AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number: 2

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: EGYPT

3. PROJECT NUMBER: 263-0101

4. BUREAU/OFFICE: NE/PD 03

5. PROJECT TITLE (maximum 40 characters): Industrial Production Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 31 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 78 B. Quarter C. Final FY 81

8. COSTS ($000 OR EQUIVALENT $1 = 0.07)

A. FUNDING SOURCE	FIRST FY 78 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	53,945		53,945	154,200	10,800	165,000
(Grant)	(7,500)	( )	(7,500)	(107,755)	(10,800)	(118,555)
(Loan)	(46,445)	( )	(46,445)	(46,445)	( )	(46,445)
Other U.S. 1.						
Other U.S. 2.						
Host Country		30,000	30,000		86,718	86,718
Other Donor(s)						
TOTALS	53,945	30,000	83,945	154,200	97,518	251,718

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	700	710	-	5,000		0		5,000	
(2)		720	-	4,426		0		4,426	
(3)		830	830	23,129	46,445	60,000		83,129	46,445
(4)		850	-	16,000		10,000		26,000	
TOTALS				48,555	46,445	70,000	0	118,555	46,445

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BII	ENV	TNG
B. Amount		26,000	2,000

13. PROJECT PURPOSE (maximum 480 characters)

1. Improve institutional capability of GOE and public sector firms to plan and manage resource allocation in the Industrial Sector.
2. Improve capability of GOE and public sector industrial firms to design and implement projects.
3. Improve the environmental effects of selected plants.

14. SCHEDULED EVALUATIONS

Interim MM 12 YY 82 MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Add $70 million to the present authorized level: $10 million for environmental improvement subprojects; and $60 million for capital equipment subprojects.

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17. APPROVED BY

Signature

Title: DIRECTOR

Date Signed: MM 07 DD 19 YY 81

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AID 1330-4 (8-79)

EGYPT - INDUSTRIAL PRODUCTION PROEJCT III
SUMMARY AND RECOMMENDATIONS

1. Grantee: The Government of the Arab Republic of Egypt (GOE)

2. Executing Entity: The General Organization for Industrialization (GOFI) of the Ministry of Industry (MOI).

3. Amount of Grant: $70,000,000 (seventy million U.S. dollars).

4. Terms: Grant to be passed on to the General Organization for Industrialization (GOFI) which will use the funds to supplement loan and grant funds previously allotted under Project 263-0101. FY 81 grant funds will provide for environmental subprojects ($10,000,000), and capital subprojects ($60,000,000). Up to $3,500,000 of the total amount will be converted to local currency to support the subproject U.S. consultants funded in part under the FY 78 and FY 80 authorizations, and supplemented under the current funding request. (See Section 612(b) request in Annex B.)

5. Total Project Cost: This is an estimated $252 million project, of which $165.0 million is being financed by A.I.D. ($46.4 million in loan funds and $118.6 million in grant funds). A.I.D. obligated $53.945 million in FY 78, $16.055 million in FY 79, and $25.0 million in FY 80. The remaining $70.0 million from AID will be obligated in FY 81 and/or FY 82.

6. Source of Funds: FY 81 Economic Support Funds.

7. Project Purpose: (1) Improve the institutional capability of the Ministry of Industry to plan and to manage resource allocations to the industrial sector; (2) improve industrial production in selected public sector firms through the introduction of management assistance and capital equipment; and, (3) abate industrial pollution through the introduction of techical assistance and pollution-control equipment.
Management assistance is being provided to the Ministry of Industry's GOFI to improve its internal management systems, to develop effective training programs, and to strengthen GOFI's methods and procedures for project analysis. Other management assistance is provided to public sector companies in such areas as marketing, inventory and cost control, and preventive maintenance. Specific capital equipment needs are analyzed on an individual plant basis within the GOE's established industrial sector priorities, but subject to agreed upon criteria. Upon approval by GOFI and AID, capital equipment subprojects are financed through this project by direct reloans and regrants to public sector companies. An environmental consulting firm will assess environmental problems caused by industrial pollution and recommend solutions. Air and

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solid waste pollutants, as well as liquid effluents, will be treated. Recommendations for specific environmental control equipment will be made to individual applicant firms, and this equipment will be grant financed with project funds.

8. Funding Request: The GOE on July 27, 1978 has requested AID to finance the project up to $100,000,000. On the GOE requested AID for additional financing up to $70,000,000.

9. Statutory Checklist: Satisfied (See Annex D).

10. Recommendation: That a grant in the amount of $70,000,000 be authorized on terms and conditions set forth in the Draft Authorization (Annex C).

11. Project Committee

USAID/Cairo	
Chairperson	Peter Davis
Loan Officer	William Darkins
Engineer and Project Officer	Richard M. Williams
Economist	John Chang
Legal Advisor	Ted Carter
Program	Dick Burke
Controller	Raymond DeBruce

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I. BACKGROUND

A. The Setting

1.01 Egypt's industrial sector produces about 12 percent of GDP and employs some 13 percent of the total labor force. The public sector accounts for approximately 75 percent of the gross value of industrial output while the private sector's share has risen in recent years to around 25 percent. On the other hand, 1979 data indicate 60 percent of the employment was in the public sector and 40 percent was accounted for in the private sector. Public sector enterprises dominate the output of basic industries such as spinning and weaving, food, chemicals, and heavy engineering products, where the capital intensity is high and the establishment tends to employ more than 50 workers. Private sector industries tend to be smaller in size and less capital intensive so that there is a quick recovery of capital, although there has been a recent trend toward larger private sector establishments including some in the manufacture of consumer durables and certain light engineering products.

1.02 The gross value of industrial output at current prices increased by 21 per cent in 1979. Public sector output rose 17 percent in 1979 by LE 2.8 billion, while that of the private sector expanded 31 per cent by nearly LE 1.4 billion. On the basis of national income accounts data, real value added in industry has risen at an average annual rate of seven (7) percent over the last four years.

1.03 Beginning in 1974, industrial policy in Egypt started a gradual shift toward liberalization of export and import restrictions and toward decentralization of authority over investment and pricing decisions. This was the start of the transition to a more market oriented economy. The public industrial organizations, which had operated as holding companies for enterprises in each of the main industrial subsectors, were dissolved in 1975 and greater authority was devolved to the enterprises themselves. However, indications are that despite such decontrol measures, individual managers continued to show reluctance in adjusting prices to meet rising costs or to exploit market opportunities. In 1975 nearly one half of the total value of industrial output was subject to centralized price control at the Cabinet level. Subsequent decontrol measures, beginning especially during the first quarter of 1978, removed a number of commodities from the centralized pricing list and reduced the share of industrial output subject to such control to about 33 percent in 1978 and to 28 percent in 1979. Partly as a result of these changes, but also because foreign exchange (FX) became more available during this time, companies had access to imported raw materials and their capacity utilization went up, increasing productivity.

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1.04 Price adjustments for public sector output have continued to be made, although less in line with increases in costs and more in accordance with what is deemed politically feasible at the time. In the first quarter of 1980 a number of price increases were put into effect, the gross value of which amounted to the equivalent of a 12 percent increase in the average price of public sector goods sold domestically. However, following a Cabinet change in May 1980, a number of price rises were rescined (especially on textile products and canned foods) and no adjustments of significance have been permitted since then. Nevertheless, the Government of Egypt (GOE) is still formulating policies for reform in the public industrial sector. While not yet finally established it is expected that a major change in the law governing public sector company operations will be enacted. Such legislation has been drafted and is under review by the party, by trade unions and by other interested groups. It is anticipated this legislation will be submitted to the People's Assembly in the last half of 1981. This should remove many controls that tend to make operations inefficient.

B. Project Origins and Sector Assistance

1.05 AID has strongly supported the transition toward decentralization of authority over investment and pricing, and toward a more market oriented economy. The primary objective of AID assistance to Egypt, as presented in the CDSS, is to increase productivity while, at least, preserving the relatively equitable distribution of income in order to foster this transition. Given the overstaffing and the dated capital plant, in general, in the public industrial sector, movement toward the CDSS objective could be effectively achieved by providing assistance designed to rehabilitate, to remodel and to remove production bottle-necks in existing public sector industry. (This is clearly presented in paragraphs 1.26, 2.02 and 2.06 of the CDSS). The Industrial Production Project (IPP) was designed to do just that through the Ministry of Industry's General Organization for Industrialization (GOFI) which controls investment funds for public sector industry. Further, careful attention has been paid to the current and planned role of the private sector so as not to co-opt its development. In general, AID's stated policy is to support whole new production facilities in the private sector only, and to limit our involvement in the public sector to increasing productivity of the existing labor and capital facility.

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1.06 Even given the basic CDSS rationale, there are still several other strong reasons for supporting assistance to public sector enterprises. AID assistance to Egypt is provided within the context of Egyptian development priorities - priorities which emphasize both stimulation of the private sector and modernization of the public sector. It is essential that a balanced approach be maintained in dealing with the GOE and its own interests. AID's program in the industrial sector, encompassing both the private and public elements, represents a careful, pragmatic approach to facilitate Egypt's transition to a more market oriented economy with minimum delay. AID's particular assistance activities in this area are discussed in Para 1.08 below. They clearly show that AID is a strong supporter of the private sector. However, if AID is to participate in support of Egypt's broad development objectives, this must encompass both public and private elements. In fact, in many cases the strongest supporters of moving public sector operations more towards a market orientation and towards public/private joint ventures are the public sector company chairmen themselves along with the Minister of Industry. Most public sector industry was in the private sector before the nationalizations of the 1960's. Many of the chairmen today worked in their company at that time. They remember when operations were more efficient. They are strong proponents of significantly less government interference in their operations.

1.07 Further, the IPP has fostered discussions and interactions with counterparts in GOFI. This has had a positive impact on how investment decision-making is approached. Much more attention is being given to the assessment of real market conditions. Economic and financial analyses have been measurably improved. The relationship of investments in the public sector to Egyptian policy of support for greater private sector activity is being given greater weight in decision-making. This has also helped clarify which investments would not have occured at all unless undertaken by the public sector because either the cost/risk to the private sector would be too high to enter a market at this time, or the price controls, established for social objectives, would require government subsidized inputs or investment funds.

1.08 AID and other donor assistance activities in the industrial area are fairly comprehensive. One of the first and largest projects ($97 million) AID supported was with a public sector firm, Misr Spinning and Weaving, which was formerly in the private sector. Later AID provided financing for two cement plants, organized in the framework of a Law 43, private sector company. Now AID is assisting the GOE develop two new, large joint venture projects, one for float glass production and one for chemicals. The Commodity Import Program (CIP) also has been a source of funding for public sector industry, but with most the resources in dollar terms

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going to raw materials. A private sector element was established for CIP funds a few years ago. However, CIP resources were being diminished, and plant and equipment type procurements curtailed. Therefore, AID supported the development of the IPP as a way for the GOE to meet its own and AID's CDSS objectives in the public industrial sector. When the IPP was initiated in late CY 1978, AID was also assisting the GOE develop other programs more broadly to support private sector development. One of the first activites was to establish a reloan fund with the Development Industrial Bank. With AID's assistance a similar project was designed that would involve many commercial banks through the Private Investment Encouragement Fund. Support has been given to effors to reform tax administration and tax laws and to establish a renewed capital market. Also an AID funded project is faciliting U.S. private sector feasibility studies, and plans have been developed to assist Egypt's Free Zones and Investment Center.

1.09 AID is now supporting a three pronged approach by the GOE to address management, technology, and skills training concerns in both the private and public industrial sector. The Management Development for Productivity Project is a creative attempt to overcome some of the constraints in Egypt to public and private corporate change by training a sufficient number of managers, essentially on the job, to affect real change. An Industrial Technology Application Project is being designed which will assist both public and private sector companies solve production problems related to the lack of information on available technology. Finally, another project is being designed to provide vocational training responsive to an industry's real skill need by allowing an industry's skill demands to directly influence what is taught at government vocational schools. All three of the projects will be loosely linked such that when one identifies a need for services available under another project, there would be a referral service provided.

1.10 Other donors are also active in both public and private elements of the industrial sector. The World Bank has probably provided the largest input with commitments, including (IFC), since 1973 being about $700 million. It has assisted the iron and steel, cement, fertilizer, textiles, pulp and paper, food processing, and agrobusiness industries. Most, if not all, of these industries are in the public sector. Also, World Bank CIP type financing was provided early on. About $140 million in funds have been channeled to the Develpment Industrial Bank primarily for the private sector and an additional $80 million loan is being considered. Several European countries, including West Germany and France, have increased their activities directly or indirectly (through subsidized interest and terms) in this sector. However, these inputs are not as substantial as from AID and the World Bank.

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II. PROJECT DEVELOPMENTS

A. Summary Description

2.01 The Industrial Production Project, as it was originally designed in FY 78 had the following purposes: to improve the institutional capability of the Ministry of Industry (MOI) to plan and to manage resource allocations to the industrial sector; to improve the capability of the MOI (through the General Organization for Industrialization (GOFI) which controls public sector industrial investments) and of the public sector companies in the planning and implementation of projects; and to introduce pollution control equipment to reduce the detrimental environmental effects in selected plants.

2.02 The project goal was to increase Egypt's national income and to improve its balance of payments. The secondary goal was to increase the efficiency and output of the industrial sector.

2.03 There were four main elements to the project, namely: a) training of GOFI and company officials, b) technical and managerial assistance to GOFI and to the companies, c) environmental improvement subprojects, and d) capital equipment subprojects. As the IPP was originally conceived, the training, and technical and managerial assistance were provided mainly to achieve the institutional objectives of the project: i.e. through these activities GOFI and the companies would improve their resource allocation methods through better project planning and implementation. Training in project analysis, project implementation, and environmental analysis was planned for 425 GOFI and company employees. Management assistance was more loosely defined to help GOFI meet new requirements as they developed, such as to set up new systems to allocate resources and to help the companies identify and address their problems. Technical assistance was needed to assist GOFI and the companies carry out feasibility studies of proposed subprojects according to the project's requirements: for environmental improvements - technical and economic feasibility; for capital equipment - commercial, technical, financial, and economic feasibility. Grant funding for environmental improvements was provided for actual practical experience in implementing subprojects. Funding for capital equipment subprojects was provided in recognition that the institutional element of the project had little chance of success unless there were funds available to actually carry out subprojects. The funding was conceived primarily for rehabilitating, up-grading or removing bottle-necks in existing public sector industrial plants in line with the CDSS. While other services available under the project (i.e. technical and management assistance, training or pollution control) could be included in an approved capital subproject, these would be secondary in emphasis to

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the relatively quick provision of required equipment to improve the production operations of established industrial firms. The former services would be provided through a regrant to the company, and the latter equipment would be provided through a reloan at interest rates charged by the Development Industrial Bank.

B. Developments

2.04 From the original project paper approval in FY 1978 for $70 million, through an FY 1980 amendment for $25 million the four project elements have developed at different paces and faced usual, as well as unusual, implementation problems. Thus the project's institutional objectives are not going to be met as quickly as originally planned. Each element is discussed below in order to highlight the actions which have occurred and note the problems.

2.05 The longer term improvement in GOFI's and the companies' planning and implementing capabilities relates mostly to the training program. Development of this program was initially delayed until the general U.S. contractor (McKee-Kearney) come on board in mid 1979 to assist GOFI define the details of the desired programs. By January 1980 GOFI had received proposals and started negotiations with American University in Cairo (AUC) to provide the required training. Negotiations were interrupted over an internal dispute in AUC, but finally a fixed-price contract was approved by GOFI in early 1981 and submitted to AID. However, AID could not approve the contract without detailed cost data. GOFI and AUC, were reluctant to officially provide this data, in part because it was not available in a form required by AID. It has only recently been resolved to prepare the data needed for AID approval.

2.06 Shorter term institutional improvements have related mostly to the technical and management assistance. These elements actually evolved on separate tracks. Technical assistance relates mostly to the environmental and capital equipment subproject studies and is discussed in paras 2.07 and 2.08 below. Management assistance was in part directed to GOFI and also to the public sector companies. However, in May 1980 the Ministry of Industry began to reassess its role in the investment decision making process. Moreover, it reassessed the role of GOFI in the development of industrial strategies and financial/technical assistance for public sector companies. In the same vein,

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it considered ways of restructuring the IPP in a way which would directly support a company's capability. Under these circumstances little assistance was provided directly to GOFI. Separately, the companies began to discuss with GOFI using these services. Finally in January 1981 the first management assistance subproject was approved to address an inventory problem at one of Egypt's largest companies - The Sugar Company. The study was completed in May and well received by both GOFI and the company.

2.07 Technical assistance on environmental issues has been provided by an EPA specialist working with GOFI for the past two years. He has assisted GOFI prepare preliminary studies on the pollution control needs of eighty four (84) public sector factories. He also assisted GOFI prepare the IFB in early 1980 for as engineering consultant firms to assist GOFI in carrying out the technical analysis and implementation of environmental subprojects. Weston Company won the bid, but contract negotiations became stalled over problems with the proposed Egyptian subcontractor. These were resolved in early 1981 by agreeing to allow GOFI to perform the role of the subcontractor, and since that time the only action needed was to have the GOFI Board of Directions approve the contract. The Board has yet to fully discuss the contract because of the illnesses of key people; the intervention of higher priority subjects; and, in part, because the role of GOFI had been under examination by the Minister of Industry. It is anticipated that final Board approval of the Weston contract shall be forthcoming in the near future.

2.08 The technical assistance portion of the project to assist GOFI study and plan capital subprojects got off to a faster start. Twenty priority subproject proposals had already been determined at the time of the original Project Paper and included as an annex. The consultants started work with GOFI and the respective companies in mid 1979 on nine subproject studies with the highest priority. Each proposed subproject was assigned to a U.S. based staff. But, by having most of the work done by these U.S. based teams coming to Egypt on TDY assignment, there was inadequate interaction between GOFI, the company, and the consultant in development of the draft reports. Also, subproject work order budgets were often exceeded.

2.09 By June of 1980 draft final reports had been issued for the nine (9) proposed subprojects, most of which exceeded the $10 million foreign exchange (FX) limit specified in the Project Agreement. For a combination of reasons it turned out that these initial subprojects could not be implemented by a relatively quick procurement of equipment, but instead involved significant modifications to public sector plant processes, product-mixes, etc. requiring extensive associated engineering, technical and management assistance. GOFI was very upset that the initial work order budgets

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had been exceeded as they were accustomed to fixed-price engineering services contracts rather than the cost-plus, fixed fee format used by AID. Also, the quality of a couple of the studies was questioned in the detailed review process established by GOFI. In many cases the company was not satisfied with the study recommendations. AID also had substantive comments on all the drafts which focused on the large size of the proposed investments, the economic analysis, and on the commercial analysis when it indicated a strong private sector involvement in the market. By and large most of these issues were resolved after extensive interaction between the consultant, GOFI, the company, and AID.

2.10 In May 1980, the Ministry of Industry stopped all GOFI efforts to have new studies initiated by McKee-Kearney until it could review the entire situation. The Ministry of Industry's intention was to review all GOFI operations and to implement major revisions to GOFI's charter which might have changed its role to that of a project analysis consultant or a source of informaiton on industrial technology. AID was assessing the status of the project at this time also. The deviations from the original intent were noted as well as the problems GOFI and the companies were having. AID desired to reorient the project back to its original concept of relatively quick studies and procurements of equipment without exceeding the $10 million limit per subproject. Between August and December 1980 AID had a series of meetings with the Ministry of Industry which led to its concurrence on refocussing the efforts of GOFI and the U.S. consultant to conducting feasibility studies only on those subprojects where rapid implementation seemed possible and where the total FX investment cost was low. Five (5) of these type of studies (labeled "Fast Track") were initiated early this year. The work has been done mostly in Egypt with extensive company input, and at a very low cost per study. This has removed the major difficulties which existed between the consultant, the companies, and GOFI. It has also reduced AID concern about the proposed size and complexity of the subprojects.

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III. PRESENT PROJECT STATUS

3.01 The project's purpose and goal have not changed substantially since the initial Agreement. Delays in various project elements have occured as discussed in the previous section. Thus, the project will not reach it institutional objectives as soon as originally expected. But there has been progress, such that the project has gained substantial momentum and can be expected to achieve its purpose in the remaining four year time frame of the project.

A. Training

3.02 In particular the training element has reached its final approval point. AUC is preparing the necessary data for AID's review. No special problems are contemplated. It is anticipated that course development will begin in August of this year.

B. Technical and Management Assistance

3.03 The kind of management assistance needed by GOFI is dependent on a final determination by the Ministry of Industry as to the role it sees for that organization. As was noted previously, it had been considered to make GOFI a consulting type firm for studying industrial projects or a source of information on applied industry technology. Indications are that neither of these ideas were found very practical by the Ministry. AID believes the debate is almost over with little change likely in GOFI's role. Therefore, AID expects the Ministry to allow GOFI to obtain more management advise along the lines already engaged. The assistance to the companies is ready to move forward on two fronts - either directly with a company or as part of a larger capital equipment subproject. Four proposed direct management assistance studies have company-level approval and await GOFI's decision. Further, in three of the four capital subprojects (discussed below) which are already approved by GOFI and AID, management assistance will be provided to the company. Technical assistance is discussed below with the capital equipment subprojects.

C. Environmental Subproject

3.04 GOFI approval of the Weston Company contract is required before disbursement of any project funds. Given the preparatory work already done to identify specific projects and their process-components, AID anticipates that the subproject funding of $14.4 million allocated under the existing project will be rapidly allotted to specific subprojects. In fact the claims against this funding are over $60 million as shown in Table 3 of Section IV. Given this large potential demand, the

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Ministry of Industry has requested that AID increase funding for the IPP by $70 million, of which $10 million would be specifically for pollution abatement at the cement companies which are significant polluters in the Cairo and Alexandria areas. The Ministry indicated its willingness to work with the Ministry of Housing, Reconstruction, and Land Development, which has formal responsibility for overseeing these companies, in order to provide these resources to abate the problems.

D. Capital Equipment Subprojects

3.05 Once agreement had been reached to reorient the subproject studies back toward the original project concept of relatively simple equipment inputs for plant rehabilitation or up-grading, the problems GOFI and the companies were having regarding the consultant's handling of the studies substantially eased. The costs have been very low so far for these Fast Track studies, and they are carried out mostly in Egypt with greater company involvement. Also, most of the difficulties GOFI had with the original studies have been resolved by the consultant and will not be reflected in the Final Report. Thus GOFI has been moving rapidly to finalize and to approve subprojects from eight of the original nine studies, and from the additional five Fast Track studies approved by the Ministry of Industry. A brief description of these subprojects may be found in Annex F. (GOFI decided that one of the original studies was better suited for other donor financing.)

3.06 Presently, GOFI and USAID have approved four capital equipment subprojects with a total value of $112 million, of which $55.2 million is the foreign exchange requested to be funded under the IPP allocation for capital subprojects. These four are ($ in millions): Alexandria Oil and Soap Co., for replacement of a Caustic Soda and Chlorine Derivative Plant, (loan $11.9, grant $7.2, and Co. $25.4) total U.S.$44.4; Egyptian Co. for Refractories, to modernize and to expand the plant, (loan $12.1 grant $6.4 and Co. $25.8,) total $44.3; Transport Engineering Co., to increase cross-ply and radial tire production, ($loan $6.3, grant $1.4, and Co. $1.7,) total $9.4, and El Nasr Pipe Co., to modernize and to expand the plant, (loan $8.7, grant $1.1, Co. $4.4,) total $14.2. Each of these firms is well managed, has dealt with the international market, and has implemented large capital improvement programs before. All have been profit making entities and have sales in the area of 10's of millions of Egyptian pounds.

3.07 The former two projects were from the nine original studies and the latter two were from the more recently approved studies. In any case, GOFI is trying to complete, and quickly to obtain company approval of, nine of the ten outstanding studies. GOFI will be sending requests to AID for all of these nine in the next two months. The total foreign exchange estimates for these projects

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exceeds $150 million. However, following approval of the four subprojects noted above, there is only $14.4 million that remains unreserved in the IPP's current allotment for capital equipment subprojects.

3.08 In anticipation of these requests AID conducted a review of all the outstanding and potential subprojects. Note that in addition to the nine expected requests, six new studies are about to be initiated (See Table 2 Section IV). Criteria were established for evaluating these projects to determine which would be acceptable for AID financing in general. This analysis led AID to the conclusion that at this time only $60 million in additional funding should be sought for capital subproject requirements. While the Ministry is hopeful eventually of going forward with all subprojects which have been identified so far, it is in agreement that the proposed $60 million is sufficient at this time and that any further funding should be based on an evaluation of the IPP and then on the formulation of a new project proposed following the evaluation. This is discussed more fully in Section IV.

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IV. ADDITIONAL PROJECT FUNDING

A. Rationale

4.01 The Ministry of Industry has requested AID to add $70 million to the IPP of which $10 million would be for environmental subprojects and $60 million would be for capital equipment subproject. The Ministry's request stated that it prefered a higher level of additional funding for the capital equipment subprojects, given the large potential claims from the various feasibility studies. However, given the intentions to evaluate the project in the near future, the Ministry accepted that more modest goals should be sought within the framework of the existing Industrial Production Project.

4.02 We believe that the IPP has overcome the implementation problems discussed in previous sections. The approvals of the AUC contract for training and of the Weston Co. contract for technical services on environmental subprojects are expected soon. Thus two key project elements will be in place to provide movement toward the IPP's objectives. Further, GOFI has already moved rapidly on the capital equipment subproject element. Of the fourteen feasibility studies that have been initiated, four capital subprojects already have GOFI approval and nine of the remaining ten are nearing completion. Further, six more studies are about to be undertaken. AID has agreed to allocate $55.2 million in IPP capital equipment funds for the four approved subprojects against a budgeted $69.6 million (See Table I for a summary of commitments against the current IPP budget).

4.03 There is substantial momentum built up in the capital subproject element such that the Ministry of Industry, GOFI and the companies are expecting AID to provide the financial resources needed to carry out a reasonable portion of the potential subprojects. A hiatus in funding until after the planned IPP evaluation this fall would not be very well accepted by these interested parties and would be totally disruptive of the very substantial planning work which has been accomplished over the past several months. The GOE and USAID both view the situation as one where the problems have been essentially overcome and the time is right to implement the subprojects. An evaluation of the IPP will not change the need for nor the viability of the requested subprojects. The project evaluation will be directed at how better to achieve objectives over the longer term (including any follow-on project), and not look in detail at individual subproject proposals.

4.04 Nevertheless, the USAID believed that more carefully defined subproject evaluation criteria needed to be established in order to determine on an illustrative basis what subprojects would be strong enough to warrent AID support. The original Project Agreement only

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contained the requirement for a 15% economic rate of return. In addition to that, USAID believed that in order to achieve IPP objectives a proposed subproject should be financially sound, of low cost. easy to implement, and with a well managed company. Therefore, the following criteria were applied:

a. The Financial Rate of Return must be at least 15%.;
b. Total FX financing requirements of an individual subproject should be modest, with smaller activities being favored and a limit of one subproject per company;
c. Individual public sector company requesting each subproject must be well managed; and,
d. Subproject implementation should be capable of proceeding quickly, with preference being given to those activities involving a direct procurement of equipment, and for which buildings and infrastructure are already in place.

The GOE has generally accepted these criteria, although it has been noted by them that the earlier $10 million limitation on subprojects may be somewhat restrictive given cost inflation since the project started in 1978.

4.05 Table 2 contains a listing of all outstanding and potential subproject studies with the estimated foreign exchange component. The Table summarizes AID's evaluation. The first evaluation (2nd column) focused primarily on finding a way to keep the investment per project to the minimum. The third column shows the results after proposed subprojects were submitted to the entire set of criteria listed above in order to determine, on an illustrative basis, which subprojects AID would be willing to support. This was sent to the Ministry of Industry for comment. The Ministry has taken exception to some of the criteria and, as stated in its letter (Annex A), would prefer to use less stringent criteria which would qualify just about all of the potential subprojects. However, given the funding limitations imposed by providing only $60 million for capital subproject financing at this time, there will be need to choose among the large portfolio of proposed subprojects and USAID does not doubt this will in effect, reflect the above critera.

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B. Plan

4.06 Thus, the Ministry has accepted the proposed overall approach and has requested that $70 million be added to IPP, of which $60 million would be for capital equipment subprojects. This will allow project momentum to be maintained during the evaluation and eventual planning of a follow-on activity. Actual or final allocations to subprojects will be at the discretion of the Ministry of Industry and GOFI, with AID's concurrence. The GOE understands that this may be the last injection of AID funds into the IPP as it is currently designed, since a complete evaluation will be conducted in the fall of 1981, which will facilitate a redesign of the project.

4.07 The remaining $10 million, of the $70 million requested, would be added to the IPP for pollution abatement equipment at the cement companies, when the Weston Co. contract is approved. (If the contract is not approved before the Project Agreement is signed, USAID sees little reason for financing for capital equipment subprojects ($60 Million) and pollution abatement equipment ($10 Million) to be disbursed unless the Weston Co. contract is signed by GOFI). The consultant would be expected to help GOFI assign priorities to possible pollution control subprojects listed in Table 3. This list was assembled after visits to 84 public sector factories by the IPP environmental protection specilist and by counterpart GOFI staff.

4.08 With the addition of these new funds for environmental and capital equipment subprojects, the Project Financial Plan would be as summarized in Table 4. This plan will be attached to the amended Project Agreement to guide the commitment of AID funds for the various activities of the IPP and the budgeting of GOE funds.

4.09 The participating public sector companies and GOFI are expected to execute reloan and regrant agreements for each subproject financed with AID funds. Upon receipt of an executed agreement and the public sector company's request for a letter of commitment, USAID shall initiate action to establish it. In general, an AID bank letter of commitment will be established for capital equipment being procured under each subproject. Then, a public sector company can open a letter of credit which conforms with the respective letter of commitment upon receipt of USAID's approval of an equipment contract. Similarly, AID direct letters of commitment will be established for technical assistance subprojects upon USAID's approval of a contract for supply of services.

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Table 1
Industrial Production Project
Budgets versus Commitments to Date: June 30, 1981
($ 000)

	A.I.D. FUNDS		Egypt Funds (in$)	
	Current Budget	Total Commitments	Current Budget	Total Commitments
I. APPLICATION				
A. TRAINING	2,000	285	500	30
B. TECHNICAL ASSISTANCE	8,226	5,578*	1,018	440
1. CONSULTANT-GENERAL COSTS AND FEASIBILITY	4,556	4,189*	650	
2. MANAGEMENT	2,070	1,266*	250	
3. ENVIRONMENT	1,600	123*	118	
C. ENVIRONMENTAL SUB-PROJECTS	14,400	650	4,500	30
1. CAPITAL EQUIPMENT	11,900	650		
2. SERVICES	2,500	-		
D. EVALUATION	200	0	200	0
E. EQUIPMENT AND VEHICLES	600	320*	0	
F. Capital SUBPROJECTS	69,574	55,203**	51,500	51,000
1. CAPITAL EQUIPMENT	47,400	38,970		
2. SERVICES: of which (management)	15,174 (2,500)+	11,795 (1,250)+		
3. FREIGHT	7,000	4,438		
Grand Total	95,000	62,036	57,718	51,500
II. SOURCE				
USAID LOAN	46,445	38,970		
USAID GRANT	48,555	23,066		
TOTAL	95,000	62,036		

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NOTES TO TABLE 1

*/ McKee-Kearney contract. Funds totaling $5,398 thousand were committed as follows:

		Original W.O.'	"Interim Extension.
1.General Costs and Feasibility Studies.		3,404	1,228
2.Management	Mgmt.*1	327	246
	Prorated	308	385
		635	631

**/Original capital subprojects budget and detailed commitments by order of approval

Approved Subprojects Commitments (AID)

	Original Budget	Subprojects Total	TRENCO	ECR	AOSCO	PIPES
Subprojects	69,574	55,203	7,745	18,482*	19,146	9830
1.CapitalEquipment	47,400	38,970	6,300	12,052	11,931	8687
2.Services of which:	15,174	11,795	500	4,661	6,484	150
(Management)	(2,500)+	(1,250)+	(500)+	(650)+	(0)+	(100)+
3.Freight	7,000	4,438	945	1,769	731	993

*/ Excludes $ 650,000 for environmental equipment.

+ Do not subtract - included in number above.

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Table 2

Industrial Production Project
Possible Additional Capital Equipment Subprojects

Subproject (Company)	FOREIGN EXCHANGE FUNDING ($Million) Original Study	After Further Evaluation	Based on AID's Evaluation Criteria
1. Clay Pipe (Sornaga)	11.5	9.6	9.6
2. Salt (ENSC)	12.5	4.8	4.8
3. Food Processing (KAHA)	16.0	9.5	9.5
4. Food Processing (EDFINA)	14.0	7.0	7.0
5. Rebar (National Metals)	11.5	9.5	9.5
6. Sulfuric Acid (Abu Zaabal)	21.7	11.2	0.0 4/ (a;c)
7. Malleable Iron (El Nasr Pipes)	21.0	9.5	0.0 4/ (b)
8 Cotton Seed (ESSC)	26.6	10.0 1/	0.0 4/ (a;c;d)
9. Gypsum (Sinai Manganese)	15.5	10.0 2/	0.0 4/ (a;b;d)
10. Starch/Yeast (ESYDC) 3/	5.0	5.0	5.0
11. Glass Tumblers (El Nasr Glass) 3/	5.0	5.0	5.0
12. Fatty Alcohol (ESYDC) 3/	9.5	9.5	0.0 4/ (b)
13. Sand Beneficiation 3/	8.5	8.5	8.5
14. Kaolin (Sinai Manganese) 3/	3.0	3.0	3.0
15. Paper Cartons (Simo Paper) 3/	4.0	4.0	4.0
TOTALS	185.3	116.1	65.9
16. Cement Companies' Pollution Abatement			10.0
17. Misc.:Mgt Services, Studies, Unidentified Sub-projects			8.5
TOTALS			84.4
18. Available Capital Equipment Subproject Funds in IPP			-14.4
19. Net New IPP Needs			70.0

1/ Partial Funding
2/ Partial Funding - financial viability needs to be proven.
3/ Study identified but not yet initiated.
4/ Primarily excluded based on evaluation criteria noted. Para 4.04

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Table 3

Industrial Production Project
Possible Pollution Control Sub-Projects
($14.4 million Currently Allocated)

	COMPANY	FOREIGN EXCHANGE ($ Million)	POLLUTION SOURCE
1.	El Nasr Tanning	2.0	Water
2.	National Spinning & Weaving	2.5	Water
3.	Egyptian Starch, Yeast & Detergent	1.0	Water
4.	Egyptian Salt and Soda (2)	3.0	Water
5.	Extracted Oils	1.5	Water
6.	Misr Beida Dyers	3.0	Water - Air
7.	Dyestuffs and Chemicals	4.0	Water - Air
8.	Egyptian Sugar Co. (2 factories)	2.5	Water - Air
9.	Misr Chemicals	1.0	Water - Air
10.	Egyptian Leather	1.0	Water
11.	El Nasr Coke and Chemicals	3.0	Water - Air
12.	El Nasr Fertilizers and Chemicals, Mansoura	2.0	Water - Air
13.	Cement factories (4)	10.0	Air
14.	El Nasr Fertilizers & Chemicals, Suez	2.0	Water - Air
15.	Pesticides and Chemicals	.5	Soil Wastes
16.	Copperworks	1.0	Water - Air
17.	Iron & Steel Company	5.0	Water - Air
18.	Edfina Foods	.2	Water
19.	Plastic and Electric Ind.	.5	Water
20.	Misr Rayon Co.	.5	Water - Air
21.	Misr Phosphate Co.	.1	Water
22.	Red Sea Phosphate Co.	.1	Water
23.	Alexandria Oil and Soap (2)	1.0	Water
24.	Abu Zaabal Fertilizers	3.0	Water - Air
25.	Chemical Industries (KIMA)	.5	Water
26.	Starch and Glucose	1.5	Water
27.	Sugar Company (4 factories)	1.0	Water
28.	Glass and Crystal	.25	Air
29.	El Nasr Phosphate (Sebaiya)	.1	Air
30.	Middle East Paper Co.	1.5	Water
31.	Moharrem Press	.5	Water
32.	Alpa Paper	1.5	Water - Air
33.	Nile Match (2)	1.0	Water
34.	Paint and Chemicals	.5	Water - Air
35.	Paper Converting Co.	.5	Water - Air
36.	Siouf Spinning & Weaving	1.0	Water
37.	Societe Financiare	2.0	Water - Air
38.	Transport and Engineering	.5	Water
	TOTAL	$ 62.75	

TABLE 4

PROJECT FINANCIAL PLAN

(All Figures in $000 U.S.)

	PRIOR PROJECT FUNDING		FY 81		(CONVERT		
	AID LOAN	AID GRANT	AID GRANT	TOTAL	TO LC)*	EGYPT TOTAL	TOTAL
I. APPLICATION							
A. TRAINING	0	2,000	0	2,000	(680)	500	2,500
B. TECHNICAL ASSISTANCE	0	8,226	0	8,226	(1,820)	1,018	9,244
1. CONSULTANT-GENERAL COSTS AND FEASIBILITY	-	4,556	-	4,556	(880)	650	5,206
2. MANAGEMENT	-	2,070	-	2,070	(570)	250	2,320
3. ENVIRONMENT	-	1,600	-	1,600	(370)	118	1,718
C. ENVIRONMENTAL SUBPROJECTS	0	14,400	10,000	24,400	(1,000)	8,500	32,900
1. CAPITAL EQUIPMENT	-	11,900	8,500	20,400	0	8,500	28,900
2. SERVICES	-	2,500	1,500	4,000	(1,000)	INCL	4,000

D. EVALUATION	0	200	0	200	0	200	400
E. EQUIPMENT AND VEHICLES	0	600	0	600	0	0	600
F. CAPITAL SUBPROJECT	46,445	23,129	60,000	129,574	(7,300)	76,500	205,074
1. CAPITAL EQUIPMENT	46,445	955	48,000	95,400	(0)	76,500	171,900
2. SERVICES of which	-	15,174	7,000	22,174	(7,300)	INCL	23,174
Management Asst.				(3,500)**	[600]		[3,500]**
3. FREIGHT	-	7,000	5,000	12,000	(0)	0	11,000
TOTAL	46,445	48,555	70,000	165,000	(10,800)	86,718	251,718
II. SOURCE							
USAID LOAN	46,445			46,445			46,445
USAID GRANT		48,555	70,000	118,555			118,555
GOE BUDGET						1,718	1,718
COMPANY FUNDS						85,000	85,000

*Included in TOTAL

** Do not subtract - included in number above.

V. PROJECT IMPLEMENTATION

A. Schedule

5.01 The following comprehensive schedule is thought to be realistic based on 2 1/2 year's experience in dealing with the Egyptian implementing agency, a number of Egyptian firms and the U.S. consulting team; and, by applying lessons learned on other projects. The most likely delays, at this stage, might result from GOFI and company budget problems. However, the Mission has, since June 1979, established a procedure whereby the GOE budgetary requirements for AID projects are coordinated directly with the Ministry of Finance as well as the responsible GOE agency. It is hoped that this will minimize delays that might result from GOFI and company budget problems for this Project.

Documentation		
FY 78 Project Authorization	Aug. 25, 1978	Actual
FY 78 Project Agreements	Aug. 31,1978	Actual
FY 78 CP's Met, Grant/Loan	April 30, 1979	Actual
FY 79 Add-on Funding Authorization.	May 1, 1979	Actual
FY 79 Project Agreements Amended	June 6, 1979	Actual
FY 80 Project Authorization	January 4,1980	Actual
FY 80 Project Agreements	January 29, and August 24, 1980	Actual
Complete First Feasibility Study	July, 1980	Actual
Approve First Reloan/Regrant	June, 1981	Actual
FY 81 Project Authorization	August, 1981	
FY 81 Project Agreement	September, 1981	
First Subproject Completed	June, 1982	
Last Subproject Completed	June, 1985	

A detailed description and implementation schedule of each subproject expected to be assisted by the IPP is found in Annex F. Expected disbursements of AID funds are found in Annex G.

B. Terminal Date

5.02 The Project Assistance Completion Date is March 31, 1986, four and a half years from the expected date of the FY 81 authorization.

C. Procurement

5.03 Goods and services financed under the foreign exchange portion of the AID funding will be procured in the U.S. in accordance with the provisions of AID Handbook 11.

5.04 Local costs financed under the AID grant will be limited to the support costs and allowances of U.S. consulting and engineering teams for the various elements and stages of the project. Procedures for making the conversions have been detemined by the USAID Controller.

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D. Monitoring and Reporting

5.05 AID has issued eight implementation letters for the Grant Agreement and eight for the Loan Agreement which cover the necessary monitoring, reporting, procurement and financial instructions and clear the Conditions Precedent. Regular monthly reporting is provided by the general consultant (McKee-Kearney) and will be done likewise by the environmental consultant when the team begins its work. The environmental advisor (EPA/PASA) has written many reports covering his investigation of specific environmental problems and planning by GOFI and himself. Each feasibility study under the consultants' contracts results in a final report, and each subproject during implementation will be described in quarterly progress reports. AID monitoring is being done by one Project Manager-Industrial Engineer assisted by two local Industrial Engineers, one local Capital Development Officer and two expatriate Capital Development Officers, part-time.

E. Evaluation

5.06 Evaluation of the Project will be performed by a joint GOE/AID/Consultant team which will include tecnical, economic and financial talent. Evaluation will review the factors listed below using baseline data developed during project implementation (E.G. sub-borrower existing performance versus target performance).

1. Have there been any changes in the Ministry of Industry's method of allocating resources within the industrial sector?

2. Have changes been made in GOFI's administration, organization procedures and plicies, either officially or officially?

3. Have training programs for GOFI and company management been implemented?

4. Have GOFI staff improved capability to evaluate projects?

5. Have bottlenecks to project implementation been reduced?

6. To what extent have environmental pollutants been reduced?

   What have been other social/economic effects?

7. What recommendations can be made to improve the performance of this Project and any similar follow-on projects in meeting the Project purpose?

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VI. RECOMMENDATION, CONDITIONS AND COVENANTS

A. Recommendation

6.01 It is recommended that AID authorize $70 million additional grant funding to the Industrial Production Project in FY 1981. Funding in FY 1981 is needed to keep project momentum going prior to an evaluation in early FY 1982 which is anticipated to lead to a redesign of the present project or to the design of a new project to promote development of Egypt's industrial sector.

B. Conditions Precedent

6.02 The following Condition Precedent to disbursement of additional funds under this Amendment will in substance be included in the Amended Agreement but not the Amended Authorization:

1. An executed contract between GOFI and Weston Company for consulting services required for carrying out the technical analysis and implementation of environmental subprojects

C. Covenants

6.03 No additional Covenants to those included in the FY 78 and FY 80 Grant Agreements are necessary.

A N N E X E S

ANNEX A

LETTER OF REQUEST FROM MINISTRY
OF INDUSTRY FORTHCOMING

ANNEX B

EGYPT - INDUSTRIAL PRODUCTION PROJECT
CERTIFICATION PURSUANT TO ARTICLE 611 (e),
FOREIGN ASSISTANCE ACT

I, Donald S. Brown, the Principal Officer for the United States Agency for International Development Mission in Egypt, having taken into account, among other things, the maintenance and utilization of projects in Egypt previously financed or assisted by the United States, do hereby certify that in my judgment, Egypt has both the financial capability and the human resources capability to effectively maintain and utilize the industrial facilities to be financed under the Industrial Production Project.

Donald S. Brown
Director

DATE: July 9, 1981

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ANNEX B

Amendment to Original 612 (b) Recommendation

The Project will need U.S. $3.5 million in Egyptian Pounds, additional to the $6.85 million and the $450,000 authorized, respectively in FY 80 and in FY 79, in order to finance the local currency support costs of the U.S. Consultants/Contractors. These costs will be incurred in support of the following project activities:

(1) feasibility studies of related subprojects including plant diagnostics;
(2) the environmental consulting firm which will perform diagnostics and feasibility studies for the environmental portion of the project; and,
(3) the architect/engineering services to implement the capital subprojects.

The conversion of U.S. Dollar funds to Egyptian Pounds would permit the timely, expeditous implementation of all aspects of the Project. There are considerable financial costs associated with the in-country support of U.S. consultants/contractors. The Government of the Arab Republic of Egypt (A.R.E.) and affected companies are budgeting Egyptian Pounds in support of local costs which are associated with the Project, namely the costs of local subcontractors and the local costs of the capital subprojects.

The mission has considered the use of U.S. owned Egyptian Pounds to finance these local currency costs. However, because of the high level of activity in Egypt over the past three years all U.S. owned local currency has been programmed and there is none available for this Project. The allocation plan which was submitted by the U.S. Embassy, did not include this Project. Furthermore, if U.S. owned Egyptian Pounds were made available to this Project, there would be an inevitable inflationary impact on the Egyptian economy which would probably provoke a corresponding reduction in further A.R.E. disbursement against other priority activities.

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It is highly unlikely because of the present budgetary constraints that the A.R.E. would terminate the agreements which bind the parties to the Project. However, the most likely resources for the A.R.E., if required funds are not forthcoming from AID, would be curtail new development initiatives. This action could seriously affect pending AID economic development proposals.

Therefore, in light of the aforementioned considerations and given the fact that this Project is one of AID's most important initiatives in the development/rehabilitation of the Egyptian industrial sector, we recommend the conversion of the U.S. $3.5 million to Egyptian Pounds. These Pounds will be restricted to disbursements for in-country support of U.S. consultants/contractors.

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A N N E X C

THIRD AMENDMENT
TO
PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Industrial Production Project

Number of Project: 263-0101

1. Pursuant to Part II, Chapter 4, Section 531 of the Foreign Assistance Act of 1961, as amended, the Inudstrial Production Project ("the Project"), for Egypt was authorized on August 30, 1978, and amended on May 1, 1979 and January 14, 1980. That authorization, as amended, is hereby further amended as follows:

"I authorize planned obligations for the Project of not to exceed One Hundred Sixty-Five million United States Dollars ($165,000,000), of which up to $118,555,000 will be in grant funds and up to $46,445,000 will be in loan funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local currency costs for the Project. Of the in grant funds planned for obligation in FY 1981, not more than Three Million Five Hundred Thousand United States Dollars ($3,500,000) may be utilized to assist the Cooperating Country in financing local costs required for the Project".

2. The authorization, as amended, cited above remains in force except as hereby amended.

Signature

Date

M. Peter McPherson
Administrator

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5C (2) - PROJECT CHECKLIST

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

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes, see the FY 1981 CIP PAAD. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes, see Pg. 7.

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FY 80 App. Act Unnumbered; FAA Sec. 634A; Sec. 653(b); (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure)?

(a) A congressional Notification will be filed for FY 1981 obligation.

(b) Yes

2. FAA Sec. 611(a) (1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes

(b) Yes

3. FAA Sec. 611(a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

There is no further host Country legislative action required.

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101; FY 80 App. Act Sec. (501.) If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

Not Applicable.

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5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	Yes
6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	This project is not susceptible for execution as a regional or multilateral project.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The purpose of this project is to improve the institutional capability of the Ministry of Industry to rationalize the industrial sector, primarily its method of allocating resources; and to improve the capability of the Ministry of Industry and the public sector industrial companies to plan and implement projects. In addition, the project proposes to reduce detrimenta environmental effects caused by certain industrial firms.
8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The primary source/origin, nationalit designation for the procurement of goods and services from AID funds will be the United States. Any exceptions to this requirement will require prior approval of AID.
9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.	Existing agreements have requirements to this effect, and subsequent amendments will retain these requirements.

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10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

All U.S-owned local currency has been programmed. None is available for this project.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

12. FY 79 App. Act, Sec. 608; FY 80 App. Act Sec. (521.) If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Not Applicable.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

Not Applicable.

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

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of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

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

Not Applicable.

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food

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reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

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

Not Applicable.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b.) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Not Applicable.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

Not Applicable.

Not Applicable

Not Applicable.

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(ii) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	Not Applicable.
(iii) research into, and evaluation of, economic development processes and techniques;	Not Applicable.
(iv) reconstruction after natural or manmade disaster;	Not Applicable.
(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	Not Applicable.
(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	Not Applicable.
c. [107] is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)	Not Applicable.
d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least developed" country)?	Not Applicable.
e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?	Not Applicable.
f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's	Not Applicable.

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intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? — Not Applicable.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. — Not Applicable.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? — Not Applicable.

3. Project Criteria Solely for Economic Support Fund

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

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

(a) Yes. This project will promote the efficient, economic production of goods/services and improve the quality and quantity of priority products. Consequently, a reduction in import requirements and decrease unemployment. American private enterprise will be greatly involved.

(b) NO.

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes, procurement will be done in accordance with AID regulations.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do marine insurance business in the U.S.	Yes.
4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	There will be no such procurement.
5. FAA Sec. 603 Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes.
6. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Consideration will be given to the use of excess property when practical.
7. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a	Technical assistance will be fro private enterprise on a competitive contract basis. It is not contemplated that the facilities of other federal agencies will

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contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	be utilized .
8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	Yes.
9. FY 79 App. Act, Sec. 105; FY 80 App. Act Sec. [505.] Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?	Yes.
B. Construction	
1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?	Yes.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Yes.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?	Yes.
C. Other Restriction	
1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes.

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2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	Not Applicable.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Existing Loan and Grant Agreements contain such provisio and subsequent amendments will retain the same.
4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, sale, longterm lease, exchange or guaranty of motor vehicles manufactured outside the U.S.?	Financing is not permitted for such purposes, without A.I.D. waiver.
5. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?	Yes.
b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes.
d. FAA Sec. 662. For CIA activities?	Yes.
e. FY 79 App. Act, Sec. 104; FY 80 App. Act Sec. [504.] To pay pensions, etc., for military personnel?	Yes.
f. FY 79 App. Act, Sec. 106; FY 80 App. Act. Sec. [506.] To pay U.N. assessments?	Yes.

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g. FY 79 App. Act, Sec. 107; FY 80 App. Act. Sec. [507.] To carry out provisions of FAA section 209(d)? (Transfer of FAA funds to multilateral organizations for lending.) — Yes.

h. FY 79 App. Act, Sec. 112; FY 80 App. Act Sec. [511.] To finance the export of nulcear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes.

i. FY 79 App. Act, Sec. 601; FY 80 App. Act Sec. [515.] To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: _____

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Increase Egypt's national income and rove the balance of payments. Improve the capability of Egypt to rease the efficiency and output of industrial sector.	Measures of Goal Achievement: 1. Increases in production and replacement of imports. 2. Improvements in the quality of projects selected for implementation.	1. Statistical data published by the GOE, GOFI, IBRD etc as a result of various industrial sector studies. 2. Production data of firms.	Assumptions for achieving goal targets. Policies of the GOE must continue to encourage industrial development as a means of improving the economy.
Project Purpose: Improve the institutional capability the Ministry of Industry and the pub- sector industrial firms to plan and age the resource allocation in the ustrial Sector. Improve the institutional capability the Ministry of Industry and the pub- sector industrial firms to design implement projects. Improve the environmental effects of ected industrial plants.	Conditions that will indicate purpose has been achieved: End of project status. 1. A smoothly operating system in the Ministry of Industry for planning and managing industrial projects. Improved capability of firms in managing projects. 2. Better implementation of projects in selected firms. 3. Less environmental pollution by selected firms.	1. Evaluation study of the operations of GOFI and the effectiveness of firms in planning and managing projects. 2. Visible evidence and reports on amount of effluents.	Assumptions for achieving purpose: 1. Local currency must be made available for local costs. 2. Funds required for raw materials must be available. 3. The GOE must permit import of materials and services including raw materials as required. 4. GOFI and selected industrial firms agree to invest funds in environmental protective equipment.
Outputs: Trained and experienced personnel the Ministry of Industry and in ected public sector firms in plan- g and managing resource allocation. Completed and operating improvements the production facilities of select- plants. Improved environmental controls and ilities of selected plants.	Magnitude of Outputs: 1. Over 100 trained management and operating personnel. 2. Fifteen to 20 modernized, rehabilitated or expanded industrial plants. 3. Lower contamination of environment by 5 or more industrial plants.	1. USAID and Ministry of Industry site inspection reports. 2. Consultant reports.	Assumptions for achieving outputs. 1. The performance of GOFI in screening and approving and monitoring the sub-projects is adequate and timely. 2. Adequate trained and trainable personnel must be made available.
Inputs: AID grant and loan funds used to cure services and materials from U.S. Feasibility technical assistance training services financed under AID grant. Local currency funds provided by GOE budget, commercial banks, equi- contribution and internal cash flow. Trained and experienced personnel vided by the Ministry of Industry the sub-borrowers.	Implementation Target (Type and Quantity) 1. Sub-grant agreement to GOFI and a contract for consulting services. 2. Feasibility studies and technical services for selected firm. 3. Reloan to selected firms and procured and installed production facilities. 4. Sub-grants to selected firms and installed environmental protective equipment. 5. Further training and experience by Ministry of Industry and company personnel.	1. AID/GOE loan agreement, sub-grant and reloan agreements and disbursement records. 2. Feasibility study reports. 3. Company financial records 4. Company employee and production records.	Assumptions for providing inputs: 1. Contracts are signed and material and services delivered on a timely basis. 2. Local currency requirements are provided on a timely basis.

Annex E
(Page 1 of 3)

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ANNEX F

SUB-PROJECT DESCRIPTIONS AND IMPLEMENTATION SCHEDULES

I. Sub-Project Implementation Schedule - Complex Industrial Plant Modernizations

A. Caustic Soda - AOSCO ($19.146 million)
Replacement of Caustic Soda and Chlorine Derivates Plant.

1.	USAID Approval of Sub-project	April 1981
2.	Advertise for Licensor	May 1981
3.	Licensor & Consultant Contracts Signed	August 1981
4.	Issue IFB's for Procurement Packages	March 1982
5.	Select Equipment Suppliers	July 1982
6.	Civil Construction Completed	July 1983
7.	Plant Erection Completed	July 1984
8.	Plant Start-up and Test	October 1984

B. Refractories - ECR ($19.132 million)
Replacement & renewal of low-alumina refractory production lines and development of production for high-alumina refractories & monolithics.

1.	USAID Approval of Sub-project	April 1981
2.	Pre-bid Conference for Consultant/Licensor	May 1981
3.	Consultant/Licensor Contract Signed	August 1981
4.	Issue IFB's for Procurement Packages	January 1982
5.	Select Equipment Suppliers	May 1982
6.	Civil Construction Completed	March 1983
7.	Plant Erection Completed	March 1984
8.	Plant Start-up and Test	June 1984

II. Sub-Project Implementation Schedule - Simple Industrial Plant Modernizations

A. Steel Pipes - El Nasr Pipes ($9.830 million)
Addition of a longitudinal - weld pipe mill to produce high-quality pipe for use by the oil industry in Egypt.

1.	USAID Approval of Sub-project	June 1981
2.	Consultant Contract Signed	July 1981
3.	Issue IFB's for Procurement Packages	October 1981
4.	Select Equipment Suppliers	January 1982
5.	Civil Construction Completed	October 1982
6.	Plant Erection Completed	March 1983
7.	Plant Start-up and Test	May 1983

B. Clay Pipe - SORNAGA ($9.6 million)
Replacement, renewal and increasing the capacity of production of clay sewer pipes.

1.	USAID Approval of Sub-project	July 1981
2.	Consultant Contract Signed	October 1981

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3.	Issue IFB's for Procurement Packages	March 1982
4.	Select Equipment Suppliers	July 1982
5.	Civil Construction Completed	July 1982
6.	Plant Erection Completed	December 1983
7.	Plant Start-up and Test	February 1984

C. Food Processing - KAHA ($9.5 million)
Modernization of four fruit and vegetable canning lines.

1.	USAID Approval of Sub-project	September 1981
2.	Consultant Contract Signed	November 1981
3.	Issue IFB's for Procurement Packages	February 1982
4.	Select Equpment Suppliers	June 1982
5.	Civil Construction Completed	October 1982
6.	Plant Erection Completed	June 1983
7.	Plant Start-up and Test	August 1983

D. Food Processing - EDFINA ($7.0 million)
Installation of can-handling equipment, a boiler and modernization of a tomato paste canning line.

1.	USAID Approval of Sub-project	September 1981
2.	Consultant Contract Signed	November 1981
3.	Issue IFB's for Procurement Packages	February 1982
4.	Select Equipment Suppliers	June 1982
5.	Civil Construction Completed	October 1982
6.	Plant Erection Completed	June 1983
7.	Plant Start-up and Test	August 1983

E. Rebar - National Metals ($9.5 million)
Installation of melting and billet casting equipment and modernization of rebar rolling lines.

1.	USAID Approval of Sub-project	September 1981
2.	Consultant Contract Signed	October 1981
3.	Issue IFB's for Procurement Packages	December 1981
4.	Select Equipment Suppliers	April 1982
5.	Civil Construction Completed	October 1982
6.	Plant Erection Completed	May 1983
7.	Plant Start-up and Test	August 1983

F. Starch/Yeast - ESYDC ($5.0 million)
Replacement of units for starch and yeast production.

1.	USAID Approval of Sub-project	November 1981
2.	Consultant Contract Signed	January 1982
3.	Issue IFB's for Procurement Packages	May 1982

4.	Select Equipment Suppliers	September 1982
5.	Civil Construction Completed	January 1983
6.	Plant Erection Completed	September 1983
7.	Plant Start-up and Test	December 1983

G. Sand Beneficiation ($8.5 million)
Improvement of raw material to be used for glass production.

1.	USAID Approval of Sub-project	May 1982
2.	Consultant Contract Signed	August 1982
3.	Issue IFB's for Procurement Packages	January 1983
4.	Select Equipment Suppliers	May 1983
5.	Civil Construction Completed	June 1984
6.	Plant Erection Completed	March 1985
7.	Plant Start-up and Test	June 1985

III. Sub-Project Implementation Schedule - Direct Equipment Procurements

A. Tires - TRENCO ($7.745 million)
Modernization of tire and tube production facilities and balancing of plant output.

1.	USAID Approval of Sub-project	January 1981
2.	Issue IFB's for Procurement Packages	March 1981
3.	Select Equipment Suppliers	August 1981
4.	Plant Start-up and Test	June 1982

B. Salt - ENSC ($4.8 million)
Replacement and renewal of salt crushing and refining facilities at El Mex.

1.	USAID Approval of Sub-project	September 1981
2.	Issue IFB's for Procurement Packages	January 1982
3.	Select Equipment Suppliers	May 1982
4.	Plant Start-up and Test	May 1983

C. Kaolin - Sinai Manganese ($3.0 million)
Equipment for mining high quality kaolin ore in Sinai.

1.	USAID Approval of Sub-project	December 1981
2.	Issue IFB's for Procurement Packages	April 1982
3.	Select Equipment Suppliers	June 1982
4.	Plant Start-up and Test	June 1983

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D. Paper cartons - Simo Paper ($4.0 million)
Equipment for coating paper to be used for making paper cartons.

1.	USAID Approval of Sub-project	November 1981
2.	Issue IFB's for Procurement Packages	March 1982
3.	Select Equipment Suppliers	May 1982
4.	Plant Start-up and Test	May 1983

E. Glass Tumblers - El Nasr Glass ($5.0 million)
Equipment for production of glass tumblers in old factory at Shoubra.

1.	USAID Approval of Sub-project	December 1981
2.	Issue IFB's for Procurement Packages	April 1982
3.	Select Equipment Suppliers	June 1982
4.	Plant Start-up and Test	June 1983

Annex G

Industrial Production Project

LOP Funding Versus Expenditure Projections *

		LOP FUNDING	EXPENDED TO DATE (6/30/81)	EXPENDITURE PROJECTIONS FY 81	FY 82	FY 83	FY 84	FY 85
A.	TRAINING	2,000	45	500	700	500	255	0
B.	TECHNICAL ASSISTANCE	8,226	4,794	989	2,443	0	0	0
	1. Consultant-General Costs and Feasibility	4,556	4,000	356	200	0	0	0
	2. Management	2,070	737	333	1,000	0	0	0
	3. Environment	1,600	57	300	1,243	0	0	0
C.	POLLUTION CONT. SUPROJECTS	24,400	0	650	1,850	19,000	2,900	0
	1. Capital Equipment	20,400	0	650	1,350	16,000	2,400	0
	2. Services	4,000	0	0	500	3,000	500	0
D.	EVALUATION	200	0	200	0	0	0	0
E.	EQUIPMENT AND VEHICLES	600	206	200	194	0	0	0
F.	SUBPROJECT RELOAN & REGRANTS	129,574	0	3,624	50,950	60,700	10,800	3,500
	1. Capital Equipment	95,400	0	2,350	37,450	45,500	7,100	3,000
	2. International Freight	12,000	0	800	5,200	5,500	500	0
	3. Services	22,174	0	474	8,300	9,700	3,200	500
	TOTAL	165,000	5,045	6,163	56,137	80,200	13,955	3,500

* Based on ANNEX F - IMPLEMENTATION PLANS

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To: Near East Advisory Committee

From: Project Review Committee

Thru: Selig A. Taubenblatt, NE/PD

Subject: Industrial Production Project Amendment (IPP)-III; AID Project No. 263-0101

A Project Review Committee (PRC) meeting was held Friday, July 17, 1981, to review the subject Mission approved Project Paper (PP) and identify pertinent issues for NEAC consideration. The following issues will be discussed at the NEAC review for this proposed project amendment on Thursday, July 23, 1981, at 9:30 a.m. in Conference Room 6439.

(A) Public VS Private Sector

ISSUE: A question has been raised as to whether A.I.D. should increase its financial support to IPP. This issue was raised by the AID Administrator in March 1981 during USAID Director Brown's visit to Washington. In considering this the issue USAID justified an amendment to the IPP on the following basis:

The Mission's strategy support's Egypt's transition toward a more market oriented economy through increasing productivity where the impact will be the greatest. The industrial sector, which the public sector predominates, provides the greatest potential gains because:

1. the existing capital stock is rundown and rehabilitation/renovation generally gives a high rate of return;

2. an increase in the capital stocks, where there is a history of overstaffing, increases the productivity of both the existing workers and those newly productively employed;

3. backward and forward linkages to industrial investment provide multiple investment and employment efforts; and

4. this sector is probably the key to Egypt's future ability to provide productive jobs for an increasing number of entrants into the larbor market.

Recommendation: The PRC agrees with the Mission's position. If AID is to have any influence in Egypt's industrial sector and assist the GOE achieve its mixed economy objective it must maintain its involvement in the public sector assisting the GOE pursue its industrial development objectives at the controlled pace desired and concurrently assist the GOE develop the tools and skills necessary to understand and make the transition from a public to private sector orientation.

(B) Project Performance

ISSUE: It has been three years since the original project was obligated. The implementation of two of the four major project elements , training and environment improvement assistance, has yet to begin. Contracts between the General Organization for Industrialization (GOFI) and the American University in Cairo (AUC) for training services and GOFI and Weston International for pollution abatement technical services, have not been executed even though each were selected competitively more than a year ago. Considering the time that has elapsed since project obligation only limited implementation activities have been undertaken for the technical and capital assistance project elements. Only about 7% of the loan/grant proceeds have been sub-obligated (although four sub-projects totalling $55.2 million have been approved) and that has been primarily for advisory services and feasibility/diagnostic studies. Of equal importance is the inability of the GOE to address key decentralization issues which are fundamental to the success of IPP. The GOE has had from 1973, with the announcement of their decentralization of public sector policy to address the many and varied issues associated with the decentralization of the Egyptian economy. However, optimism has evaporated for near term significant improvements in the GOE's treatment of subsidies, decontrol of industrial pricing, rationalization of input pricing and interest rate policy, company tax reform, lifting of restrictive employment policies, etc. As indicated in paragraph 1.04 of the PP itself, controls in these areas have actually taken a turn for the worst as the GOE attempts to control inflationary surges in its economy. The PP indicates that the major implementation problems have or are about to be resolved and that significant legislation is about to be submitted to the People's Assembly to address decentralization issues. However, in light of the fact that the imminent resolution of all of the above issues has been promised for more than a year by the GOE, the PRC's opinion is that it is highly possible that implementation problems will continue to impede project progress. Therefore, we must ask the question: Is there enough evidence at hand regarding the willingess and ability of the GOE to implement the existing project to support additional funding for a project whose purpose may be difficult to carry out in a reasonable amount of time?

Recommendation: The PRC agrees with the PP position that AID should continue to assist public sector enterprises to increase the productivity of existing labor and capital in Egypt. However, the indecisive actions of both the Ministry of Industry and GOFI together with the GOE's slow progress in opening the economy are contrary to attaining these objectives. The PRC feels that there should be more demonstrated progress in addressing the above problems.

The following actions should be made conditions precedent to disbursement for sub-projects to be financed by this add-on.

1. An executed contract between GOFI and Weston for consulting services required for carrying out the technical analysis and implementation of environmental subprojects.

2. An executed and USAID approved contract between GOFI and AUC or other qualified training contractor for services required for the development of a training plan and to conduct training with primary emphasis on project analysis and project management.

The PRC also recommends that a covenant be included in the Grant Agreement in which the Grantee agrees to pursue a policy of decentralization and allow for consultation between the Grantee and AID on the progress achieved by the GOE in resolving those decentralization issues (i.e. elimination of subsidies and restrictive labor rates, rationalization of input pricing and interest rates, company tax reform, etc.) that have an impact on the achievement of IPP goals.

(C) Project Evaluation:

ISSUE: In a May 1981 meeting regarding this subject the AA/NE noted that an evaluation of IPP would be performed in the fall of 1981 and that judgement on whether or not the subject add-on would precede the evaluation would be made after receipt and review of the PP.

Recommendation: In light of the fact that the proposed evaulation will not be IPP specific but rather an intensive review of our broader experience in public sector industry investment, the PRC concludes that the evaluation not necessarily precede consideration of the funding of this add-on. In addition, the PP should provide an outline of the scope of the proposed evaluation, its relationship to the on-going industrial sector assessment and its implications for the IPP.

DISTRIBUTION:

A/AID, Mr. M. P. McPherson
AA/NE, Ms W. A. Ford
AA/NE, Mr. A. White
AA/NE, Mr. E. Vinson
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NE/PD, Mr. S. A. Taubenblatt (2)
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NE/EI, Mr. G. Gower
NE/NENA, Mr. J. Phippard
NE/NENA, Mr. C. Crowley

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UNITED STATES GOVERNMENT

memorandum

DATE: November 6, 1979

REPLY TO ATTN OF: NE/PD, Stanley A. Stalla SAS

SUBJECT: Egypt - Industrial Production, Project 263-0101 - Issues Paper

TO: SEE DISTRIBUTION

Attached is the Issues Paper which will be discussed at the NEAC review of the subject project on Thursday, November 8, 1979, in Conference room 6439 N.S. 9:30 a.m.

DISTRIBUTION:

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NE/PD, G. Shivers (2)
NE/EI, G. Kamens
NE/EI, J. Sperling

Attachment: a/s

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6

Memorandum November 6, 1979

TO : Near East Advisory Committee

THRU : NE/PD, Selig A. Taubenblatt

FROM : Project Review Committee SAB

SUBJECT: Issues Paper: Egypt - Industrial Production, Project 263-0101

At the October 31, 1979 Project Review Committee (PRC) meeting, the following issues were identified:

1. Subsidies. The original Grant/Loan Agreement contained a special covenant to the effect that the GOE "...agrees to pursue its long-term policy of eliminating subsidies that hinder the development of the industrial sector...and take(s) into account A.I.D.'s observations on this subject as a part of a continuing dialogue on the development of the industrial sector." The Project Paper amendment (page 21) states that USAID has requested a written report from the GOE describing the Government's policy for eliminating subsidies and the progress to date on implementing this policy. If this report is not received before this Agreement is scheduled to be signed, the submission of the report will be made a condition precedent to disbursement in the Agreement. The PRC questioned whether a condition precedent requiring submission of a report was sufficient to bring about the desired changes, or if more stringent conditions should be required.

Recommmendation: The PRC recommends that this be a major point in the negotiation of the Grant Agreement with the view to agree on specific steps to be taken by the GOE to eliminate subsidies. These agreed upon actions could then be incorporated in the Agreement as first or second conditions precedent, as appropriate. However, in view of the other economic reform measures that the GOE is being pressed to adopt by the IMF, A.I.D. may have to be prepared to accept somewhat less than the agreed firm actions to be taken at this time.

2. Regrants to finance environmental capital equipment. Approximately $11.9 million of grant funds will be made available to approved applicant firms on a regrant basis to finance environmental capital equipment. This is consistent with the FY 78 project paper. However, some of the applicants may be able to use this equipment for revenue-producing

ventures by recovering and reprocessing valuable by-products currently lost as a cost of polluting. Furthermore, it is possible that the relatively sophisticated modern equipment supplied would stand a better chance of proper maintenance and operating procedures over the longer run if the funds were provided on a subloan basis. Funds for all other subproject capital equipment will be on the basis of reloans.

Recommendation: That the criteria for approving applications include a review of the revenue-producing potential of the proposed environment related equipment, and that this be weighed in deciding whether the funds should be made available to the applicant as a subgrant or subloan. The criteria for selecting and approving applications for funding of environmental capital equipment should provide for careful evaluation of the applicant's operational and maintenance capabilities.

3. Funding. The total authorized amount of $70.0 mil ($46.445 mil loan and $25.555 mil grant) has been obligated as of the end of FY 79, although no disbursements have been made to date. Of the additional $25 mil proposed amendment, the Mission intends to obligate only $15 mil at this time to cover additional consultant costs and expanded environmental work. The other $10 mil, intended to eventually replenish the fund for subproject capital improvements, will probably not be obligated until FY 81, although the Mission wishes to retain the option of a FY 80 obligation if the project proceeds more rapidly during the coming months.

Recommendation: Although it is difficult to precisely track the proposed increases in funding, the PRC tends to concede to the Mission's judgment the capability to expend the funds at a reasonable rate.

4. Training. There are several training projects currently being proposed or implemented in Egypt, including Middle Management Training, Business Management Training, and the training components of the DIB and PIEF projects. The project paper amendment does not, however, provide much information as to how these programs interrelate. Neither does it describe in much detail the training component of this project, i.e., what manpower analysis will be conducted to determine the target group of trainees, the subject matter of the training and how it will be developed, or how the program will be implemented - but neither did the original PP. A scope of work currently being reviewed by a short list

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of prospective training consultants provides some answers to these questions.

Recommendation: That the Mission review the various training programs to assure that overlap is avoided to the maximum extent possible. Based on the scope of work, the A.I.D./W PRC will expand the training section of the PP amendment.

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