
A financial and technical document which could be presented to an international financial institution for funding.
- 4. OPIC: Overseas Private Investment Company
- 5. IA=Authority=Investment Authority, Investment and Free Zone Authority
- 6. GOFI: General Organization for Industrialization
- 7. 1 L.E. = \$1.43

TY

- I. Introduction
- II. Background
 - A. Private Sector
 - B. AID Strategy
 - C. Problems/Demand
- III. Project Description
 - A. Detailed Description
 - B. Outputs and Inputs
 - C. Relationship to OPIC and Investment Center Project
- IV. Technical Description
 - A. Sector Studies
 - B. Reconnaissance Visits
 - C. Pre-Investment Feasibility Studies
 - D. Institutionalization
 - E. Technical Feasibility
 - F. Training
 - G. Criteria/Policies
- V. Environmental Analysis
- VI. Economic Analysis
- VII. Social Analysis
- VIII. Financial Plan
 - A. Source of Funds
 - B. Application of Funds
 - C. Financial Plan
 - D. GOE Contribution
 - E. Projected Annual Expenditures
- IX. Implementation Plan
 - A. Implementation Assistance
 - B. Operations
 - C. Implementing Schedule
 - D. Contractor Selection
 - E. Evaluation
- X. Recommendation
 - A. Recommendation
 - B. Terminal Dates
 - C. Conditions and Covenants

I. INTRODUCTION

1.01 . The Government of the Arab Republic of Egypt (GOE) has requested AID assistance in establishing a project to assist and encourage U.S. business to invest in Egypt by offering financial and technical assistance to produce needed sector studies and profiles, bring potential U.S. investors to Egypt i.e. (Reconnaissance Visits) share in the financing of U.S. firms to produce pre-investment feasibility studies and to develop the GOE's institutional capability to attract U.S. investment in Egypt. The project has been appraised by USAID/Cairo.

1.02 This project will contribute to that part of the U.S. assistance program to Egypt which aims to accelerate the pace of private sector productivity, increase and improve the quality of life by providing increased employment opportunities, higher income levels for workers, new technology, foreign exchange earnings and/or savings and improved quality and quantity of consumer products. One of the key elements in the AID private sector development is to encourage and direct new foreign investment into productive enterprises in Egypt. This project will specifically encourage U.S. firms to invest in Egypt.

1.03 The AID private sector development program originated with the Humphrey Amendment Report prepared in February 1978. This report recommended a variety of steps to be taken by AID in cooperation with the GOE to expand productivity of the private sector. Most of these recommendations have now been translated into projects proposed for funding during fiscal years 1979-1981.

1.04 The project described in this paper is a direct response to a recommendation contained in the Humphrey Amendment Report, which was prepared by a Task Force chaired by the Assistant Administrator of A.I.D.'s Near East Bureau. The Task Force included representatives of the Department of State, Treasury, and Agriculture; the National Security Council; and the Office of Management and Budget. The views of Egyptian Government officials were considered and incorporated in the Report.

1.05 Outside consultants used by the Task Force included Arthur D. Little, University of California at Davis, and a team of U.S.

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businessmen assembled with the help of the Egyptian - U.S. Business Council. The Task Force was charged with reviewing and preparing a study on the economic aid program for Egypt, for submission to Congress not later than February 15, 1978. In examining planned U.S. aid to Egypt, the Task Force was asked to suggest alternative forms of assistance and to specifically consider the possibility of emphasizing programs designed to enhance the opportunities in the Egyptian private business and agriculture sectors. The Task Force was also requested to develop a plan for specific new projects responding to needs identified in the report.

1.06 The specific recommendation pertaining to this project was that AID should encourage U.S. investment in Egypt and particularly promote joint ventures between Egyptian and U.S. business enterprises and that as an incentive, funds be provided for sector studies and feasibility studies and that AID would explore possible mechanisms which would permit it to share with potential investors the costs of such feasibility studies. The analysis and design underlying the development of an activity with the above characteristics and outputs were performed by USAID with AID/Washington TDY assistance. The project has been discussed with the Overseas Private Investment Corporation (OPIC) and a number of U.S. business firms. The project PID has been reviewed with and approved by the General Authority for Investment and Free Zones, Ministry of Economy and Economic Cooperation.

1.07 This project addresses informational needs required by U.S. companies contemplating an investment in Egypt. Other projects in the USAID private sector development program addresses a variety of credit and institutional constraints. This project was included in AID's FY 80 Congressional Presentation. Because it has been moved up by one year Congressional Notification was required. The GOE's request for assistance is included as Annex A to this paper. All statutory criteria have been satisfied and the checklist is included as Annex B.

II. BACKGROUND

A. Private Sector

2.01 Prior to 1952 the Egyptian economy was characterized by intense concentrations of wealth and the control of the productive sectors by few families. It has been estimated that wealth was concentrated in the hands of 5% of the population, with the remainder of the populace existing in an almost feudal relationships with the extreme wealthy. Wages were meagre and conditions of employment poor.

2.02 The 1952 Revolution, in reaction to the above circumstances, shifted the Egyptian economy violently from a condition of oligarchy to a highly structured, centrally controlled system characterized by state ownership of many enterprises. Over the next 20 years a complex network of regulated and subsidized systems developed with special interests and structural disequilibria.

2.03 In 1971, the Government of Egypt (GOE) realized that the policy of public sector control was not yielding the desired growth and production results. Analysis of the overall state of the publicly run segments of the economy led the GOE to conclude that encouragement of private sector enterprises would be an efficient way to accelerate development.

2.04 The first step was the passing of Law 43 in 1974 which articulated the government's new "Open Door Policy". Law 43 was intended to quell nationalization fears, reverse the prior public sector national economic policy, increase incentives for private savings, reduce certain aspects of government control, and induce increased foreign currency flows for investment. The law was found wanting in many aspects and was amended by Law No. 32 in 1977 to eliminate many of its ambiguities.

2.05 Although the above laws set the administrative stage for increased private investment, implementation has been slow for a variety of reasons. Notwithstanding the institutional weaknesses, the Egyptian economy has many strengths, advantages and opportunities; including human resources, location at the juncture of three continents, assets of tourism as a historical center, natural resources, and a large domestic market.

B. AID Strategy

2.06 One of the key elements of the AID program in Egypt is the furnishing of capital and technical assistance to speed development of the private sector so that it can undertake a larger share of the economic development task. This aspect of the AID program was examined during

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the review required by the Humphrey Amendment Report, and the 1978 report recommended several specific areas for AID assistance. Most of those recommendations are now translated into projects proposed for design and funding in FY 79-81. CDSS puts a strong emphasis on this program element, and the potential role for Egyptian private sector participation is now reviewed in most projects. Results of these efforts are expected to be: increased productivity, additional employment opportunities, improved technology, higher wages with corollary higher standard of living, greater mobilization of domestic and foreign financial resources, and improved foreign exchange position.

2.07 The AID private sector development strategy has concentrated on selected developmental problems areas which effect private sector productivity. Based upon sub-sector studies, projects are being tailored to resolve major problem areas and to create institutions which can continue to address these and other problems as they arise in the future. The strategy for the private sector provides for a broad and interlocking matrix of specific thrusts, through projects, to resolve the principal developmental problems currently facing the Egyptian private sector. The impact of this program is expected to be of a long-term nature, but AID's active role will diminish with improved Egyptian institutional capabilities.

2.08 Key developmental problems currently addressed by present and proposed projects are:

(1) Provision of investment capital - direct A.I.D. foreign exchange resources on medium/long-term are provided by: DIB-I; Commodity Imports Program; Private Investment Encouragement Fund (investment component); SSE Credit & Advisors (sub-loans) and specific project financings (Cement, Flat Glass, etc., plants).

(2) Mobilization/allocation of financial resources - institution building in the financial sector is provided by: DIB-II; Private Investment Encouragement Fund (training program); Advisory Services on Credit; and Money Market/Stock Exchange.

(3) Investment stimulation - investment promotion, information, and incentives are provided by: Private Sector Investment Studies; Egyptian Investment Center; and Industrial Free Zones.

(4) Technology transfer - modern and appropriate technology and management techniques are provided by: Middle Management Education Program; SSE Credit & Advisors (technical advisory component); continued support of International Executive Service Corps; and Business Management Training projects.

(5) Regulations/practices - regulatory and policy matters affecting private business are included in the following projects: tax administration; tax restructuring; investment-oriented seminars and workshops with Ford Foundation; and legal education.

Additional details on these projects are included in Annex I.

C. Problems/Demand

2.09 Two surveys, one by Prof. Del Roy and another by A.D. Little, Inc., were completed in January 1978. Both of these surveys found that there was a renewed vitality in the Egyptian private sector and the A.D. Little study recommended official U.S. involvement in quickening the pace of the private sector re-emergence. These findings were formalized in the Humphrey Amendment Report which recommended a series of actions designed to improve private sector performance in Egypt. A specific recommendation was to assist U.S. companies in identifying and carrying out pre-investment feasibility studies. The U.S. commitment to revitalization of the Egyptian private sector was formalized in the 1979 Foreign Assistance Act, where AID was encouraged to do everything possible to increase the private sector's role in development.

2.10 A special mission headed by Ambassador Robert Strauss in April 1979 initiated a more intensive dialogue on the need for investment in Egypt and additional need to stimulate investors to support economic development in Egypt through technology transfer and capital investments. It is to this last priority that this project is directed. Mr. Strauss has now made two trips to Egypt each of which he personally brought up to fifteen (15) U.S. businessmen to acquaint them with Egypt as a potential country for investment. The "Reconnaissance Survey" portion of this project is similar to what Mr. Strauss has initiated but will be more institutionalized.

2.11 Egypt may well hold one of the world's greatest potentials for foreign investors. That this may only be a longer term prospect should not deter U.S. companies from taking a hard look at Egypt now. Ten years hence, it may well turn out that those firms getting a foot in the Egyptian door today by establishing their brands with the local consumers and/or winning the government's favors as bold early investors, will have gained a significant competitive edge over timid late comers. The decision on whether to invest in a manufacturing operation is particularly hard to arrive at in Egypt. While most observers are agreed on the country's enormous potential in terms of human resources (both qualitative and quantitative), an already diversified economy, and a

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strategically favorable location, they likewise do not argue about the difficulties in obtaining useful and reliable information upon which to make an investment decision.

2.12 The corporate planner cannot go only by the glowing reports about the newly opened door to a corporate presence in Egypt. The planner must carefully weigh in person the environment and situation. The fact that U.S. business has been virtually non-existent in Egypt for twenty years indicates that Egypt, to a potential U.S. investor, presents an extremely difficult country for investment.

2.13 Not only has the Egyptian economy been closed to U.S. companies for such a long duration, but also now that it is open, a totally alien economic and social environment embraces the U.S. investor. This long absence coupled with the strange environment not only makes the investment decision difficult but also costly and time consuming. One U.S. firm recently told USAID that a relatively simple feasibility study costs \$115,000 for a cold storage complex, with an estimated total project cost of only \$3,000,000.

2.14 As a rule of thumb, a feasibility study tends to cost about one half of one percent of the eventual total cost of the project being investigated. This is particularly true for large projects, but the percentage raises dramatically for smaller investments. The cold storage project mentioned above indicates a 4% relationship.

2.15 AID has financed five (5) feasibility studies for industrial projects at the request of the GOE. Although these studies are larger than those anticipated to be funded with this project, they do indicate the magnitude of feasibility study costs and in particular that costs in Egypt are significantly higher than the norm.

<u>Project</u>	<u>Total Feasibility Study Cost</u>	<u>Est. Total Project Cost</u>	<u>Study Cost % Total Cost</u>
1. Quattamia Cement	\$1.3 million	\$200 million	.65
2. Mistr Rayon	\$1.2 million	\$150 million	.87
3. Flat Glass	\$900,000	\$140 million	.64
4. Edfu Pulp/Paper	\$850,000	\$120 million	.69
5. Lake Quarum Chemicals	\$550,000	\$ 80 million	.68

2.16 The cost/risk factor relative to the undertaking by a U.S. firm of a feasibility study when coupled with the political considerations makes it difficult to convince a company president or Board of Directors to commit funds to investigate Egypt. Egypt is competing in the world market for foreign investment, the fact that the severe lack of information necessitates a more costly feasibility study places Egypt in a less competitive position. Financial and moral encouragement to U.S. firms contemplating investment in Egypt emanating from the U.S. Government is greatly needed.

2.17 The Private Sector Office at USAID receives at least one serious investment inquiry per week, while the Embassy Commercial Office estimates that two serious inquiries per week are received. Discussions with the Investment Authority reveals that during the first 6 months of 1979 more U.S. businessmen have made visits than during all of 1978. Regarding the Investment Authority it should be noted that a foreign company wishing to obtain GOE approval for an investment must submit a complex and lengthy form (over 40 pages). In order to complete such a form a rather complete feasibility study must have been made. Thus, a feasibility study is not only required by the company making the investment decision, but also by the country (Egypt) which is to receive the investment.

2.18 As mentioned earlier, several professional surveys have been recently undertaken in Egypt relevant to this project's concept and final design. Those studies justify the project by indicating the need for investment incentives, one of which this project will provide. The following four statements which were contained in the studies were used in finalizing the "Humphrey Report" gives a rather clear indication of the need implied demand, type and purpose of the project.

2.19 "The formulation of affective pioneer project incentives will be required in order to involve appropriate firms as a joint-venture partners. These incentives should include the provision of: Feasibility study and pilot project funds for individual projects, etc." 1/

2.20 "As U.S. (or other Western) small-to-medium business firms often do not have the funds to undertake extensive feasibility and market studies and lack knowledge of the Egyptian environment and potential opportunities therein, it is necessary to develop a program

1/ "Small Industry in the Egyptian Economy" January 1978, Dr. Dalwin A. Roy.

which generates appropriate information. It is recommended that USAID consider the funding of feasibility studies and develop a suitable information flow system that can bring foreign businesses into more direct contact with small business joint venture opportunities in Egypt." 2/

2.21 "The Small Business Team recommends that encouragement will be given to joint ventures between Egyptian and U.S. business organizations, and that as an incentive, funds be provided for pre-feasibility and feasibility studies. AID has relied on resources available through the Overseas Private Investment Corporation (OPIC) to serve this need (studies) AID should explore possible mechanisms which would permit it to share with potential investors the costs of such feasibility studies." 3/

2.22 "There appears to be a pressing need for more preliminary identification of investment opportunities to further the development of specific projects." 4/

2.23 The above quotations from recognized experts resulted in the recommendation, in the publication of a "response to Section 9 of the International Security Assistance Act of 1977", more commonly known as the "Humphrey Report", for USAID/Egypt to design, develop and implement an FY 79 project to accomplish the above.

2.24 One final indication of the need for this project is that on June 30, 1979, the Egypt-U.S. Business Council which is constituted of private and public sector businessmen, submitted a memorandum to the Egyptian Prime Minister which strongly recommended "that the Investment Authority should undertake feasibility studies for certain projects of national and economic interest and might promote them through the financial institutions."

2/ "Small Industry in the Egyptian Economy January 1978, Dr. Delwin A. Roy.

3/ "U.S. Economic Assistance to Egypt, A Report of a Special Interagency Task Force", A.I.D. February 1978.

4/ "Assessment of Egypt's Industrial Sector", Arthur D. Little Inc., January 1978.

III. PROJECT DESCRIPTION

A. Detailed Descriptions

3.01 The goal of the project is to increase the flow of private U.S. investment to Egypt. The goal is an attempt to meet the resource gap facing the Egyptian economy. U.S. capital and technology would help alleviate the productivity, employment and funding difficulties facing the economy.

3.02 The purpose of the project is to create a mechanism which will provide incentive for and expedite carrying out of pre investment feasibility studies. It will also finance sector profile studies, reconnaissance visits, training and technical assistance to institutionalize these types of investment incentives.

3.03 As noted in the Humphrey Amendment Report, there are two major disincentives to investment in Egypt, i.e., (1) lack of information upon which an investment decision can be made in Egypt and (2) reticence on the part of U.S. companies to bear the risk of investing in Egypt. It is the consensus of observers that if sufficient facts were in the hands of U.S. investors, a far higher proportion of a new investment would be from that source. Therefore, one important aspect of the studies is getting the information of U.S. firms. This project proposes to establish mechanisms and assist investors in exploring Egypt's markets and potential productive capacity. The vehicle is the Investment Department; Free Zone and Investment Authority in the Ministry of Economy and Economic Cooperation.

B. Outputs/Inputs

3.04 The direct outputs of the project will be those Investment Authority individuals trained in designing and promoting sectorial and pre-investment feasibility studies. The secondary, but greater output of the project will be the number of Egyptians who gain full satisfying and productive employment from new or expanded enterprise which results from the project's stimulation of U.S. investments in Egypt. It is not possible to project their number until there is some experience with the project. Tertiary output will be Egyptian

consumers who will gain through availability of more goods and services and a more in general efficient economy. It is expected that there will be some related benefits in conditions of work as modernized processes are introduced.

3.05 The present project is aimed at the U.S. investor. If correctly institutionalized and proved successful, the possibility of other donors participating is highly probable. Both the Germans and the Japanese have indicated an interest in expanding their participation in the Egyptian Private Sector; and in some industrial sectors have an acknowledged comparative advantage over U.S. firms. If the evaluation shows that the project is successful, the GOE may approach other donors with offers to staff similar projects funded by them. Several Western donors have concessional banking arrangements for private sector firms and might also be interested.

3.06 The advantage to the Egyptian economy would be an expanded spectrum of firms undertaking investigations with the commensurate benefits of healthy competition. A second multiplier effect occurs in the case of a feasibility study which does not result in a decision to invest. That information which is non proprietary will become the property of the Authority which can then use it to brief and attract other potential investors. The definition of proprietary information will be similar to that used by OPIC.

3.07 The inputs necessary to achieve the above outputs are technical assistance, training, commodities and funds for cost reimbursement. Total cost will be \$6.1 million of which almost \$5.0 million is the AID input and \$1.1 million equivalent is the estimated contribution of the GOE. The AID costs include \$86,000 in local currency costs and \$455,000 for contingencies and inflation. The full \$5.0 million is distributed into the following four (4) project modules: (a) a sector profile study module - \$998,000, (b) reconnaissance visit module - \$200,000, (c) pre-investment feasibility study module - \$3,388,000, and (d) a project institutionalization module - \$414,000.

3.08 AID's Office of Private Sector Development (OPSD) has developed a comprehensive program to meet most of Egypt's requirements as stipulated by the "Humphrey Report". The inter-relationship between this project and the proposed Investment Center (IC) project is quite clear. The Investment Center project is designed to bring comprehensive technical assistance to the Egyptian Investment Center. It will study the overall concept and design of Investment Centers and furnish assistance to increase the effectiveness of the Investment Centers many activities of which this project will be but just one.

3.09 This Private Sector Feasibility Studies projects will furnish the Investment Authority with a new service to offer only potential U.S. investors. The existing Investment Authority will implement this project. However, at the same time that it is implementing this project, the Authority will be examined and assisted by the Investment Center project. In short, it is analogous to AID going through a reorganization process while at the same time implementing specific new undertakings and projects.

C. Relationship to OPIC

3.10 Both the Mission and AID/W have had considerable discussions with OPIC to assure that this project will not compete with the OPIC's Feasibility Surveys program. Annex J, a letter dated July 9, 1979 from Robert R. Wolf, Vice President, OPIC to Joseph Wheeler, Assistant Administrator, AID indicates not only that OPIC's participation in the project's design and development has been solicited by AID, but also that OPIC believes that "we (OPIC) view the proposed program as being sufficiently different in scope, purpose and operating detail as to preclude significant direct involvement by OPIC."

3.11 The proposed project is therefore not viewed as competing with OPIC. While it is possible to isolate a limited number of areas where a U.S. investor might compare this program with the OPIC program to select the most advantageous, we feel this project as proposed will result in long range impetus to all of OPIC's programs and services for Egypt.

3.12 As previously stated, this project was recommended, to be developed by AID, in the Humphrey Amendment Report to Congress as an incentive to the establishment of U.S. Egyptian joint ventures by

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Relationship between U.S. Inputs and Outputs (level of effort and costs)
(\$000)

<u>OUTPUTS</u>	<u>INPUTS</u>			<u>TOTAL</u>
	Technicians	Training & Commodities	Other Costs	
(a) 10 Sector Studies	\$ 938 (90 pm)	\$20 (C)	\$ 40(C&I)	\$998
(b) 20 Reconnaissance Visits	\$ 65 (6 pm)	\$ 1 (C)	\$100 (RS) \$ 34 (C&I)	\$200
(c) 20 Pre-Investment Feasibility Studies	\$ 65 (6 pm)	\$ 14 (C)	\$3,000 (FS) \$ 309 (C&I)	\$3,328
(d) 15 Participants and System Development	\$ 186 (17 pm+ 2 PASA)	\$ 41 (LC) \$105 (T) \$ 10 (C)	\$ 72 (C&I)	\$ 414
TOTAL	\$1,254 (121 pm)	\$ 191 (T&C)	\$3,555	\$5,000

- T = Training
- C = Commodities and Services in local cost financing
- C&I = Contingency, Inflation
- RS = Reconnaissance visit funds
- FS = Pre-investment feasibility surveys funds
- LC = Local currency support and services
- PM = Person-month

NOTE: These above numbers are best estimates, changes within line items may be made as the project develops and demand for the specific incentives are better determined.

providing funds for pre-feasibility and feasibility studies. The Humphrey Report notes AID's previous exclusive reliance on OPIC, and recommends the establishment of this special AID project. The Small Business Team survey also recommended such a project although targeted at small to medium sized business firms.

3.13 Based upon experience of USAID, discussions with potential investors, pronouncements of GOE officials and comments from the Joint Business Council, we feel that the need to encourage foreign investors is not limited to small/medium sized firms. Consequently in designing this project we have allowed fund to be made available to the entire spectrum of potential U.S. investors because of the strong need to attract U.S. joint ventures in Egypt to stimulate economic development.

3.14 In addition to responding to a Humphrey Report recommendation, this project is significantly unique in terms of the environment in which it is to be operating. Egypt is in an exceptional position whereby it is receiving extraordinary large amounts of U.S. support for development and normal U.S. facilities (private and public) are not present. OPIC's program is designed to respond to traditional not exceptional position on encouraging U.S. foreign investment. This project is designed to respond to the existing exceptional situation in Egypt by offering greater incentives and institution building elements which OPIC cannot do.

3.15 Additionally, this project is currently viewed as a non-precedent setting one, designed to serve as an inducement to encourage investors during a period where some may not yet be willing to commit any amount of funds for investment studies. This unwillingness to commit such funds may be stronger in large "Fortune 1000" firms, many of which are mature, budget/cost conscious, subject to more conservative Board of Directors' decision making, than smaller, more flexible, and higher risk taking companies. After this project is completed we hope OPIC incentives should be adequate. The above should not preclude a follow on project should the GOE, OPIC and AID determine that a project of a similar nature is warranted.

3.16 USAID will encourage and assist in the establishment of good working relationships between OPIC and the Investment Authority, including encouraging potential investors to utilize OPIC funds for their projects. Additionally, OPIC's offer to cooperate with the Investment Authority and to promote the project in the U.S. will be most welcome. The project includes funds for short-term consultants to the Authority, if OPIC has experienced personnel available for assistance, USAID will encourage the utilization of a FASA arrangement with OPIC to minimize costs and to maximize OPIC exposure to the Authority.

3.17 Finally, this project is designed to be substantially broader in scope than mere pre-investment cost sharing. This project will provide institution building to the Authority in handling of and acquaintance with pre-investment studies and the above mentioned links to institutions such as OPIC. The project will encourage reconnaissance surveys limited to U.S. firms not on the "Fortune 1000" list.

3.18 The project will not only produce professional quality pre-profile studies in specific industrial sectors, but also establish the in-house capability of the Authority to eventually produce their own documents for use by any foreign investors. Other differences from the OPIC program are, the investor is not required to obligate itself to OPIC financing and more realistic maximum cost reimbursable limits. In conclusion, many facets of this project are not performed by OPIC and are considered essential to this project's design, while at the same time the project will assist OPIC in developing Egypt as a market for OPIC services.

IV. TECHNICAL DESCRIPTION

A. Sector Studies

4.01 The GOE through the General Organization for Industrialization (GOEI) completed six major industrial sector studies in 1977 which identified a number of opportunities for investment (Annex K). The project would start with these studies, and identify areas where information and promotional improvements can be made. Areas of investigation for sector studies will heavily rely upon the A.D. Little work previously mentioned.

4.02 Having identified the areas of high priority, the Authority would then proceed to undertake a sectorial study on about ten (10) of these priority sectors. These studies would be relatively brief profiles and would identify markets, import requirements, present state of manufacturing, raw material availabilities, labor availabilities, potential for export and pricing restrictions if any, etc. These profiles would be done by a team consisting of U.S. technicians (contract) and four or more Egyptian professionals. Once completed, the profiles would be widely distributed to interested U.S. companies. The study would be sufficient to allow an investor to make an initial decision regarding an investment and to undertake a more specified pre-investment feasibility study. The OPIC frame of reference will be utilized in establishing the desired parameters for these pre-investment feasibility studies and reconnaissance visits. See Annexes L and M.

4.03 In addition, requests for advice on investment in a particular sector will be reviewed and assuming some potential, the Authority would then construct a profile of the area of interest from available data and provide this to the inquirer. This would provide a frame of reference to the potential investor. To the extent practicable, these profiles will concentrate on sectors which are labor intensive, export oriented, and meet the criteria of the congressional mandate.

4.04 Any studies funded by this project in areas forbidden for U.S. assistance or of a sensitive nature (shoes, textiles, citrus, sugar, palmoil) will be avoided. A specific covenant to the Grant Agreement will prohibit the use of any project funds to finance studies for establishing or expanding production of any commodity for export if the commodity is likely to be in surplus on the world markets or will

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cause substantial injury to U.S. producers. This element of the project will be of shorter duration than the other three.

B. Reconnaissance Visits

4.05 If a sectorial study assessment provokes further interest, a U.S. company could then ask for a Reconnaissance Survey Grant to further investigate the situation in Egypt first hand. To assure that only serious companies are involved in receiving any AID funding, the grant will require a credit report, brief scope of work on application, list of anticipated contacts and a biodata of the individual making the mission. A written report of the reconnaissance visit will be required prior to the reimbursement of costs.

4.06 Reconnaissance visit funding will only be made available to small business firms not on the Fortune 1000 and/or minority owned companies. AID believes that large firms will be able to pay for reconnaissance surveys and that this project will encourage and assist small and/or minority U.S. companies. This program will be limited to a maximum of two participants per U.S. company, with a limit of \$3,375 per person on any survey. Only one reconnaissance survey per company is allowable. Per diem will be paid in U.S. dollars just as AID reimburses TDY'ers. Twenty U.S. firms reconnaissance surveys of two people each are anticipated to be financed by the project.

C. Pre-Investment Feasibility Study

4.07 When the reconnaissance visit or the sector profiles results in a positive expression of interest by an investor, the investor will apply for a Feasibility Study Grant. This grant will meet 50% of the eligible costs of the proposed feasibility study with the other 50% being met by the potential investor. In the case of "Non-Fortune 1000" or minority firms, the fund would be prepared to meet 75% of the cost of the feasibility study. This also would give some preferential considerations to U.S. small business.

4.08 Eligible costs will be defined and refined by the consultant, limits will be established and items, such as translation services, vehicle rental, raw material analysis, small pilot projects and special surveys will be allowable. Unlike the OPIC program, a decision to proceed with the investment will not result in repayment of the AID grant element of the feasibility study.

4.09 The decision to fund a feasibility study will be made by the Authority in accordance with guidelines developed by the GCE and USAID. These guidelines will include submission of personnel data, financial statements, estimated study budget, credit report, and other overseas ventures or experience. Supplemental procedures, application forms etc. will be developed by the U.S. consultant. It is expected that applications will be examined by two Investment Authority employees who will be assisted by the U.S. consultant. It is estimated that AID will fund 50% of the cost of 12 feasibility studies to be done by large firms. The total cost of the large studies should be \$2.4 million. Feasibility Studies for 8 small/minority owned firms will be assisted by AID funding 75% of a study's total costs which are estimated to be \$600,000. It must be noted that these figures must be flexible.

4.10 The project will encourage the utilization of the U.S. firm's in-house expertise to make the studies, however the use of consultants will be allowed if the potential investor offers evidence that such a use of consultants is in keeping with the firm's normal business practice. The studies will allow preliminary engineering and design cost estimates in order to make an investment decision. However costs for detailed design and engineering services for plant construction after the investment decision is made will not be eligible for financing. The Authority, working with the U.S. consultant, subject to AID approval will issue a "Positive List of Studies" to be promoted. Additionally, AID will provide the Authority with a "Negative List" of studies which the fund cannot finance.

4.11 The grant to a private firm will be on a reimbursement basis, with payment made on delivery of a completed pre-investment feasibility study. Allowable costs for reimbursement by the Authority will be economy class travel plus \$200 per day which must cover salary, per diem, telexes, translation, home office support, local transportation. Overhead, differentials, R&R and vacations or profits will not be paid. The use of consultants may be utilized in times when the U.S. firm has no expertise in an area or if it is the firm's normal way of making an investment decision. The Authority must specifically approve the utilization of a consultant. Reimbursement for consultants will be economy class travel and \$250 per work day. Reimbursement with AID funds will be limited to 50% or 75% of these limits depending on the size of the U.S. firm. Per diem will be in U.S. dollars like AID TDY reimbursement. It is anticipated that the study would be undertaken within 60 days of grant approval, and would be completed not later than one year following approval. It is expected that some twenty pre-investment feasibility studies will be produced.

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4.12 The project is designed so as to encourage the formation of joint venture enterprises between U.S. and Egyptian business. It has been determined that a more cost effective project would result in offering the feasibility grant only to U.S. firms and not the Egyptian firm. Since "in-house" expertise, not outside consultants, will supply the greatest inputs to a feasibility study, Egyptian firms were not deemed capable of furnishing this type of expertise. Additionally, financing the costs of Egyptian firms making a feasibility study would require local currency financing which AID is not prepared to do at this time.

4.13 Finally since the intended goal of the project is to encourage a U.S. firm to invest in Egypt, either on their own or in a joint venture, it has been determined that U.S. firms should have a major role in conducting any feasibility study leading to an investment on their part and usually only after the feasibility study do they (U.S. firms) seek out a potential joint-venture partner.

D. Institutionalization

4.14 The project will be implemented by a minimum number of U.S. and Egyptian personnel, with the emphasis being placed on high quality and innovation. Short-term training in investment analysis will be provided in the U.S. for about 15 employees of the Authority. If the volume of work proves to be high, additional Egyptian staff will be provided as will be additional training. A maximum of one long-term (18 months) U.S. technician and five Egyptians are envisioned with their major emphasis being development of implementation systems for the three major project functions and transfer of knowledge of how to use those systems to additional Egyptian staff. Two additional U.S. technicians, short term one contract and one PASA from OPIC, skilled in economic feasibility work will work with counterparts in developing a format for pre-investment feasibility studies and training. Through writing of these studies the technique of developing them will be transferred to the counterparts.

4.15 The long-term U.S. technician assisted by the short-term consultant will develop procedures and will work with counterparts in the Authority to develop guidelines for evaluating applications. Feasibility studies will be evaluated jointly so that the counterparts will be able to handle the expected caseload without expertise. A maximum of 15 Egyptian professionals are expected to be adequately trained and prepared to carry on this type of program without U.S. personnel. Therefore, this project will supply to the Authority

specialized assistance in establishing and operating only this project. We do not want to overburden the Authority with superfluous technicians.

4.16 It is not envisioned that management assistance to the Authority regarding their existing operations will be necessary or required. The overall technical assistance, including management, will be covered in the proposed Investment Center Project, being designed by A.D. Little. This project is specifically designed to assist U.S. companies not the Investment Authority, it is therefore not primarily an institution building project, but is "specific results" oriented, with some institution benefits.

E. Technical Feasibility

4.17 The problem of increasing investment in Egypt can be approached in a number of fashions. A preliminary attempt has been made by the Egyptian-US Business Council through the use of a consultant to brief possible US investors on the advantages of investment in Egypt. This effort failed as a result of inadequate information being made available to the consultant and the fact that at the time of the effort the atmosphere was not conducive to investment by US concerns. The Peace Agreement had not yet been signed and efforts to reduce the amount of red tape which has been a major roadlock to increased investment had not been mounted.

4.18 The situation at present is far different. Because of the change in the investment climate, the alternative of the use of the Business Council is no longer appropriate. The GOE has dedicated a great deal of prestige to the encouragement of investment and is convinced that official institutions are needed to implement their objectives. The creation of the Investment Authority is a clear demonstration of this high priority and assistance to the Authority is the only realistic alternative in light of the expressed GOE desires to be involved in promotion.

4.19 Aside from the overall selection of a vehicle for investment encouragement, there are separate feasibility questions concerning the methods to be employed. Although there is a wealth of information on various aspects of the Egyptian production sector, very little of the available data is presented in a form which would be useful to the potential investor. Six GOFT studies exist which have not received wide dissemination. The dissemination of these and other data which are available in various studies and statistical reports are essential if greater in Egyptian investment is to develop. The task of assembling these prefeasibility reports will require the services of a full time expert who has experience in putting together similar documents in the past and who knows what the potential investor is looking for.

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4.20 Efforts such as this have been carried out in Philippines, Thailand, Korea and Singapore with great success. Individuals exist who can do such studies. A complete sector profile will not be able to be completed by one generalist. The project has recognized this need by building in an amount of funds for short term assistance on specific areas.

4.21 Once the studies are completed, they will need to be made available to the various potential investors. This will be done through the various commercial banks in Egypt, with contacts in the US, the US Department of Commerce, the Middle East working group, the Egyptian Embassy Commercial Section in the US, the US Embassy Commercial Section in Cairo, the USAID/Cairo Office of Private Sector Development, the Investment Authority and the US-Egyptian Business Council. With all of these potential distributors it is anticipated that there will be no dead ending of the prefeasibility studies. An adequate printing budget, to be provided by the GOE, will assure that enough of each report will be made available.

4.22 The final feasibility question on the prefeasibility element of the project is whether there will be sufficient Egyptian staff available to do the work. The project design and budget has been developed to ensure that the GOE make two people available for this aspect of the project. High educational qualifications will be required and the salary level of the counterparts will be of a sufficient level to provide motivation to these individuals. The Authority has special clearance to pay wages above GOE normally approved scales in order to attract the most qualified people. Because of this, it is not expected that there will be any difficulty in attracting staff.

F. Training

4.23 The type of training needed to qualify individuals to do prefeasibility studies and evaluation of reconnaissance surveys and feasibility study reports is readily available at several localities in the U.S. In addition OPIC has developed criteria and check lists for these items which will be adapted to the unique requirements of Egypt by the project technicians. It is anticipated that the counterpart training will take place at OPIC and special U.S. institutions. Selective course work (on an auditing basis) may be provided at a school of business administration. The training programs will be more fully developed by the project technicians once they are on board and have had a chance to interact with their counterparts.

G. Criteria/Policies

4.24 Many of the items which will be contained in the feasibility studies will be considered proprietary by the company doing the study. Thus some protective mechanism has had to be developed. As much of the data to be researched and developed will be funded by the AID, the provisions of the Freedom of Information Act will be applicable. OPIC has developed a procedure to safeguard the confidentiality of its clients trade secrets and data and this project will adopt those which are appropriate.

4.25 Attribution of US funding to non-proprietary aspects of the studies is another possibility. By using this technique, those elements of the study which the participating firm wishes to remain confidential will be attributed to their funding. The technique most appropriate to the Egyptian situation will be selected by the contractor in consultation with the USAID legal advisor and the management of the Authority.

4.26 Although Laws 43 and 32 form the underpinnings of the new emphasis on private sector, difficulties have been experienced by private businessmen attempting to make investment decisions in Egypt. These difficulties have been attributed to the policy organizational problems endemic in the Egyptian bureaucracy.

4.27 On the top policy level the Minister ultimately responsible for the project is firmly committed to the expansion of private participation in the Egyptian economy. In June 1979 a major meeting was held to solicit suggestions on how to expedite investment from private sector individuals and GOE bureaucrats. The message was that the GOE was firmly committed to the "Open Door Policy" and regulations should be interpreted as generously as possible.

4.28 Organizational interrelationships are important to the success of the project. The Authority is a newly formed organization which has no traditional linkages to long standing GOE power centers. The organizational requirements of the project are relatively minimal. The Authority will need to establish close relationships with GOFT, the Ministry of Finance and the commercial banking community. Relations with other donors, the US Embassy, Cairo, Commercial Office and OPIC will be aided by the presence of the contract technicians.

4.29 It is expected that the Authority will set up regular hearings for exchanges of ideas as part of the early project implementation. The potential companion project at the Authority will focus on the longer term and more difficult problems of investment promotion and major priority setting over the long run. The GOE has committed itself to support this project and there is every reason to expect that the organizational elements will be properly funded and arranged.

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4.30 Data in Egypt is normally characterized as unreliable. As good data is essential to both the pre-feasibility and feasibility studies it is essential that data be made available early and in a usable form. Early in the project the contractors and the Authority will arrange with the Central Bank, Ministry of Finance, other elements of the Ministry of Economy, the MIT team and the Cal-Davis team to obtain the latest available statistics on areas of interest. Funds will be available for normal credit checks on companies applying for assistance.

4.31 It will be the responsibility of the company carrying out the feasibility studies to obtain information from possible joint venture partners. The development of specific market data will also be the responsibility of the individual firm. Labor and raw material availability can be defined in gross terms by the Authority. Details will need to be provided under each feasibility study.

H. Financing

4.32 The OPIC grants for feasibility studies are structured not to exceed \$50,000 and not more than 50% of the cost (75% in the case of non Fortune 1000 Companies also with a limit of \$50,000). This project proposes a higher limit (\$200,000) and more liberal cost allowability (translators, local transport, etc.). The \$200,000 limit takes into account the difficult working environment in Egypt, the need to develop information from own resources and the projected size of investments.

4.33 Feasibility studies financed by AID for major infrastructure or manufacturing projects have proven to be expensive. The projected \$200,000 figure (derived by 50% from the estimate of \$400,000 total cost per study) will be re-examined after several studies have been carried out and readjusted accordingly. It is presented as a "best estimate".

4.34 OPIC has developed guidelines for qualification for reconnaissance studies and feasibility studies. The first task of the U.S. consultant will be to develop and formalize criteria for qualifications, based on the OPIC model.

4.35 Fortunately an established administrative home already exists for this project. The General Authority for Investment and Free Zones, established in 1972, in an autonomous agency of the GOE, operating within the Ministry of Economy and Economic Cooperation. Its principal functions are:

- (1) To approve applications for foreign investment under Law 43 as amended. In carrying out this function, the Authority is assisted by technical experts from the pertinent Government ministries.
- (2) To authorize, establish and operate free zones, including transit free zones (three being established), free cities (one established), industrial free zones (four planned or under construction), and private free zones (numerous).
- (3) To promote foreign and private investment in the private sector, including the establishment and operation of the proposed Investment Center.

4.36 The Authority is directed by Mr. Gamal El-Nazer, Deputy Chairman, who supervises a staff of approximately 200 persons, including 100 officers. Officers are assigned approximately as follows: 40 in Inland Projects, 40 in Free Zones Projects, and 20 in Research, and Promotion.

4.37 The US technicians will work for and within the Authority; establishing, guiding and training those Egyptians who will be primarily responsible for the project's administration. The Research and Promotion Department, headed by Dr. Wahba will administer the project. No administrative problems are envisioned. The Authority will not require general assistance from a U.S. Management Consulting firm, but will require specific project related assistance as mentioned above for implementation.

4.38 The project has provided financing for two person months of work by OPIC professionals through a PASA type arrangement. AID/W has already discussed this possibility with OPIC but at this time nothing definite has been determined. OPIC has stated that they are extremely understaffed at this time, however it is our hope that OPIC and the Authority will establish a cooperative relationship through this project.

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4.39 Table I gives a detailed plan of the four (4) project sub-activities, their assumptions and cost buildups. As mentioned earlier this project will rely heavily upon OPIC guidelines and criteria. As a Condition Precedent (CP) to disbursement the Authority, with the assistance of the U.S. consultant, will have to develop contracts acceptable to AID. These contracts will be entered into by the Authority and the U.S. firm undertaking either with a Reconnaissance Visit or a Pre-Investment Study. The contracts will specify and detail eligibility, payment and operational criteria some of which are tentatively envisioned as follows:

- (1) Only U.S. firms will be allowed to utilize any funding from this project, for definition of a U.S. firm, AID Handbook II, Chapter I will prevail.
- (2) Maximum reimbursement for any one Feasibility Study will be \$200,000.
- (3) Maximum amount reimbursement to one individual for a reconnaissance survey will be \$3,375. Maximum per diem will be \$200 per day.
- (4) Maximum per diem for reimbursement for a feasibility study will be:
a) \$200 a day for a company employee or b) \$250 a day for a consultant.
- (5) AID funds will not be paid for per diem's during stopovers on either Reconnaissance Survey or Feasibility Studies.
- (6) No dependents or relations will be reimbursed to accompany an individual during a reconnaissance visit.
- (7) U.S. Source and Origin requirements will be in effect for reimbursement of goods, services and transportation under this project. Economy airline fares must be utilized.
- (8) AID funds will reimburse travel from the U.S. to Egypt and return.
- (9) Reimbursement for any costs with AID funds will only be made after receipt and approval of a Reconnaissance Visit Report or a completed Feasibility Study. Progress payments for reimbursement of costs in multiples of \$50,000 may be allowed on a case by case basis.
- (10) Reimbursement for Feasibility Studies costs will be made only as a percentage of total invoiced costs i.e., AID funds will pay for 50% (large firms), 75% (small firms) or total transportation costs, total per diems etc. Costs will be shared on a part-passu basis.

Table 1(a).

PROJECT SUB-ACTIVITY ASSUMPTIONS AND COST BUILDUPS

A. Sector	Studies (per study)		
(1)	3 contract technicians for 3 months each (total 9 professional person-months per study)	\$93,800	
(2)	Commodities	\$ 2,000	
(3)	Contingency & Inflation	<u>\$ 4,000</u>	
	Total cost per sector study	\$99,800	
	<u>10 studies</u>		<u>\$998,000</u>
B. Reconnaissance Visits (per survey by 2 employees of a U.S. firm)			
(1)	1 contract technician for .3 professional person-month (supervision, policy, operations, guidance)	\$ 3,250	
(2)	Commodities	\$ 50	
(3)	Reimbursement		
	Travel \$1,100		
	Per Diem (7 days at \$200) <u>\$1,400</u>		
	\$2,500 x 2 people	\$ 5,000	
(4)	Contingency & Inflation	<u>\$ 1,700</u>	
	Total cost per survey	\$10,000	
	<u>20 Reconnaissance surveys</u>		<u>\$200,000</u>

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- (11) Initially AID approval will have to be given before any Reconnaissance Visit or Feasibility Studies are undertaken.
- (12) Applications from a U.S. firm for either a Reconnaissance Survey or Feasibility Study Grant must be accompanied by a recent credit report of the U.S. firm. Detailed Scope of Work and cost estimates will be required along with other information to be determined by the Authority, AID and the U.S. Consultant.

Table 1(b)

C. Pre-investment feasibility studies. (It is envisioned that this project will assist in the financing of 20 feasibility studies - 12 by U.S. firms in the "Fortune 1000" and 8 by smaller U.S. firms)

(1) Large Feasibility Study - estimated to require 80 professional person-month level of effort. Using in-house expertise the cost per person-month is estimated at \$5,000 (\$200 a day).

Total cost per study	\$400,000	
AID to fund 50% per study	\$200,000	
<u>12 Large Feasibility Studies</u>		<u>\$2,400,000</u>

(2) Small Feasibility Study - estimated to require 20 professional person-months level of effort. Using in-house expertise at a cost of \$5,000 per person-month (\$200 a day)

Total cost per study	\$100,000	
AID to fund 75% per study	\$ 75,000	
<u>8 Small Feasibility Studies (reimbursement costs)</u>		<u>\$ 600,000</u>

(3) Support cost per either Feasibility Study

Contract support (.3/work-months)	\$ 3,250	
Commodities	\$ 700	
Contingency & Inflation	<u>\$ 15,450</u>	
Support cost per study	\$ 19,400	
<u>20 Studies Support Costs</u>		<u>\$ 388,000</u>
<u>20 Feasibility Studies Total Cost</u>		<u>\$3,388,000</u>

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Table 1(c)

D. Implementation & Training

(1) Contract Project Management 18 months	\$154,995	
(2) Controller/Auditor 2 months	\$ 20,655	
(3) PASA OPIC 2 months	<u>\$ 10,340</u>	
Total Contractor	<u>\$186,000</u>	
(4) Commodities	\$ 10,000	
(5) Local Currency Support	\$ 41,000	
(6) Contingency/Inflation	<u>\$ 72,000</u>	
Total for project implementation (6% of project total)	<u>\$309,000</u>	
(7) Training/Travel (15 persons \$7,000 each)	<u>\$105,000</u>	
Total Implementation/Training		<u>\$ 414,000</u>
<u>GRAND TOTAL</u>		<u>\$5,000,000</u>

V. ENVIRONMENTAL ANALYSIS

5.01 This project will provide financial and technical assistance to the Investment Authority, located in the Ministry of Economy and Economic Cooperation. The major activities of the project will be the completion of pre-feasibility analyses and the funding of reconnaissance and feasibility studies. Training of local staff will be a major output.

5.02 The project will have no adverse environmental impact. No construction is planned. Benefits will accrue to individuals who will be directly employed as a result of the investments which are expected to occur following the feasibility studies. The feasibility study eligibility guidelines will contain provisions for a statement concerning the proposed investment's environmental impact. Those judged to be potentially negative will not be funded. The project will utilize AID's "Impact Identification and Evaluation Form" for making an initial environmental examination. The project has received a Negative Determination from AID/W regarding environmental concerns.

Best Available Document

VI. Economic Analysis

6.01 The economic benefits from the Project's Sectorial Studies, Reconnaissance Surveys, Feasibility Studies and Training components are impossible to quantify. However, to the extent that information developed through this Project allows policy makers and investors to make better informed decisions concerning their respective interest in the industrial sector, there will be a positive benefit to the Egyptian economy. For example, the sector studies may identify constraints to growth that could be removed by policy makers; or priority investment opportunities that could be undertaken by investors. Both of these factors would foster that sector development. Also, the feasibility studies would inform investors of the potential payoff and risk associated with a particular investment. This would in effect reduce the risk of making an investment and thereby encourage additional investment as well as increase the overall average economic return to the Egyptian economy on investment.

6.02 Let us assume that there is a risk factor of 25 percent on investment in Egypt made without a feasibility study. Then, by using the information and assumptions from the Economic Analysis of the Private Sector Encouragement Fund Project Paper (Section VIII, Project No. 263-0097), the expected economic rate of return (ERR) on private sector investment made with untied aid and with no feasibility study would be about 15.5 percent. However, a feasibility study should reduce the risk to the same 10 percent level assumed in Paragraph 8.05 of the above Paper. Therefore, the expected ERR would increase about 5.4 percentage points to the 20.9 percent shown in Paragraph 8.07 of that Paper.

6.03 The total value of feasibility studies that would be carried out as a result of this Project is about \$5.6 million. Mission experience indicates that feasibility studies costs represent about 1 percent to the total investment being considered. However, it is not certain that this factor would hold for the private sector business community which this Project involves. Therefore, we assume a 2-5 percent range would be a reasonable relationship between study and investment costs. This implies investments totalling between \$112 million and \$280 million will be studied. We cannot say how many of these investments would actually be carried out. However, we can state that the expected

ERR should be in the neighborhood of the 20.9 percent estimated for private sector investments (with untied aid) in Paragraph 8.07 of the Private Sector Encouragement Fund Project Paper.

6.04 While we cannot quantify the immediate, attendant, economic benefits Egypt would derive from whatever level of investment is actually fostered by this Project, it is useful to note what they might be. There would be increased mobilization of domestic resources for investment purposes as profitable opportunities are identified. There would probably be a foreign capital inflow, in terms of money or goods, to make the investment. Prior data indicate this would be about 50 percent of the total level of investment. From the resultant production, there would probably be net foreign exchange savings through import substitution or net export earnings. Also, productivity should increase through the introduction of new technologies and more advanced management practices. These are not inclusive of the expected benefit but are exemplary of the more important immediate ones.

VII. SOCIAL ANALYSIS

7.01. The central social objective of any program of industrial investment in Egypt should be to produce:

- a) new income streams to individuals
- b) larger income streams to individuals

7.02. Egyptian industrial investment, particularly in the public sector, has characteristically been sub-optimal from a social point of view. Policy objectives such as import substitution, independence from external source of supply, etc. have biased much past investment towards a level of capital intensity which precluded extensive impact at the level of income streams to individuals.

7.03. A central analytic problem in designing industrial investment projects in an environment of relative labor abundance is to select an economically optimal path between labor productivity and reasonable wage levels which will insure a sufficiently skilled and stable supply of workers to the enterprise. In countries where labor is a scarce and costly factor of production this can be extremely complex. In Egypt, where the labor supply (in most categories) is not severely constrained and the unit cost of labor makes it a relatively inexpensive factor, the fit between economic optimality and social optimality is a relatively good one. The private investor utilizes feasibility studies to find the optimal factor mix from the point of view of return on investment. Under Egyptian conditions well done feasibility studies should (in the main) bias investment selection towards moderate labor intensity under assumptions of moderate labor productivity.

7.04. The private industrial sector in Egypt has distinctive characteristics with respect to labor productivity, wage rates, capital costs of job creation and capital/land/labor factor ratios.

In this analysis we will look at these unique features of private industry in Egypt and how they relate to the problem of moving new investment toward the socially optimal path to more jobs and higher wages.

7.05. An optimal Egyptian development investment policy vis-a-vis output would not seek to maximize output per unit of capital investment. Such a strategy is too simplistic and would tend to emphasize labor intensive projects utilizing a large number of workers per unit of output, a strategy sure to result in low-wage job creation. Since there is an abundance of low wage jobs in Egypt and low open unemployment, a development investment policy which only emphasized labor productivity would not best serve Egypt's needs.

7.06. Nor should development investment policy be geared towards maximizing jobs created per unit of investment for the same reasons. This kind of strategy would similarly tend to emphasize labor intensive investments generating low wage employment.

7.07. The employment impact of the Feasibility Study project will derive from enhancing overall productivity. This generally requires an increase of the productive capital investment per job or "capital deepening". The aggregate consumption/production objective of the project is to facilitate private capital formation (investment) with a view towards efficiently maximizing output given Egypt's resources. Since it appears that the appropriate employment objective should be to attempt to enhance worker productivity rather than create jobs per se, there is considerable complementarity between the two principal investment policy concerns of the Feasibility Studies project: employment impact and production efficiency.

7.09. Annex R of this paper reviews the empirical evidence relating to labor intensity and wage levels in the Egyptian private sector. The evidence supports the conclusion that the project is consistent with the social objectives of increasing the number of income streams to individuals and increasing the magnitudes of private income streams. In the interests of cogency and conceptual integrity the project is not socially premised on forward and backward linkage effects or secondary employment impacts. These are additional positive factors, but the project is judged to be socially sound in its own right.

VIII. FINANCIAL PLAN

A. Source of Funds

8.01 All AID funds should be provided as a grant. Of the projected total AID input of \$5.0 million, \$86,000 or 2% will be local currency costs. The pounds required will be dollar funded for the reasons given in Annex B. The GOE will provide, staff facilities and operating capital. The value of the contribution including allowances, will total about \$1.1 million or LE 308,000. Total project costs will be \$6.1 million. Thus, the GOE contribution to total project costs will be 18%.

8.02 About \$3.6 million of the project total costs are direct reimbursement to U.S. companies for reconnaissance visits or pre-investment feasibility studies.

B. Application of Funds

8.03 The following three tables provide breakdowns of project costs by source, type and by annual expenditures.

C. Financial Plan - Table 2

U.S. Inputs (in US\$ 000)

	<u>S(US)</u> (000)	<u>LE</u> (000)
(a) Contract technicians		
18 LT pm	\$155.0	28.8
101 ST pm	\$1088.7	
2 PASA pm (OPIC)	<u>\$10.3</u>	
Total 121 pm	\$1254.0	
(b) Training		
15 participating	\$105	
(c) Commodities		
Equipment/Supplies/Vehicles		31.2
(d) Other Costs		
(1) Reconnaissance Visits (20)	100	
(2) Feasibility Studies (20)	3000	
(3) Contingency & Inflation (10%)	<u>455</u>	
Total	4914	LE 60
Total in US \$	4914	\$ 86 <u>1/</u>
Grand Total		<u>\$5,000</u>

1/ The \$86,000 equivalent in local currency costs for housing of the resident consultant and equipment procured is recommended in order to ensure that the advisor is adequately housed and that the equipment is quickly purchased. The two (2) expenses are time consuming and difficult for the Authority to justify in their annual budgets, other local currency costs to be provided by the Authority are largely "in kind" and require only a re-allocation of their existing budget, not additional budget funding. It is deemed necessary to ensure the timely implementation of this project that this waiver for \$86,000 in local cost financing be approved.

<u>D. GOE Contribution - Table 3</u>	<u>LE</u>	<u>\$</u>
(1) Staff (direct) <u>1/</u>		
5 professional for 30 months	70,000	100,000
2 secretaries	12,000	17,000
1 driver/messenger	6,000	8,000
(2) Staff indirect costs	250,000	358,000
(3) Office space, housing, utilities, phones	300,000	429,000
(4) Miscellaneous expenses (consulting printing-postage + inflation @ 20%)	<u>170,000</u>	<u>243,000</u>
Total	LE 808,000	\$1,155,000

1/ The Investment Authority has authority to pay high incentive salaries.

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E. Table 4: Projected Annual Expenditures 1/
(\$000)

	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>Total</u>
<u>(a) Sectorial Studies</u>				
AID	500	498	-0-	998
GOE	175	56	-0-	231
<u>(b) Reconnaissance Surveys</u>				
AID	125	75	-0-	200
GOE	60	20	-0-	80
<u>(c) Feasibility Studies</u>				
AID	500	1500	1388	3 388
GOE	-0-	-0-	-0-	-0-
<u>(d) Technical Assistance Implementation</u>				
AID	170	144	100	414
GOE	300	400	144	844
<u>TOTAL</u>				
AID	1 295	2 217	1 488	5000
GOE	535	476	144	1155
GRAND TOTAL	1830	2693	1632	6155

1 L.E. = \$L.43

1/ All AID funds to be obligated in FY 1979.

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IX. IMPLEMENTATION

A. Implementing Assistance

9.01 The services of a U.S. consulting firm will be required for the implementation of the project. The services to be provided can be separated into two areas. The first area is to assist the Authority in promoting, approving, evaluating, funding and controlling the estimated twenty (20) feasibility studies which U.S. firms will undertake in Egypt. The second service will be to produce an estimated ten (10) industrial sector profile studies which will be made available to potential investors.

9.02 It is anticipated that a "Work Order" type contract will be utilized for the U.S. consulting firms contract. The reason for this is that the sectors to be studied cannot be specifically identified and therefore the level of effort for an individual study cannot yet be determined making exact costing impossible. Needless to say each sector study will require, different levels of effort from different personnel at different salaries.

9.03 It is envisioned that the Authority will enter into a "Host Country Contract" with a U.S. firm, acceptable to AID, for assistance in implementing the entire project and to produce the specific sector studies desired. This contract will call for an estimated 119 person-months of work largely in Egypt. Approximately 29 person-months of work will be required in organizing, developing and supervising the entire project while an additional level of effort of 90 person-months will be used to produce the 10 "Sector Studies".

9.04 In addition to the above, plans have been included for funding two person-months of work by OPIC professionals through a PASA type arrangement. AID/W has already discussed this possibility with OPIC but at this time nothing definite has been determined. OPIC has stated that they are extremely under-staffed at this time. With this in mind, the project has been designed so as not to rely upon OPIC for assistance, but to cooperate with OPIC more for OPIC's benefit.

B. Operations

9.05 The U.S. Consultant's 29 person-months of work with and for the Authority will include the following tasks (a detailed Scope of Work is being prepared):

X
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- a) Initiate dialogue with OPTC.
- b) Develop selection criteria acceptable to AID and the Authority for selection of:
 - 1. Sector Studies
 - 2. Reconnaissance Surveys
 - 3. Feasibility Studies
- c) Develop a simple system for the Authority to utilize for approving for funding each of the above three services.
- d) Organize an operational unit within the Investment Authority to implement the project. Develop job descriptions and qualifications.
- e) Determine physical requirements (office space) and equipment needs. Purchase necessary equipment.
- f) Establish a cooperative relationship with A.D. Little who is developing a list of necessary Sector Surveys.
- g) Create an outline of the format and content to be followed in each Sector Survey. Keeping in mind that the survey must be easily updated periodically.
- h) For each Sector Survey, a Scope of Work, level of effort, personnel, and cost estimate must be developed and approved by the Authority and AID.
- i) To facilitate and minimize time and costs in the preparation of each Sector Study, contacts for cooperation and information sharing will be developed with GOFI, Ministry of Industry, Customs, Taxation, Transportation.
- j) Develop control system for reimbursement for Reconnaissance Surveys and Feasibility Studies, determine allowable costs and maximum payments.
- k) Develop application forms, content required, approval methods for U.S. firms wanting grants for these two types of activities.
- l) Develop acceptable guidelines for handling "proprietary information" resulting in completed feasibility studies. Develop a system to handle "Freedom of Information" requests.

- m) Develop acceptable time frame for a U.S. firm to make an investment decision, after which their feasibility study becomes public property.
- n) Develop system, contracts, records, methods, approvals, etc., relative to cost reimbursements for Reconnaissance Surveys and Feasibility Studies, i.e., L/C, L/Comm, Direct Reimbursement, DRA, etc.
- o) Develop legal agreements, Forms, etc. for contracting between the Authority and a potential U.S. investor.
- p) Develop guidelines for determining the maximum utilization of "outside" consultants by a U.S. firm.
- q) Develop system and procedures to keep track of progress and costs of any pre-investment Feasibility Study being undertaken.
- r) Develop method to ensure that AID or GOE assistance through this project does not imply any additional support such as financing or approvals.
- s) Develop responsibilities of a U.S. firm utilizing reconnaissance survey grants funds or feasibility study funds. Frequency, types, content of progress and final reports will be determined.
- t) Assure cooperation and not competition with OPIC. Develop procedures to consult with OPIC so as to preclude:
 1. Double financing or
 2. Financing U.S. firms with which OPIC has had bad experience.
- u) Develop and produce promotional materials to market the program grants.
- v) Develop program to initiate interest in sector studies.
- w) Establish working relationship and linkages with institutions capable of financing any investment made by a U.S. firm i.e., U.S. banks, OPIC, EXIM, IFC, etc.
- x) Design, develop and implement in-house and U.S. training programs for up to 15 Egyptian employees of the Authority to develop skills in implementing Sector Studies and Feasibility Studies.

- y) Enlist interest of other foreign governments to establish similar programs for Egypt.
- z) Develop and promote Reconnaissance Survey and Feasibility Study programs.

9.06 The project will be implemented over a 36-month period. The implementation will be the responsibility of the Authority, which is established within the Ministry of Economy and Economic Cooperation, a five or six-member staff (depending on the intensity of activity), will be created to work directly with the contract technicians (U.S. Consultant). Monitoring will be the responsibility of the USAID Office of Private Sector Development.

9.07 Offshore commodity for project support may be procured directly by AID (See Annex B - Recommendation to Authorize Direct AID Procurement of AID Financed Commodities). While none are anticipated any waivers necessary for dollar financed commodity procurement from non-U.S. sources will be proposed on a case-by-case basis. AID may also assist in the local procurement of project support commodities such as office equipment, air conditioners, etc.

9.08 Training requirements will be developed for and arranged by the U.S. contractor. No facilities will be constructed.

C. Implementation Schedule

<u>Date</u>	<u>Action</u>	<u>Responsible Organization</u>
Sept. 79	PP approved	USAID
Sept. 79	Grant Agreement signed	USAID/GOE
Oct. 79	Contractor negotiations start	GOE/CON/USAID
Nov. 79	Conditions Precedent met	GOE
Nov. 79	Host Country Contract signed	GOE/CON
Nov. 79	Purchase of vehicles	USAID/GOE
Nov. 79	Pre-Investment Feasibility IT Technician Advisor arrives	CON
Dec. 79	Start-up commodities purchased	USAID/GOE/CON
Jan. 80	Sector Study techs arrive	CON
Feb. 80	Sectorial Study Work Plan	CON

Key:

- USAID = USAID/Cairo Office of Private Sector Development
- GOE = Investment Authority, Ministry of Economy and Economic Cooperation
- CON = U.S. consulting firm under Host Country Contract
- ES = U.S. Private Sector investor
- OPIC = Overseas Private Investment Corporation
- OJT = On-the-job training
- EACD = Project Anticipated Completion Date

<u>Date</u>	<u>Action</u>	<u>Responsible Organization</u>
Feb. 80	Pre-Investment Study Work Plan	CON
Feb. 80	Sector Studies start	CON/GOE
Feb. 80	Guidelines for Reconnaissance Studies published	CON/GOE
March 80	Guidelines for Feasibility Studies published	CON/GOE
March 80	Pre-Feasibility Studies distributed	GOE/CON/USAID
March 80	First Reconnaissance Survey	CON
April 80	First trainees start	CON
April 80	Relations between Authority and commercial banks initiated	GOE/CON
June 80	OJT for Authority staff intensified	CON
Aug. 80	Sector Studies delivered	CON
Sept. 80	First Feasibility Study implemented	GOE/CON
Jan. 81	Second ST. training undertaken	CON/GOE
Jan. 81	Final Sector Study presented - Technicians depart	CON
March 81	Reconnaissance visits end	PS/CON/GOE
March 81	S.T. Evaluation of Performance	USAID/OPIC
April 81	Local staff fully trained and Contract tech. depart	CON/GOE
April 81	All Authority systems in place and being tested	CON/GOE
May 81	First Feasibility Study resulting in decision to negotiate investment	PS/GOE
June 81-		
Oct. 81	Assistance to potential investor	GOE
Oct. 81	10 Pre-Investment Feasibility Studies in process	PS/GOE/CON
Jan. 82	In-depth evaluation	USAID/GOE/OPIC
Feb. 82	Decision on whether to expand project to other donors participation	GOE/other donors
May 82	18 Feasibility Studies completed, 2 in process	PS/GOE/CON
June 82	First PS investment decision made	PS
Dec. 82	PACD	GOE/USAID

D. Contractor Selection

9.09 The project will utilize the services of A.D. Little as the consultant to the Authority. Based upon the following legal and practical reasons, we feel this is justified.

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9.10 In September 1979, A.D. Little will begin work on the Investment Center Project Feasibility Study. Formal AID procurement regulations were followed in the selection and contracting for the work. The CSD notice (Annex R) requesting pre-qualification data for this study, indicated that "a follow-on contract might result." One of the first tasks of A.D. Little is a determination of industrial sectors in Egypt which should be studied in detail to encourage investments.

9.11 Given the fact that A.D. Little will be heavily involved in determining which Egyptian industrial sectors should be studied it is determined that quite possibly A.D. Little should be the firm which actually makes these studies. Since 75% of the envisioned U.S. consultant contract under this project will be involved with the production of those Sectorial Studies, it appears that A.D. Little is the prime candidate to undertake the consultancy work for this-project.

9.12 Because A.D. Little is deeply involved with the Authority in laying the foundation for what will be 75% of the contract work of this project, we feel it is justifiable to state that A.D. Little "can demonstrate to have a unique capability by reason of special experience and facilities to perform the services required for this project."

9.13 The AID program in Egypt is currently under considerable criticism to "speed up the project implementation process". Since each and every delay in a project's implementation would bring additional criticism to the Egypt program and thus impair the objectives of our foreign assistance program, a "fast track" implementation of this project would eliminate an impairment of our assistance program.

9.14 Finally it is our belief that because of A.D. Little inside track on this major aspect of this project (Sectorial Studies) coupled with the fact that the Authority is extremely pleased with A.D. Little, it would be quite difficult to believe that if negotiations were to begin anew, that A.D. Little would not be selected. Given the fact that the selection process requires U.S. firms to expend both time and money on such a process, it does not appear entirely fair to require U.S. firms to undertake such costs when their chances of selection are so meager.

9.15 By negotiating a contract with A.D. Little, we envision a time savings of between 4-5 months (almost 20% of the project) implementation period. Because A.D. Little is already "on-the-job" and working with the Authority, we feel a contract with A.D. Little would be at least

20% less expensive than with a new firm. The decision to negotiate a contract with A.D. Little is practical and justifiable.

9.16 The project has been designed to be implemented by the Authority with technical assistance from a U.S. contractor in the specific areas previously mentioned. The contractor's role will be limited only to this project, and their dealings with the Authority will be similarly limited.

9.17 Although the project as described in this paper is considered complete and capable of being implemented successfully, given the inputs described, there is a possibility that additional assistance for the project's success will be offered by OPIC. This assistance may allow OPIC to play a role of intermediary in the U.S. between the Authority and potential U.S. investors. This assistance is not deemed necessary for the project's successful implementation, but it would be welcomed. At this time OPIC, who volunteered the possibility of furnishing the assistance, is discussing it with AID/W. It is anticipated that OPIC's rewards would come from financing and/or guarantee business which might arise from U.S. investments in Egypt.

E. Evaluation

9.18 The project is of a reasonably short duration. The most critical measure of success, in the short run, is the number of Feasibility Studies completed and number of downstream investments which result. The responsiveness of the GOE in providing inputs is also a critical measure both in terms of priority assigned to the activity and ability of the project to be responsive.

9.19 Quarterly contractor reports will be the prime means of monitoring the progress of the project. At month 24 a special evaluation team will be organized, consisting of an OPIC official, a Mission representative and a high level GOE, Ministry of Economy and Economic Cooperation official. This team will evaluate the project against the targets set forth in the logical framework (Annex N). Recommendations devolving from this evaluation (which should take between 2-3 weeks) will provide guidelines regarding future activity. The evaluation will be made available to other donors for their examination. Any future U.S. inputs to feasibility studies will depend on the findings of the evaluation.

9.20 Base data pertaining to economic benefits derived from new investments in Egypt exists from AID'S funding of sub-loans made by the Development Industrial Bank. Additionally World Bank data and statistics will be utilized for comparative purposes. Such data will include:

- a) Investment cost per job.
- b) Value output exported/total value output.
- c) Imported inputs/total value inputs.
- d) Value added.
- e) Value added/output.

X. RECOMMENDATIONS, CONDITIONS, COVENANTS

A. Recommendation

10.01 It is recommended that a project with an AID cost of \$5.0 million be approved with the total amount obligated in FY 1979. The project will concentrate on encouraging U.S. business to invest in Egypt by offering financial, technical and institutional assistance. The latter two elements useful life to Egypt will extend far beyond the project's implementation period and the actual investments into productive industrial enterprises which the financial assistance is to accomplish will benefit Egypt with employment creation, export earnings and the transfer of industrial technical know-how.

10.02 It is also recommended that the following waivers, determinations and exceptions be made: (1) A supplier Nationality Requirement waiver allowing the purchase in Egypt of two U.S. manufactured vehicles with an estimated value of \$20,000 (Annex C); (2) A determination that local financing with dollar appropriation in the amount of \$86,000 is necessary for successful project implementation (Annex B); and (3) An exception to the general policy expressed in Policy Determination 68 calling for host country procurement of commodities to allow direct AID procurement of up to \$45,000 in commodities (Annex D).

B. Terminal Dates

10.03 The terminal date for satisfaction of conditions precedent to initial disbursement will be 90 days from the date of the project grant agreement signing. The Project Assistance Completion Date (PACD) is set at December 31, 1982 which will allow about three years from the expected satisfaction of Conditions Precedent. The Terminal Date for opening letters of commitment will be March 31, 1982. Terminal Date for disbursements will be June 30, 1983.

C. Conditions and Covenants

10.04 Several conditions and covenants for effective project implementation and expenditure of funds for project activities are detailed as follows:

10.05 Prior to any disbursement or commitment under the grant, AID will require the following:

- a. A statement of the names of the persons authorized to represent the GOE and the Investment Authority and a specimen signature of each.
- b. Evidence that the GOE has passed on the grant to the Investment Authority.
- c. Evidence that two staff members of the Investment Authority acceptable to AID have been designated, one as project director and the other as an assistant.

10.06 Prior to the disbursement of funds for sector studies, the Investment Authority will be required to have a contract for technical assistance acceptable to AID. Prior to the disbursement of funds for reconnaissance visits or pre-investment feasibility studies the Authority will submit pro-forma contracts acceptable to AID which the Authority and a potential U.S. investor will enter into, these contracts will establish cost eligibility criteria, cost reimbursement criteria and the relationships between the firm, the Authority and AID.

10.07 AID's "Standard Grant Agreement Covenants" will apply. In addition, restrictions on the types of investments to be assisted will be prohibited as AID/W has deemed appropriate.



ANNEX A

MINISTRY OF STATE
FOR ECONOMIC COOPERATION

Mr. Donald S. Brown
US AID Director
American Embassy,
Garden City,
Cairo.

File Copy

Sept. 10th., 1979.

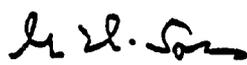
Subject: Project No. 263-0112
Private Sector Feasibility Studies.

Dear Mr. Brown,

Our letter to Mr. Tifft dated July 10, 1979 informed you that we had approved the Project Identification Document (PID) for the subject project, which your office sent to us on June 19, 1979.

This letter is to formally request that you consider extending a \$5.0 million grant to the Government of the Arab Republic of Egypt for the Investment Authority to implement the proposed project which will create a mechanism to provide incentives to U.S. firms to make investments in Egypt.

Sincerely Yours,


Gamal El-Nazer
Minister of State for
Economic Cooperation and
External Financing.

Recommendation to Authorize Local Cost Financing

The major thrust of the project is to assist U.S. companies in making profitable investment decisions in Egypt. In order for the project to run smoothly and effectively the majority of work will be done in Egypt utilizing resources available within Egypt. The significant external costs are direct reimbursement to U.S. companies for their costs to make their feasibility study.

In dollars, such local expenses will not exceed \$100,000, to require that the GOE pick up these costs plus staff, facilities and operating costs, i.e., all cost but the reimbursement costs to U.S. companies, would obligate the GOE to bear roughly 64 percent of project costs and mean that the real resource addition of the project to the Egyptian economy would be very small.

In addition, it is proposed that the necessary local currency be procured by purchase with U.S. dollars. The main reason for recommending approval of dollar financing of local costs is the unavailability of additional excess Egyptian currency for use in this project. As a result of the high level of activity over the past three years the amount of excess Egyptian Pounds available for programming has been severely depleted. The U.S. Embassy has submitted a plan for the utilization of the remaining excess currency which does not include an allocation for this project. Highest priorities in this plan include conclusion of existing local currency funded efforts, Foreign Building Office requirements, American University Endowment and other AID projects. OMB has informed AID that while this proposed plan is still under discussion, the chances are very slim that all AID's local currency needs can be met. It is envisioned that there will be a considerable delay in confirming the final allocation of U.S.-owned Egyptian Pounds.

Present implementation plans call for full funding of the project in FY 1980 so that all project activities can proceed expeditiously. Delays in fully funding the project until the anticipated negative decision on Excess Currency availability is formalized may lead to disruptions in the project schedule and a consequent lessening of the projects impact.

For the foregoing reasons it is recommended that local cost financing be authorized in the amount of approximately \$100,000, and that it is determined, in accordance with Section 612(b) of the Foreign Assistance Act, that U.S. dollars may be used to purchase the required local currency.

Justification for Waiver
of the Supplier Nationality Requirement
for Equipment Procurement

It is proposed to purchase for the Project miscellaneous equipment (Annex 0) and two motor vehicles (29-passanger carryalls) of U.S. manufacture from an Egyptian supplier for delivery out of bonded storage in Alexandria or Port Said. Procurement on this basis in lieu of purchase from the United States is necessary in order to (a) rapidly initiate project implementation and (b) maximize vehicle operating time.

Project implementation calls for the immediate information gathering upon signing of the Grant Agreement to maximize the input of the direct-hire project technician. Available and dependable transportation is important to the development of the project and the efficient use of the consultant's time. Going through the tender, bid award and waiting for delivery process if procurement is limited to the United States can be expected to consume 3-4 months or up to 1/2 of the remaining time. Local procurement would permit reducing the time required by 2-3 months.

Related to the timely procurement is the need to have vehicles that can be satisfactorily maintained. The project will not have its own vehicle maintenance capability. Maintenance of any vehicle in Egypt can be difficult due to spare parts shortages, but this can be more serious for U.S. manufactured vehicles that are not very common nor backed-up by an extensive service network. To better ensure that the vehicles procured are kept on-the-road, it seems desirable to purchase makes that are well established and for which spare parts and servicing are readily available. In Egypt distributors for two U.S. made vehicles, Dodge and Chevrolet, are well established and have effective dealer-service facilities. It is proposed, therefore, that either Dodge or Chevrolet vehicles be purchased. The cost of the two vehicles and equipment will not be expected to exceed \$45,000. Procurement will be on a competitive basis.

A.I.D.'s source and origin requirements, and Section 636(i) of the FAA act, are satisfied by the facts that the vehicles will be of U.S. manufacture and will be purchased from bonded storage to which they were shipped from the United States. The supplier, however, will be an Egyptian firm, and hence a waiver of the nationality provisions of Handbook 1, Supplement B, Section 5C is required in order to permit payment to the supplier in U.S. dollars. Waiver of the requirement must be based upon one or more of the criteria set forth in the Handbook, the relevant one of which is that such procurement is critical to the success of the project objectives. The Mission Director's authority to waive the nationality requirement is included in Redlegation of Authority No. 162 of September 20, 1978.

RECOMMENDATION TO AUTHORIZE DIRECT
AID PROCUREMENT OF AID-FINANCED COMMODITIES

The commodities to be procured under the project consist of those to be used in support of project operations. The budget amount for this procurement totals \$45,000 including allowances for contingency and inflation.

It is proposed that direct AID procurement of those commodities be approved. The reasons for recommending direct AID procurement are: (1) the small amount of commodities involved; (2) the small size of the Investment Authority and its newness; and (3) the need to provide quick support to the project. The small amount of procurement involved will not provide an opportunity for the Authority to gain significant experience, while burdening the recently established Investment Authority with this responsibility. This will necessarily detract from performance of primary project duties, because of the limited number of staff in the organization.

For the ongoing reasons, it is recommended that the direct AID procurement of up to \$45,000 in commodities be authorized and an exception made to the general policy expressed in Policy Determination 68 which calls for host country procurement of commodities.

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THRESHOLD DECISION BASED ON -
INITIAL ENVIRONMENTAL EXAMINATION

Project Location:

Egypt

Project Title:

Private Sector Feasibility Studies

Funding (Fiscal Year and Amount):

FY 79 \$4.7 Million

IEE Prepared By:

JL Sperling

Date:

June 13, 1979

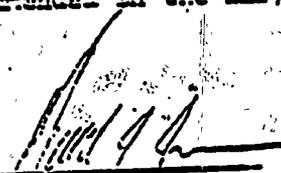
Environmental Action Recommended:

(Environmental Assessment, Negative Determination, etc.)

Negative Determination

Mission Decision:

(Approval/Disapproval of Environmental Action Recommended in the IEE)

Approved : 

Disapproved : _____

Date : 6/16/79

Clearances:

Environmental Coordinator: Shewin

Date 6/13/79

Other Mission Offices : _____

Date _____

INITIAL ENVIRONMENT EXAMINATION
NARRATIVE DISCUSSION

1. Project Location: Egypt .
2. Project Title: Private Sector Feasibility Studies
3. Funding (Fiscal Year and Amount): FY 79 \$4.7 Million
4. IEE Prepared By: J.L. Sperling Date: June 13, 1979
5. Action Recommended: Negative Determination
6. Discussion of Water Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

This project will provide financial and technical assistance to the Investment Authority, located in the Ministry of Economy and Economic Cooperation. The major activities of the project will be the compilation of Prefeasibility analyses and the funding of reconnaissance and feasibility studies. Training of local staff will be a major output.

The project will have no adverse environmental impact. No construction is planned. Benefits will accrue to individuals who will be gainfully employed as a result of the investments which are expected to occur following the feasibility studies. The feasibility study eligibility guidelines will contain provisions for a statement concerning the proposed investment's environmental impact. Those judged to be potentially negative will not be funded.

IMPACT IDENTIFICATION AND EVALUATION FORM

E-4

C. ATMOSPHERIC

1. Air additives
2. Air pollution
3. Noise pollution
4. Other factors

N
N
N
N

D. NATURAL RESOURCES

1. Diversion, altered use of water
2. Irreversible, inefficient commitments
3. Other factors

N
N

E. CULTURAL

1. Altering physical symbols
2. Dilution of cultural traditions
3. Other factors

N
N
N

F. SOCIOECONOMIC

1. Changes in economic/employment patterns
2. Changes in population
3. Changes in cultural patterns
4. Other factors

N
N
N
N

Project Authorization and Request for Allocation of Funds

Name of Country: Arab Republic of Egypt

Name of Project: Private Sector Feasibility Studies

Number of Project: 263-0112

Pursuant to Part II, Chapter 4, Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Grant to the Arab Republic of Egypt (the "Cooperating Country") of not to exceed Five Million United States Dollars (\$5,000,000) to assist in financing the foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph.

The project (hereinafter referred to as the "Project") will assist the Cooperating Country to create a mechanism which will provide incentives to U.S. firms to develop adequate information and studies on investment opportunities in Egypt by financing the costs of making pre-investment feasibility studies in Egypt and developing the institutional capabilities of the Egyptian Investment Authority through financing training, equipment, sector surveys and other technical assistance. The Implementing Agency for the Project shall be the Investment Authority of the Government of Egypt. The entire amount of the A.I.D. financing herein authorized for the Project will be obligated when the Project Agreement is executed.

Based on the justification set forth in Annex C of the Project Paper, I hereby waive the nationality requirements of A.I.D. Handbook I, Supplement 3, with respect to the procurement of motor vehicles of U.S. source and origin, and authorize their procurement of U.S. manufactured vehicles from Egyptian suppliers.

Based upon the justification set forth in Annex B of the Project Paper, I hereby determine, in accordance with Section 612(b) of the Act, that the expenditure of United States Dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this Project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement, and the administrative official approving local cost vouchers may use this determination as the basis for his certification

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as required by Section 612(b) of the Act.

Based upon the justification set forth in Annex D of the Project Paper, I hereby determine that the circumstances warrant an exception to the country contracting policy set forth in A.I.D. Policy Determination No. 68, and authorize A.I.D.-direct procurement of commodities necessary for the Project.

I hereby authorize the initiation of negotiation of the Project Agreement in accordance with A.I.D. regulations and Delegation of Authority subject to the following terms, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, shall have their source and origin in the Cooperating Country or the United States, except as A.I.D. may otherwise agree in writing.

b. CONDITIONS PRECEDENT TO DISBURSEMENT

1. Initial Disbursement. Prior to initial disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A statement of the names of the person or persons authorized to represent the Grantee and the General Authority for Investment and Free Zones (Investment Authority) and a specimen signature of each.

(b) Evidence that the Grantee will make all of the grant funds available to the Investment Authority.

(c) Such other documentation and information as A.I.D. may reasonably require.

2. Disbursement for Technical Services and Sector Studies.

Prior to disbursement for technical services and sector studies, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

An executed contract with a technical services contractor acceptable to A.I.D.

3. Disbursement for Reconnaissance Surveys or Pre-Feasibility Studies. Prior to disbursement for reconnaissance surveys or pre-investment feasibility studies, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

(a) Evidence of establishment of procedures including grant formats, for entering into reconnaissance surveys and pre-investment feasibility studies with potential U.S. investors covering such areas as eligible costs, form of survey reports, payment mechanism and procedures.

(b) Such other documentation and information as A.I.D. may reasonably require.

C. SPECIAL COVENANTS

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.

2. Investment Authority Relationships. The Grantee shall assure that the Investment Authority establishes satisfactory working relationships with the General Organization for Industrialization (GOI) the Ministry of Finance and the financial community in Egypt early in the Project, the working relationship to include regular meetings for discussion and exchange of ideas.

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

- CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes
 HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 553(b); Sec. 514A.
 (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?
 - (a) Congressional notification to be submitted following Mission approval.
 - (b) Yes.
2. FAA Sec. 611(a) (1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
 - (a) Yes, firm financial plans have been developed as part of the Project Paper.
 - (b) Yes.
3. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

None Required
4. FAA Sec. 711(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

Not Applicable

5. FAA Sec 611(e). If project is capital assistance (e.g., construction), and will U.S. assist in for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not Applicable

6. FAA Sec 209. Is project susceptible of execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusions whether assistance will encourage regional development programs.

The project is not susceptible to execution as a regional or multi-lateral project, by its nature appropriate technology must be relatively country-specific.

7. FAA Sec. 601(c). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) Project will directly increase international trade.

(b) Project strategy calls for maximum involvement of private sector.

(c) Not directly, but appropriate technology items may be suitable for use by investors

(d) Yes, private industries will out produce public sector firms.

(e) Project will improve efficiency of private operators.

(f) Possibly

8. FAA Sec. 31(h). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Private enterprise in the U.S. will be the direct beneficiaries of these funds. All services and commodities will be U.S.

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currency to meet the cost of contractual and other services, and foreign currency owned by the U.S. are utilized to meet the cost of contractual and other services.

The Project Grant Agreement will so provide.

See Annex for a request for a determination under Section 612 (b) that dollars be used to procure local currency despite availability of excess local currency.

10. FAA Sec. 412(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? Yes. See Annexes. J reasons. U.S.-owned foreign currency will not be used.
11. FAA Sec. 401(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.
12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the ~~likely~~ likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

Not Applicable.

a. PAA Sec. 102(b); 111; 113; 281a. Extent to which activity will (a) affectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing

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courtries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FIA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source).

(1) (103) for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if or agricultural research, is full account taken of needs of small farmers; "

(2) (104) for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost; integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) (105) for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. (107) Is appropriate effort placed on use of appropriate technology?

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

f. FAA Sec. 281(b). To what extent to which program recognizes the particular needs, desires, and

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capacities of the people of the country; utilizes the country's intellectual resources to encourage instructional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

8. FAA Sec. 112(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

2. Development Assistance Project Criteria (Loans Only)

Not Applicable.

a. FAA Sec. 112(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 30% of the enterprise's annual production during the life of the loan?

3. Project Criteria solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support and promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

This assistance will contribute to an increase in the production and productivity of the Egyptian private sector and increase private sector employment opportunities.
Yes.

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

No.

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Listed below are statutory items which normally will be covered routinely in the provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

Goods and services to the extent possible will be procured through competitive procedures which allow small business to participate.

2. FAA Sec. 604(n). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?

Yes.

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?

Egypt does not discriminate against U.S. marine insurance companies.

4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

No such procurement is planned.

5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

Yes.

6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of

Not applicable.

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commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

- 7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.

Yes.

- 8. International Air Transport Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes.

- 9. FY 79 Inv. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

It will so provide.

3. Construction

- 1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

Not Applicable.

- 2. FAA Sec. 611(e). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Not Applicable.

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3. FAA Sec. 623(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million?

G-9
Not Applicable.

C. Other Restrictions

1. FAA Sec. 122(e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Not Applicable.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Not Applicable.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the U.S.?

Yes.

4. FAA Sec. 636(1). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S., or guaranty of such transaction?

Yes.

5. Will arrangements preclude use of financing:

a. FAA Sec. 104(F). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to, any person to undergo sterilization?

Yes.

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

Yes.

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c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs?

Yes.

d. FAA Sec. 662. For CIA activities?

Yes.

e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel?

Yes.

f. FY 79 App. Act Sec. 106. To pay U.S. assessments?

Yes.

g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multi-lateral organizations for lending.)

Yes.

h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields?

Yes.

i. FY 79 App. Act Sec. 601. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

CERTIFICATION PURSUANT TO
SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Donald S. Brown, the Principal Officer for the Agency for International Development in Egypt, having taken into account, among other things, the maintenance and utilization of projects in Egypt previously financed or assisted by the United States and technical assistance and training planned under this project, do hereby certify that in my judgment Egypt has both the financial capability and human resources capability effectively to maintain and utilize the technical and financial assistance to be provided to the Investment and Free Zones Authority.


Donald S. Brown
Director

Sept. 19, 1979
Date

PRIVATE SECTOR STRATEGY

USAID and GOE have undertaken and are planning several private sector projects which address GOE priority concerns and will assist in establishing a base for economic progress and technological transformation. The projects respond to the more pervasive problems of: (1) scarcity of credit; (2) support systems for private sector industry (and artisans); and (3) improvement of institutional operations, monetary and financial policy.

1. Ongoing projects providing new resources and technology include:

A. Development Industrial Bank

1. A \$32.0 million loan provides funds for medium-term sub-loans together with advisory services and equipment for the Bank.
2. A \$2.0 million grant finances advisory services, training and some equipment for the Bank.

B. Suez Cement Company

A \$90.0 million grant finances equipment and services for design, erection, operation and maintenance of a portland cement plant capable of producing one million tons of cement per year.

C. Quattamia Cement

A \$95.0 million loan finances equipment and services for design, erection and maintenance of a portland cement plant capable of producing 1.2 million tons of cement per year.

D. Commodity Import Program

\$35.0 million in loans to finance private sector procurement of equipment and materials through government banks.

E. Related and Supportive Activities

1. Middle Management Education Program (MMEP)

A pilot stage program for training Egyptian private and public sector middle managers in American management practices is underway.

2. Tax Administration/Tax Laws

An ongoing tax administration program is now at a pilot stage, and also two American comparative tax law experts are assisting the GOE in developing a new global tax structure, in part aimed at providing tax incentives to private enterprise.

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3. Legal/Reform/Legal Education

In conjunction with Ford Foundation, USAID is funding a third one-month seminar at Harvard Law School as well as workshops in Cairo on legal aspects of investment and on laws and regulations affecting exports. In legal education, a law professor is assisting in developing a core curriculum in investment-related subjects and a continuing education program for members of the Bar has been begun by the Egyptian Society for International Law.

4. International Executive Service Corps (IESC)

USAID provided ad hoc support services during IESC start-up in early 1979 and maintains contact to seek areas of cooperation.

II. Planned Projects include:

A. Finance

1. Private Investment Encouragement Fund

An FY 79 project to establish credit mechanisms for larger-sized private sector enterprises in cooperation with existing banks.

2. Commodity Import Program

For FY 79 an additional \$25.0 million is proposed for the private sector.

3. Small Scale Enterprise Credit & Advisors

An FY 80 project to increase productivity of the private sector by establishing credit facilities and improving technical advice available to small scale enterprises.

4. Development Industrial Bank - III

An FY 80 project to fund sub-loans for private sector companies together with advisory services and equipment for the Bank

B. Technical Assistance - Private Sector Support Systems and Mechanisms

1. Private Investment Studies

An FY 79 project to finance partial reimbursement of U.S. investors' feasibility studies and advisory services to conduct pre-feasibility studies.

2. Egyptian Investment Center

An FY 80 project to finance advisory services, training and equipment to strengthen this institution's investment information and promotion activities.

3. Agribusiness Development

A proposed project to finance U.S.-Egyptian agribusiness projects and related institutional development activities.

4. Industrial Free Zones

An FY 80 project to finance equipment and services to improve the operation and physical facilities of industrial free zones.

5. Business Management and Training

An FY 81 project to finance equipment and advisory services for establishment of modern business education facilities for private sector businessmen and students throughout the Middle East.

C. Advisory Services to Financial Sector

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1. Advisory Services on Credit

An FY 80 project to finance advisory services and equipment for a bank training institute and improvements in bank operational procedures.

2. Money Market/Stock Exchange

An FY 81 project to finance advisory services and equipment for rejuvenation of the stock exchanges and other modernizations of capital markets.

D. Production Industry

Flat Glass

A \$36.0 million project to finance equipment and services for establishment of a joint venture glass manufacturing company with a capacity of 60,000 to 100,000 MTs per annum.

E. Agriculture

Cooperative Marketing

A small farmer assistance project designed to establish an improved system for private sector cooperative marketing of fruits and vegetables. Other related assistance is provided by the IBRD.

OVERSEAS
PRIVATE
INVESTMENT
CORPORATION

429 20th Street, N.W.
Washington, D.C. 20527
Telex-OPIC WASH 59-2340



ANNEX J-1

July 9, 1979

Mr. Joseph C. Wheeler
Assistant Administrator,
Near East
Agency for International Development
Washington, D.C. 20523

Dear Joe:

Thank you for inviting us to attend the meeting of your Near East Advisory Committee ("NEAC") which met last Thursday to consider a Project Identification Document ("PID") which describes a program of Private Sector Feasibility Studies in Egypt. We have reviewed the proposal and the request you made to us at the meeting to consider appropriate means by which OPIC might participate in the administration of the program.

The proposed program is, of course, substantially broader in scope and resources than the OPIC investment encouragement program administered under Section 214(d) of our legislation. The PID describes a program which has as its aim not only assistance to interested U.S. businesses but the development of an investment assistance institution to be staffed by Egyptians, and the funding of major project profiles.

That part of the program which parallels the existing OPIC program also has certain distinctive elements. It contemplates the funding of studies in substantially larger amounts than the \$100,000 of eligible costs thought by OPIC to be an amount sufficient to cover the work needed to make an investment decision. Larger amounts would be considered for detailed design and engineering studies but such studies are felt to be beyond the scope of our investment encouragement program. The \$100,000 amount seemed to us to be a reasonable maximum for projects sponsored by smaller businesses (sponsors who were smaller in size than the "Fortune 1000"). As to larger projects, a good portion of the work appears to be contained in project profiles which have, in the past, been developed by organizations such as the Agribusiness Council and would, under the PID proposal, be furnished by the FZEA. OPIC also took into account in arriving at the \$100,000 limit that the furnishing of substantial grants

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Mr. Joseph . Wheeler

to large U.S. businesses might not be sufficiently consistent with the Congressional direction to give preference to small businesses.

The FID also does not contemplate repayment of the grant. While this feature may be consistent with AID's purpose, OPIC has taken a contrary position. As you know, OPIC does not receive appropriated funds; its operations and programs are funded from its operating and investment income and it is required to be self-sufficient. Under the circumstances, we require that the sponsor applicant not only be judged capable of undertaking a venture of the indicated scope, but that OPIC's funds be repaid if the project does go forward. We feel that the limitations of our staff as well as our financial resources require that provision.

Our contract provides further that if the project goes forward OPIC will be invited to provide part of the debt financing. While that provision is hardly a binding right of first refusal, it is a recognition that OPIC's support is very largely furnished in pursuit of its business goal to be self-sufficient. We would be reluctant to involve our limited staff in the analysis of proposals in which ever this modest commitment is absent.

For the reasons outlined above, we view the proposed program as being sufficiently different in scope, purpose and operating detail as to preclude significant direct involvement by OPIC. We are on the other hand, anxious to establish contact with the FZIA, to increase the frequency of our staff travel to Egypt as a means of doing so, and to refer and accept the referral of U.S. businessmen for whom the complementary program might be more appropriate. We would also undertake to help in the distribution of project profiles to U.S. businesses.

The location of the FZIA in Cairo might facilitate the processing of certain applications there, while OPIC's U.S. base and generally prompt processing time might be attractive to other U.S. investors. OPIC would be reluctant to vary its repayment, eligible cost and eventual financing requirements, but understands that FZIA has somewhat different goals.

Mr. Joseph C. Wheeler

OSHC would also, as we have in the past, make every effort to furnish staff members on a reimbursable basis for occasional special assignments. And, as indicated at the NEAC Meeting, we will be pleased to discuss with you further the formulation of conceptual standards defining the appropriate scope of work contained in a "feasibility" study.

Sincerely,

Robert R. Wolf
Vice President, Finance

Identified Investment Opportunities - By Sector

Building Materials

- A substantial amount of new capacity is needed for cement production.
- New Capacity in asbestos pipes, asbestos sheets, and concrete pipes and poles.
- New capacity in non-clay bricks and somewhat less in clay bricks.
- Expansion of existing clay pipe and floor tile manufacture.
- A major new flat plant and one for glass wool and fiber glass.

Engineering Industries

- New facilities for the manufacture of railway coaches and trams.
- Television manufacture.
- Manufacture of medium and large diesel engines.
- Manufacture of handling equipment.
- Manufacture of a new range of machine tools.
- Expansion of the production of trucks and buses.
- Enlargement of the product range of Nasr Boiler Co.
- Manufacture of electric motors and generators.
- Expansion of wet and dry battery facilities.

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Food

- Wet milling facility for producing a full range of corn syrups.
- Three edible oil plants for solvent extraction, hydrogenated oil and new refinery capacity.
- Two animal feed plants for low and high protein pelletized concentrates and by-product feeds, respectively.
- Highly-automated yeast plant.

Metallurgical Industry¹

- A new copper rod casting plant.

Pulp and Paper

- A one-machine bagasse newsprint facility attached to a sugar mill.
- Three small wood-free printing and writing plants, also attached to sugar mills.
- A wood content printing and writing facility.
- A market pulp mill.
- A writing and printing paper facility.
- A corrugating medium and linerboard plant.
- A duplex and multiple boards plant.
- A tissue mill.
- A small cigarette paper producer.
- A wastepaper mill.

¹Excluding a number of projects designated for the public sector iron and steel plant and the public sector aluminum smelter.

Textiles

- Renovation of a jute mill to reduce the foreign exchange spent on jute bags.
- A new polyester/cotton spinning mill.
- Two new cotton weaving mills to utilize the output of the proposed spinning mill and of other mills recently constructed.

OVERSEAS PRIVATE INVESTMENT CORPORATION

Feasibility Survey Program
Guidelines

A. Sponsoring Company

The sponsoring company must be an eligible U.S. investor, have a sound operating record and be able to demonstrate that it has the managerial, technical and financial capability and present intention to invest in and implement the project if it proves feasible.

B. Project Eligibility

The project must meet, or be likely to meet, the normal eligibility standards for both OPIC insurance and financing and appear to be economically and financially viable for the sponsoring company, the host country and the United States.

C. Country/Sponsor Eligibility

The eligibility requirements have been cast to stimulate investment in countries with per capita GNP below \$520 and small business investment in all LDCs on the following basis:

- (1) Feasibility Survey funds would be available to companies in the Fortune 1000 size range only if the proposed project is to be located in a country with per capita GNP below \$520.
- (2) Smaller businesses and cooperatives would be eligible for feasibility funds for projects in all the underdeveloped countries in which OPIC programs operate.

D. Eligible Costs

The Feasibility Study must be substantially carried out by executives of the sponsoring company. Generally consultants should be employed by the sponsor only on a limited basis to augment in-house capability in a specific aspect of the study, although OPIC shall consider with greater flexibility the use of outside consultants by small business sponsors. Eligible costs include (i) economy

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class travel, (ii) per diem expenses, (iii) salaries of company personnel and (iv) cost of consultants.

The daily allowance for personnel salaries shall be \$175. Allocation of a sponsor's corporate overhead, fringe benefits, secretarial services, report preparation, communications and similar costs shall be excluded from eligible costs; however, recognition of such costs has been given in determining the daily personnel allowance cited above. Miscellaneous travel costs such as taxis, telephone and telex and entertainment likewise shall not be eligible costs, but to compensate for such items the U.S. government per diem rate applicable to the overseas locale will be increased by 20% to determine the eligible daily allowance. The eligible costs related to the use of outside consultants shall be limited to the foregoing travel and per diem allowances and personnel costs of \$200 per manday or the equivalent portion of a lump sum contract.

E. OPIC Participation

The maximum OPIC participation is \$50,000 representing up to 50% (75% in the case of a small business or cooperative sponsor) of the total eligible costs of the feasibility study, as formally budgeted and agreed upon by the company and OPIC. OPIC will reimburse the sponsor upon completion of the study and submission of the required Feasibility Survey report and statement of costs. On surveys requiring an extended period of time OPIC may reimburse the sponsor on an interim basis.

F. Repayment of OPIC Participation

If OPIC reimburses the sponsor and the sponsor subsequently makes a decision to implement the project, the sponsor will repay OPIC's participation in the costs within 60 days.

G. Reports

Progress and final reports will be required from the sponsor. If a project does not result, these reports will become the property of OPIC which may use them in its own discretion.

H. OPIC Assistance

When a sponsor has completed its initial investigation of an investment opportunity and has requested OPIC participation in a feasibility study of the project, OPIC will normally provide:

- (1) Review of the project by an OPIC investment officer to make a preliminary determination whether the project is likely to meet OPIC insurance and project financing standards and to make a recommendation regarding OPIC participation in funding the study.
- (2) Assistance in preparing a work plan (scope, objectives, steps) and budget for the study.
- (3) Financing under an agreement whereby OPIC will reimburse the sponsor for up to 50% (75% in the case of a small business or cooperative sponsor) of the eligible costs of the survey subject to a \$50,000 maximum OPIC participation.
- (4) Consultation with the sponsor's management during the course of the study based on interim progress reports.
- (5) Review of the feasibility report and recommendations as to further implementation steps, a financial plan and the role OPIC might assume in the project.

I. Insurance and Finance Applications

OPIC insurance and project financing must be applied for separately. While an objective of the program is the development of projects qualifying for OPIC insurance and project financing, acceptance of a proposal under the Reconnaissance Survey Program does not necessarily assure the project's qualification for either the insurance or project financing programs.

August 7, 1978

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OVERSEAS PRIVATE INVESTMENT CORPORATION

Reconnaissance Survey ProgramGuidelinesA. Sponsoring Company

The sponsoring company must be an eligible U.S. small business or cooperative investor, have a sound operating record and be able to demonstrate that it has the managerial, technical and financial capability and present intention to invest in and implement the project if subsequent analysis proves it feasible.

B. Project Eligibility

Normally the project will be one for which a U.S. sponsor is being sought as a result of the Finance Department's project identification program and is therefore likely to satisfy normal insurance and finance criteria. Any other project must meet, or be likely to meet, such insurance and financing criteria and should appear to be economically and financially viable for the sponsoring company, the host country and the United States.

C. Country Eligibility

The program is applicable to all countries in which OPIC programs operate.

D. Eligible Costs

The Reconnaissance Study must be carried out by a senior executive of the sponsoring company. Eligible costs are limited to those of one such senior executive for economy class travel and per diem expenses in the host country at the USG rate. No allowance shall be made for personnel salaries or use of consultants.

E. OPIC Participation

maximum OPIC participation is \$5,000, as formally and agreed upon by the company and OPIC. OPIC reimburse the sponsor upon completion of the study and on of the required report.

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F. Repayment of OPIC Participation

Notwithstanding a subsequent decision to implement the project, no repayment of OPIC's participation in the study costs by the potential sponsor will be required.

G. Reports

A full report setting forth the study's findings will be required from the sponsor upon completion of the reconnaissance trip. If a project does not result, this report will become the property of OPIC which may use it in its own discretion.

H. OPIC Assistance

In the case of Reconnaissance Survey funding requests arising other than as a result of OPIC project identification and promotion efforts, the proposed project first will be reviewed to determine whether it is likely to meet OPIC insurance and financing standards.

After establishing project eligibility and verifying the sponsor's qualifications, OPIC will normally provide:

- (1) Assistance in preparing a work plan (scope, objectives, steps) and budget for the study.
- (2) Financing under an agreement whereby OPIC will reimburse the sponsor for its eligible costs subject to a \$5,000 maximum.
- (3) Review of the reconnaissance report with recommendations as to further steps toward project implementation and the role OPIC might assume in the project.

I. Insurance and Finance Applications

OPIC insurance and project financing must be applied for separately. While an objective of the program is the development of projects qualifying for OPIC insurance and project financing, acceptance of a proposal under the Reconnaissance Survey Program does not necessarily assure the project's qualification for either the insurance or project financing programs.

August 7, 1978.

Project Title & Number: Private Sector Feasibility Studies - 0112

NARRATIVE SUMMARY	OBJECTIVELY MEASURABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Increased flow of private U.S. investment to Egypt.</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Of US/Egypt joint ventures 2. % of GNP attributable to Private Enterprises. 	<ol style="list-style-type: none"> 1. Central Bank statistics 2. COFI statistics 3. Tax records 	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> 1. Arab sanctions will be a temporary phenomenon 2. FX will be available in reasonable amounts and at a reasonable rate. 3. Potentially profitable investment situations exist and environment conducive. 4. Procedures and bureaucratic processes do not act as a constraint. Decision making will be efficient.
<p>Project Purpose:</p> <p>Create a mechanism which will provide incentives for, and expedite carrying out of, pre-investment feasibility studies.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> 1. U.S. companies making decision to invest based on feasibility studies. 2. Private investment in selected sectors increased. 3. Egyptian staff system, and organization fully functional. 4. Non-proprietary information available for provision to interested investors on investment possibilities. 	<ol style="list-style-type: none"> 1. Evaluation month 24. 2. No. of companies visiting investment authority. 3. Examination of Investment Authority files. 4. Contractor final report. 	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> 1. Desire to invest in Egypt exists. 2. Feasibility study costs are a disincentive to U.S. investment in Egypt. 3. Criteria for study acceptable to private U.S. parties and GOR can be developed. 4. Egyptian decision making can be expedited. 5. Private investment supportive policy and enabling legislation functioning.
<p>Output:</p> <ol style="list-style-type: none"> 1. Definition of sectors in which investment will most benefit economy. 2. Pre-feasibility and feasibility studies completed in identified sectors. 3. GOR staff and system qualified to administer study fund. 4. Linkage between investment authority and private banks established. 5. Reconnaissance surveys by U.S. businessmen occurring on regular basis. 	<p>Magnitude of Output:</p> <ol style="list-style-type: none"> 1. 20 reconnaissance surveys carried out. 2. 6 sector overviews and justifications completed. 3. 20 feasibility studies resulting completed. 4. 9 feasibility studies resulting in investment. 5. 5 Egyptian professionals trained. 	<ol style="list-style-type: none"> 1. Examination of Records 2. COFI statistics 3. Interviews 	<p>Assumptions for achieving output:</p> <ol style="list-style-type: none"> 1. Data can be assembled in a timely fashion. 2. Egyptian staff and budget will be available to administer. 3. OFIC guarantee program continues in effect.
<p>Inputs:</p> <p>U.S. personnel 1246 training 103 commodities 45 other costs reconnaissance surveys 100 feasibility studies 3800 contingency/inflation 453 Total U.S. \$3,000 (including \$ 86 in dollar funded local costs) GOR contribution - LE 808 (\$1.156)</p>	<p>Implementation Target (Type and Quantity)</p>	<ol style="list-style-type: none"> 1. Controller records 2. Contractor records 3. Audits 	<p>Assumptions for providing inputs:</p> <ol style="list-style-type: none"> 1. GOR budget available.

Commodity List

<u>Item</u>	<u>No.</u>	<u>Unit Cost</u>	<u>Total</u>	<u>LE or 1/ \$</u>
Hand Calculators	3	\$ 50	\$ 150	LE
Typewriters				
English	1	1,000	1,000	\$
Arabic	2	1,700	3,400	LE
Ditto Machine	2	500	1,000	\$
Photo Copier	1	10,000	10,000	\$
Office Desks)	3	1,000	3,000	LE
Chairs)	Sets			
Filing Cabinets)				
etc.)				
Drafting Table and Supplies	1	500	500	LE
Air Conditioners	3	750	2,250	LE
Miscellaneous Local Supplies			3,700	LE
Vehicles				
Carrvall	2	10,000	<u>20,000</u>	\$
TOTAL			\$45,000	
			(LE 31,200)	

1/ LE indicates total procurement being Egyptian pounds. \$ indicates offshore procurement except for the vehicles.

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MAN _____	INITIALS _____	

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TAGS:

SUBJECT: PROPOSED PRIVATE SECTOR FEASIBILITY STUDIES PROJECT (263-3112)

REFS: A. CAIRO 19663, B. STATE 180516,
 C. STATE 199078

1. APPRECIATE POINTS RAISED IN REF A WITH RESPECT TO FIFTY-FIFTY INVESTMENT SURVEY PROGRAM, PARTICULARLY RELATED TO FORTUNE 1993 COMPANIES. IN VIEW OUR DESIRE TO STIMULATE U.S. INVESTMENT IN EGYPT, AID/W PREPARED TO SUPPORT ADDITIONAL INCENTIVE (COMPARED TO OFIC PROGRAM) WHEREBY FOREIGN INVESTOR WOULD BE GIVEN OUTRIGHT GRANT FOR 50 PERCENT OF FOREIGN INVESTMENT SURVEY COSTS. THIS RECOGNIZES THAT A.I.D. FUNDS WOULD ONLY BE USED FOR SPECIFIC ELIGIBLE EXPENDITURES SUCH AS TRANSPORTATION, A FIXED PER DIEM AND IN-COUNTRY LOGISTICS. ALSO BELIEVE MISSION SHOULD REVIEW PROGRESS THESE SURVEYS AND TOGETHER WITH INVESTMENT AUTHORITY BE PREPARED TO MAKE ADJUSTMENTS WHICH ARE SENSIBLE IN TERMS OF ACCELERATING U.S. PRIVATE INVESTMENT.

2. WITH RESPECT TO DOLS 5,000 (MAXIMUM) RECONNAISSANCE SURVEYS, WE ARE PREPARED TO ACCEPT APPLICABILITY TO SMALL OR MINORITY FIRMS ONLY. HOWEVER, WISH TO ALERT USAID AND INVESTMENT AUTHORITY THAT SUCH FINANCING MAY CREATE GREATER BURDEN IN IMPLEMENTATION AND ON LIMITED MANPOWER THAN INVESTMENT BENEFITS TO BE DERIVED FROM THIS TYPE INVESTOR INCENTIVE CATEGORY. ACCORDINGLY, IT IS AGREED TO ALLOCATE UP TO DOLS 100 THOUSAND FOR SUCH SMALL AND MINORITY BUSINESS RECONNAISSANCE SURVEYS (AMOUNTING TO ABOUT 20 SUCH RECONNAISSANCE SURVEYS) WITH UNDERSTANDING THAT THEREAFTER MISSION, INVESTMENT AUTHORITY, AND AID/W WOULD AGAIN REVIEW APPROPRIATENESS SUCH RECONNAISSANCE FINANCING. IT WILL ALSO BE NECESSARY FOR MISSION TO ESTABLISH FIXED CRITERIA FOR SMALL BUSINESS ELIGIBILITY SO AS TO ASSURE THAT ONLY FOREIGN SMALL/MINORITY BUSINESS INVESTORS AVAIL THEMSELVES OF SUCH FINANCING. MISSION SHOULD ALSO IDENTIFY SPECIFIC EXPENDITURES

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THAT WOULD BE ELIGIBLE FOR SURVEY FINANCING, FOR
 EXAMPLE, TRANSPORTATION, A FIXED PER DIEM, AND
 PERHAPS IN-COUNTRY LOGISTICS. ALL OTHER EXPENDI-
 TURES UNDER THE RECONNAISSANCE SURVEY SHOULD BE TO
 THE ACCOUNT OF THE SMALL/MINORITY BUSINESS FIRM.

3. WE HAVE AGAIN REVISITED CONSIDERATIONS RELATED
 TO INCLUDING LOCAL PRIVATE INVESTORS IN THIS PROJECT
 AND AGREE THAT INCLUDING LOCAL INVESTOR ELIGIBILITY
 IN THIS PROJECT WOULD DETRACT FROM U.S. PRIVATE
 INVESTOR EMPHASIS AND PLACE AN ADDITIONAL BURDEN ON
 INVESTMENT AUTHORITY. HOWEVER, WE STILL BELIEVE
 THAT SOUND FEASIBILITY AND PREINVESTMENT STUDIES
 BY LOCAL PRIVATE SECTOR IS A KEY INGREDIENT IN
 STIMULATING LOCAL PRIVATE INVESTMENT, PARTICULARLY
 THE AVAILABILITY OF TERM LENDING BY COMMERCIAL
 BANKS. IT SHOULD BE EMPHASIZED THAT A STRONG AND
 SUCCESSFUL LOCAL PRIVATE SECTOR CAN BE A MAJOR
 INCENTIVE TO EXPANDED U.S. INVESTOR PARTICIPATION,
 EITHER DIRECTLY OR AS JOINT VENTURES. U.S.
 INVESTMENT HAS FLOURISHED MOST IN THOSE COUNTRIES
 WHERE LOCAL PRIVATE ENTERPRISE WAS STRONG AND
 ACTIVE. THEREFORE, BELIEVE MISSION SHOULD CONSIDER
 INCLUDING A FY 1988 PROJECT (I.E., SMALL BUSINESS
 OR INVESTMENT CENTER PROJECT) FINANCING FOR LOCAL
 PRIVATE SECTOR INVESTMENT SURVEYS/FEASIBILITY
 STUDIES AND WOULD APPRECIATE BEING KEPT INFORMED
 ON PROGRESS THIS AREA.

4. ON BASIS ABOVE UNDERSTANDING, MISSION SHOULD
 PROCEED TO FINALIZE PROJECT PAPER/AUTHORIZATION.
 HAVE DISCUSSED WITH DON BROWN DURING TDY WHO
 CONCURS ABOVE. VANCE ..

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E.O. 12265: 4/A

TAGS:

SUBJECT: PRIVATE SECTOR FEASIBILITY STUDIES PROJECT
NO 263-0112

REF: STATE 230503

1. CONGRESSIONAL NOTIFICATION PERIOD EXPIRED C.G.B
SEPTEMBER 12 WITHOUT COMMENT.

2. CONCERN WITH NEGATIVE DETERMINATION FOR IEE
CONTAINED IN PID. WHEN AVAILABLE PLEASE FOCUS COPIES
OF ELIGIBILITY GUIDELINES WHICH IEE STATES WILL BE
USED FOR DETERMINING A PROPOSED INVESTMENT'S
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Social Implication of Assistance to the Private Sector

One cannot really make an independent case for the social utility of feasibility studies as distinct from the question of what investments the studies are intended to serve. In this project the objectives are to facilitate improved investment choices in the private sector. This annex expands upon the summary discussion in the PP text of three issues directly related to the social consequences of assistance to the private sector:

- i. Utilization of Capital and Labor in Egypt: Public and Private Sectors
- ii. Employment Priorities in Egypt
- iii. Comparative Wage Levels: Public and Private Sectors

The analysis concludes that the private sector is inherently a stronger vehicle in Egypt for employment creation and that the income streams to individuals resulting from private sector investment tend to be larger than those resulting from public sector investment. On these grounds a project which facilitates the entry of capital into private sector investment and seeks to improve the quality of investment decisions can be expected to have a favorable impact on the two social objectives of the program: more income streams and larger income streams at the level of the individual wage worker. This analysis deliberately avoids discussion of forward and backward linkages of private sector investments and secondary employment effects. This omission is not because such effects are assumed to be unimportant, but rather because the leap of faith inherent in delineating a causal chain from feasibility study, to investment, to employment, to production to forward and backward linkages, to more employment simply seems greater than the needs of a project paper warrant.

A. Utilization of Capital and Labor in Egypt: Public and Private Sectors

From an examination of the evidence, it appears that Egypt is quite labor intensive, even when compared to other low income developing nations. Egypt simply produces less output per man-year of labor than other comparable nations.

The Egyptian private sector is not particularly capital intensive when measured against other low income nations. Yet it is much less labor intensive than the rest of the economy, achieving a modest level of output per man-year of labor.

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The Egyptian private sector has made some real gains in terms of output per man-year since 1973. At the same time, output per invested pound has remained fairly steady. During this period, the average size of projects has grown in terms of both investment and employment. An apparent inference is that economies of larger scale operations are contributing to efficiency in terms of the principal factors of production. Carefully done feasibility studies would tend to enhance this development.

According to a report published by GOFI and the Ministry of Industry, in the 1970s the 200 principal firms in the public sector produced 65% of the country's manufactured goods while the 15,000 smaller industrial establishments in the private sector produced the remainder.

The private sector share of industrial output and the level of private sector output has grown 3 times faster than public sector output. Both the private sector's share of total industrial exports and the level of private exports have grown markedly in the 1970s relative to the public.

The total estimated industrial private sector wage bill has increased over tenfold between 1970 and 1977. At the same time, the estimated number of workers employed in private industry nearly quadrupled. Average nominal wages increased some 278% between 1970 and 1977.

It is interesting to compare projected productivity in private sector versus public sector industry for 1977. The results are startling. Worker productivity in the private sector, measured as estimated gross output per worker employed was LE 10,900 per capita in the private sector versus LE 3,637 realized in the public sector in 1977. Projected productivity (output) per pound of workers' wages from private sector projects was projected to be LE 28.5 as compared with LE 7.0 realized in the public sector in 1977.

The published figures available reporting on levels of private investment in Egypt appear to be gross underestimates of the level and proportion of total actual private investment. This is not surprising; most published measures of private activity appear to be underestimates. The public sector appears to get the lion's share of financing, in part because much private saving is channelled into "store of value" investments such as gold, valuables and real estate rather than into productive enterprises. But as the Ministry of Economy's Five Year Plan figures indicate, according to official policy some 84% of all investment officially approved will be channelled into the public sector until 1984. The inference must be that although output, employment, exports and productivity are increasing faster in the private than in the public sector, the centrally planned economy in Egypt continually channels capital into the already intensive public sector.

The World Bank reports that private sector performance has been "impressive". It reports average annual increases in private manufacturing sector output of 15 percent in real terms from 1974 to 1976. While low, private sector exports doubled between 1973 and 1975. Private sector employment increased at an annual rate of 6.7 percent during the 1966-74 period, compared with a growth rate of 2.4 percent in the public sector. The Bank reports that "The record of the Private Sector is even more impressive if account is taken of the over-staffing of public enterprises for social and political reasons". The private sector share of total industry employment grew from 47 to 54 percent in the 1970s.

At the same time, the Bank reports that the private sector's officially reported share of annual total investment has been a miniscule 4%. This tiny estimated percentage of total investment going to private firms is echoed in the GOFI/Ministry of Industry report. These estimates no doubt omit a considerable amount of officially unrecognized private investment as well as reinvestment of profits. The public sector has, of course, through its control of the banking system, traditionally been able to claim a disproportionate amount of investable funds. This general pattern continues, although it appears that the proportion as well as the rate of private sector investment is increasing.

Private enterprise produces over a third of the total industrial output with well under a fifth of invested capital, employing over half of the industrial work force. The socio-economic rate of return on capital invested in the private sector appears to be double to quadruple that achieved by the public sector. It employs more people than the public sector without "padding the payrolls" and manages to pay them higher wages as well. The private sector achieves all this in spite of the fact that it is apparently both over-regulated and shut off from the major local source of investment capital; i.e. the government.

Egypt has a shortage of physical capital investment and a surplus of available labor. The private sector uses relatively little capital and relatively large amounts of labor in its mix of the two main factors of production; it seems obvious that this is an efficient utilization of the resources available in Egypt. It further appears obvious that a development dollar invested in the Egyptian private sector results in more output and more employment than a development dollar invested in the Egyptian public sector. Furthermore, a greater proportion of the fruits of investment in the private sector appears to reach the work force than is true of the public sector.

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B. Employment Priorities in Egypt

The "open" employment rate in Egypt is low, with the officially unemployed constituting a small (2-3 percent) segment of the work force. However, all other signs indicate that Egypt should be viewed as a country with an employment problem. Many people, particularly women, do not participate in the work force. Jobs are hard to find. Many people accept positions earning wages which cannot support them at even a minimum level of comfort. Many also accept part-time employment; underemployment is a widespread phenomenon. A large proportion of the population has found it necessary to squeeze into low productivity and hence low wage sectors, particularly government and domestic service. The labor force, Egypt's most plentiful resource, is underutilized.

The problem in Egypt is not a question of job creation per se, but rather a question of increasing productive employment and hence wage levels. Over two decades of social welfare-oriented public policy have created a large number of jobs which alleviate official unemployment but add little to Egypt's overall output of total goods and services. A beneficial result of these policies has been that sharp disparities of wealth in Egypt were ameliorated. The need to create productive employment opportunities now seems to be a more pressing goal.

Another problem is the relative shortage of skilled labor. Utilization of the abundant unskilled labor supply is problematic in the absence of skilled labor to work in combination with the unskilled. Furthermore, raising labor productivity is difficult unless the level of skill of the work force is increased, and such things take time.

C. Comparative Wage Levels

The report Industrial Activities in the Private Sector furnishes an estimate of average annual salaries paid in private industry in 1977 of \$547.69 at the parallel rate. The 1976 input/output table provides estimate of the distribution of rural and urban wages by income group, as presented in Table R-1.

One sees that the average wage paid by the private sector appears to be 25 percent above the national average wage for Egypt (not accounting for wage inflation between the two years), and higher than both the rural and urban averages. Note that the overall urban average reported in Table R-1 includes both public and private industrial sectors; simple arithmetic indicates that private industry probably pays at least 10 percent higher wages than is true of the rest of the urban sector as a whole. Observers interviewed by the RRNA team agreed that wage levels are higher in private industry, and are increasing faster than those in the public sector. Not only do private industrial firms pay relatively well on average, but the gap between public and private sector wages appears to be growing.

A 1978 survey reported that joint venture companies in Egypt paid Egyptians an overall average of LE 655 (\$937) per capita per annum in 1978. Joint venture companies are generally foreign managed and relatively technologically advanced by local standards. Their wage levels appear to be about double typical Egyptian standards and well above salaries in the Egyptian owned private sector. As the locally owned private sector develops, its salaries should begin to approach joint-venture levels, given current trends.

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Table R-1

Estimates of Annual Wage Income in Egypt, 1976
(average US Dollar Income Per Employee)

Workforce Income Segment	Av. Earnings/worker
<u>Rural</u> Overall Average	333.12
lowest 60%	227.56
middle 30%	337.76
Upper . 10%	952.43
<u>Urban</u> Overall Average	521.18
lowest 60%	260.79
middle 30%	563.10
upper 10%	1957.80
Overall Av for Egypt	438.05

Source: General Equilibrium Policy Model for Egypt, 1976
MIT/Cairo University

WES AND TURAN

... PNEUMATIC ...

WINDMILLS, TURBINES, AND COMPOUNDS

... SMALL COMPRESSOR CASE ...

... TURBINE HOUSING ...

... SPARE PARTS USED ON VARIOUS AIRCRAFT ...

... HOLDING ...

... SPACER COMPRESSOR ...

... SPARES ...

... SHAFT ASSEMBLY ...

... SPRINGER ...

... SPRINGER ...

... 8717T DIESEL ENGINES ...

... 8717T DIESEL ENGINES ...

... CHASSIS ASSEMBLY ...

... MOTOR ASSEMBLY ...

... VALVE & SLIDE ASSEMBLY ...

DEPARTMENT OF STATE
AND FINANCED

... DEPARTMENT OF STATE ...

... POLYMER ...

... EGYPT ...

TRADE LEADS

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