

Conclusions and Recommendations

Proposed Automation of the Temporary Admissions System for Imports into Egypt

SUBMITTED TO
Ministry of Foreign Trade
USAID/Cairo

SUBMITTED BY
Nathan-MSI Group

UNDER CONTRACT NO.
PCE-I-00-98-00016-00
Task 827

February 22, 2003



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PREPARED BY
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1. Key Findings and Recommendations

The consultants believe that the current efforts of the Ministry of Foreign Trade and the Ministry of Finance to reform the temporary admissions and duty drawback systems are making a significant contribution to export promotion in Egypt. Through these efforts the government is making a good start at simplifying procedures for export-oriented companies and addressing key complaints of the export community. For this reason, we believe that the program, as it evolves, deserves donor support. With respect to the request for information technology equipment, the consultants fully support the use of computer systems to improve the flow of information in support of customs reform and believe that the overall software design of the system that is in place for the Temporary Admissions Offices is appropriate. It is important, however, to ensure that the hardware system in each port is scaled to meet current and expected demand on the temporary admissions system at that port.

CUSTOMS ISSUES

High tariffs pose a problem for Egyptian exporters who need to be able to purchase imported inputs or competing domestic inputs at world prices in order to be competitive on world markets. While adopting low and uniform tariffs would be the best strategy for accomplishing this, the temporary admissions system is a reasonable second-best solution used in many countries. As such, it deserves support from the donor community.

A major complaint of importers and exporters about the old system was the lack of uniformity in dealing with Customs and the General Organization for Export and Import Control (GOEIC). Therefore, it is important under the new system that the main office in Cairo (the "Central Unit") issue clear operating instructions to the offices at the ports (the "Sub-units"). Once official procedures have been established, the Central Unit should issue a public document to the trading community informing them about the procedures. Formal training in the temporary admission systems will be needed once procedures have been adopted.

A major problem in the temporary admission and customs drawback systems concerns the coefficients used to determine the import content of exported goods. The private sector has stated repeatedly that these are always incorrect and that government personnel are not sufficiently trained to calculate them. A solution is to have private companies present their own manufacturing coefficients and then have the government agencies closely audit and monitor them. In this way, the experts (manufacturers) would be doing the coefficients, while the government would be in a proper oversight position.

Tariff Rates in Selected Countries (2002)

Jordan	%
Thailand	%
Indonesia	%
Chile	%
Mexico	%
Egypt	%

INFORMATION TECHNOLOGY ISSUES

The existing software system design, which is built on the existing Customs computer system, seems to function well and is appropriate for automating the temporary admissions system. The

fundamental question then is the scale of the computer system to be implemented in each port for operating the system. The data on transactions suggest that Alexandria is by far the largest port and would need the largest system. Other ports should be able to use smaller systems. It is our understanding that the Ministry of Finance has already issued a purchase order for the equipment and software for use in four of the seven locations that USAID was asked to fund. The remaining three locations are ports with smaller volumes of transactions that could be served by more limited systems. Based on our review, we believe that they could be served by systems consisting of one server, two workstations, and three printers. Communications needs should be scaled accordingly. Other alternatives could be considered, but they would require significant additional expense for software development and thus were not considered here.

2. Proposed Automation of Temporary Admissions System

INTRODUCTION

The Government of Egypt, through the Ministry of Foreign Trade and the Ministry of Finance, is reforming its systems for the temporary admission and duty drawback of imports into Egypt. Based on Law No. 155 of 2002 and further developed in Prime Ministerial Decree No. 1635 of 2002, this effort has a number of components. The duty drawback and temporary admissions process, which had been controlled by the Customs Administration with input from the General Organization for Export and Import Control (GOEIC) and the Ministry of Industry, is now operated jointly by the Customs Administration and GOEIC, with the Ministry of Industry still providing technical input. The law on duty drawbacks and temporary admissions has been simplified¹ and a separate system of customs clearance, including separate offices for this purpose at designated ports, has been established. As part of the latter effort, a new computerized system for temporary admissions is being deployed.

The Ministry of Foreign Trade asked USAID to procure the necessary computer hardware and software installation for the computer system that would support the operation of the new system in seven locations. The request covered systems needed for the central office in Cairo, referred to in the law as the Central Unit, and sub-units in six ports: Alexandria, Dekheila, Port Said, Damietta, Suez, and the Cairo Airport. In response to this request, USAID and the Ministry of Foreign Trade asked the Assistance for Trade Reform Project (ATR) to

- Review the proposal for revising the temporary admissions system to determine whether it meets the standards of international best practice and should be supported through the acquisition of computer equipment by USAID; and
- Review the equipment requested by the Ministry to determine whether it was appropriate for the purpose.

ATR hired Mr. William Green, a customs expert, and Mr. Charles Bauman, an information technology expert, to perform these reviews. The Terms of Reference for the consultancy are in Appendix B. A translation of NCR's proposal for hardware and software, provided to the team by the Ministry, is in Appendix C.

In this report we examine the changes in the temporary admissions system from the perspective of best practices in customs operations. We then review the hardware specification provided by the Ministry and make recommendations as to the information technology equipment

¹ Decree 1635 suggests that the ultimate goal of current reforms is radical reform of the tax system. If completely implemented, Decree 1635 would result in all exporters being able to obtain rebates of an imputed level of taxes that would be assumed to have been paid on the exported good. If the Government of Egypt is moving in this direction, great care will have to be taken to avoid creating prohibited or actionable export subsidies under the WTO Agreement on Subsidies and Countervailing Measures.

that would be required to implement the new automated system. We conclude with recommendations on the implementation of the new automated system for temporary admissions.

BACKGROUND

For exported manufactured goods to be competitive on the world market, intermediate components of the exported goods should be available to the exporter at world prices. In countries such as Hong Kong or Singapore this happens naturally as tariffs are, in essence, zero. In countries with relatively high tariffs, such as Egypt, this can only be accomplished through a second-best strategy using either tariff exemptions or remissions.² The recent effort to establish new export processing zones is one way to make intermediate goods available to companies at world prices, but only companies that can locate in such a zone can benefit. An alternative system used in many countries, and which has operated in Egypt for years, is duty drawback or temporary admission.

Duty Drawback System

Under the duty drawback system, an exporter “draws back” the duties, taxes, and fees paid to the government at the time of entry. An importer files a regular entry when the merchandise enters the country, paying the duties, taxes, and fees that are due and meeting other import requirements. Because duties and taxes are paid, no financial guarantees are required. Under Egyptian law, within two years, with provisions for extending for two more, an exporter that uses the imported goods to manufacture an exported good can have these taxes refunded. Proof of proper import and export as well as manufacturing coefficients, have to be presented to obtain a refund. Third-party refunds can also be obtained under the drawback system.

Temporary Admission System

Under the temporary admission system, raw materials and intermediate goods may be imported without payment of duties and taxes and without regard to other restrictions, such as quotas.³ While no duties or taxes must be paid at the time of entry, the importer is usually required to provide the government with a financial guarantee.⁴ In Egypt, the financial guarantee amount is either 25 percent of duties and taxes potentially owed, 50 percent if textiles or fabric, and 100 percent if the importer is not a producer or manufacturer. One half of the guarantee has to be in

² The preferred strategy would be to move all tariffs to a low and uniform rate but we recognize that such a strategy is difficult to implement in the short term. An alternative and second-best strategy such as temporary admissions is required.

³ Egyptian law also permits the temporary release of imported goods. This system is similar to temporary admissions, except it is for merchandise or items that are going to be exported without undergoing any production or manufacturing. Examples include construction equipment, trade show items, etc.

⁴ Companies with an acceptable rate of compliance can apply to be on the White List, which currently includes approximately 200 firms. Companies on this list do not have to tender a financial guarantee but can use their personal assurance. Exact qualifications for the White List are unclear. GOEIC is the administering agency of the White List but Customs can also submit names. Companies that are “caught” filing incorrect information three times in one year can be placed on the Black List. Once on this list, companies cannot participate in the temporary admission or customs drawback systems. It is unclear how many companies are on the list and what they can do to be removed from the Black List.

currency or a bank letter of guarantee and one half can be based on the company's assets. Company assets cannot exceed 80 percent of the company's financial worth.

In Egypt the time limit for exporting a good that benefited from temporary admissions is two years. An extension of up to two more years can be granted if properly applied for. The importer is required to maintain all business records for these transactions for potential audit and review. No time limit is set as to how long these records have to be maintained. Third-party refunds can be obtained with proper proof of financial transactions. Export can be accomplished by shipping goods out of the country or placing them in a free trade zone for eventual export.

System Problems

While these systems provide significant relief from trade taxes, imports must still pass through several government control agencies, primarily Customs and GOEIC. Many exporters express concern over the time that it takes to process shipments.

Complaints also arise about the functioning of the systems. Financial burdens on private business associated with the system are so large that they impede business growth; the length of time it takes the government to issue refunds is excessive; and government agencies are inconsistent in their understanding and application of the systems. Under the system in place before 2002, the cumbersome process for obtaining either the drawback of duties or the release of guarantees made the system difficult if not impossible to use. Some exporters simply chose to pay taxes that they should not have had to pay rather than deal with the bureaucracy.

Solution to the Problems

A primary reason for adopting the new temporary admissions system is to address the shortcomings of the old system. The new system is a significant improvement in many respects. Customs clearance of imports and exports, however, remains a complex process with room for additional reform. For instance, operational guidance for administering the temporary admission and customs drawback systems, more formal training of government personnel, clearer instructions to the private sector, and better working relationships among government agencies are all needed. We found that while Customs and GOEIC are the primary agencies, the Ministry of Industry, which issues manufacturing coefficients, has a major role. Our understanding from the Ministry of Industry is that it is not issuing any new coefficients under the new temporary admissions system until Prime Ministerial Decree 1635 is clarified.

Our interviews of government personnel, particularly at Alexandria, revealed a great deal of enthusiasm for the new temporary admissions system. Automation has been initiated. The 3 percent service fee, previously retained by the government, is now refunded to private companies and all refunds are processed by the Egyptian Bank for Development of Exports. Despite some remaining challenges, we are confident that progress can be made over the next year in the areas needing adjustment.

Of most importance seems to be the calculation of coefficients for the refund process. Coefficients are required as part of the refund system because it is necessary to know exactly how much imported material goes into the manufacture of an exported good. For instance, an exported shirt takes a certain amount of fabric, a certain number of buttons, a certain amount of thread of various types, and so on. Moreover, there are allowable amounts of both marketable and non-marketable waste related to the process of manufacture. The Ministry of Industry administers the

calculation of these coefficients and this situation represents the greatest obstacle to a practical temporary admission system.⁵

Law 155 has raised a significant bureaucratic issue. It gives GOEIC a nearly equal say in the operation of the new temporary admissions and duty drawback systems and puts GOEIC staff into what was a Customs activity. While this arrangement is practical, it is not consistent with international norms. GOEIC has a clear role in the inspection of goods and it is understandable that the Ministry of Foreign Trade wants to have its own personnel involved in improving the processing of temporary admissions. But the actual admission of goods to the customs territory of Egypt should be a Customs function and international practice would suggest that the Customs Administration should control the admissions process.

⁵ Under the current system, companies must obtain coefficients for each type of good that they manufacture. For some industries this could mean different coefficients for each major order. Prime Ministerial Decree 1635 seems to contemplate movement to a different system under which general coefficients for classes of goods would be developed by committees composed of representatives of the Ministry of Industry and the Customs Administration for industrial goods and the Ministry of Agriculture and the Customs Administration for agricultural goods. It is this process that the Ministry of Industry would like to have further explained by an additional decree.

3. Administration of the Temporary Admission and Duty Drawback Systems

In this section we describe the old and new temporary admissions systems in Egypt. As mentioned already, we believe that the new system is a significant improvement over the old system. It does, however, retain many of the procedures of the old system and remains in many respects cumbersome and complex.

DUTY DRAWBACK

While Law 155 and Prime Ministerial Decree 1635 talk of designing new systems for temporary admissions and duty drawback, new offices that are being created are only for the temporary admissions system. The computer programs designed for the new offices cover only temporary admissions. Duty drawback imports and claims for refunds are being processed through other offices and through normal channels. This seems to be inconsistent with the law and regulations and will need to be addressed at some point in the future. In the rest of this report, we cover the system as it is currently structured; our discussion therefore applies only to temporary admissions.

TEMPORARY ADMISSIONS

Cargo arrives in and departs from Egypt by sea, land, and air. We examined sea and air shipments only. As explained during our meeting with the Minister of Finance, many problems have been enumerated with regard to the old system. The Minister stated that his Ministry acknowledged that the temporary admission and customs drawback systems were very complicated and had numerous requirements that impeded exporting. The Minister stated that the problems were addressed in three ways. First, old laws, such as Number 66 of 1963, were reviewed and amended (e.g., criminal provisions for filing incorrect information were eliminated). Second, problems and issues that need corrective action were identified. Third, the Ministry is seeking to use information technology to create a more efficient system. The details of this approach are discussed below.

Procedures Under the Old Temporary Admissions System

1. The private company or its Customs broker presents the following documents at the time of import:
 - Application for entry, Customs Form 19. This form is also a file folder so that other documents can be stored with it. Approval by the importer's bank is also required.
 - A delivery order covering the shipment arrival.
 - Initial invoice with approval by the importer's bank .
 - Importer identification code.
 - Tax identification.

- Letter of Guarantee from the importer's bank.
- Receipt of payment of services fee (3 percent).
- Final invoice approved by Customs.
- Certificate of Origin approved by Customs.
- Packing list.
- Bill of Lading.
- Insurance company coverage proof.
- Company business registration number.
- Import license.
- Discharge document from law enforcement showing not guilty of any crime.
- Personal identification.

These documents require other actions, such as approvals, before being submitted.

2. Customs and/or GOEIC review the documents to determine accuracy and completeness and whether other government agencies are involved. If so, those agencies are contacted.
3. If the documents are satisfactory, a serial number is assigned and other divisions in Customs and/or GOEIC are notified to arrange an examination of the imported goods.
4. An inspector from Customs and from GOEIC and a Customs appraiser conduct the examination. They are accompanied by a representative of the importer or his broker. We understand that the law requires that at least 10 percent of the shipment be examined. We also understand that written guidelines define how much of the shipment should be examined depending on documentation, type of merchandise, country of origin, importer's past record, etc. We were not able to obtain these written guidelines.
5. If no problems are noted during the examination, the examination form with accompanying documents is sent to the Customs Auditor, who verifies that procedures were followed.
6. If no problems are noted, the file is sent to the Customs Tariff Chief, who reviews the value and the classification(s) of the shipment for correctness and who initiates the payment order covering duties and taxes.
7. The file is then sent to the Customs Chief Accountant, who records the amount to be paid by the importer or Customs broker.
8. Once payment is collected the importer receives a release order, with one copy sent to the release gate. The importer takes the release order to the warehouse where the merchandise is being held and obtains release of the shipment, paying any other additional fees that may be due.
9. The importer also sends samples to the Ministry of Industry so that tests to create coefficients can be conducted. If manufacturing processes have not changed, preexisting coefficients can be used. Any change in processes, however, requires new coefficients.
10. At the time of export, the exporter presents a Certificate of Coefficients issued by the Ministry of Industry, even though the Ministry has already sent a certificate to Customs.
11. A physical examination is made and a sample is taken at the time of exporting.
12. If no problems are encountered, the exporter furnishes proof of import, proof of payment of all fees and duties, a Certificate of Coefficients, and other financial documents to apply for a refund of duties or guarantees.

This procedure is required for all imports, including temporary admissions and Customs drawback system imports. An importer using the temporary admissions system does not have to pay the taxes assessed. He instead provides financial guarantees as described above—25, 50 or 100 percent, depending on the circumstances for a temporary admission entry. When guarantees are paid they are recorded by the Customs Accountant in a record book with an annual serial number.

Exporter Concerns with the Old System

When we met with the Egyptian Exporters Association, frustrations with the system were brought to our attention. Some complaints were outside the scope of our evaluation and are not covered in this report.⁶

The spokesman for the Association defined several basic concerns. First, the system is so complicated and archaic that even government personnel administering it do not fully understand procedures. Second, requiring a company to use up to 80 percent of its financial assets as collateral drastically impedes the company's ability to grow. Third, files are routinely reported "missing." Until missing files are found financial assets remain frozen and refunds are not forthcoming. In a paper-based processing environment, wherein files move from desk to desk, some files will always be difficult if not impossible to find as they make their way through the system.

A very alarming complaint was brought up about coefficients. Reportedly, government employees not fully trained or skilled in performing this task set the coefficients; most or all coefficients issued are incorrect. Importers realize that the coefficients are not correct but have to abide by them in order to get their shipments released and their refunds issued. Since the government agencies also know this, it places them in a position of technically being able to prove every importer or exporter is furnishing incorrect information. Placed in this precarious position, businessmen are obviously reluctant to complain lest they be cited for knowingly using incorrect coefficients.

Another common problem is the inconsistency of government employees. A member of the Association opined that he and others are very reluctant to be placed on the White List even though it would save them money. In order to be on the list a company has to admit wrongdoing beforehand if there are any errors or mistakes on the information presented to the government.

The Exporters' Association was asked for and agreed to provide data on the effect of delays in the temporary admissions system on their businesses. As of the date of this report this information had not yet been received.

We attempted to interview some of the Customs brokers, airlines, and freight forwarders at the Cargo Village at Cairo Airport. They were understandably not very forthcoming in their comments and did not provide useful data.

Procedures Under the New Temporary Admissions System

The new system for temporary admission and customs drawback systems is defined in the Prime Minister's Decree, Number 1635 issued on September 21, 2002. It indicates that a Central Unit shall be established at and under the supervision of the Ministry of Finance in association with the Ministry of Foreign Trade. The Central Unit is to

⁶ For example, one complaint is that the duty rates on textiles are too high and impede trade.

- Establish a filing system;
- Save data and information on the subject systems;
- Receive, verify, and file the guarantees received from concerned parties or by the sub-units and credit them accordingly;
- Receive and file reports on percentages of waste and damage;
- Deduct from and refund guarantees appropriately;
- Examine problems referred to it;
- Set controls on drawback of duties, fees, and taxes;
- Make decisions on problems referred to it;
- Follow up on how the systems are being applied and their effect on exports;
- Supervise and direct the annual inventory of the productive units under the supervision of the Customs Department; and
- Submit a quarterly report on the assessment of performance.

None of these functions were being conducted at the Central Unit as it was not yet installed at the time of our visits in December and January. According to all parties interviewed, the Central Unit is scheduled to begin operations on February 9, 2003.

The Decree also established sub-units at ports with locations to be agreed on by the two Ministries. At the time of our visit the only sub-unit in operation was at the Port of Alexandria. The Decree requires less paperwork for temporary admissions, as follows:

1. Delivery order.
2. Original copy of the Bill of Lading (not a photocopy).
3. Invoice in English, French or Arabic.
4. Packing list of container contents.
5. Certificate of Origin, if submitting a request for exemption of duties and taxes on items from countries with which preferential agreements are in place.

Other procedures must be followed in the import stage and other documentation is still required for the export process. Under the new procedures, the export process remains the same.

During our visits to the Cargo Village at Cairo Airport and the Port of Alexandria, however, we were told that the following documents are required:

1. Delivery order.
2. Original invoices (3 copies).
3. Packing list (3 copies).
4. Importer identification.
5. Importing documents.
6. Certificate of Origin.
7. Banking certificate.
8. Industrial Control approval.
9. A financial guarantee.
10. A written declaration of committing to the temporary admissions system.

Likely reasons for these differences are discussed below.

OPERATIONS

Port of Alexandria

As noted, at the time of our visits to Egypt, only the Port of Alexandria had an operating Temporary Admissions Office under the new system. We were quite impressed with the facility and its operations.

We met with Customs and GOEIC officials at the new building for temporary admission and duty drawback systems. The process was described as follows:

1. The carrier provides a paper copy of the manifest to Customs 24 hours before the vessel arrives.
2. The Customs staff of 18 persons enter these data into the Customs computer system. We were told that this number of staff is sufficient to keep up with the data and that there were no backlogs. We were also advised by several parties that Alexandria handles approximately 80 percent of all imported cargo. At the time of our visit, Alexandria was also handling temporary admissions for Dekheila, which was not yet ready for operation.
3. The importer or its Customs broker physically presents the required documents (listed above). Five Customs brokers at Alexandria are authorized to input their own data electronically. When the documentation is presented, a new form for temporary admission entries, number 22, is used. This form is also a file folder. Even though the new form includes the word “drawback,” the form is used only for temporary admission entries. Under the new system at Alexandria, drawback entries are filed the same as any other entry because duties and other requirements have to be met. “Drawback” was left on the new form, we were advised, so that people would know it still existed under the new system. Customs personnel will process drawback refunds at the new building at Alexandria (none had been applied for at the time of our visit). We were told that one request for a reduction in a guarantee under the temporary admissions system had been submitted the day before our arrival, but no paperwork was available for review.⁷
4. GOEIC personnel at the sub-unit fill out the new form, which has 35 fields for importer information. Other fields are for government use only.
5. After GOEIC personnel enter information from the paperwork into the computer, the matter is referred to a committee, in a manner very similar to the old system.
6. The committee at Alexandria consists of a Customs inspector, a GOEIC inspector, and a Customs appraiser. Basically the same steps are taken as described under the old system, including the taking of three samples. But all temporary admissions shipments are inspected by personnel specially assigned to the temporary admissions office. Given the number of staff in the office, inspections may be faster than for shipments processed through normal channels.
7. At the time of export, the exporter presents documentary proof of import, a Certificate of Coefficients, and related financial bank and guarantee documentation. Export shipping

⁷ A week later when the team from USAID IRM visited Alexandria, that claim had just been settled and two more claims were pending. Officials offered to provide a copy of the completed calculations to the IRM team but these were never received.

documentation has to be certified and stamped as proof of actual shipment. We were advised at the time of our visit that the Ministry of Industry had stopped issuing coefficients pending more information from other Ministries. The Prime Ministerial Decree requires that a committee be set up involving Customs and the Ministry of Industry personnel to develop new, more general coefficients.⁸ No one we talked to had any information about this committee.

Staff at the temporary admission building consists of 10 GOEIC and 23 Customs personnel. As mentioned, GOEIC personnel enter data on the Customs form, collect the paperwork, and perform their normal inspection duties. The Customs officials perform their normal inspections and manage the calculation of refunds and the finances of the office. When asked why Customs personnel were not handling data entry, we were told that all staff work as a team and Customs would be doing more computer tasks in the future, including issuing refunds of duty and guarantees. Customs advised that they did not need more personnel and the GOEIC manager stated he that would like 10 more people. This would give each agency about the same number of personnel.

The Customs manager stated that he would like a one-month training course for his personnel in order to properly implement the new system. The GOEIC manager did not indicate any further training was necessary. We were also told that GOEIC personnel are paid more than their Customs counterparts. Workload was described as approximately 20 temporary admission entries per day with an average of 27 line items per entry. GOEIC personnel stated that when they enter the importer's code, most of the required information comes up on the screen from prior input. We were also told that an examination takes approximately one hour. Officials estimated that workload would increase once everyone was familiar with and liked the new system.

We were also told informally that an agreement had been reached among the ports that the sub-units would "work it out" and implement the new system. It was also reported that Cairo was purposely being left out of the loop. But there were indications that there are still problems between Customs and GOEIC at Cairo and that GOEIC is not accepting the role of deputy for the new office at Alexandria. When we questioned Customs and GOEIC personnel about their working relationship, they stated that GOEIC operates more as a private company whereas Customs performs as a government agency. GOEIC's role was defined as performing quality control. If that is the case, we asked, why is GOEIC entering data presented by the importers and brokers, but we received no answer. Our meeting was conducted in the GOEIC manager's office in a manner that suggested the GOEIC manager was in charge of the operation and the Customs manager was subordinate.

The working relationship between Customs and GOEIC demonstrated in Alexandria was one in which all parties are "trying to work it out and perform as a team." This is both commendable and practical. With cooperation such as this, there will be no bureaucratic problems associated with the new system.

Central Unit in Cairo

As mentioned, at the time of our visits this unit was not yet functioning but was scheduled for equipment installation in February 2003. Staffing was uncertain. A short time later, a new Prime

⁸ A committee of Customs Administration and Ministry of Agriculture officials will establish new coefficients for agricultural goods.

Ministerial Decree that established the organization of the office was issued. With that decree, staffing issues may now be resolved.

At the Central Unit, we were told that refunds currently average two weeks unless there is a dispute over the information. Reportedly, once the new system is operating, refunds will average one day. When we requested operational instructions on our first visit we were advised that we would have to write to NCR, as they had the only operational instructions available. At the time of our second visit we were told that this could not be provided because it was considered secret.

A primary activity of the Central Unit will be formulation of standard operating procedures to be used throughout the system.

Cargo Village at Cairo Airport

Air cargo shipments imported and exported through the Cairo airport are still under the old system. This location is scheduled last for equipment installation. We met with Customs management and observed basic cargo clearance procedures. This system is similar to the new system in Alexandria. Importers or their brokers go to a window and present their documents to a Customs employee, who enters the information into a computer and then prints it out for handling. This computer system was initiated in about 1978 by a French computer company and is still in use.⁹ If the shipment is for temporary admission or duty drawback, the files are forwarded to the old Central Temporary/Drawback office near the airport. When we asked for operating instructions for the new systems we were provided a partial copy of the Prime Minister's Decree number 1635. It has been reported that importers are frustrated by inconsistency at the airport each time they attempt to enter merchandise.

WORKLOAD STATISTICS

We frequently requested from all parties statistics that would aid understanding the workload. We asked for the number of fraud cases, rejected entries, penalties, numbers of entries processed, etc. As of the end of the consultancy, little of this information had been provided. (See the section below reviewing the information technology aspect of the system for the data received on transactions.) We were able to gather some information on Egypt's imports and exports under the temporary admission and customs drawback systems for a four-year period. Table 1 presents monetary and percentage comparisons of the temporary admission and customs drawback systems for imports and exports.

Table 1 reflects two facts. First, temporary admission and customs drawback systems exports constitute a significant percentage of export activity in some years. Second, the volume of exports through these systems are declining, probably contributing to an general decline in exports. This suggests that the complaints about the old systems are well founded and that the problems the complaints identified are having a negative effect on Egypt's ability to export.

The import portion of Table 1 also reflects some startling facts. One is the obvious decline in temporary admission entries. Note the volume of exports reported in the table; that number declined significantly in 2001. Additionally, the import portion of the table reflects that drawback continues to be used heavily, especially when compared to temporary admissions. This is most likely attributable to the financial guarantee procedures required for a temporary admission but not for a duty drawback. The coefficients that are required for temporary admissions may be

⁹ As discussed below, NCR and Tabarak have a contract to replace this old system with a new, Windows-based system. The Cairo region is the last region scheduled for transfer to the new system.

Table 1. Egypt's Exports and Imports Under the Temporary Admission and Customs Drawback Systems (U.S. Millions)

	1999	2000	2001	2002
Exports				
Total non-oil exports	2,262	2,760	2,491	
TA & DD exports	445	991	404	193
As percent of total exports	20%	36%	16%	
Temporary admission	273	640	365	176
As a percent of TA & DD	61%	65%	90%	91%
Drawback exports	172	351	40	17
As a percent of TA & DD	39%	35%	10%	9%
Imports				
Total non-oil imports	15,508	12,995	12,065	
TA & DD imports	1,124	1,444	1,165	494
As percent of total imports	7%	11%	10%	
Temporary admission	184	280	221	96
As a percent of TA & DD	16%	19%	19%	19%
Drawback imports	940	1,164	944	398
As a percent of TA & DD	85%	81%	81%	81%

Note: Quantities for 2002 are for January through May only. Source: Ministry of Foreign Trade

another reason since they are more complex than the coefficients used for duty drawback. (e.g., under temporary admissions, coefficients can include provision for wasted materials.)

According to officials at Alexandria, drawback entries are not being processed separately from normal imports at the time of import under the new system, as is the case for temporary admission imports. This will make it impossible to track the number of imports under the drawback system through the temporary admissions computer system.

Reportedly, a number of old temporary admission and customs drawback systems refund requests are pending at the old site near Cairo Airport. We were told that a decision had been made to segregate these from the new system of refund claims and other processing. We were not able to find out how many such claims there are, how old they are, or what is being done to liquidate them. According to the Egyptian Exporters Association, some claims are two or more years old.

CONCLUSIONS AND RECOMMENDATIONS FOR CUSTOMS ADMINISTRATION

Based on our review, we offer the following conclusions and recommendations:

1. High tariffs are a problem for Egyptian exporters who need to purchase imported inputs or competing domestic inputs at world prices in order to be competitive. While adopting low and uniform tariffs would be the best strategy for accomplishing this, the temporary admissions system is a reasonable second-best solution used in many countries.
2. The system put in place by Law 155 and Prime Ministerial Decree 1635 for the reform of the temporary admissions system is a good first step in addressing shortcomings in the old system for temporary admissions and duty drawback. While we identify a number of improvements that could be made, we believe that the new system deserves USAID's support.

3. The new systems for temporary admissions seem to be functioning well, but how Law 155 is being implemented for duty drawback is less clear. Consideration should be given to how the requirements of Law 155 with respect to drawback transactions will be integrated into the new system.
4. A major complaint of importers and exporters concerns the old system's inconsistency in dealing with Customs and GOEIC. Under the new system the Central Unit should issue clear operating instructions to sub-units.
5. Once official procedures have been established, the Central Unit should issue a public document informing traders of the procedures used in the temporary admissions system. There should be conversations with trade groups and major parties before issuing these instructions.
6. Once procedures have been adopted, a formal training program on the operation of the temporary admission systems should begin. While specifics are beyond the scope of this consultancy, it seems, based on our discussions with Customs officials, that a formal basic training program would be beneficial for all of Customs.
7. The specific staffing needs of each Temporary Admissions Office should be examined in light of expected usage.
8. While the existing automation of the temporary admissions system is admirable, more could be done. For instance, carriers and brokers should be allowed to transmit their information electronically to Customs and GOEIC. Government agencies could then review the information for accuracy and completeness, just as they do now with the paper.
9. The two-year time limit, with a two-year extension provision for temporary admissions imports should be extended to minimize unnecessary contact with the bureaucracy. A five-year time frame is recommended. In the United States companies have five years to export items and three years to manufacture or produce them. This allows time for sales agreements and is more attuned to the "business world."
10. Consideration should be given to expanding the items the temporary admission system can be applied against, including "rejected" merchandise. Recognizing that this may be a WTO issue, substitution of imported items should be allowed as long as it is the exact same material. This will help promote exports.
11. Coefficients are a major problem in the temporary admission and customs drawback systems. The private sector stated repeatedly that these are always incorrect and that government personnel are not sufficiently trained to do them. Here the solution is to have private companies present their own manufacturing coefficients and then have the government agencies closely audit and monitor them. That way the experts—the manufacturers—set the coefficients and the government is in a proper position of oversight.
12. The process by which the coefficients are established through committees with the Ministries of Industry and Agriculture must be clarified and implemented. Without this, the trade community will continue to bear the brunt of the problem and export capability will continue to suffer.

While reviewing the temporary admissions system, we made some general observations about the Customs system. It is our understanding that reform of all of Customs is ongoing. We support

this activity, particularly to the extent that it addresses issues of risk management, post audits, and selective cargo examinations based on historical data and intelligence. Another potential issue is electronic invoices, which were used in the United States and other countries years before electronic signatures were legalized.

4. Review of Proposed Information Technology Equipment for Temporary Admissions Offices

Given that the new temporary admissions system should be supported, what is the best way to automate the system and does the request of the Ministry of Foreign Trade fit the needs of various ports? In performing our review, we recognized that the Ministry's request was not made in a vacuum. The Customs Administration has been automating its activities for decades and in the past five years has been updating and modernizing all of its computer systems. This process is ongoing, though the complete rollout under the existing automation contract should be complete in 2003.

The programs used for temporary admissions, as implemented by Customs, are designed as one module in a set of about 35 modules. The temporary admissions system may be housed in a separate building and operating to a significant extent off of separate servers, but it is a part of the Customs system and cannot be separated from it. Moreover, it is our understanding that the Customs Administration, possibly with assistance from USAID, is about to begin a top-to-bottom review of its automation system. That review could result in a decision to move to a totally new design of Customs' basic software. If this happens, the temporary admissions system software would probably cease to function properly and would have to be replaced.

NCR, the prime contractor and hardware supplier, and Tabarak, the software subcontractor, designed the new temporary admissions system around existing Customs applications. The computer system for the Temporary Admissions Office provides a one-stop shop for companies that need to import goods for use in exports. Thus, the design must meet data processing needs for the

- Filing of guarantees for taxes owed,
- Importation of goods (including all clearance procedures),
- Export of goods (again including all clearance procedures), and
- Settlement of claims relating to temporary admissions.

Allowance was also needed for the management of all these functions.

Tabarak modified the basic import and export modules from the Customs system to include information specific to the temporary admissions system. It also developed applications for entering and tracking financial guarantees and for calculating the taxes owed upon export as well as calculating and tracking the use of imports in exports. Add to this programs for monitoring all aspects of these operations and for maintaining the integrity of the central database of information for the system, and one has a broad outline of the software system. All of this software was designed under a separate contract with the Customs Administration and is to be used on the hardware systems included in the request from the Ministry of Foreign Trade to USAID.

We have not had an opportunity to review the programs underlying the system implemented by Tabarak but we believe that the overall design is reasonable. Moreover, it is already working in the Alexandria sub-unit and the Central Unit and so would seem to be operational. But as the system expands, problems may be identified that will need to be fixed. It is our understanding that Customs will cover the cost of problems that may arise with the software as the system is

implemented. Thus, there is no need for USAID to finance the development of the software for the temporary admissions system. But implementing the software in any site added to the system will have costs. The proposal of the Minister of Foreign Trade included these costs. These are certainly part of the cost of implementing the software system on additional hardware and we support them. It will not be possible, however, to put this item up for competitive bid because only Tabarak, or NCR using Tabarak, can provide this service.

We understand from discussions with the developer that the server software, while based on open standards, was built to run on Sybase for NCR Unix. Sybase has ceased updating its program for that version of Unix and so it is now at least one major revision behind Sybase for other systems. The developer indicates that this would present a problem when porting the application to operating systems running on other types of computers and that the application would not run properly in that environment. Given problems that can arise when porting programs from one version of Unix to another and given the different version of the Sybase software operating on other computers, it is valid to question whether the server software would run properly on non-NCR equipment. We were not able to test whether the software would run on other versions of Unix or on other hardware and believe that the testing costs and possible software development expenditures that would be required to shift to a different operating environment would outweigh savings obtained by using a different system. For these reasons, we recommend that NCR servers with NCR Unix be acquired for the servers identified below.

CLIENT–SERVER CONFIGURATION

The Central Unit of the temporary admissions system is designed to house the central database and applications server for the system. This server will maintain records of all open import and export transactions and all guarantees. It will also host the application for calculating any taxes owed or refund of guarantee required upon submission of a request by an exporter. Finally, guarantees may be filed at the Central Unit independently of any filed in the sub-units.

The data stored in the server at the Central Unit will come from client workstations operating in each of the sub-units, as well as from clients operating in the Central Unit. Requests from the sub-unit clients are processed through a server located in the sub-unit before being transferred to the master server at the Central Unit. (See Diagram 1 below.) The workstations will be used to log in guarantees, process import documents, export documents, requests for reductions in guarantees, and manage the system. The system is designed with security in mind. The server has the capability to limit access to applications by workstations and user. Thus, depending on the security put in place, an individual operator may only have access to a specific application from a specific workstation.

This design makes the system heavily dependent on communications between the Central Unit and the sub-units. Therefore, backup communications are critical. While this was included in the proposal made by the Minister of Foreign Trade to USAID, it was not implemented in the Alexandria sub-unit at the time of our visit in January—even though the sub-unit was using a high-speed line to communicate with the Central Unit.

We support Tabarak's design concept but are concerned that it might not be appropriate for smaller ports. Smaller ports with very few temporary admissions transactions do not seem to need a separate server in the sub-unit. Nor does a very high-speed data link or a continuous link with the Central Unit seem necessary. Changing the system to permit this kind of remote access to the Central Unit might be difficult; we are not suggesting that this be done for the sites that we are

reviewing. Nevertheless, we believe that consideration should be given to this approach as the system is rolled out to other sites.

Diagram 1. Logical Organization of the Remaining Temporary Admissions Sub-units

The hardware and software specification in Appendix A specifies a dual processor server for each sub-unit. Given the low volume of transactions at most sub-units, consideration should be given to using smaller servers at those sites and, in particular, using only single processor units. Basic operating system and database operation software for the servers are included in the specification as well.

NETWORKING CONFIGURATION

Tabarak's design of the temporary admissions system has a central server at the Central Unit communicating with servers at each of the six proposed sub-units through high-speed network connections.¹⁰ The Ministry of Finance is proposing that these high-speed links ultimately operate at 2 megabits per second. While we support the idea of using high-speed links between the offices, speeds in excess of 512 kilobits-per-second do not seem necessary for most ports and the system at smaller ports could likely operate at ISDN speeds.

Table 2 presents the number of transactions recorded under the previous temporary admissions and customs duty drawback systems in 2001 and 2002.¹¹ This table suggests that the combined ports of Alexandria and Dekheila processed an average of 9,000 temporary admissions and duty drawback transactions annually—or 35 transactions per day. Because the new offices focus only on temporary admissions, the expected number of transactions would be even less; and when Dekheila has its own office, the volume at either office will be much smaller. These data for Alexandria and Dekheila are consistent with the experience of the Alexandria sub-unit in recent months. For instance, in January the sub-unit processed 300 import transactions and 50 export transactions, or about 18 per day.

Representatives of Tabarak informed us that each transaction generates about 150 kilobytes of data for transfer to the server in the Central Unit. On an average day the high-speed data link is carrying about 3 megabytes of data. A 2 megabit-per-second link would handle that traffic in less than 20 seconds, an ISDN link might need 10 to 15 minutes. Offices other than Alexandria will need far less time. Turning to individual transaction times, an ISDN link would take about 30 seconds to send one packet to the Central Unit. A 512 kilobit-per-second link would take about 3 seconds to send the data. Neither of these times seems excessive.

Given these data, speed much beyond ISDN speeds does not seem necessary. USAID, however, is not being asked to pay for the communications link. We are therefore recommending that the Ministry consider whether it could save money by using a lower speed link between the sub-units and the Central Unit.

¹⁰ The Ministry of Foreign Trade has indicated that it wants to establish special temporary admissions offices at each port and land border post that has a customs operation. Thus these six ports, while the largest in Egypt, would represent only about a quarter of the system that is envisaged. We support the concept of providing access to the temporary admissions systems from all points of entry into the country but question whether complete temporary admissions offices are necessary at all points. As transactions data indicate, demand for this type of service outside of a small number of ports seems limited.

¹¹ The discrepancy between the data presented in Table 2 and those presented earlier in this report regarding the total value of temporary admission and duty drawback in 2001 and 2002 is significant. We have not been able to resolve this discrepancy.

Table 2. Data on Transactions Processed for Duty Drawback and Temporary Admissions, 2001 and 2002

	Import shipments		Export Shipments		Total Shipments	
	Number	Value (mill.)	Number	Value (mill.)	Number	Value (mill.)
2001						
Alexandria/Dekheila	2,932	\$850.73	6,395	\$3,170.28	9,327	\$4,021.01
Suez	391	\$171.83	1,825	\$249.66	2,216	\$421.49
Port Said	91	\$23.73	1	\$0.33	92	\$24.06
Damietta	178	\$111.94	1,097	\$68.48	1,275	\$180.42
Cairo Central	<u>3,922</u>	<u>\$107.43</u>	<u>4,041</u>	<u>\$449.38</u>	<u>7,963</u>	<u>\$556.81</u>
Total	7,514	\$1,265.66	13,359	\$3,938.13	20,873	\$5,203.79
2002						
Alexandria/Dekheila	2,219	\$813.43	5,906	\$1,934.36	8,125	\$2,747.79
Suez	235	\$100.06	685	\$105.75	920	\$205.81
Port Said	91	\$70.83	122	\$16.19	213	\$87.02
Damietta	117	\$95.17	671	\$117.57	788	\$212.74
Cairo Central	<u>3,377</u>	<u>\$115.05</u>	<u>3,740</u>	<u>\$1,112.77</u>	<u>7,117</u>	<u>\$1,227.82</u>
Total	6,039	\$1,194.54	11,124	\$3,286.64	17,163	\$4,481.18

Source: Ministry of Finance

All sub-units would be connected to the main Customs computer system for that point of entry by a fiber optic link. This link is needed for two purposes. The servers in each sub-unit need basic data (e.g., on tariffs, exchange rates) that are on the Customs system. The workstations in the sub-units also need to access basic data records, especially for import transactions, that reside on the main Customs servers. Given the distances that often separate the temporary admissions offices from the central Customs computers, it is appropriate to use fiber optic cables for this networking.

The hardware specification in Appendix A includes the networking equipment necessary to link the computers in the sub-unit on a local Ethernet network and to connect the sub-unit with the Central unit through a high-speed data link with an ISDN line backup and to the local customs office with a fiber optic link.

In addition to basic networking equipment, we are recommending that the security of the system be improved by installing a firewall at the Central Office. This will permit monitoring of

network traffic to minimize damage that harmful programs operating on one station could cause to the rest of the system.

HARDWARE REQUIREMENTS

The transactions data reported above are important in establishing hardware specifications for individual offices. The Ministry's request covered equipment for seven offices:

1. Cairo Airport
2. Suez Port
3. Damietta Port
4. Alexandria Port
5. Dekheila Port
6. Port Said
7. Central Unit in Cairo

The staff of NCR reported to the consultants, and the Ministry of Finance confirmed, that the Ministry of Finance issued a purchase order in December for systems for four offices listed in the original request—Alexandria, Dekheila, Port Said, and the Central Office.¹² Staff at USAID have indicated that USAID would find it impossible to supply equipment for an office for which the government had already acquired equipment. For this reason, we have focused on the hardware needs of the remaining three offices.

Table 2 presented transactions data for Suez and Damietta. Suez processed an average of six transactions per day in 2001 and 2002 while Damietta processed four transactions per day. We did not receive data for the Cairo Airport. We assume that it has a transactions volume more similar to Suez and Damietta than Alexandria.

The consultants sat with the data entry personnel and observed that it takes between 15 and 20 minutes to enter data for one transaction. If six transactions each day each take 20 minutes, only about two hours of data entry are required at each port on an average day. Compare this to Alexandria's 20 transactions per day, which would take 400 minutes of data entry time.

Given these data, we estimate that for ports other than Alexandria it might be possible to operate the temporary admissions system on one workstation. But to ensure backup capacity and room for expansion, we recommend two computers per office.

We also recommend two dot-matrix printers per office.¹³ It might be possible to get by with only one printer, but because separate forms are used for imports and exports it would be useful to have separate printers for each. It is also important to have backup capacity in case a printer breaks. A laser printer is included for each unit for printing documents other than the import and export declarations.

Some software will also be needed for the workstations. We recommend that copies of Microsoft Office and an antivirus program be purchased for each workstation. Finally, the client software for the system will have to be installed and configured on all of the computers and the

¹² A server, ten workstations, and associated software, printers, and networking hardware were requisitioned for each office.

¹³ The paper-based system for imports used by Customs begins with the filling in of multiple copies of an import declaration form. To use these carbon-less forms, it is necessary to have dot-matrix (impact) printers.

network equipment made operational. All of this will have to be supported through the procurement process.

Beyond the equipment needed to operate the three sub-units, we observed that there is no plan to establish a data warehouse in the Central Unit. We believe that a data warehouse should be an integral part of the system and recommend that steps be taken to incorporate one into the Central Unit. Unfortunately, this will require a significant amount of programming and design to implement and we suggest that it be considered as part of a separate procurement.

CONCLUSIONS AND RECOMMENDATIONS FOR INFORMATION TECHNOLOGY

Based on our review of the information technology system used for temporary admissions, we offer the following recommendations for information technology:

1. We were impressed with the role of automation in reform of the temporary admissions system. While we believe that the system of automation should be expanded, it is a good basis for the new system.
2. Temporary admissions and duty drawback systems are difficult to fully automate. Experience elsewhere suggests that some paper-based activity will always be needed in the system.
3. The system as designed by NCR/Tabarak is tightly integrated with the main Customs system, as it should be. This creates dependency on the underlying Customs system that may pose a problem should Customs change its main system in the near future.
4. The software system designed for the servers in the sub-units was written for Sybase for NCR Unix; porting it to work on a different operating system would require significant testing and possibly some recoding. Given that the system is already being implemented in four locations with NCR servers running NCR Unix, we recommend that the servers in the sites to be funded by USAID run NCR Unix.
5. The Ministry of Finance has issued a purchase order for the hardware and software to implement the system in four of the offices included in the request to USAID. We therefore confine our recommendations to sites not covered by the purchase order. Transactions data available for the remaining three offices suggest that they handle far fewer transactions than the Alexandria office and could be served by fewer computers. We recommend that each of these offices be provided one server, two workstations, and three printers along with the necessary software and networking equipment to operate the system.
6. To protect the network, we recommend a firewall system at the Central Unit.

Appendix A

HARDWARE RECOMMENDATIONS WITH
BUDGET ESTIMATES

	Est. Cost per Unit	Quantity	Total
<u>Networking Equipment and Installation</u>			
Branch Routers: Ethernet Modular Router w/ IOS IP, use w/ext RPS Cisco 2600 Series IOS IP or equivalent 2-Port Serial WAN Interface Card V.35 Cable, DTE Male to Smart Serial, 10 Ft.	\$2730	3	\$8190
ISDN Backup Connection 1-Port ISDN WAN Interface Card (Card and leased line)	\$560	3	\$1680
NT1	\$160	3	\$480
LAN Switch: 8-Port 10/100 Switch	\$1420	3	\$4260
Firewall, Cisco IDS 4210 or similar			\$6000
Fiber Connection w/Customs Bldg. in Cairo Airport 3 core with termination and installation			\$9050
Fiber Connection w/Customs Bldg. in Suez 3 core with termination and installation			\$2510
Fiber Connection w/Customs Bldg. in Damietta 3 core with termination and installation			\$12,450
<u>Workstations</u>			
PC with: Processor, Intel Pentium 4, 2.0 Ghz or faster Memory DIMM SDRAM 512 MB (PC-266) Graphic Card 32 MB Ethernet board 10/100 Mbps Wheel mouse – PS/2 Keyboard 104 Key: US/Arabic HDD 60 GB, EIDE, UDMA 66/100 CD-ROM 700 MB 40/52x Monitor 17”	\$ 1260	6	\$7560

	Cost per Unit	Quantity	Total
<u>Application Server</u>			
Server with:			
NCR S29, CTO	\$13,700	3	\$41,100
NCR S29 Companion CD			
HDD SCA 36GB 10k Rpm (4 ea.)			
TAPE, DAT, DDS-4, SCSI, 20/40GB, HH			
Dual 2.0GHz or better Processor, 2 GB SDRAM DIMM, ECC PC266			
48X IDE CD ROM			
NCR S29 Tower Chassis			
Redundant Power Supply/Dual Modules			
2 button Mouse, 104 Keyboard – US/Arabic			
NCR UNIX MO-RAS – Ready Feature			
Monitor 17” Color, .28 MMDP			
RAID PCI AM1493 2 Channel w 128 MB memory			
RAID AMI1493 Battery Backup			
SW: Client Server Operating Environment			
MP-RAS SVR4, Network File System, TCP/IP			
SW: RAID Manager			
SW: Redundant Disk Array Controller			
<u>Printers</u>			
Epson LQ 2180 Matrix Printer/or equivalent	\$910	6	\$5460
136 CPL/480CPS DARFT/64Kb/Parallel/1-5 Copies			
HP Laserjet 2200D Printer/or equivalent	\$890	3	\$2670
1200-DPI, A4, 18 PPM, 8 Mb, B&W			
<u>Software</u>			
Windows XP Professional	\$200	6	\$1200
Sybase Adaptive Server Enterprise			
3 servers	\$4000	3	\$12,000
6 network seats	\$800	6	\$4800
Windows XP Office Professional	\$200	6	\$1200
Norton/Symantec Antivirus License	\$30	6	\$180
<u>Installation</u>			\$20,000
TOTAL:			\$130,790

Appendix B

SCOPE OF WORK



**Assistance for Trade Reform (ATR)
Nathan–MSI Group**

Contract Number PCE-I-00-98-00016-00 TO# 827

SCOPE OF WORK

**IT AND INSTITUTIONAL NEEDS ASSESSMENT FOR IMPLEMENTATION OF
HIGHLY EFFICIENT DUTY DRAWBACK AND TEMPORARY ADMISSION SYSTEMS
IN EGYPT**

DECEMBER 9, 2002

ATR Project

The Assistance for Trade Reform project is a USAID-funded project implemented by the Nathan–MSI group. The project's objectives are to:

1. Establish a World Trade Organization (WTO) unit within the Ministry of Foreign Trade (MOFT) and to form the necessary intra- and inter-ministerial coordinating mechanisms incumbent upon WTO compliance;
2. Continue and finalize the reengineering efforts as contained in the Foreign Trade Sector (FTS) reengineering study and to expand/complete this effort in Commercial Representation Sector (CRS) and General Organization for Export and Import Control (GOEIC) so that their operations facilitate trade liberalization and enhance Egypt's export prospects; and,
3. Facilitate the automation of the above four units with appropriate information technologies.

To meet these objectives, the Nathan–MSI team will undertake the following tasks:

1. Task 1: Establish a WTO Unit;
2. Task 2: Trade Liberalization and WTO Compliance Policies;
3. Task 3: Institutional Development of the Cooperating Divisions Working in Foreign Trade;
4. Task 4: Organization of In-Country and Off-Shore Training Activities, Workshops and Seminars; and,
5. Task 5: Implementation of Information Technology Plan for Cooperating Divisions and WTO Unit and Procurement of Equipment and Software.

TERMS OF REFERENCE

Background

The Government of Egypt has undertaken several trade reform initiatives over the past decade in an effort to provide more economic opportunities for Egyptians. Though the pace of reform has been somewhat uneven in the past few years, the Ministry of Foreign Trade has outlined an export strategy that will seek to boost exports through an improvement of the institutional environment affecting exporters and by helping Egyptian exporters take advantage of market opportunities overseas, including through bilateral, regional, and multilateral trade agreements.

Egyptian exporters have complained that Egypt's duty-drawback and temporary admission systems needed improvement. Temporary admission is the customs procedure under which certain goods can be brought into a Customs territory conditionally relieved totally or partially from payment of import duties and taxes. Drawback is a procedure that grants repayment of import duties and taxes paid on goods used in the processing or manufacture of exported products, materials contained in the goods or consumed in the manufacture of the exported products, or imported goods re-exported in the same state. Law 155 of 2002, which among other provisions, sought to speed up duty reimbursement for exporters, was welcomed by exporters. However, this was only a first step.

Proposed Activity

This proposed activity, which falls under ATR Task 2: Trade liberalization and WTO Compliance, seeks to review the institutional environment necessary for the implementation of a duty drawback and temporary admission systems and to assess the information technology (IT) needs of implementing high speed and interconnected systems for tracking shipments and effecting temporary admission or duty reimbursement in five Egyptian ports along with a central system at Cairo airport. The five regional ports are the Port of Alexandria, Port of Dakheila, Port of Suez, Port of Port Said, and Port Demiat.

This activity will be led by two consultants, a Customs expert experienced in duty drawback and temporary admission systems and an information technology expert familiar with LAN/WAN, routers/switches, document flow-based systems, automation desktops, audit trailing, integrated computer-aided software engineering tools, Unix, Power Designer, and Sybase adaptive server enterprise. The IT expert should have experience in connecting IT systems in different ports of entry to each other and to a central location, preferably for duty drawback and/or temporary admission systems. The two experts will work in tandem to:

- Review the role of Egyptian institutions, such as Ministry of Finance (including Customs administration) and Ministry of Foreign Trade, responsible for formulating and implementing the duty drawback and temporary admission systems. This assessment will include both a review of legal instruments and discussions with local officials, and review of areas of responsibility and means of coordination between these institutions;
- Review and assess of current on-the-ground implementation of duty drawback and temporary admission systems at Cairo Airport and the five ports mentioned above;
- Provide a detailed review of processes undergone by shipments brought under both duty drawback and temporary admission, from receipt of paperwork indicating arrival of goods

to actual receipt by exporters of duty reimbursement checks (in the case of duty drawback);

- Review existing information technology systems used for temporary admission and duty drawback systems at Cairo Airport and the five ports;
- Review skills of personnel operating the duty drawback and temporary admission systems at Cairo Airport and the five ports and outlining any training needs;
- Outline specific steps (including sequencing) and IT needs that the Government of Egypt should take/purchase to implement the necessary IT upgrades/overhaul to achieve a highly efficient duty drawback and temporary admission systems in each of the five ports and at Cairo Airport;
- Draft a report to the Government of Egypt that includes all the assessments outlined above.

Expected Results

The main expected results for this activity are as follows:

- Clear way forward for the GOE in implementing highly efficient duty drawback and temporary admission systems
- Specific steps (including sequencing and IT procurement needs) in implementing these systems at Cairo Airport and the five ports

Deliverables

Assessment report containing an institutional review for implementation of duty drawback and temporary admission systems; review of current on-the-ground implementation of these systems at Cairo Airport and the five ports; review of current workflow systems in the six centers for duty drawback and temporary admission; review of existing IT systems used for these processes; review of personnel skills involved in implementation of these systems; and outline of specific IT purchase/upgrade needs and sequencing of the implementation process in the six centers.

Level of Effort

It is expected that this work will be undertaken in two phases. In a first phase, to be conducted December 15-20, the customs and IT experts will review the role of Egyptian institutions, such as Ministry of Finance and Ministry of Foreign Trade, responsible for formulating and implementing the duty drawback and temporary admission systems. This assessment will include a review of legal instruments and discussions with local officials, and review of areas of responsibility and means of coordination between these institutions. The rest of the activities and the first draft report will be prepared during the second phase, to be undertaken in January/February, over a minimum of four weeks.

Appendix C

PROPOSAL FROM NCR TO THE MINISTRY OF
FOREIGN TRADE

Executive Summary

NCR company has the pleasure to present a comprehensive proposal for implementing a project through which automation procedures and temporary admission processes will be accomplished. This will be done by establishing branch units for temporary admission at the following field offices:

1. Cairo Airport.
2. Alexandria Port
3. Al-Dekhilla Port
4. Suez Port
5. Port Said Port
6. Damietta Port

This along with establishing a central unit for temporary admission at Cairo to link these branch units through a high-speed communication lines.

NCR company is pleased to be called upon by the Ministry to implement this national project and would like to note that the company has been always honored with implementing large national projects for numerous ministries and governmental entities such as Egypt's Telecom Company, National Mail Authority, Egyptian Customs Authority, Egyptian Taxes Authority and Passports Administration in addition to a large number of business sector companies, private sector companies and the lead Egyptian Banks. The company has also vast experience in field of automating custom systems in particular.

The objective of this project is to present an iterant and reliable model to gain an integrated information system for export services at the state level through developing an information system serving the temporary admission central unit and branch units as well as the inter-unit link. Due to the nature of the work of the branch units they must be linked with the computer centers of the Customs Administration through an integrated network to facilitate electronic data shared between the different sites.

The objective of the proposed information system is to facilitate the course of operation procedures of the rebate system in general and both temporary admission and duty drawback systems in particular. The system will depend on automating the work procedures in a method simulating the true and actual document flow procedures and system.

The proposal will include supplying and installing the required equipment and devices for the implementation of the integrated information system which are supposed to serve the clients of the temporary admission branch units situated in the above mentioned ports as well as the temporary admission central unit situated in Cairo, The proposal will also include the "Switches" equipment used to link the local networks (excluding the networks components) and "Routers" equipment needed to link the local networks with the wide area network "WAN".

It is worthy to note that there is an important turn point which will inevitably occur in the Ministry's information system as a natural reaction to this event since with the completion of the said export transactions information system, the Ministry then will have an aggregated and accumulated Data Base comprising all foreign trade related information within a specific time period which can be utilized, through an advanced analytic tools, to obtain reports showing the

course and trend of the State foreign trade transactions as well as using such advanced analytic tools to forecast the expected transaction changes and modifications in the future which will have a great impact on the Ministry's decision making process that will in turn contribute and influence economic policy-making..

PROPOSED SOLUTION

First: Introduction

The proposed Information System aims at facilitating and expediting the course of operation procedures of the rebate system in general and both temporary admission and duty drawback systems in particular. The system will depend on automating the work procedures in a method simulating the true and actual document flow based system.

The system will be based on an Automation Desktop Method which will enable the employee to carry out his duties with direct use of the equipment away from the conventional information systems which are based on paper work and manual handling of the documents, writing down data and report typing.

The system will also be based on automating all accountancy procedures dealing with reducing and raising clients' guarantees balances when processing imports and exports declarations, as well as automating accounting operations regarding settlement and calculating the depreciation and shortages, calculating the due fees and monitoring the raw material stocks without any intervention of human factors.

In this regard, the system will use the rapid communicative means and electronic file-sharing among the temporary admission branch units and central unit.

Second: System Architectural and Structural Skeleton

The architectural and structural skeleton of the proposed solution will be based on establishing an independent computer network for each branch unit. Such network will be furnished with a data base system administering the branch unit data and automated applications for the guarantees, imports and exports, and the settlements. An independent computer network will be established for the central unit as well. This network will be furnished with a data base system administering the central data base and automated applications for the guarantees, settlements and stocks monitoring.

The branch units networks will be linked with the central unit network through rapid information lines allowing a rapid mutual information share and exchange between any of the branch units and the central one.

Each branch unit will be linked with the Customs Information Network, in which the unit is serving, through a rapid information line allowing rapid mutual information sharing and exchange for both sides where Customs Policies Data Updates will be sent from the Customs Automated System to the Unit Database (e.g. currency exchange rate, customs tariffs, customs rules, regulations and appendices, customs dealers... etc), as well as sending the imports (temporary admission and drawback) related declaration data and exports related data which are sent from the unit automated system to the customs database.

Figures (1&2), of the following diagram, show branch units and central unit wide area network (WAN), while figure (3) shows the procedures flow course within the automated system.

Third: The Scope of Automation

The Auto System Applications will be divided into two main parts:

1— Data Base updating system for the branch units

- This system will include a set of major applications which will be implemented according to a schedule or on request bases so as to transfer the updates and/or the additions related to Customs policies and laws from the Customs Database (in which the unit is located) to the Branch Unit Database.
- This system will also include a set of major applications which will be implemented according to a schedule so as to transfer the customs declarations data from the Branch Unit Database to the Customs Database (in which the unit is located).

2— Security authorization and monitoring system

This system will include the following applications:

A. Security Authorizations Applications. The system will include a full definition of the administrative functions organization within the site along with a tripartite level of definition of each function authorization (software programs level, programs monitors level and level of procedures and monitors automated operations).

On the other hand, the application will apply the principle of the existing professional work stations (which will perform specific auto functions only) and general work stations (which will perform all functions). Therefore, the application will include a detailed database for the work stations installed in each site with a full definition of the automated procedures which could be executed through each station.

The application will also include a detailed log of the system users bearing the password of each of them and his position (authorizations delegated to him) along with a definition for the work station/ stations allowed to be used. For further control, a record of each user will be linked with his personal data file at personnel department.

B. Operations Monitoring System. Further to the conventional automated follow-up and monitoring systems, which will be performed through the database administration systems "Audit Trailing" used for registering the accomplished operations related to files and records (such as adding, deleting and/ or revising), the system will include the possibility of tracing and monitoring the performed automated operations and procedures (additions, approvals, deletions, printing, release, revisions....etc.) which will undergo for part / all types of documents (imports declaration, exports declaration, settlement request, industrial control report...etc) where operation detailed data will be registered including date, time, number of work station, user login number and type of procedure. It is worth noting that with the use of such system the differentiation between different operations (such as "shown for approval", "approval", "approval cancellation", "printing", "abortion", "comment" ...etc), which are logged in—under Audit Trail files—as "revision" operations, can be done easily.

Through this application it will be also possible to specify the monitoring and follow-up procedure using any of the following methods:

- Monitoring the user (registering the data of all operations the user is performing related to all types of documents within the security authorizations delegated to the user),
- Monitoring the type of document (registering the data of all operations being performed by all users related to the type of the requested document),
- Monitoring the type of operation (registering the data of all operations—of the requested type—which are performed by all users related to all types of documents).

3- Temporary Admission Branch Units System

This system will include the following applications:

A. Guarantees Application. This application will include the operations of input and processing of final letters of guarantee and revolving letters of credit and sending the data of the approved guarantees to the automated system of the central unit.

B. Imports Application (under temporary admission/ duty drawback). This application will include the operations of data input and processing of procedures flow course, input of guarantee withhold (reservation) requests (to cover trusteeship fees), sending the withhold letters to the automated system of the central unit, receiving reservation requests results from the central unit, printing the notification of "guarantee balance reduction", issuing customs clearance certificates and sending the data of imports declaration to the automated system of the central unit.

C. Exports Application (using the system of pre-imported goods under temporary admission/ duty drawback). This application will include the operations of data input and processing of procedures flow course until exporting process is finalized, input of industrial control reports, input of settlement requests sending data of exports declaration, industrial control reports and settlement requests to the automated system of the central unit and receiving of the settlement requests results from the automated system of the central unit as well as printing the notification of "guarantee balance increase".

4- Temporary Admission Central Unit System

A. Guarantees Application. This application will include the operations of input and processing of the personal affidavits, the fixed assets guarantees and receiving of the data related to the final letters of guarantee and revolving letters of credit from the automated system of the branch unit.

B. Reservation (Withhold) Requests Processing Application. This application will include the operations of receiving import declaration data subject to temporary admission and drawback, as well as receiving and processing of the guarantee withhold requests from the automated system of the branch unit and sending its results to the automated system of the branch unit.

C. Settlement Requests Processing Application. This application will include the operations of receiving of the data of exports declarations, subject to the temporary admission and drawback, industrial control reports and settlement requests from the automated system of the branch unit. It will also include processing the settlement requests and sending its results to the automated system of the branch unit.

D. Stocks Monitoring Application. This application will include the operations of receiving guarantees balance and/ or raw materials stocks inquiry requests received from the automated system of the branch unit as well as processing these requests and sending its results to the automated system of the branch unit and printing the pertinent reports.

Fourth: The Automated System Development Instruments

The proposed Automated System will be developed through an integrated Computer-Aided Software Engineering Tool and Methodology with the use of Power Designer.

Fifth: The Automated System Operation Instruments

The Server equipment will be operated using Unix System and Sybase Adaptive Server Enterprise System. The Client equipment (Client terminals) will be operated using the most updated versions of Microsoft Windows. The applications will use Power Builder Programming Language.

The proposed automated system applications will be developed using Client/Server System. The Top End System will also be used depending on files coding and zipping so as to be shared among the different sites as aforementioned.

All applications will use the Arabic language interface and Graphical User Interface. The applications will also include advanced inquiry media covering all documents which constitute importance to the employee while he is carrying out his responsibilities. Such inquiry media will enable the user to obtain the required data through a large number of different keys. The method of enquiry about any subject will be unified in the whole system applications while all system terminal monitors will show the data status (initial status, approved, suspended, deleted, completed...etc)

In order to increase the system speed rate of obtaining the required data (name search status about a dealer or client, governmental agency, city...etc), the system will perform auto spelling and mistakes correction of the Arabic language for all required data fields.

Sixth: Scope of Work

The scope of work will include analysis, design and development of a automated system for the applications mentioned in the third item "The Scope of Automation."

The scope of work will also include the training activities for the personnel appointed and authorized to use the automated system of the branch and central units. It will also comprise the actual support activities (on-job-support) during the course of operation for each site for one month.

Important Remark

Operating the proposed automated system of the temporary admission branch unit will depend on operating the advanced automated system of the customs administration in which the branch unit is located.

TERMS AND CONDITIONS

First: Price Quotation

The prices included in this quotation are in the Egyptian Pound inclusive of all expenses of transportation, customs duties, installation, and sales taxes. On the other hand it will not include the works of site preparations, the Wide Area Network (WAN) or the Local Area Network (LAN) other than what has been mentioned herein.

Second: Terms of Payment

Equipment, Software and Database

- 40% as an advance payment of the total value of the equipment, software and database to be paid upon signing the contract in return for submitting guarantee letter bearing the same value and currency to be released upon delivery.
- 40% of the total value of the equipment, software and database to be paid after delivery.
- The remaining 20% will be paid after the completion of installation works or after one month following the date of delivery in case of problems preventing installation.

Applications

- 40% as an advance payment of the total value of the applications to be paid upon signing the contract in return for submitting guarantee letter bearing the same value and currency to be released upon delivery.
- 40% of the total value of the applications to be paid after downloading and training.
- 10% of the total value of the applications to be paid after one week of the actual system operation.
- 10% of the total value of the applications to be paid after the completion of the in-situ technical support period (one month following the actual system operation).

Third: Delivery and Installation

The delivery and installation will be within 8-12 weeks from the date of signing the contract.

Fourth: Warranty

- The company will provide one year warranty for the contractually procured equipment excluding the personal computers "PCs." However, the company will provide three years warranty for the personal computers. The warranty will be effective from the date of installation or after one month following the delivery of equipment in case of problems preventing installation. The warranty will not include the malfunctions resulting from misuse, operation requisites such as UPS batteries, printing heads, inks, ribbons and others.

- The company will provide three-month warranty for the Database and the TOP END programs. This warranty will also include the Point release.
- The company will provide one year warranty for the applications which will be used within the central unit at Cairo and the branch unit at Alexandria or any other site that might be operated in the future. The warranty will be effective from the date of the actual operation of the site. For the first site operation, the warranty period will be for one year and three months with effect from the date of downloading the applications and the actual operation. The warranty will also include one month guarantee for the in-situ technical support provided by a programming engineer. The warranty will cover the treatment of any mistakes that may appear in the applications during operation and/or providing technical assistance if needed.

Fifth: Maintenance

Maintenance will start after the completion of warranty period and the percentage of maintenance will be calculated as follows:

- 1- for the Equipment : 8% of its total price per annum.
- 2- for the Database : 20% of its total price inclusive of updating its versions.
- 3- for the Applications: 20% of its total price excluding any amendments that may affect the core system or/ and its functions.

Maintenance will cover the spare parts and labor but it will not cover the malfunctions resulting from misuse, operation requisites such as UPS batteries, printing heads, inks, ribbons and others.

Sixth: Proposal Validity

This proposal will be invalid after two weeks from the date of its presentation.

Translated by: Amin Abdullah Amin, ATR project. Cairo/ Dec. 30.02

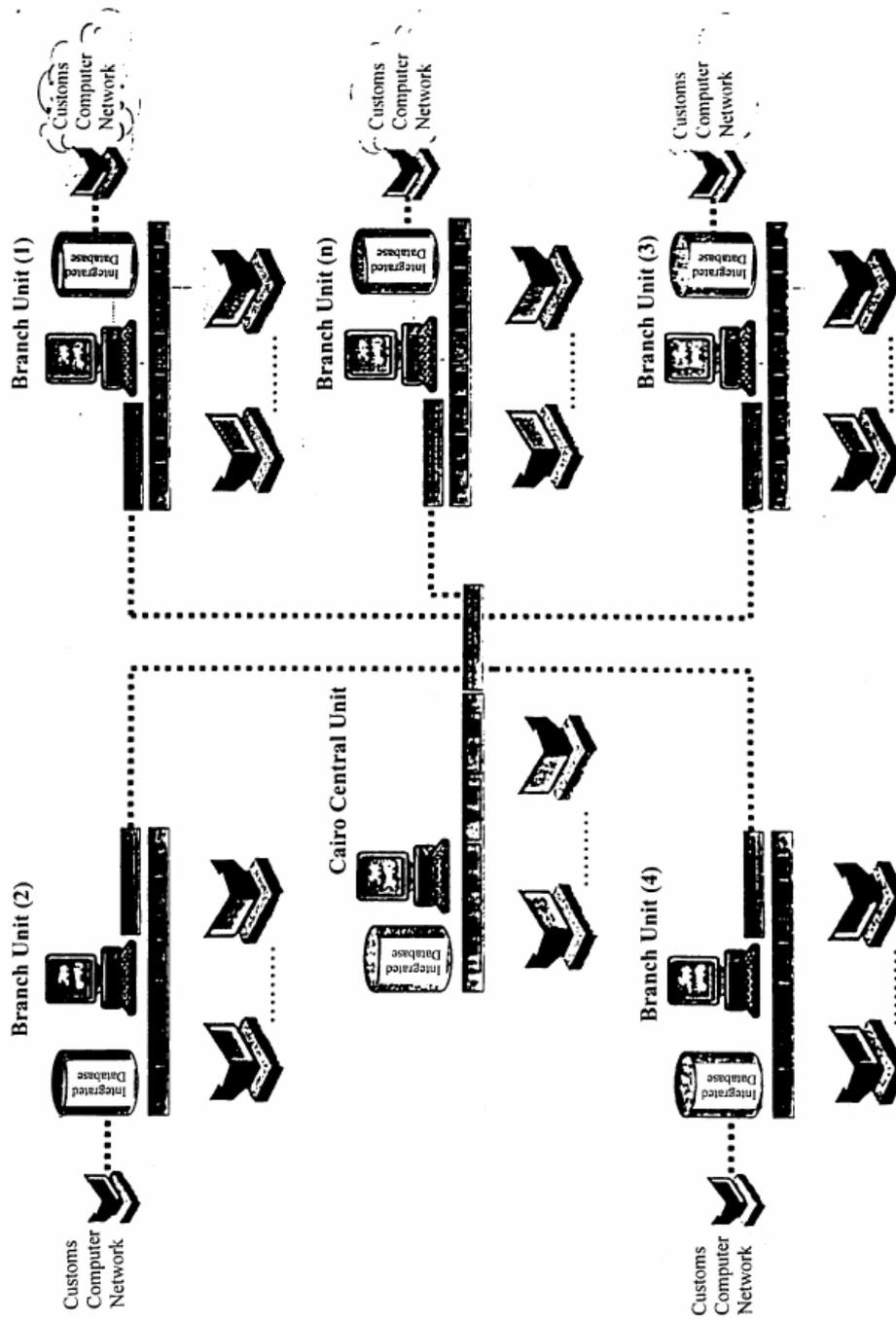


Figure (1): Project general layout

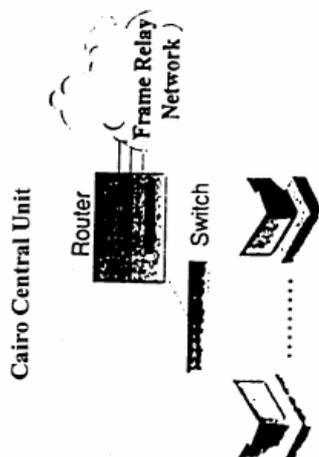
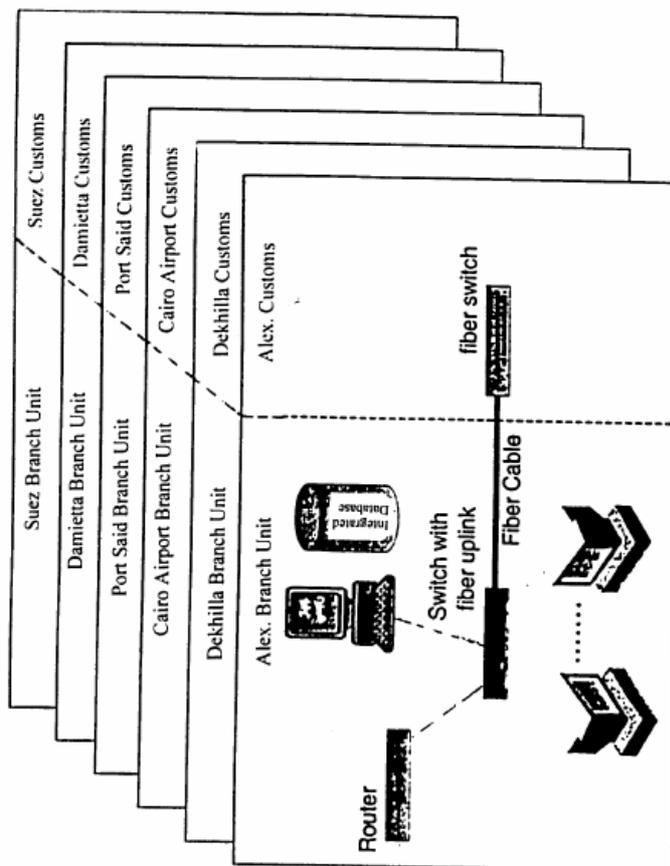


Figure (2): Temporary Admission Units-WAN

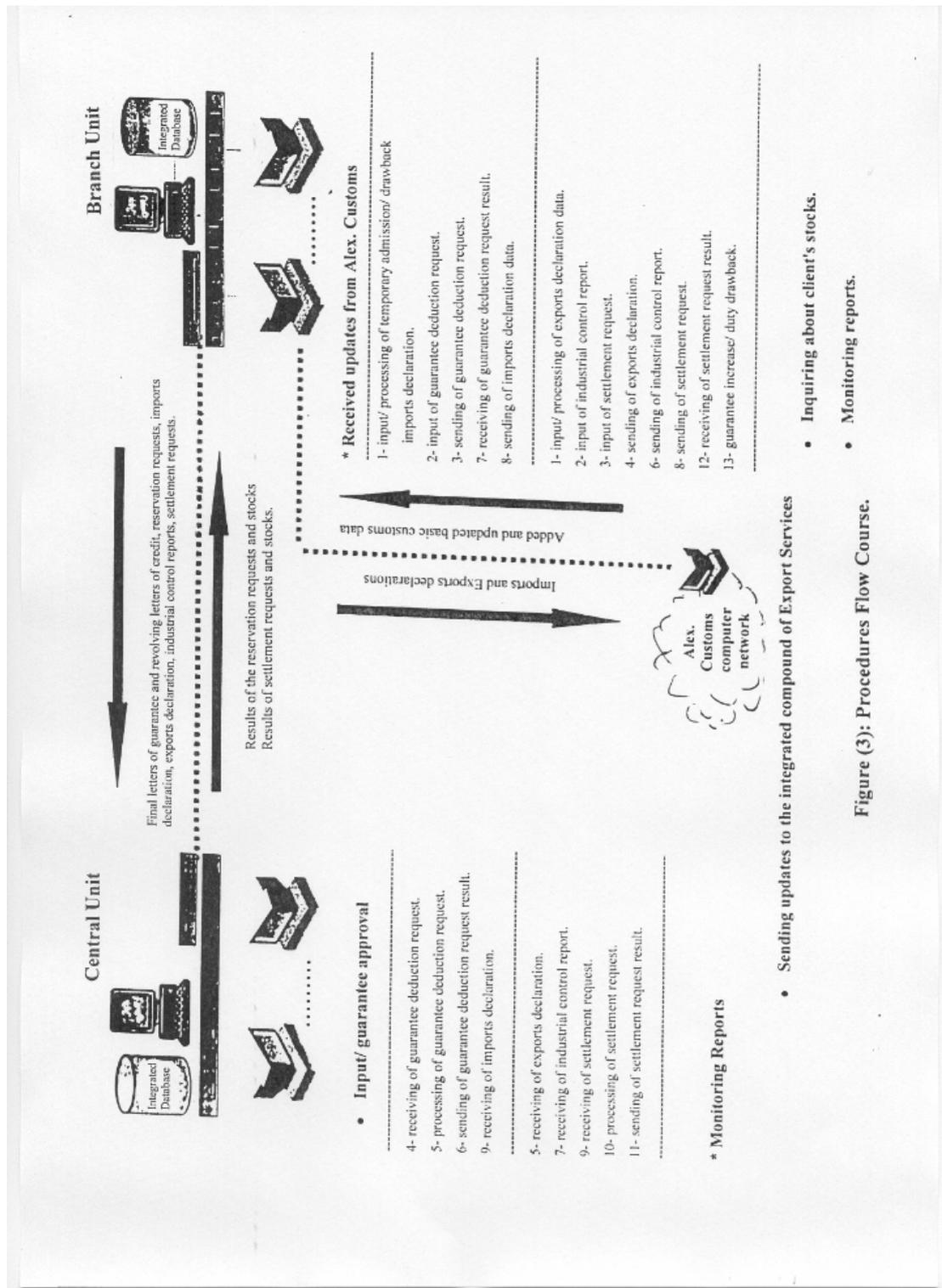


Figure (3): Procedures Flow Course.



Transforming Transactions
into Relationships

Configuration and Prices

1- Hardware and Basic Software:			
Description	LE Unit	Price	
Workstations			
NCR 2758 PC with:			
Processor Intel Pentium 4, 1.6 GHz/512KB	1	5,766	70
Memory DIMM SDRAM 256 MB (PC 133)	1		
Graphic Card XP 2000 PRO 32MB w.TV-out (ATI Rage 128)	1		
Ethernet board, 10/100 Mbps, Intel Pro 100	1		
Wheel mouse - PS/2 - Logitech	1		
Keyboard 104 KEY: US/Arabic	1		
HDD 20 GB, EIDE, UDMA 66/100	1		
CD-ROM 600 MB 52x	1		
Monitor 15" TCO95	1		
Application Server			
NCR S29 Server with:			
NCR S29, SERVER, CTO	1	62,868	7
NCR S29 PLATFORM	1		
NCR S29 SERVER COMPANION CD	1		
HDD SCA HP SEAGATE 36GB 10K RPM	4		
TAPE, DAT, DDS-4, SCSI, 20/40GB, HH	1		
2 X 1.4GHz/512k PROCESSOR	1		
20X/48X IDE CD-ROM	1		
S29 BASE TOWER CHASSIS	1		
REDUNDANT POWER SUPPLY/DUAL MODULES	1		
2-BUTTON MOUSE	1		
104 KEYBOARD - ARABIC	1		
NCR UNIX MP-RAS - READY FEATURE	1		
MULTI COUNTRY 220V POWER CORD	1		
MEMORY, 2GB SDRAM DIMM, ECC PC133	1		
MONITOR 15" COLOR .28MMDP	1		
RAID PCI AMI493 2-CHANNEL W/64MB MEMORY	1		
RAID AMI493 BATTERY BACKUP	1		
SW; CLIENT/SERVER OPERATING ENVIRONMENT:	1		
MP-RAS SVR4			
NETWORK FILE SYSTEM			
TCP/IP			
SW; RAID MANAGER	1		
SW; REDUNDANT DISK ARRAY CONTROLLER	1		
Printers			
Epson LQ 2180 Matrix Printer:			
136CPL/ 480CPS DARFT/ 64KB/ PARALLEL/ 1+5COPIES	1	4,185	35
HP Laserjet 2200 D Printer:			
1200-DPI, A4, 18PPM, 8MB, B&W	1	4,092	35



Transforming Transactions
Into Relationships

Description	LE Unit	Price	Quantity	Total Price
Network				
Branch Routers: CISCO 2610				
Ethernet Modular Router w/ Cisco IOS IP, use w/ ext RPS	1	12,555	7	87,885
Cisco 2600 Series IOS IP	1			
2-Port Serial WAN Interface Card	1			
V.35 Cable, DTE Male to Smart Serial, 10 Feet	1			
ISDN Back-up Connection				
1-Port ISDN WAN Interface Card(dial and leased line)		2,558	7	17,903
NT1		721	7	5,045
LAN Switch: CISCO 1548				
8-port 10/100 Switch		6,542	19	124,300
Fiber Connection with Custom buildings In Alex				
8 core with termination and installation		39,990	1	39,990
Fiber Connection with Custom buildings In Port Said				
8 core with termination and installation		24,896	1	24,896
Fiber Connection with Custom buildings In Damietta				
8 core with termination and installation		132,790	1	132,790
Fiber Connection with Custom buildings In Suez				
8 core with termination and installation		10,044	1	10,044
Fiber Connection with Custom buildings In Dokhalla				
8 core with termination and installation		42,571	1	42,571
Fiber Connection with Custom buildings In Calro Airport				
8 core with termination and installation		41,599	1	41,599
Data Base and Basic Software				
Sybase Database:				
Sybase Adaptive Server Enterprise for NCR Unix	7	837,581	1	837,581
Sybase Adaptive Server Enterprise Network Seat for NCR Unix	70			
Transaction Processing Monitoring Software - TOPEND:				
Application Management	1	204,600	1	204,600
Security control	1			
Fault tolerant environment	1			
Enhanced performance	1			
Transaction Processing Monitoring Software - TOPEND: (add-on)				
Application Management	1	60,125	5	300,623
Security control	1			
Fault tolerant environment	1			
Enhanced performance	1			



2- Application:			
Description	LE Unit Price	Qty	Total
Development and Customization:	112,330	1	112,330
Implementation:			
Central Site	54,861	1	54,861
Port Said, Damietta	92,921	2	185,842
Cairo airport, Suez, Dakhaila, Alexandria	62,696	4	250,784

TOTAL INVESTMENT IN LE

3,607,036