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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

117

PROJECT PAPER

Egypt: Development Industrial Bank II

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE

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DEVELOPMENT INDUSTRIAL BANK

8. ESTIMATED FY OF PROJECT COMPLETION
FY 8 | 4

9. ESTIMATED DATE OF OBLIGATION
A. INITIAL FY: 7 | 8 B. QUARTER: 4
C. FINAL FY: 7 | 8 (Enter 1, 2, 3 or 4)

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

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. - C	D. TOTAL	E. FX	F. - C	G. TOTAL
AID APPROPRIATED TOTAL	2,000		2,000	2,000		2,000
GRANT	2,000		2,000	2,000		2,000
LOAN						
OTHER						
U.S. 2.						
HOST COUNTRY		1,000	1,000		1,000	1,000
OTHER DONORS						
TOTALS	2,000	1,000	3,000	2,000	1,000	3,000

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

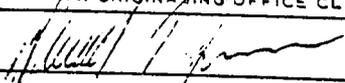
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY 78		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) SA	800	810		2,000					
(2)									
(3)									
(4)									
TOTALS				2,000					

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1) SA					2,000		MM YY 1 2 8 0
(2)							
(3)							
(4)							
TOTALS						2,000	

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14. ORIGINATING OFFICE CLEARANCE

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 TITLE
 Donald S. Brown
 Director, USAID/Cairo

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

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EGYPT - DEVELOPMENT INDUSTRIAL BANK
SUMMARY AND RECOMMENDATION

1. Grantee: The Government of the Arab Republic of Egypt (GOE)
2. Implementing Entity: The Development Industrial Bank (DIB)
3. Grant Amount: \$2.0 million (Two million U.S. dollars).
4. Purpose: to improve the institutional capability of DIB.
5. Project Description: To finance the foreign exchange cost of (i) a Senior Advisor to the Chairman of DIB; (ii) a management consulting firms; (iii) training; and (iv) equipment and materials for use by DIB.
6. Total Project Cost: \$ 3.0 million (three million U.S. dollars) of which this grant will finance two-thirds and DIB will finance one-third, or LE 700,000 in local currency.
7. Application: The GOE's application is included as Annex A.
8. Statutory Requirements: All statutory criteria have been met. See Annex B.
9. USAID Views: USAID/Cairo has recommended that this grant be authorized.
10. Environmental: The Initial Environmental Examination was a negative determination. See Annex V.
11. Recommendation: that a grant of \$2.0 million be authorized to the GOE on terms and conditions described in the draft authorization shown in Annex C.
12. Project Committees:

USAID/Cairo

Thomas R. Tiffet, Chairman
Michael B. Briggs, Capital Development Officer
David C. Woody, Engineer
Thomas Morrison, Economist
James Phippard, Counsel

AID/Washington

Thomas A. Sterner, NE/PD
Gary Bisson, GC/NE
Steven Singer, NE/DP
Craig Buck, NE/EI
Leonard Rosenberg, NE/PD
Steven Kinsley, NE/PD

I. INTRODUCTION

1.01 The Government of Egypt (GOE) has requested a loan of \$25.0 million and a grant of \$2.0 million for the Development Industrial Bank. The loan would be used by DIB for relending to the Egyptian private sector and, in some circumstances, to the public sector. The grant would be used by DIB for the improvement of its internal operations - technical assistance, office equipment, etc.

1.02 Early in the fiscal year DIB stated that both the loan and the grant would be required as soon as possible. During our evaluation of DIB's request, it became evident that DIB did not require the \$25.0 million for re-lending immediately due to having secured additional funds from other sources. It was however evident that DIB did need the \$2.0 million grant now to enable it to improve its operations, and to speed utilization of resources available from a number of donors.

1.03 We therefore are only requesting approval of the grant element this fiscal year. Based on our analysis it appears that DIB will need to secure additional funds for re-lending during calendar year 1979. We therefore will continue to monitor DIB's financial condition. When DIB's financial resources are less than its projected needs for the succeeding twelve months lending program, we will process an updated project paper justifying the loan. This approach has been agreed to by the GOE and DIB.

1.04 Assistance to DIB was included in AID's FY 78 Congressional Presentation at \$12.5 million loan and \$500,000 for technical assistance. A congressional notification was required. The GOE's request for assistance is included as Annex A to this Paper. All statutory criteria have been satisfied. The checklist is included as Annex B.

II. BACKGROUND

A. The Industrial Sector

2.01 The Government of Egypt in its Five-Year Plan (1978-1982) places highest priority on the development of the industrial sector. Almost one-third of total planned investments during this period are for industry. Given the limited scope for growth in the agricultural sector, it is imperative that industry assume a leading role in the generation of increased income, employment, and foreign exchange earnings.

2.02 Industry has become a large and important sector of the Egyptian economy. From 1946 to 1976 industry's share of GNP increased from 9 percent to 24 percent. Industry currently employs about 1.6 million persons (17 percent of the civilian labor force). Industry's share in total commodity exports has increased from 7 percent in 1954 to almost 50 percent in 1975.

2.03 Egypt's industrialization strategy over the last several decades has emphasized production for the domestic market primarily through import substitution. Basic policy objectives have also included the utilization of domestically available raw materials whenever possible, and a diversification of the industrial base. These basic policy thrusts have endured through several different types of economic systems, ranging from free enterprise before 1950, to the mixed system of the 1950's, to the present liberalization effort with its "open door" policy. The present strategy places more emphasis on export promotion than did previous systems, but is aware that this will entail some long-run structural adjustments. The current product structure of Egyptian industry shows that it is already well advanced into the import substitution phase. In 1947 industry was dominated by the production of basic consumer goods which accounted for about 80 percent of gross value-added. By 1976 the share of basic consumer goods had decreased to 46 percent, while intermediate goods had risen to account for 45 percent and capital goods for 9 percent.

2.04 Rather than attempting to change Egypt's basic industrialization strategy, the current GOE Five-Year Plan focuses more on decontrol and rejuvenation of existing industry in order to improve its efficiency. Primary candidates for reform in this area (1) the employment policy which, for example, has forced public sector firms to hire up to six times their needs, and (2) the price control/subsidy system which seriously affects performance and resource allocation. The GOE has already initiated actions in these areas.

2.05 The GOE Five-Year Plan places highest priority for industrial investment on replacement and repair projects for existing plants in order to increase capacity utilization. Second highest priority is given to the completion of projects already underway, while third priority is left for new projects. This set of priorities is appropriate for Egypt which in the past has too often given in to the temptation to start new projects before completing those already begun or maintaining those already in operation.

2.06 Because of the emphasis on existing plants and projects already begun, the public sector will necessarily continue to receive a large share of total industrial investment. As a result of the nationalizations of the early 1960's, almost all large-and medium-scale industrial enterprises are now in the public sector, while the private sector has been reduced to small and some medium-size establishments producing basic consumer goods. The public sector generates about two-thirds of the value added in industry and provides half of total industrial employment.

2.07 Although the Five-Year Plan emphasizes the promotion of the private industrial sector, investments in this sector over the next five years both by the GOE and foreign donors will necessarily be less than in the public sector. This is because almost three-quarters of total output is still accounted for by the public sector. Since GOE's highest priority for the industrial sector is for replacement and maintenance projects in order to increase the efficiency of existing industry, the public sector will of necessity receive the majority of investment over the next five years. The absorptive capacity of the private industrial sector will gradually increase, but at present it is limited because of its concentration in very labor-intensive and small-scale operations. The great majority of private establishments have less than 50 employees, with the distribution weighted heavily at the lower end, while the average public sector company employs around 3,000 workers.

2.08 The GOE has set important roles for both the public and private sectors in the Five-Year Plan for Industry. Through increased efficiency and capacity utilization the public sector is planned to continue the import substitution process toward greater vertical integration and increased foreign exchange savings. On the other hand, the GOE is looking to the private sector to provide the dynamism that is needed to lead the Egyptian economy into an era of vigorous growth of output and employment.

2.09 Despite the univiting climate for private industry after the nationalizations in the early 1960's, the private sector has managed to hold its own and even grow, accounting for about one-third of total value added in industry and slightly more than one-half of total industrial employment in 1975. Textiles, food products, leather, wood-working and furniture, and engineering (including metallic products) remain the dominant industries of private activity and, by extension, of small-scale manufacturing. Out of the 4,000 private establishments employing 10 or more workers, establishments employing 10-50 workers account for 90 percent of the total number and 57 percent of the total employment of this group.

2.10 The artisanal sector (under 10 employees) continues to occupy an important place within the private industrial sector with a share of about 16% of gross value added in total manufacturing. A 1974 survey estimated that there were approximately 113,400 artisanal establishments employing around 330,000 persons or 73% of the total private industrial sector labor force. The artisanal sector is oriented toward production of household consumption goods. The ranking of artisanal activities in terms of employment are garments, woodworking and furniture, food processing, engineering, textiles, shoes and leather products and repair services. About three-quarters of the artisanal establishments have fixed assets valued (in 1974) at less than LE 100 and 97% at less than LE 1,000, which underscores the very low capital base of the small artisanal workshop.

2.11 The major constraints to the growth of private industry and particularly of small-scale industry include: out-of-date machinery, deficient production and management (problems involving product design and development, production planning, material selection, preventive maintenance and working conditions), and marketing problems. Their relative importance varies with the particular industrial activity and size of establishment. The introduction of more sophisticated techniques and specialized machines has created the need for skill upgrading, while increasing shortage of skilled workers (due in part to emigration) suggests the need for devising training schemes to accommodate unskilled workers in private industry. The lack of adequate space for expansion is also a serious problem. Timely procurement of raw materials, despite recent improvements, still poses problems. Improvement of product quality is needed in order to expand exports. Finally, and intimately related to many of the above problems, lack of access to institutional finance, particularly for smaller size establishments, compounds the situation.

B. The Financial Sector

1. Institutions

2.12 Institutional financing for industry in Egypt is provided almost entirely by the banking sector. Of the non-banking institutions, only insurance companies have shown interest in providing long-term financing, and then only to well managed large industrial projects.

The two stock exchanges, one in Cairo and one in Alexandria, have not contributed to the mobilization of finance for more than twenty years. The exchanges have some 43 listed securities with a total market value of about LE 160 million of which bonds represent sixty percent (mainly four government issues) and shares forty percent. The annual turnover volume is about LE 10 million in Cairo and LE 4 million in Alexandria. No new security has been listed in the last twenty years.

2.13 The banking sector continues to be dominated by the four public sector commercial banks--Misr Bank, Banque du Caire, National Bank and Bank of Alexandria. The sector specialization of each of these banks was removed in 1975 with the issuance of a new banking law (Law 120). The "open door" policy of recent years has led to the establishment of a large number of new financial institutions (joint-venture banks, foreign bank branches, offshore institutions), most of which are only gradually initiating operations. Presently, there are 33 local and joint-venture banks, 25 representative offices and 11 finance and investment houses.^{1/} With the exception of DIB and one other bank, all new financial institutions have confined themselves to traditional commercial banking activities. The one exception is the Misr Iran Development Bank, a joint between two Iranian banks and two Egyptian banks (Bank of Alexandria and Bank Misr). Its main objective is to promote and finance joint-venture projects. It is restricted to financing foreign exchange. It lends at medium-term and takes equity positions.

2. Financing of Industrial Sector

2.14 Public sector industrial investments continue to be financed primarily from the national budget and secondary through suppliers' credits and internally generated funds. The commercial banks generally provide only working capital financing. D ' provides some long-term financing for public sector projects but this is small in comparison to total investments and is generally for small reconstruction and expansion projects. In the past three years, public sector companies have relied heavily on suppliers' credits; oftentimes at an overall higher cost to the economy.

^{1/} American representation included 4 branch offices (Citibank, American Express, Bank of America and Manufacturers Hanover); 4 joint-venture banks (local banks with Chase Manhattan, First Chicago, Bank of America and American Express); and 2 representative offices (Chemical and Industrial National Bank of Rhode Island).

2.15 For private sector investments, the main source of external long-term investment funds is the DIB, for both local currency and foreign exchange. All the commercial banks provide short-term financing for working capital and for investment purposes. Short-term loans are often rolled over making them in effect disguised term loans. Many private sector businessmen use the local resources so obtained, or their own local resources, for purchasing foreign exchange in the "parallel market" or purchasing items imported under foreign exchange abroad to import capital or consumer goods (see Para. 2.18). This practice appears to be on the increase since the "own exchange" scheme allows private entrepreneurs to purchase imported goods currently at a premium of only about 5 percent over the parallel market exchange rate. The cost of the foreign exchange resources so obtained would compare favorably with the on-lending terms to sub-borrowers of DIB because of the relatively lower costs on local currency loans charged by banks.

3. The Cost of Capital

2.16 Interest rates on deposits and loans in local currency for all financial institutions are regulated by the Central Bank of Egypt (CBE). (The current rates are shown in Annex E.) The current rate for both short and long-term local currency loans are a minimum of 9 percent and a maximum of 11 percent; which reflects a recent increase of two percent on both ends of the spread. Additional charges on loans by way of commissions and fees are also regulated and rarely increase the annual cost by more than a percentage point. When compared with the current and projected inflation rate, the lending rates imply a negative, or at best a low, cost to borrowers. The issue of raising interest rates for greater domestic resource mobilization and for more efficient allocation of resources is a concept not well understood in Egypt. The increase in interest rates is also opposed by the public sector, particularly the Ministry of Industry, when financing is for public sector companies. It is not unusual for the Ministry to allow companies to "shop" for suppliers' credits. Successful companies are then allowed to conclude contracts regardless of whether it is an economic use of funds. Nevertheless, the GOE has agreed in its Letter of Intent to the International Monetary Fund to further (so far unspecified) increases in interest rates in the coming years.

2.17 Aside from suppliers' credits, interest rates on foreign exchange loans reflect the cost of these resources; the rates are not regulated by the CBE. Commercial banks have been making foreign exchange loans at an interest rate tied to London Inter-Bank Offered Rate (LIBOR), but such loans have been few and generally short-term. Misr Iran Development Bank (MIDB) charges an interest rate of 10.5 percent, plus a commitment fee, on its loans. The MIDB loans must be repaid in foreign currency; only DIB has made foreign exchange loans with repayment in local currency.

4. Foreign Exchange Rate System

2.18 Egypt has three rates for foreign exchange. Rates in two markets are decreed by the Government, and the third rate is negotiated between individuals in a free market. These rates, and the trade items exchanged at each rate, are as follows:

- a. Official Exchange Rate (LE 0.40 = U.S. \$1.00;
U.S. \$1.00 = LE 2.56).

This rate is used for petroleum, raw cotton, rice, Suez Canal transit tolls, SUMMED pipeline fees and repayment of official debt incurred before 1977. However, in its agreements with IMF, the GOE has committed itself to shift all remaining transactions from the official to the parallel market in the coming year.

- b. Parallel Market Rate (LE 0.70 = U.S. \$1.00
U.S. \$1.43 = LE 1.00).

This rate, established in late 1976, was originally intended to encourage workers remittances, tourism and some exports; on the payment side it was limited to private sector imports. Subsequently, official rate imports of goods and invisibles were shifted to the parallel rate, except for the few items listed above which are effectively outside the normal economy (as noted, further shifts to the parallel rate will be made in the coming year).

- c. Free (or "own") Exchange Rate

This rate is not officially recognized and it originated with a special list of goods which Egyptians were allowed to import based on their foreign earnings. The list has been expanded and bank activity liberalized. It has resulted in a third market where rates are negotiated between buyer and seller. The rate has fluctuated within a narrow range at about five percent above the parallel market rate.

III. THE DEVELOPMENT INDUSTRIAL BANK

A. Establishment and History

3.01 The Development Industrial Bank began operations in 1976 with a full range of short and long-term financial services to finance establishment or expansion of industry. Its authorized capital of LE 10.0 million has been fully paid in by the Government of Egypt; the Central Bank of Egypt administers ownership rights of the Government. This Bank is the successor institution to previous organizations dating back to 1948, when the Industrial Bank was established. The Industrial Bank was owned by: Government (51%), individuals (25%), other banks and the postal administration (24%); its shares were traded on the stock exchange. It began operations in 1950 and was nationalized in 1961, along with other Egyptian banks. In 1971, the Industrial Bank was absorbed by the Bank of Alexandria, a commercial bank, into a department called Special Services to the Private Industrial Sector. It was this department which formed the nucleus of the present Development Industrial Bank by contributing most of its loan portfolio and many of its staff. In April 1976, a Temporary Committee was established to perform all necessary actions to establish the DIB, and it was registered in the Commercial Register of Cairo in May 1976. Also, in May 1976, the DIB was registered with the Central Bank of Egypt as a non-commercial bank. In June 1976, the Prime Minister signed a Presidential Decree formally establishing the DIB, creating a Board of Directors, abolishing the Temporary Committee and forming a Permanent Committee to undertake administrative and management actions necessary for the Bank to begin operations. The DIB commenced operations on August 1, 1976. Its "Policy Statement" is attached as Annex F.

B. Board and Advisory Committee

3.02 The DIB has a seven-man board of directors, including five bank members, as do all public sector banks pursuant to Law No. 120 of 1975. Board members are appointed by the Minister of Economy and Economic Cooperation on the recommendation of the Governor of the Central Bank for an unlimited term. Internal directors include the five most senior bank officers (chairman, vice chairman, and the three general managers). The two external directors are: an industrial economist and professor at the University of Alexandria and an Advisor to the Ministry of Economy and Economic Cooperation. The Board determines the Bank's policies, organizational structure, and operational procedures within the framework and regulations established by the Central Bank of Egypt. It meets once a month or more frequently if necessary. It also approves all loans above LE 25,000 in local currency and all loans above LE 100,000 equivalent in foreign exchange. (See Annex G).

3.03 To strengthen the Bank, an external Advisory Committee was established in March 1978. The Advisory Committee's six members, are well

known in government and business. The Advisory Committee meets monthly and its first meeting was held in April 1978. It reviews and advises on the investment climate, bank investment policy, particular investment proposals, and bank operations. Bio briefs of the Board and the Advisory Committee are given in Annex H.

C. Organization

3.04 The bank, under the Chairman and Vice Chairman, is divided into three principal organizational units each headed by the General Manager; (a) Long-term Lending and Follow-up, (b) Short-term Lending and Financial Resources, and (c) Financial and Administrative Affairs. In addition, there are several departments which report directly to the Chairman (legal, security, and others) and to the Vice Chairman (liquidation).

3.05 DIB operates out of Cairo headquarters and two branches in Cairo and Alexandria. The headquarters and Cairo branch are located in the same building, which belonged to predecessor institutions. DIB plans to expand its branch system into the Delta, the Suez Canal Zone, Upper Egypt, and other areas.

Functionally, the headquarters and branch operations differ. The headquarters not only carries out customary head office functions, including policy direction, planning, and budgeting, but also the functions of long-term loan appraisal and supervision. The branches have responsibility for maintaining customer relationships and accounts, for servicing long-term loans, and for other banking relationships including short-term credit, letters of credit, etc.

D Staff

3.06 DIB staff totals approximately 300 of whom about 60% are professionals. The Bank plans to increase staff about 10% per year, below the rate of growth of sub-loans. Staffing of certain key departments is along with projections for 1980, are shown in Annex I.

3.07 Senior and middle management of the Bank has had substantial experience, either with the DIB or other banks. In addition to education and experience with DIB, four senior officers have attended World Bank Economic Development Institute courses in development banking and industrial projects and other staff members are sent for special training courses both in Egypt and overseas.

3.08 New employees are recruited through advertisements in newspapers. After an initial screening, the Board examines applicants not only in their technical areas but also for their ability to present themselves

and for their English language capability. If outside assistance is required, for example, for hiring engineers, then a consultant assists the Board in its examination. Because of its need for specially qualified people, the Bank is not required to accept a designated number of new graduates as are most investment organizations. After joining the Bank, newly hired persons are given a one-month orientation program and selected for their initial assignments.

3.09 DIB conducts several internal training programs and encourages staff to attend outside training courses. Among the internal programs are: a four-week credit analysis course given once a year to staff members of the long-term credit, short-term credit, and branch units of the Bank; English language instruction, presently being given to approximately 25 persons in six-month introductory and intermediate courses; and a one-month course in accounting for members of the Financial Department at headquarters and the branches. External courses include two Central Bank courses, one in bank operations of six months duration and the other in banking (economic, legal, financial, etc.) problems of five months duration. In addition the Bank sends staff to special short courses, such as foreign exchange control, small-scale industry, public relations, employee pension insurance, etc., according to the needs of particular jobs.

3.10 Pay scale for new university graduates is L.E. 300 per year, increased to 360 after a six-month probation period. Pay for category B professionals (less than 11 years' service) ranges from LE 180 (high school graduates) to LE 1,200 per year and for category A professionals ranges from LE 720 to LE 1,680 annually. Top management salaries range from LE 1,400 to somewhat over LE 2,000 annually. In addition to salaries, all employees are eligible for various bonus and profit sharing arrangements which add another 30%-35% to the stated salary rates.

E. Policy

3.11 DIB provides a broad range of financial services to industrial borrowers. Services, described in DIB's Strategy Statement, attached as Annex J, include:

- a. Lending:
 - i) Overdraft facilities;
 - ii) Short-term loans of up to one year for working capital needs;
 - iii) Medium-term loans of up to five years; and
 - iv) Long-term loans of up to 15 years.
- b. Equity participations;
- c. Letters of Guarantee; and
- d. Documentary letters of credit.

3.12 Aside from an equity investment of LE 1.0 million in a joint venture merchant bank, ^{1/} DIB has refrained from taking equity positions, primarily because it has yet to build a solid investment base itself and presently needs to have all its assets earning current revenues.

3.13 The main features of DIB's financial policy are:

a. DIB's maximum debt/equity ratio shall be 6:1, with debt defined to consist of short-term and long-term debt, uncovered guarantees and deposits excluding compensating balances held by DIB as cash cover against loans.

b. DIB's total financial exposure in loans, guarantees of any kind and equity participation in any single company shall normally be limited to 20 percent of DIB's equity.

c. DIB will not take an equity participation in any company in excess of 25 percent of the company's equity, and DIB's total equity participation in all companies shall not exceed its own equity.

d. DIB will generally limit its financing to enterprises with a debt/equity ratio not exceeding 2:1.

3.14 DIB's primary focus is on the private sector. It does, however, lend to public sector companies. In these instances, the public sector borrower is required to be either a "mixed company" (owned by both private and public shareholders) or export 20 percent of its production to hard currency countries. DIB also is developing a special program for the small-scale sector with assistance from the World Bank and the Organization of Petroleum Exporting Countries Special Fund. See Annex K for details of this program.

F. Financial Management

1. Budget

3.15 The DIB has a rolling five year financial plan. Annual budgets are submitted to the CBE in July for the succeeding calendar year. After revision and approval by the CBE, the budget is submitted to the People's Assembly for final approval. Semi-annual revisions are allowed if necessary.

^{1/} The merchant bank, Misr America International Bank, S.A.E., is owned by Bank of America (40%), Misr Insurance (26%), DIB (25%), First Arabian Corp. (4.5%) and Kuwait Real Estate Bank (4.5%).

2. Controls and Audit

3.16 With the exception of a need to increase its internal audit staff, DIB's internal controls are acceptable and consist of the following:

a. The Follow-up Department monitors sub-loans compliance with long agreement terms and conditions. This Department consists of nine full time professionals.

b. The Internal Inspection and Control Staff performs special "snapshot" or quick audits of specific activities as requested by the Chairman. This unit is presently understaffed and will be increased. With an increase in staff, an audit program covering all DIB's financial and administrative will be developed and complemented. Both of these improvements were recommended by AID's AAG during the recent audit.

c. An adequate set of double checks are incorporated in daily activities (dual signature on checks, receipt of cash double checked) to prevent collusion.

3.17 DIB itself is audited by two independent chartered accounting firms appointed by the GOE Central Audit Organization. Both AID and the World Bank have approved rights on the selection of audit firm.

G. Lending Procedures

3.18 Given the fact that DIB is government-owned, operates in a country where resources are scarce, and must comply with procedures enforced by its foreign lender, borrowing from DIB is not easy and only the hearty and persistent survive. Annex L illustrates the steps that each borrower takes before obtaining a loan.

3.19 Despite these procedures, DIB has approved 1,439 loans in the past year and one-half. AID will discuss with the Government and DIB the elimination of some of these steps. The obvious candidate is the elimination of GOFI as a reviewer of all transactions and the elimination of the requirement that the borrower obtain prices prior to the commencement of the appraisal of his project. We are not, however, confident that there will be much improvement in the short-term and only limited hope for improvement in the medium-term.

H. Financial Analysis

3.20 In August 1976, at the commencement of DIB's operations, the Bank of Alexandria (BOA) transferred to DIB: (i) assets of its "Special Services to the Private Sector (SSPS)" department consisting

of a local currency loan portfolio, considered sound, with a book value of approximately LE 13.0 million, fixed assets with a book value of LE 11,000 (market value of over LE 1.0 million); and (ii) liabilities consisting of a LE 3.5 million debenture issue, due December 1978, and current liabilities of about LE 1.7 million.

3.21 In March 1977, two World Bank loans and their related portfolio, previously lent to BOA and administered by the SSPS department, were transferred to DIB. Basic data on these two loans are detailed in Annex M.

3.22 In July 1976, USAID authorized its loan of \$32.0 million to DIB, and in August 1976, the Central Bank of Egypt approved a line of credit of LE 27.0 million to meet its local currency requirements. The CBE funds withdrawn and outstanding are repayable on December 31, 1990. The interest rate is 4.5 percent per annum through December 31, 1980; after which it will be adjusted to the then prevailing inter-bank bond rate. And in October 1976 DIB received a foreign exchange loan from the African Development Bank. This loan is to be repaid over 15 years including a three year grace period. The interest rate is 7.5 percent per annum. DIB pays a commitment fee of one percent per annum on the undisbursed balance.

3.23 At the close of calendar year 1977, DIB had outstanding approximately LE 29 million in loans. Its debt to equity ratio was 1.9:1 leaving it ample room to borrow additional funds. For its one and one-half years of operations it had a profit, before taxes and provision for bad debts, of LE 1.6 million (LE 350,000 in 1976 and LE 1.3 million in 1977). Of this project DIB allocated LE 934,000 as a provision for bad debts and LE 81,000 for staff incentives. Its income tax was LE 490,000 leaving earnings retained of LE 131,000. While this is a good performance for a new institution it has been helped considerably by the transfer of a quality portfolio from BOA, therefore allowing it to fully commit its equity in earning assets; the low interest rate on the debenture issue and the CBE line of credit; and the fact that the World Bank and the USAID loan were at the official rate of exchange.

3.24 As stated above, DIB paid LE 490,000 in income taxes on its 1976/77 earnings. A problem with Egyptian income tax law is that a provision for bad debts is not deductible from income for purposes of calculating taxable income. A deduction for bad debts is only allowed when the bad debt is actually written off. Given the general reluctance of all financial institutions to actually write off bad debts, it is possible that DIB has paid tax on income it has not, nor will earn. For example, if interest is accrued on bad debts which is normally the case, it increases income on which a tax is paid. In

the case of another development bank in a country where similar tax laws exist, at one point eighty percent of its loans were in default but none were ever written off. Interest was accrued regularly and the institution showed a profit, on which it paid income taxes. Annually, it needed to borrow funds to pay the income tax since its cash income was barely enough to cover operating costs.

3.25 In the case of DIB, if we assume that its provision for bad debts is a real estimate of the principal and interest it will eventually need to write off, its net income for the one and one-half years was actually LE 752,000. On this net profit it paid income taxes of LE 490,000, or an effective rate of 65 percent. A covenant will be included in the Grant Agreement providing that the Government will give serious consideration to proposing an amendment of its income tax laws, allowing financial institutions to charge against current taxable income, estimated losses from bad debts.

I. DIB Portfolio

3.26 The DIB's loan distributions show that DIB has a well diversified and broadly based portfolio. Details of 1977 approvals, by distributions, are included in Annex N and highlights are given below:

a. Size of loan: The lowest category of loan size (up to LE 16,000) had the greatest number of loans (60%) but only 12% of value. The highest category (over LE 500,000) had the smallest number of borrowers (3%) but form the largest segment (40%) of portfolio value.

b. Maturity spread is good: 23% of value of approvals are short-term loans maturing within a year. Medium-term loans (1-5 years) form 13% of portfolio; long-term (5-10 years) form 38%, and loans maturing in more than 10 years form 20% of portfolio value.

c. Asset size of borrowers: Borrowers at the low end of the scale (less than LE 50,000) are largest in number (73%) and represent 24% of portfolio. At the other end of the scale, the largest borrowers (over LE 1,000,000) represented only 3% of borrowers but had 31% of portfolio.

d. Industry Distribution: The loans are well spread throughout industrial sub-sectors with the exception of tourism which equals about 22 percent of the portfolio. Table 1 below shows the distribution of loans by industrial sub-sector.

TABLE 1
Distribution of Sub Loans by Sub Sector

<u>Sub Sector</u>	<u>Percentage</u>
Food and Agro-Industry	14.9
Building Materials	7.0
Tourism	21.7
Engineering	16.2
Textiles	16.2
Printing	6.5
Chemicals and Plastics	8.9
Wood	0.8
Leather	5.0
Other	2.8
	100.0

3.27 As of March 31, 1978 arrearages of principal and interest of more than three months totalled LE 893,000 owed by 225 companies. Total outstandings represented these arrearages included principal of LE 4,496,000 and interest of LE 745,000 and totalled LE 5,241,000. Three companies which form the biggest block of outstandings (LE 3,716,000 of principal and LE 621,000 of interest) are considered strong by DIB, and project delays have caused arrearages. One, a private textile company, suffered from a two-year delay because imported machinery did not meet guarantee standards and because a government export quota was withheld; both problems are now solved. Another private sector company encountered land title problems which are being resolved; however, the borrower is also a strong trading company and the DIB is confident of a solution soon. The third major borrower in arrears is a strong public sector borrower, and DIB feels the loan is sound. Of the 217 private, medium term arrearages, one company represents the major amount; the company is considered sound, and the loan is being rescheduled. Other arrearages are caused by delays in project completion, cost overruns, and delays in construction. DIB considers all of the loans good credit risks. A statement of arrearages of over three months is attached as Annex 0.

IV. PREVIOUS AID ASSISTANCE

A. General

4.01 On July 29, 1976, A.I.D. authorized a loan of \$32.0 million to the GOE for use by DIB. The GOE re-lent \$31.5 million to DIB for sub-lending by DIB and granted \$500,000 for use by DIB to improve its operations. The interest rate to DIB on the loan portion was eight percent (8%) per annum. The loan is to be repaid to the GOE, in Egyptian pounds, over 20 years including a three year grace period.

4.02 The loan to DIB was at the official exchange^{1/} which is now an artificial rate and reflects a subsidy of approximately eighty percent. The use of this rate was a conscious decision. At that time, most of the transactions in Egypt were at that rate including all transactions in the industrial sector. DIB, therefore, needed to compete in the market place on equal terms. Also, it was our desire to allow DIB the most favorable conditions possible, consistent with prudent management, to enable it to build a solid foundation. Significant conditions and covenants included in the loan were:

- (a) a limitation of 35 percent for public sector lending,
- (b) a minimum interest rate for sub-loans of ten percent (10%), and
- (c) that each sub-loan have a minimum projected internal financial rate of return of fifteen percent (15%). All sub loans in excess of \$250,000 required prior A.I.D. approval. Annex P lists all the covenants of the first loan.

4.03 Conditions Precedent to Disbursement were not met until May 10, 1977 due to the need by A.I.D. and the World Bank to review the new organization in its entirety including staff, capitalization, and the initial portfolio manifesting from BOA. The first Letter of Commitment was opened on May 11, 1977. The first sub-loan was opened by USAID on June 29, 1977.

B. Sub-lending

4.04 As of July 31, 1978 46 sub-loans have been approved with a total value of \$21,716,376. An additional \$3.0 million in sub

^{1/} LE 1.00 = \$2.56. See paragraph 2.18

loans are being reviewed by USAID and a further \$2.0 million has been approved by DIB's Board of Directors but not yet submitted to USAID for approval. Table 2 below shows the pertinent facts of the sub-loans. Annex Q lists each sub loan by sector and amount.

Table 2
Sub-Loan Details

1. Size of Loans	<u>Number of Sub-loans</u>	<u>Amount US\$</u>
Type A \$250,000 or more	16	17,219,596*
Type B Less than \$250,000	<u>30</u>	<u>4,496,780</u>
Total	46 ==	21,716,376 =====
* USAID/Egypt approval is required on all Type A sub-loans.		
2. <u>Sector Receiving Benefit</u>		
Private	44	18,468,876
Public	<u>2</u>	<u>3,247,500</u>
Total	46 ==	21,716,376 =====
3. <u>Purpose of Sub-loans</u>		
Tourism	16	9,251,132
Printing	2	465,121
Engineering	2	242,312
Leather	1	600,196
Food	10	5,538,360
Textiles	7	1,352,142
Building	1	3,000,000
Chemicals	6	1,236,813
Others	1	<u>30,300</u>
Total	46 ==	21,716,376 =====

4.05 The composition of AID sub loans varies from DIB's total portfolio for a variety of reasons. In the agro-industrial sub-sector, U.S. technology has been well received; six of the nine projects in this sector have been for much needed cold storage facilities. In the tourism sub sector, the industry only recently started to expand significantly and during this period DIB's only foreign exchange source was the AID loan.

4.06 An analysis of a representative sample of AID sub loans showed that a) each one dollar of AID funds resulted in an investment equivalent to \$1.51 from local sources; b) of project cost 40 percent were foreign exchange costs and 60 percent currency costs; c) the average projected internal financial rate of return was 17.9 percent.

C. Operations Grant

4.07 The Grant of \$500,000 is being used by DIB for a training program (about \$400,000) and office equipment (about \$100,000).

4.08 The training program will be in project development, appraisal and implementation similar to that being conducted by the World Bank's Economic Development Institute. Twenty five to thirty of DIB's senior staff will be trained during two seasons of about eight weeks each. The consultant to conduct the courses will be selected from this U.S. firms who have submitted technical proposals to DIB^{1/}. The contract between DIB and the selected consultant will be in accordance with AID Handbook 11. Host Country Contracting Selection of the Consultant will occur in September/October 1978. Training will commence in January 1979. The terms of Reference/ Request For Proposals which describes the training program in detail is included as Annex R. to this paper.

D. Commodity Import Program

4.09 DIB was one of the seven Egyptian banks designated to receive \$5.0 million each under the CIP program for re-lending to the private sector. Procedures for using these funds (borrowing rates, re-lending rates, etc.) have recently been agreed to between the banks, the Ministry of Economy, the Central Bank and AID, therefore, DIB has not yet described any of the CIP funds. DIB will use the CIP funds primarily for financing working capital (e.g. raw materials) of existing clients.

^{1/} Arthur D. Little, Robert R. Nathan Assoc., Harvard International Advisory Services.

F. Technical Assistance

4.10 Under the existing technology transfer and Manpower Development Grant (263-0026) AID financed the services of one procurement specialist for a total of three months, to assist DIB in the U.S. market in general and specifically in A.I.D. procurement procedures.

V. DIB - PROSPECTS AND PROJECTIONS

5.01 Financial projections for DIB's lending program for the period 1978 through 1980 are shown in Table 3 below. The projections were prepared by the World Bank in January 1978. Actual results for 1977 are shown in the table for comparison.

TABLE 3

PROJECTED LENDING PROGRAM
(000)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Foreign Currency</u>				
Approvals	30,000	30,000	36,000	43,200
Commitments	9,570	16,310	21,160	28,660
Disbursements	3,860	5,862	17,252	23,058
Repayments	860	635	2,844	5,163
<u>Local Currency</u>				
Long term				
Approvals	9,836	10,000	12,000	14,400
Commitments	5,207	10,000	11,500	13,800
Disbursements	5,029	9,220	10,900	12,880
Repayments	807	1,270	2,138	4,464
Medium term				
Approvals	4,577	3,000	3,600	4,300
Commitments	4,865	3,000	3,450	4,125
Disbursements	4,153	3,171	3,405	4,057
Repayments	1,531	2,291	3,044	3,912
Short term				
Approvals	10,139	7,500	9,000	10,800
Commitments	7,542	7,500	8,755	10,530
Disbursements	6,943	7,598	8,648	10,355
Repayments	7,560	7,988	8,138	9,653

5.02 By June 30, 1978, DIB was slightly ahead of the projections for foreign currency loans (\$17 million vs. \$15 million projected) and on target for local currency loans. Based on this performance new projections, for foreign currency lending, were prepared by DIB and USAID and agreed to by the World Bank. Table 4 below shows the revised projections.

TABLE 4

REVISED FOREIGN CURRENCY LENDING PROGRAM
(000)

	<u>1978</u>	<u>1979</u>	<u>1980</u>
Approvals	35,000	43,000	52,000
Commitments	21,000	31,000	35,000
Disbursements	17,000	23,000	30,000
Repayments	2,900	5,000	9,000

5.03 Meeting this projections will depend on a number of factors both external and internal to DIB. The external factors are the rate and speed by which the private sector develops. As described in Chapter II the private sector is small but growing but is still dominated by small industries whose capital needs are necessarily small. Foreign private investment could play an important role over the next two years but that will depend on a continuance of the GOE's liberalization efforts (the "open door") and political stability in the Middle-East. Even assuming an accelerated pace in direct private foreign investments it will not provide that great an opportunity for DIB in the short-term since the size of DIB's loans will be governed by its capital and asset base which will effectively limit DIB's loans to about \$3.0 million per company.

5.04 A second external factor will be the competition. As described in paragraph 2.13, many new banks have opened and more are expected. To date, they have not been a factor in financing the industrial sector, but this obviously will not continue. The banks expected to offer the most competition are the joint-venture banks, since the foreign partner provides both a source of capital and managerial expertise.

5.05 Internally DIB will need to increase its staff and the competence of that staff. In the two years of its existence, DIB has processed over 1,700 loan applications and approved 1,439, a pace that will be difficult to maintain. An increase in volume will require an improvement in its operations and organization, and the modernization of its

physical facilities both office and equipment. It is to this need that this project is addressed.

5.06 During the first half of 1978, DIB secured the following foreign exchange loans:

a. OPEC Special Fund: \$8.8 million:

This is a two-step loan. The GOE repays the principal in 20 years including a five year grace period. There is no interest charged on the loan but there is a service fee of three-fourths percent. DIB repays the principal to the GOE over a fifteen year period including a grace period of three years and only the service fee of three-fourths percent. The loan is to be used for small scale industries and to be re-lent by DIB at eight percent. The spread (difference between borrowing and lending rate) is to be segregated and used for bad debts resulting from the loans and technical assistance to the small scale industry sector. (See Annex K)

b. World Bank: \$40.0 million:

This is a direct loan to DIB and guaranteed by the GOE. The terms are: repayment over a 17 year period including a grace period of three years with interest at 7.45 percent per annum and a commitment fee of three-fourths of one percent.

c. Arab Fund For Social and Economic Development: Kuwaiti Dinars 7.0 million (equivalent to \$25.2 million):

This is also a direct loan to DIB guaranteed by the GOE and repayable over 15 years including a three year grace period with interest at 7 percent per annum plus a commitment fee on the undisbursed balance of one-half percent.

5.07 Resources available to DIB at July 1, 1978, for foreign exchange lending include the new loans described above plus balances of previous loans still not committed. Table 5 below summarizes those resources.

TABLE 5

FOREIGN EXCHANGE RESOURCE POSITION

July 1, 1978

(in millions)

USAID - (263-K-035)	\$ 9.0
USAID - CIP	5.0
OPEC Special Fund	8.8
World Bank	40.0
Arab Fund	25.2
	<u>\$88.0</u>

5.08 Table 6 below compares DIB foreign exchange resources with its projected foreign currency lending program:

TABLE 6

RESOURCES VS PROJECTIONS

(in millions)

Projected Lending:

1978 (July/Dec)	\$18.0
1979	+43.0
Sub-total	<u>61.0</u>
Resources available	<u>-88.0</u>
Available for 1980	27.0
Projected lending 1980	<u>-52.0</u>
Short-fall 1980	<u>\$25.0</u>

5.09 Our conclusion is that it is premature to provide additional funds for relending to DIB at this time. Based on the projections a second loan could be considered in late 1979. It is also our conclusion that DIB will need substantial technical assistance in order to effectively and efficiently utilize the resources available to it.

VI. THE PROJECT

A. Goal and Purpose

6.01 The purpose of the project is to improve the institutional capability of DIB in providing financing to Egypt's industrial sector. The project goal is to increase the output and improve the efficiency of Egypt's industrial sector - primarily through private investment.

B. Project Description

6.02 The DIB is a relatively new entity. It began operations in 1976 and has since processed over 1,700 loan applications totaling some \$35 million. While the DIB's track record has been good, its performance will have to show continued improvement if it is to play a significant future role in assisting the growth of the private sector. It must process more applications more quickly and without sacrificing, (and hopefully improving) loan quality.

Presently there are institutional constraints to continued expansion and improvement to DIB operations that cannot be overcome with internal resources. The first of these constraints is the organizational structure of the DIB which, we believe, can be streamlined by provision of management assistance. The second constraint is that bank staff do not, generally speaking, have adequate training or experience to effectively appraise projects. Appraisals now require too much time and are often incomplete. A training program in project appraisal will be provided under the FY 1978 project. This FY 1978 project will attempt to broaden staff experience by providing on-the-job programs in other development banking organizations. The third constraint is simply the lack of modern hardware. The DIB does much of its accounting manually and the few calculators at the Bank are, in most cases, the personal property of employees. The project will provide a variety of calculating and accounting equipment which should result in greater efficiency.

6.03 Management assistance will consist of (i) the services of one full-time Senior Advisor to DIB's Chairman who will provide advice and guidance on all bank matters including policy, strategy, organization, and procedures; and (ii) the services of a management consulting firm to review, recommend and implement organizational and operational improvements, management information systems, personnel systems and internal control procedures.

The draft Terms of Reference (TOR) for both elements are included as Annex S. Subsequent to the drafting of the TOR, it was decided to recruit the Senior Advisor first. After employment, the Senior Advisor would then be able to review/amend the TOR prior to its issuance.

6.04 Training will continue the efforts started under the FY 76 project. It will provide a source of funds to send selected bank employees to the U.S. and other development finance companies for on-the-job experience in organizations more advanced than DIB. We will also finance the short-term services of individuals to provide assistance to DIB primarily in financial and procurement administration.

6.05 Equipment will consist of a new mini-computer and related software, electronic calculators, two vehicles, teaching aids and library material.

C. Cost Estimate and Financing Plan

6.06 Table 7 below provides the estimated project costs and the sources of financing.

TABLE 7

COST ESTIMATE AND FINANCING PLAN
(000)

<u>Application</u>	<u>FX</u>	<u>LC</u>
Senior Advisor	\$ 200	\$ 50
Management Consulting Firm	900	200
Short Term Consultants	100	25
Training	100	25
Equipment	500	700
Contingency	200	100
	\$2,000	\$1,000
 <u>Sources</u>		
AID Grant	\$2,000	-
DIB	-	\$1,000
	\$2,000	\$1,000

VII IMPLEMENTATION

A. Schedule

7.01 The advertisement for the Senior Advisor was placed in the Commerce Business Daily and selected U.S. newspaper on August 2, 1978 with a closing date of September 5, 1978. Selection and negotiation of a contract is expected to take three months. The Senior Advisor should commence his assignment in January 1979.

7.02 Prequalification and short-listing of qualified management consulting firms will be conducted during November and December 1978, concurrent with the employment procedures for the Senior Advisor. The terms of Reference should be issued to the pre-qualified firms in mid-January 1979. Selection of a firm should be completed by May 1, 1979. The firm should commence its review in June 1979.

7.03 Training will be conducted over a two year period commencing in January 1979. The short-term consultants will also be employed during this same period.

7.04 The vehicles and electronic calculators will be purchased in November and December of 1978. The decision on the detailed specifications of the mini computes will be deferred until the initial review by the management consulting firm. It therefore is not expected to be purchased until late 1979. Additions to the library will be acquired in early 1979, based on the recommendations of the firm conducting the courses in project evaluation (see para. 4.09).

B. Procurement

7.05 All procurement will be in accordance with Handbook 11 - Host Country Contracting. Source and origin for the A.I.D. funds will be the U.S. except for per diem and possibly air fares for those being trained at Development Finance companies outside the U.S.

C. Monitoring and Reporting

7.06 Special reports will be added to those required under the existing project for the Senior Management Advisor and the Management Consulting Firm. Brief reports will be required monthly and full reports quarterly.

7.07 Monitoring of this project, as with the existing project, will be handled by USAID staff with short-term assistance from

AID/W as necessary. Approval procedures for sub-loans require a review by a permanent project committee and approval by the USAID Director based on an Action Memorandum. Examples of such documents are included as Annex U to the Paper.

D. Terminal Dates

7.08 The Terminal Date for meeting Conditions Precedent will be 30 days from the signing of the Grant Agreement. The Terminal Date for opening Letters of Commitment will be June 30, 1980. The Project Assistance Completion Date will be February 28, 1981.

E. Evaluation

7.09 Baseline data has been developed for DIB's performance through June 30, 1978 (quality of evaluation, volume of transaction, etc) therefore evaluation will consider what improvements have been effected through this grant. The first evaluation will take place in October 1979 and annually thereafter. The evaluation team will consist of a USAID employee, an AID/W employee, and an individual from the World Bank.

VIII. RECOMMENDATION, CONDITIONS
AND COVENANTS

A. Recommendation

8.01 Subject to the conditions and covenants listed below, we recommend that A.I.D. authorize a grant of \$2.0 million to the Government of Egypt for use by DIB to improve its internal operations.

B. Conditions Precedent to Disbursement

8.02 Prior to any disbursement or commitment under the grant, the GOE shall be required to furnish to A.I.D.:

- a. A statement of the names of the persons authorized to represent the GOE and DIB and a specimen signature of each.
- b. Evidence that the GOE has passed on the grant to DIB.

8.03 Prior to the disbursement of funds for the Senior Advisor and the management consulting firm, DIB will be required to have a contract, acceptable to A.I.D. with, for the Senior Advisor, an individual acceptable to A.I.D. and, for the management consulting firm, a firm acceptable to A.I.D.

C. Covenants

8.04 The covenants contained in the existing project loan are acceptable and in force. The only additional covenant will be that required to correct the income tax anomaly as described in paragraph 3.24.

a. Additional Covenant:

The Grantee will give serious consideration to proposing an amendment of its income tax laws, allowing financial institutions to charge estimated losses from bad debts against current taxable income.

700095

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INVESTMENT AND FREE ZONES AUTHORITY

ANNEX A



Telax : 348 GAFEC UN
: 2235 INVST UN
Cable : INVESTAZON
P.O. Box 1007 CAIRO

Office of the Deputy Chairman

Mr. Donald S. Brown,
Director
U.S. Agency for International Development
5, Lating America Street
Garden City
C A I R O

ACTION TO	CIE	PRM
ACTION TAKEN	20.7.78	DATE 8/10
NAN		INITIALS

BEST AVAILABLE COPY

1751

Cairo 27 July, 1978

Dear Mr. Brown,

The Development Industrial Bank has benefited from AID Loan No. 263-K-C35 in the amount of \$ 32 million. The Bank has approved use of most of these funds for specific sub-loans.

The Bank's demand for new loans for industrial project continues to grow, particularly for projects in the private sector. We hope that AID will be able to continue to support the Bank.

We request that you consider extending new financial assistance to the Government of the Arab Republic of Egypt for the Industrial Bank as follows:-

- (1) A loan of \$ 25.0 million for use by the Bank in making sub-loans and;
- (2) A grant of \$ 2.0 million for use by the Bank to improve its own operations including services of consultants and advisors and equipment.

Thank you for your cooperation.

Sincerely yours,

G. El-Nazer

GAMAL EL-NAZER
Deputy Chairman
For Investment Authority
In Charge of American Aids to Egypt

CAPITAL DEVELOPMENT	
NO.	<i>1751</i>
SUB	

AID MANO/SOCL 3, App 5C	FAA PROJ. NO. :12	EFFECTIVE DATE February 15, 1978	PAGE NO. 5C(2)-1
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5C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans) and Security Supporting Assistance funds.

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

A. GENERAL CRITERIA FOR PROJECT.1. App. Unnumbered; FAA Sec. 553(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?

(a) Project was described in FY1978 Congressional Presentation.
(b) Planned obligation is within the level of funds appropriated for Egypt for FY1978.

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?

No further legislative action is required to implement the project.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 3, 1972 (replaces Memorandum of May 10, 1962; see Fed. Register, Vol 28, No. 174, Part III, Sept. 10, 1972, for details)?

Not applicable.

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

Yes.

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6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?

Project is not susceptible to execution as regional or multi-lateral program.

7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). 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 project: (a) assists industries which export; (b) directs 80% of funds for private sector industries; (c), (d), (e) encourages growth of all financial institutions, finances modern management and new industry; (f) provides industrial employment which unions may enroll.

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 funds are for the financing of U.S. source and origin equipment, materials and services, competitive procurement procedures will be utilized.

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.

The agreement with the GOE will so provide and commit such funds.

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

Yes. Release and utilization of funds if needed within scope of related local currency project.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

Development Assistance not applicable in Egypt.

a. FAA Sec. 102(c); Sec. 111; Sec. 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, spreading investment out from cities to small towns and rural areas; and (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?

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b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

- (1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;
- (2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;
- (3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;
- (4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:
 - (a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;
 - (b) to help alleviate energy problem;
 - (c) research into, and evaluation of, economic development processes and techniques;
 - (d) reconstruction after natural or manmade disaster;
 - (e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;
 - (f) 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.

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(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

BEST AVAILABLE COPY

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will 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)?

d. 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?

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

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

Part I

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g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). 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; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

Development Assistance not applicable in Egypt.

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e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, 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?

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

The project will support industrial production and modernization of industry.

4. Additional Criteria for Alliance for Progress

Not applicable.

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

DEPARTMENT OF STATE
 AGENCY FOR INTERNATIONAL DEVELOPMENT
 WASHINGTON, D. C. 20523

ASSISTANT
 ADMINISTRATOR

PROJECT AUTHORIZATION
 AND REQUEST FOR ALLOTMENT OF FUNDS

PART II

Name of Country: Arab Republic
 of Egypt

Name of Project: Development
 Industrial Bank

Number of Project: 263-0045

Pursuant to Part II, Chapter 4, Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Grant to the Arab Republic of Egypt (the "Cooperating Country") of not to exceed Two Million United States Dollars (\$2,000,000) (the "Authorized Amount") to help in financing certain foreign exchange costs of goods and services required for the project as described in the following paragraph.

The project consists of assistance to the Government of the Arab Republic of Egypt to improve the institutional capability of the Development Industrial Bank (DIB) in providing financing to Egypt's private industrial sector. The Authorized Amount will be used to fund management assistance, training and equipment and materials needed by DIB. The entire amount of the A.I.D. financing herein authorized for the Project will be obligated when the Project Agreement is executed.

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority subject to the following essential terms and covenants and major conditions as A.I.D. may deem appropriate:

a. Source, Origin and Nationality of Goods and Services

Goods and services financed by A.I.D. under the Project shall have their source, origin and nationality in the United States except as A.I.D. may otherwise agree in writing.

b. Condition Precedent to First Disbursement

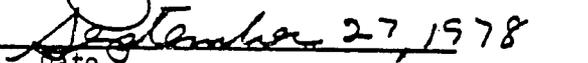
Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish A.I.D. in form and substance satisfactory to A.I.D.:

- (1) A statement of the names of the persons holding or acting in the offices of the Grantee specified in the Grant Agreement, and of any additional representatives, together with a specimen signature of each person specified in such statement.
- (2) Evidence that the Grantee has passed on the Grant to the DIB.

c. Covenant

The Grant Agreement will contain A.I.D. Standard Covenants. In addition, the following covenant will be included:

- (1) The Grantee will give serious consideration to proposing an amendment of its income tax laws, allowing financial institutions to charge estimated losses from bad debts against current taxable income.


Joseph C. Wheeler
Bureau for Near East

Date



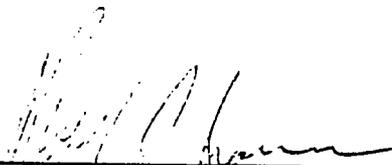
CAIRO EGYPT

ANNEX D

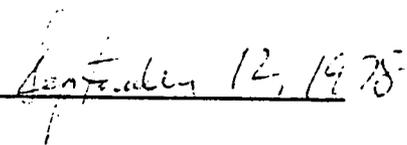
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

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

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



Donald S. Brown
Director



Date

EGYPT: DEVELOPMENT INDUSTRIAL BANKInterest Rate Structure

(Main Deposit and Lending Rates
Effective Since June 17, 1978)

<u>Deposits with commercial banks</u>	<u>Percentage</u>
1. Demand deposits	0 %
2. Time and notice deposits	
- 15 days notice (minimum amount LE 10,000)	4.0%
- 30 to 90 days fixed	4.5%
- 90 to 360 days fixed	5.5%
- 360 days and more	6.0%
- 1 to 2 years	6.5%
- 2 years or more	7.0%
3. Savings deposits (maximum amount LE 10,000)	5.0%
 <u>Deposits with other financial Institutions</u>	
1. Postal Savings Bank	5.0%
2. Investment certificates	
- for a period of 10 years	7.0%
- if continued another 10 years	7.0%
 <u>Lending Rates for Local Currency</u>	
1. Maximum rate	11.0%
2. Minimum rate	9.0%
3. Minimum Rate for Cotton Financing	8.5%
4. Maximum Penalty Rate	1.0%
 <u>Discount Rate at Central Bank</u>	 8.0%
 <u>Transactions in Foreign Currencies</u>	 (At going international rates)

EGYPT - DEVELOPMENT INDUSTRIAL BANKPOLICY STATEMENTA. OBJECTIVES

- I. The principal objective of the Development Industrial Bank (DIB) is the promotion of industrial and related activities in Egypt through financial assistance for the establishment of new productive enterprises and for the modernization, expansion and improvement of existing ones. Productive private and cooperative enterprises, including artisans and small scale industries are mainly eligible for this assistance. Financial assistance may be extended to public industrial enterprises on a selective basis.
- II. DIB will also promote contacts between Egyptian and Foreign investors and assist in the setting up of joint venture projects under provisions of Law 43/1974, with a view to introducing modern technology the Egyptian economy.
- III. DIB will play an active role in mobilizing foreign as well as domestic financial resources to achieve its principal objectives. It will, in particular, contribute to domestic savings mobilization by promoting the development of the capital market in Egypt through underwriting of new share and bond issues and sale of its equity investments in profitable enterprises.
- IV. DIB will make available to Egyptian enterprises its know-how on economic, financial, technical and organizational matters. It will encourage appropriate persons to become entrepreneurs and will assist artisans and small workshop owners to expand and develop their activities.

B. OPERATIONAL POLICIES

In order to achieve its objectives, DIB intends to adhere to the following policies:

1. Financing will be made available for projects which will contribute to the economic growth of the country.
2. Financing of investment projects will be made available only after a thorough appraisal of all relevant factors and will be based on the following investment criteria:

- (a) Particular attention will be given to projects aiming at increasing the rate of industrial capacity utilization modernizing existing industry, contributing to the processing of local resources, and generating or saving foreign exchange.
 - (b) An investment project, whether a new creation or an expansion, should have an adequate internal financial rate of return; the soundness of the borrowing enterprise and its ability to service debt will also be taken into consideration.
 - (c) Projects to be financed should have an adequate economic rate of return; in particular, projects contributing toward the creation of employment and to income distribution in the country would be favored.
 - (d) In financing industrial projects DIB will endeavor to spread its resources among different regions and industrial sub-sectors with due regard to economic development objectives and priorities set by the Government.
3. DIB's financing may be in the form of loans, participations in equity and guarantees. DIB will generally limit its financing to enterprises with a debt/equity ratio not exceeding 2:1. This limit may be exceeded for hire-purchase operations, where up to 80% of the project cost may be financed, and for SSI projects depending on their merit.^{1/}
4. DIB will provide funds in local and foreign currencies according to the suitability of each project in the form of:
- (a) Working capital facilities.
 - (b) Medium-term loans with a duration of up to five years.
 - (c) Long-term loans up to 10 years and exceptionally up to 15 years.
 - (d) Equity participation.
 - (e) Letters of Undertaking.

Activities (a) and (e) will be intended generally as support activities to items (b), (c) and (d).

^{1/} SSI are defined by DIB as enterprises whose fixed assets excluding land and building do not exceed LE 150,000 (around \$215,000).

ANNEX F (Cont'd)

5. Taking into consideration the guidelines set up by the Central Bank of Egypt relating to interest rates and commissions, DIB shall endeavor to obtain a satisfactory spread between the average cost of its borrowings and its lending rates in order to achieve a reasonable profitability.
6. DIB will obtain adequate security on its loans and require its clients to keep adequate records by using sound accounting procedures. It will obtain rights of information and inspection and, in the event of faulty management, of intervention in the enterprises it finances.
7. DIB will seek to sell its equity participations to the general public at the earliest moment practicable.
8. The operations of DIB will not be limited exclusively to the granting of financial assistance. It will also advise its clients, when necessary, on the solution of their technical and financial problems, and assist to their investments.
9. DIB's participation in the equity of an enterprise will always be a minority holding. Its intention is not to manage the enterprise in which it participates, though it may seek the right of representation on the Board of the enterprise.

C. FINANCIAL POLICIES

1. DIB, whenever deemed necessary to increase its financial resources, may borrow funds locally or abroad through bond issues or by entering into loan agreements. It may also accept deposits but generally from its borrowing clients only, since it does not intend to compete with commercial banks in this respect.
2. DIB will follow a prudent borrowing policy. Total debt shall not exceed six times the amount of DIB's unimpaired paid-in capital and reserves with total debt defined as including short-term and long-term debts, uncovered contingent liabilities (excluding undisbursed loan and equity commitments) and deposits other than compensating balances held by DIB, against certain loans.
3. DIB will endeavor to match the duration of its assets with that of its liabilities, thereby safeguarding its liquidity.

4. DIB's financial exposure in loans, various guarantees and equity participation (all on a commitment basis), in any single enterprise, shall normally be limited to 20% of DIB's unimpaired paid-in capital and reserves. Its participation in the equity of an enterprise shall normally not exceed 25% of the enterprise's equity, and total equity investments of DIB shall not exceed its unimpaired paid-in capital and reserves.
5. DIB shall protect itself against exchange risks arising out of its operations involving foreign exchange.
6. Subject to such regulations as are in force, DIB will make adequate provisions against possible losses and accumulate sufficient reserves to enlarge its equity and protect itself against risk.

D. PROPOSED ORGANIZATION OF THE INDUSTRIAL BANK

Procedure

- (i) DIB will endeavor to have an efficient and balanced internal organization and staff which should be adequate to undertake the necessary appraisal of investment proposals, to assist its clients in the formulation and conduct of their projects and to follow up closely the operations of the enterprises it finances, in order thereby to safeguard its own investment and protect the interest of outside investors.
- (ii) Appropriate reports covering the progress of DIB's activities and financial position will be prepared periodically for management review and submission to its Board of Directors.

(iii) Branches

DIB will start its operations with its head office and two branches, one at 110 Galaa Street in Cairo (which is also the head office address) and the other at Horreya Street in Alexandria. More branches, if appropriate, may be opened in the future.

AUDIT

The annual audit of DIB's accounts will be made by qualified and independent auditors who shall be Public Chartered Accountants and appointed by the Board of Directors.

ANNEX G

DEVELOPMENT INDUSTRIAL BANK

Loan Authorization Limits

A. Local Currency Loans

Over LE 250,000	Board of Directors
LE 200,000 to LE 250,000	Chairman
LE 100,000 to LE 200,000	Vice-Chairman
LE 75,000 to LE 100,000	General Managers for Credit Facilities and Term Lending
LE 50,000 to LE 75,000	Deputy General Managers for Credit Facilities and Term Lending
LE 30,000 to LE 50,000	Managers for General Depart- ment for Credit Facilities, Term Lending, and Investment
Up to LE 30,000	Manager of Galaa Branch (Cairo)
Up to LE 10,000	Manager of Horreya Branch (Alexandria)

B. Foreign Currency Loans

Over LE 100,000	Board of Directors
Up to LE 100,000	Chairman

EGYPT: DEVELOPMENT INDUSTRIAL BANKBIOBRIEFS OF BOARD OF DIRECTORS & ADVISORY COMMITTEEA. BOARD OF DIRECTORS

CHAIRMAN - Abdel H.A.Kabodan, 52

Chairman of the Board of DIB and Member of the Board of Directors of the Central Bank of Egypt since establishment of DIB. Previously, was with Bank of Alexandria as General Manager of term lending (1972-1976) and, before that, held a variety of other managerial positions with that Bank. From 1948-1959, was a lawyer and head of the Legal Department of Barclays Bank, Cairo. He has participated in other activities including Egypt's General Organization for Banks (1963-1964) and international banking conferences. Educated at Alexandria University (Bachelor of Law and Economics) and Polytechnic Institute, Prague (Diplome of High Studies in Banking and Economics); attended several special training courses including two at the World Bank's EDI.

MEMBER - Monir H. Shenouda, 59

Vice Chairman of DIB and a banker for 42 years. Joined DIB as General Manager for Long Term Lending when the Bank was established and served with its predecessor, SSPIS Department of the Bank of Alexandria in a variety of positions since 1973. Previously, with the Bank of Alexandria as Manager of the main branch in Cairo and held other positions including Chief Accountant. From 1936-1957, with Barclays Bank where he rose from clerk to Branch Manager; when the Bank was nationalized and collapsed into the Bank of Alexandria. Educated at Ein-Shams University, Cairo (Bachelor of Commerce) and two major commercial banking institutes; attended many special training courses including one at the World Bank's EDI.

MEMBER - Abdel S.A.ElHakei, 55

General Manager of Finance and Administration since DIB's establishment. Previously with Bank of Alexandria as Manager of Accounts and Financial Affairs and other positions for 19 years. From 1946-1957, was with Barclays Bank DCO, Cairo, as head of the Accounts Department and other jobs. Also, lecturer at the Central Bank's Institute of Accounting. Educated at Cairo University (Bachelor of Commerce); attended several special training courses.

MEMBER - Abdel R. Omar, 52

General Manager for Short-term Lending and Financial Resources; joined DIB in early 1978. Previously with the Central Bank and other banking

institutions for 30 years, including assignments of six months to Lybia's Ministry of Economy and of three years to Egypt's Arab and Foreign Investment Authority. Also, member of Egyptian delegation for negotiation of trade and economic cooperation agreements. Educated at Cairo University (Bachelor of Commerce); attended several special training courses including an IMF Institute course in 1970.

MEMBER - Mahmoud Lotfi

Advisor to the General Authority for Arab and Foreign Investments & Free Zones.

MEMBER - Mohammed Agamia

Professor of Economics at University of Alexandria.

MEMBER - Vacant

B. ADVISORY COMMITTEE

1. Dr. Eng. Mahmoud A. Hassan, former Minister of Industry;
2. Dr. Eng. Abd El F. Naguib, Consulting Engineer and formerly Professor of Engineering and Chairman of the General Organization for the Metallurgic Industry;
3. Eng. Hassan A. El Fatah, businessman and formerly Chairman of General Organization For Industry;
4. Mr. Hamed Habib, Chairman of the Federation of Industry;
5. Eng. Nalem Mahfouz, businessman owning Egyptian consulting engineering firm and also several companies in Germany, Arab countries, and Egypt; and
6. Abd El G. Farag, formerly Vice Chairman of DIB.

DIB STAFFING PATTERN

	<u>1978</u>	<u>1980</u>
a) Long-term Lending Dept:		
Loan Officers	18	22
Engineers	6	9
b) Follow-up Dept.	9	11
c) Investment Prom. Dept.	3	7
d) Economic Affairs Dept.	4	9
e) Financial Resources Dept.	12	18
f) Credit Facilities Dept.	8	10
g) Branch Credit Facilities:		
Cairo	11	13
Alexandria	5	7
Others	0	5

EGYPT: DEVELOPMENT INDUSTRIAL BANK
STATEMENT OF STRATEGY

A. OBJECTIVES AND TARGETS:

1. The principal objective of DIB is the promotion of industrial and related activities in Egypt through financial assistance for the establishment of new productive enterprises and for the modernization, expansion and improvement of existing ones. Productive private and co-operative enterprises, including artisans and small scale industries are not only eligible for this assistance but also predominantly cared for.
2. Special emphasis is made on small scale enterprises and projects benefitting the poor population in urban and rural area (Poverty alleviation Program) with a view to employment creation. For this purpose, small scale enterprises are defined as enterprises with total assets, excluding land and building, not exceeding LE 150,000 (Say one hundred and fifty thousand Egyptian Pounds) at the time of loan application to DIB. Projects which either use goods and services (inputs) produced by the poor population or projects which produce goods and services (outputs) consumed by the poor population would qualify for PAP lending. Also projects whose fixed investment cost/job excluding land and building is less than or equal to LE 3000 (Say three thousand Egyptian Pounds) would qualify for PAP lending.

DIB intends to promote Small Scale Enterprises and PAP lending and to this end it is targetted that at least 20 or 25 percent of DIB's total lending over 1977-1979 would be for this purpose.

3. Financial assistance may also be extended to public industrial enterprises on a selective basis. Loans thereto will not be at the expense of fulfilling private sector demand which has priority. Public sector projects should, however, satisfy one or both of the following criteria in order to be eligible for lending:

- a. Sponsors are mixed companies (owned by both private and public sectors) unless newly formed joint ventures under Investment Laws 43/1974 or 32/1977 when they are considered private concerns.
 - b. New projects where at least 20 percent of the output will be exported to convertible currency countries; in the case of projects involving replacement, modernization of machinery or expansion, at least 20 percent of the entire production of the unit should be exported to convertible currency countries. Exceptions can be made in case the output is given special priority by the Government policy for local consumption such as the present case with Foodstuff and Building materials.
 - c. Public Sector projects which satisfy PAP criteria would be eligible to DIB lending.
2. DIB also promotes contacts among Egyptian and Foreign investors and assists in the setting up of joint venture projects under provisions of Investment Law 43/1974 since amended by Law 32/1977, with a view to introducing modern technology to the Egyptian economy.
 3. DIB plays an active role in mobilizing foreign as well as domestic financial resources to achieve its principal objectives. It will, in particular, contribute to domestic savings mobilization by promoting the development of the capital market in Egypt through underwriting of new share and bond issues and sale of its equity investments in profitable enterprises.
 4. DIB makes available to Egyptian enterprises its know-how on economic, financial, technical and organizational matters. It encourages appropriate persons to become entrepreneurs and assists artisans and small workshop owners to expand and develop their activities.

B. OPERATIONAL POLICIES

In order to achieve its objectives, DIB adheres to the following policies:

1. Financing is made available for projects which contribute to the economic growth of the country.

2. Financing of investment projects is made available only after a thorough appraisal of all relevant factors and based on the following investment criteria:
 - a. Particular attention is given to projects aiming at increasing the rate of industrial capacity utilization, modernizing existing industry, contributing to the processing of local resources, and generating or saving foreign exchange.
 - b. An investment project, whether new creation or an expansion, should have an adequate internal financial rate of return: the soundness of the borrowing entrepreneur and his ability to service debt will be taken into consideration.
 - c. Projects to be financed should have an adequate economic rate of return: in particular, projects contributing toward the creation of employment and to increase distribution in the country would be favoured.
 - d. In financing industrial projects, DIB endeavours to spread its resources among different regions and industrial sub-sectors with due regard to economic development objectives and priorities set by the Government.

The following priorities are at present taken into consideration for financing of industrial projects:

- (1) Foodstuff and agro industries
- (2) Building materials
- (3) Tourism
- (4) Engineering and Metallurgical
- (5) Textile industries
- (6) Cloth Printing, Dying and Preparation
- (7) Printing
- (8) Chemicals and Plastics

- (9) Wood
 - (10) Leather
 - (11) Medical Equipment
 - (12) Construction Contracting Business
3. DIB's financing may be in the form of loans and participations in equity. Normally the enterprises whose projects are financed should have a debt/equity ratio not exceeding 2:1. For hire purchase loans up to 80% of the project cost may be financed even if debt/equity ratio exceeds 2:1. Also for S.S.I. (defined as enterprises with total assets, excluding land and building, not exceeding LE 150,000 at the time of loan application to DIB) the 2:1 debt/equity ratio may be exceeded depending on the individual merits of the project.
4. DIB will provide funds in Local and Foreign Currencies according to the suitability of each project in the form of:
- a. Working capital facilities.
 - b. Short-term Loans not exceeding one year against:
 - (1) pledge of raw materials and goods
 - (2) cession of contracts for supply to Government and Public Sector Bodies
 - (3) benefits ceded in documentary letters of credit for export of manufactured goods etc.
 - c. Medium-term Loans with a duration of up to five years.
 - d. Long-term Loans up to 10 years and exceptionally to 15 years.
 - e. Equity participation.
 - f. Letters of Guarantee (unconditional undertakings)
 - g. Documentary Letters of Credit.

Activities (a), (b), (f) and (g) are intended generally as support activities to items (c), (d) and (e).

5. Taking into consideration the guidelines set up by the Central Bank of Egypt relating to interest rates and commissions, DIB endeavours to obtain a satisfactory spread between the average cost of its borrowings and its lending rates in order to achieve a reasonable profitability.
6. DIB usually obtains adequate security on its loans and requires its customers to keep adequate records by using sound accounting procedures. It acquires right of inspection and, in the event of faulty management, of intervention in the enterprises it finances.
7. DIB will seek to sell its equity participations to the general public at the earliest moment practicable.
8. The operations of DIB will not be limited exclusively to the granting of financial assistance. It will also advise its clients, when necessary, in the solution of their technical and financial problems, and assist them in obtaining required government approvals and incentives in relation to their investments.
9. DIB's participations in the equity of an enterprise will always be a minority holding. Its intention is not to manage the enterprise in which it participates, though it may seek the right of representation on the Board of the enterprise.

C. FINANCIAL POLICIES

1. DIB, whenever deemed necessary to increase its financial resources, may borrow funds locally or abroad through bond issues or by entering into loan agreements. It also accepts deposits but generally from its borrowing clients only, or in forms or durations not commonly employed by commercial banks since it does not intend to compete with commercial banks in this respect.
2. DIB's maximum debt/equity ratio shall be 6:1, with debt defined to consist of Short-term and Long-term debts (excluding undisbursed commitments), uncovered contingent liabilities and deposits (excluding compensating balances held as cash cover against loans).

3. DIB will endeavour to match the duration of its assets with the duration of its liabilities, thereby safeguarding its liquidity.
4. Normally DIB's total financial exposure in loans, guarantees of any kind and equity participation (all on a commitment basis) in any single company shall normally be limited to 20% of DIB's equity. Otherwise it calls for DIB's board special approval.
5. DIB will not take an equity participation in any company in excess of 25% of the company's equity, and DIB's total equity participations shall not exceed its own equity.
6. DIB will protect itself against foreign exchange risks arising out of its operations involving foreign exchange by passing over such risks to its clients.
7. Subject to such regulations as are in force, DIB will make adequate provisions against possible losses and accumulate sufficient reserves to enlarge its equity and protect itself against risk.

D. PROPOSED ORGANIZATION OF DIB

1. Staffing and Organization

- a. DIB endeavours to have an efficient and balanced internal organization and staff which should be adequate to undertake the necessary appraisal of investment proposals, to assist its clients in the formulation and conduct of their projects and to follow up closely the operations of the enterprises it finances, in order thereby to safeguard its own investment and protect the interest of outside investors.
- b. Although the increase in DIB's activity reaches some 20% annually, the staff number will be increased by a maximum of 10%. Early in 1978, DIB plans to amend the staff number in some departments as follows:

Long-term Lending	14 members) + 6 Engineers
Credit Department	7 members	

Follow-up Dept.	8 members	
Galaa Branch (Credit)	10 members	
Horreya " "	4 members	+ 1 Engineer

c. Training

Apart from sending members of our Staff to other Development Industrial Banks, DIB is planning to arrange a course for 24 to 30 members for a period of 8 weeks. Members will be freed from their daily duties to attend and study. Lecturers are being chosen from U.S. and Egyptian Universities and Institutions. Financing will be covered from USAID grant. The course is expected to take place during 1978.

A Project appraisal advisor will also be engaged by DIB for 6/12 months to help upgrading the standard and to train our staff to make good reports.

- d. Appropriate reports covering the progress of DIB's activities and financial position will be prepared periodically for management review and submission to its Board of Directors. A financial officer will be seconded to DIB for a period of one/two years to build up a sound management information system.
- e. Salary Structure has been reviewed by Central Bank of Egypt thus allowing for further incentives, more yearly allowances and abolishment of grades with higher top ceilings. The new Staff Regulations were put in force as from January 1978.
- f. DIB started its operations with its head office and two branches, one at 110 Galaa Street in Cairo (which is also the head office address) and the other at Horreya Street in Alexandria. To expand activities outside Cairo and Alexandria and to promote industries in different areas, it is planned to have one branch in the near future in the Canal Zone, probably in Suez or Port Said, and another one in Mehalla Al Kobra, an important industrial center in the Delta. At a later date, one or two more branches will be opened in Upper Egypt.

E. AUDIT

The annual audit of DIB's accounts will be made by qualified and independent auditors who shall be Public Chartered Accountants and appointed by the Board of Directors.

SMALL SCALE INDUSTRIAL PROGRAM

The Development Industrial Bank is to receive assistance from the IBRD and the OSF (OPEC Special Fund) which will be used in a coordinated program to help Egyptian industries. The IBRD will loan \$40 million to DIB and the OSF has already signed an \$8.75 million loan with the GOE which will be re-lent to the DIB interest free. The two loans are in support of a project which will:

- a. provide a part of DIB's foreign exchange requirements for industrial (manufacturing and processing, agro-industry, tourism and related service activities) financing;
- b. assist DIB in strengthening its development banking function and related organization and procedures; and
- c. finance a program of technical assistance to small-scale industries (defined as assets excluding land and buildings of less than \$215,000 or LE 150,000).

The two loans, excluding \$500,000 of the OSF funds, will be used to fill roughly 60% of the DIB's foreign exchange requirements for industrial financing over two years. The sub-projects to be financed will be primarily private sector. The OSF loan will be used only for the smaller of the small-scale industries, those whose total assets, excluding land and buildings, do not exceed \$143,000 (LE 100,000) with at least half the amount directed to those whose assets do not exceed U.S. \$28,000 (LE 20,000). These loans will be at 8% p.a., a rate set low to provide an incentive for small-scale industry development. In addition, 10% of the IBRD loan, or \$4 million, will be used by the DIB for relending to small-scale industry. These amounts are considered sufficient to cover the DIB's lending in foreign exchange to the described target group during the two years.

The IBRD/OSF project also includes financing for a technical assistance pilot project designed to assist small-scale industry development, including the artisan sector.

The objectives of this effort are to:

- a. raise productivity by improving manufacturing processes and extension of assistance to solve problem areas in production, engineering and management.

- b. increase the quantum of skills available to small-scale industry by accelerated training and skill upgrading; and
- c. remedy deficiencies in the commercial aspects of management.

Implementation will be carried out by the Engineering and Industrial Design and Development Center (EIDDC) and by the Productivity and Vocational Training Department (PVT) of the Ministry of Industry. The program will be focused on Cairo and Alexandria where a majority of the small-scale industries are located. Local costs estimated at US \$280,000 (LE 200,000) will be provided out of a special fund at DIB created from accrued interest on the OSF-financed sub-loans. (The fund will also cover bad debts on small-scale industry sub-loans). The IBRD loan will finance the projected foreign exchange requirements of U.S \$200,000. These will be used for machinery and supplies for training programs (U.S. \$80,000), 24 man-months of technical services from three advisors (U.S. \$110,000) and fellowships and study tours (U.S. \$10,000).

The IBRD/OSF project already has been instrumental during the planning stages in focusing DIB attention on the merits of small-scale industry promotion. As a result, the DIB has set a target of 20%-25% of its total lending to small-scale industries. The inputs of the IBRD/OSF project will satisfy the near-term needs of the DIB for fulfilling this target. It will also begin the development of the agencies that can cater to the technical and training requirements of small-scale industries.

CURRENT DIB LENDING PROCEDURES

1. Borrower discusses his proposal with DIB's Long-term Lending Department Officer who outlines customary terms, project eligibility, bank policy, and is given an application form.
2. Borrower obtains approval of its proforma invoices for supply of equipment. This approval is given either by the Investment Authority (for Law 43 companies) or GOFI (for other companies). GOFI acts through "Decision Committees" which review a minimum of three bids or proposals for each equipment item.
3. GOFI informs DIB of its approval of proformas and also of its concurrence in DIB financing of the proposed project.
4. DIB's Long-term Lending Department undertakes its appraisal. The Engineering Section receives copies of the proforma invoices and visits the project site together with the Loan Officer. The Information Section makes a credit checking of other banks and companies, learns the Borrower's reputation, and checks whether there has been a previous DIB relationship. After this information is gathered, the Loan Officer works with an Engineer to complete the appraisal. If an outside consultant is needed for specialized techniques, he is obtained from the Bank's list of over thirty such consultants. The Loan Officer then prepares the marketing, economic, and financial analyses. The completed appraisal is then approved according to the schedule of lending limits (See Annex T for Bank lending limits). Thereafter, approval is sought from AID or the World Bank, as appropriate, or others if needed.
5. DIB then informs the Borrower of the approval, and the Legal Department draws up the necessary Loan Agreement, Mortgage, and other documents. The legal process is lengthy and normally takes three to four months to complete. When the Loan Agreement is signed, the customer's loan account is domiciled at either the Cairo or Alexandria branch.
6. DIB informs the Import Agent that the Loan Agreement is signed and that the Import License should be obtained, based on the approval from GOFI (step 2 above). After issuance of the Import License, DIB's Financial Resources Department opens the Letter of Credit.
7. When the goods arrive in Egypt, the Borrower and a DIB representative obtain release from customs, the Borrower takes the equipment to the plant site, and DIB's Legal Department prepares the final mortgage.

8. After goods are delivered, the Follow-up Department visits the Borrower to confirm that goods are as ordered and are properly installed and operating. In the case of foreign exchange loans, the Follow-up Department reviews the original appraisal and reports any differences, particularly in regard to time and cost estimates. Thereafter, each project is visited semi-annually.

ANNEX M

WORLD BANK LOANS

	<u>Credit 412-UAR</u>	<u>Credit 576-EGT</u>
<u>Amounts:</u>	\$15,000,000	\$25,000,000
<u>Purpose:</u>	To finance BOA's foreign exchange requirements for its development finance operations through mid-1977 and institution-building.	
<u>Dates of Agreements:</u>	June 29, 1973	July 30, 1975
<u>Dates of Effectiveness:</u>	November 29, 1973	February 19, 1976
<u>Closing Dates:</u>	March 31, 1979	October 31, 1979
<u>Amounts Committed:</u>	\$15,000,000	\$25,000,000
<u>Amounts Disbursed:</u>	\$13,300,000	\$14,200,000
<u>Number of Sub-Projects:</u>	53	86
<u>Individual Free Limits:</u>	\$ 100,000	\$ 250,000
<u>Aggregate Free Limits:</u>	\$ 4,000,000	\$ 8,000,000
<u>Relending Rates:</u> (Government to BOA/DIB)	7%	8%
<u>Onlending Rates:</u> (To Sub-Borrowers)	9.5%	10% (by BOA) 11% (by DIB)
<u>Exchange Risk Borne By:</u>	Government	Sub-Borrowers

ANNEX N

Development Industrial Bank

Schedule

Classification of Loans ApprovedDuring the Period (1/1/77 - 31/12/77)

(in LE '000)

<u>Details</u>	<u>Short-Term Loans</u>		<u>Medium and Long-Term Loans</u>				<u>Total</u>	
	<u>Amount</u>	<u>No.</u>	<u>Local Currency</u>		<u>Foreign Currency</u>		<u>Amount</u>	<u>No.</u>
			<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>		
<u>Geographical Distribution</u>								
Cairo Zone	7628	138	7316	205	7477	36	22421	379
Alexandria Zone	2403	48	4387	177	1183	5	8033	230
Lower Egypt	26	3	370	49	1097	9	1492	61
Upper Egypt	22	4	2111	17	1895	18	4028	33
Canal Zone	-	-	229	7	156	2	385	9
Total	10139	193	14413	455	11808	64	36360	712
<u>Distribution by Size of Loan</u>								
LE 1 to 16000	543	77	1372	543	84	9	1999	429
LE 16001 to 51000	1385	58	949	41	372	10	2704	109
LE 51001 to 100000	1584	27	1691	29	2302	28	5275	84
LE 100001 to 500000	4827	29	4371	12	2201	10	11479	71
Over LE 500000.-	1800	2	6030	10	6771	7	14603	19
Total	10139	193	14413	455	11808	64	36360	712

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Schedule

<u>Details</u>	<u>Short-Term Loans</u>		<u>Medium and Long-Term Loans</u>				<u>Total</u>	
	<u>Amount</u>	<u>No.</u>	<u>Local Currency</u>		<u>Foreign Currency</u>		<u>Amount</u>	<u>No.</u>
			<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>		
<u>Sectoral Distribution</u>								
Mineral and Engineering	2126	35	3196	183	254	10	5876	229
Printing and Paper	943	6	1010	20	425	4	2178	30
Chemicals	1290	28	1024	37	928	9	3242	74
Building and Constructions	1	1	210	5	2126	3	2537	9
Food	951	12	2600	28	1842	7	5403	54
Spinning and Weaving	2635	50	2295	93	964	16	5894	159
Wood	256	6	29	12	24	1	309	19
Leather	1448	25	112	12	237	1	1804	45
Tourism and Hotels	51	2	3345	23	4508	13	7304	38
Others	428	20	585	35	--	--	1013	55
Total	10139	193	14413	455	11808	64	36360	712

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Details	Short-Term Loans		Medium and Long-Term Loans				Total	
	Amount	No.	Local Currency		Foreign Currency		Amount	No.
			Amount	No.	Amount	No.		
<u>Distribution according to</u>								
<u>Employment (Jobs Created)</u>								
1 - 9 Workers	1532	68	1232	311	-	-	3164	379
10 - 24 "	2027	54	1209	52	370	10	3606	121
25 - 49 "	2392	42	1138	33	1251	18	4781	93
50 - 99 "	2072	16	2049	28	2089	10	6210	60
Over 100 "	1716	13	8785	26	8098	20	18599	59
Total	10139	193	14413	455	11808	64	36360	712
<u>Purpose of M/L Term Loans</u>								
Expansion/Modernisation	-	-	2081	76	3463	25	5544	101
Creation	-	-	5474	166	8355	39	13839	205
Financing (Working Capital)	10139	193	6838	214	-	-	16977	402
Total	10139	193	14413	456	11808	64	36360	713

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Details	Short-Term Loans		Medium and Long-Term Loans				Total	
	Amount	No.	Local Currency		Foreign Currency		Amount	No.
			Amount	No.	Amount	No.		
<u>Distribution according to size of Fixed Assets</u>								
Less than LE 50000.-	6439	154	2234	156	108	8	8281	518
Over LE 50000 to 100000.-	742	15	781	37	411	10	1934	62
Over LE 100000 to 170000.-	1002	13	1204	24	663	11	2869	48
Over LE 170000 to 500000.-	1816	2	2611	18	1606	16	6033	43
Over LE 500000 to 1000000.-	140	2	4228	12	1203	8	5271	22
Over LE 1000000.-	-	-	3325	8	7817	11	11172	19
Total	10139	193	14413	455	11808	64	36360	712
<u>Distribution according to Sub-Sector</u>								
Private Sector	10139	193	12413	454	6745	58	29297	705
Co-operatives	-	-	-	-	-	-	-	-
Public Sector	-	-	2000	1	5061	6	7063	7
Total	10139	193	14413	455	11808	64	36360	712
<i>Malfeas</i>								
<u>+ of which S.S.I.</u>								
Available for S.S.I.	440	94	1988	238	517	11	6905	293

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<u>Details</u>	<u>Short-Term Loans</u>		<u>Medium and Long-Term Loans</u>				<u>Total</u>	
	<u>Amount</u>	<u>No.</u>	<u>Local Currency</u>		<u>Foreign Currency</u>		<u>Amount</u>	<u>No.</u>
			<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>		
<u>Analysis according to Period</u>								
Up to 1 Year	10139	193	-	-	-	-	10139	193
1 to 3 Years	-	-	572	166	-	-	572	166
3 to 5 Years	-	-	3917	248	340	5	4257	253
5 to 10 Years	-	-	7099	37	6884	54	13983	91
Over 10 Years	-	-	2025	4	4584	5	7409	9
Total	10139	193	14413	455	11808	64	36360	712
<u>Analysis according to purposes</u>								
Land and Acquisition	-	-	77	2	-	-	77	2
Construction Civil Works	-	-	5086	52	-	-	5086	52
<u>Machinery and Equipments</u>								
A. Imported	-	-	1140	30	11808	64	12948	94
B. Locally Purchased	-	-	922	151	-	-	922	151
Working Capital	10139	193	6838	214	-	-	16977	407
Others	-	-	200	16	-	-	200	16
Total	10139	193	14413	455	11808	64	36360	712

11/2/42

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EGYPT: DEVELOPMENT INDUSTRIAL BANK

Statement of Loans in Arrears Over Three Months

(As of March 31, 1978, in LE 000s)

	<u>Total Loan Portfolio</u>		<u>Arrears</u>		<u>Portfolio Affected</u>
	<u>Amt.</u>	<u>No.</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
A. <u>Local Currency Loans</u>					
Short-term Loans	5,658	-0-	-0-	-0-	-0-
Medium & Long-term Loans	<u>16,248</u>	219	<u>525</u>	<u>36</u>	<u>1,877</u>
Sub-total Local Currency Loans	21,906		525	36	1,877
B. <u>Foreign Currency Loans</u>					
Medium & Long-term Loans	<u>10,603</u>	7	<u>3</u>	<u>329</u>	<u>2,619</u>
C. <u>Sub-total Loans</u>	32,509	226	528	365	4,496
<u>Less: Provisions</u>	(1,060)				
D. <u>Net Portfolio</u>	<u>31,449</u>				

EGYPT: DEVELOPMENT INDUSTRIAL BANK
AID SUB-LOANS APPROVED

<u>A. Foodstuffs and Agroindustries</u>			
1.	El-Abd Company for Feed & Refrigeration	\$ 165,345	
2.	United Refrigeration Co.	250,000	
3.	Mehalla Cooling Co.	67,940	
4.	Misr Company for Distillation of Oils	128,215	
5.	Mahmoud Habib Cooling	38,800	
6.	El-Hanafi Cold Storage	372,523	
7.	Dolce Ice Cream Co.	1,357,252	
8.	Kishk Refrigeration	1,182,500	
9.	Egyptian Poultry Co.	1,500,000	
10.	Egyptian Co. for Refrigeration	354,000	
11.	Groppi Co.	<u>70,000</u>	5,486,575
 <u>B. Building Materials</u>			
1.	Soc. Generale Pour Les Produits de Ceramique	3,000,000	3,000,000
 <u>C. Tourism</u>			
1.	Atoun Tourism	30,000	
2.	Kanzy Hotel	246,000	
3.	Helio Park Hotel	150,000	
4.	Green Pyramid Hotel	250,000	
5.	Misr Travel Co.	247,500	
6.	Semiramis Travel Co.	59,132	
7.	El Manaar Tourist Hotel	250,000	
8.	Lotus & Merryland Hotel	200,000	
9.	Atoun Hotel	1,494,000	
10.	Ekhnaton Tourist Co.	2,049,257	
11.	Delta Touristic Hotel	915,750	
12.	Cairo Tower Hotel	1,700,000	
13.	Uncle Sam Hotel	<u>759,493</u>	8,351,132
 <u>D. Engineering and Metallurgical</u>			
1.	Force Batteries	41,700	
2.	Mechanical Lathing Co.	31,416	
3.	Amoon Engineering Workshops	<u>210,896</u>	284,012

<u>E. Textile Industries</u>		
1. Hosni Eid & Co.	\$ 220,000	
2. Aswed Bros.	155,580	
3. El-Said Factory for Tricot	26,730	
4. Pierre Bedikian & Co.	51,222	
5. Cairo Clothing and Hosiery Co.	<u>668,000</u>	1,121,532
<u>F. Cloth Printing , Dying and Preparation</u>		
1. El Gharbiya Industrial Co.	187,110	
2. Abu Simbel Dying & Finishing	<u>244,074</u>	431,184
<u>G. Printing</u>		
1. Cairo Envelope Manufacturing	238,796	
2. Ahmed Ashour Printing	<u>226,325</u>	465,121
<u>H. Chemicals & Plastics</u>		
1. Port Said Factory for Plastics	235,967	
2. Berzi Bros. Plastics	196,557	
3. Mitco	<u>600,196</u>	1,032,720
I. <u>Wood</u>	-0-	
J. <u>Leather</u>	-0-	
<u>K. Medical Equipment</u>		
1. Dr. Ahmed Hetta	<u>30,300</u>	<u>30,300</u>
Total		<u>\$20,202,576</u> =====

TRAINING PROGRAM
IN
PROJECT APPRAISAL

DRAFT
SCOPE OF WORK
AND
INSTRUCTIONS FOR PREPARATION AND SUBMISSION
OF TECHNICAL PROPOSALS

The Arab Republic of Egypt, acting through the Development Industrial Bank (Bank), plans to contract with a qualified U.S. management consulting firm or university for professional services to conduct a training program in project appraisal and implementation for the Development Industrial Bank, Cairo, Arab Republic of Egypt.

1. GENERAL
- A. The Training Program

The purpose of this training program is to improve the quality of project appraisal and implementation performed by the Bank. The Scope of Work will include presentation of a training program consisting of lectures and workshops in project appraisal and implementation, development of a similar course to be carried out by the Bank, writing of a procedure manual, upgrading of the Bank's library, and recommending appropriate academic courses at U.S. Universities for Bank employees. The Scope of Work is defined more fully in Section II below.

The Bank presently has no formal training programs in project analysis although senior officers and other staff have attended various seminars and courses in Egypt and abroad. The Bank's reference library has approximately 650 volumes in the fields of Economics, Planning, Banking, Costing, Taxes, Accountancy and Auditing. About 300 volumes are in English. A project appraisal manual was prepared by a recent foreign advisor but needs some modification to make it suitable as the Bank's guideline to internal procedures.

The 25/30 Bank officers proposed for the training program are to be instructed in two successive and identical programs, each for 12/15 persons. Bank officers will be relieved of all other Bank duties during the 8.30 a.m. - 2.30 p.m. working day. The Bank anticipates that each training program will not

exceed 8/9 weeks' duration; the Consultant will be expected to complete other tasks in the Scope of Work during this period.

3. The Development Industrial Bank

The Bank, established in 1976, is a successor to previous organizations dating back to 1946. It is the only entirely Egyptian owned industrial development bank in Egypt and operates chiefly as a development bank but also provides some commercial banking services to established customers. DIB's activities include financing of public and mostly private sector including small and medium size projects. As of December 31, 1977, total assets were LE 30.5 million of which LE 29.1 million was represented by loans.

Staff of the Bank numbers approximately 315 including 230 officers. Of these professionals 35 (including engineers) are involved in the department for long-term lending, 3 are in the department of credit and 13 are assigned to the Follow-Up Department. Credit Departments at Giza and Alexandria Branches have 13 and 4 officers respectively plus one Engineer at Alexandria. The average training participant's age is 36 years with 9 years' experience in the Bank and with a University degree of Bachelor of Commerce. He/she has a basic but not fluent knowledge of the English language; the Bank will provide adequate translation into Arabic, if needed.

C. Consultant's Performance

The Consultant shall work directly with the Bank and in close consultation with U.S. AID staff retaining, however, full responsibility for its own work.

The Consultant shall submit a three weeks' progress report in letter form to the Bank and U.S. AID not later than 4th week-end, listing field personnel, indicating progress toward work completion, citing any constraints on progress and recommending corrective actions. All reports and correspondence shall be in English.

The Consultant may associate itself with Egyptian firms in performance of the Scope of Work without, however, abrogating its primary responsibility for satisfactory completion of each task. In its proposal, the firm should state the extent to which it intends to associate itself with Egyptian firms and, if applicable, the nature of association contemplated.

II. SCOPE OF WORK

A. Course in Project Appraisal and Implementation

Prepare and conduct a course in project appraisal and implementation to include lectures, discussion and workshops, for approximately 25/30 junior and middle-level officers. Lectures and Workshop course content is to be provided in 30 copies.

Course content must be oriented to practitioners of project analysis. The course is expected to emphasize the practical application of lecture concepts in real or simulated situations. Classroom discussion and case studies will be an important element of the course.

1. Lectures are to be similar to those offered by the World Bank Economic Development Institute's training programs in Industrial Projects and Development Banking, or equivalent training programs. Lectures will include but not be limited to the following subjects:

a. Economic Development and Industrial Policy

- 1) Economic growth and industrial development
- 2) Import substitution and Export promotion.
- 3) Regional and backward area development/small-scale enterprise sector/industrial estates.
- 4) Financing of industrial projects.
- 5) Various means of financing.

b. Development Banks

- 1) Role of Development Banks in economic growth: policies, issues, objectives, functions, management, resources.
- 2) Project & Comparative Advantage.
- 3) Project Identification & Promotion.

c. Project Preparation and Appraisal

- 1) Project Appraisal Cycle.
- 2) Project Appraisal Process.
- 3) Project Identification Design and Preparation
- 4) Technical Aspects of Appraisal.
- 5) Appropriate Technology.
- 6) Project Scale & Timing.
- 7) Operating Cost Estimation.
- 8) Capital Cost Estimation.
- 9) Appraisal of Management.
- 10) Appraising Agro-Industrial Projects.

d. Financial Statements - Analysis

- 1) Understanding Financial Statements.
- 2) Analysis of Financial Statements-Ratio Analysis.
- 3) Break-even and Sensitivity Analysis-Profit Graph.
- 4) Inflation Accounting.
- 5) Time Value of Money.
- 6) Measures of Project Worth.
- 7) IRR/NPW/B-C Ratio.
- 8) Risk Analysis.

e. Marketing and Demand Forecasting

- 1) Demand Analysis.
- 2) Appraisal of Marketing Plans.

f. Economic Analysis

- 1) Economic Costs & Benefits.
- 2) Shadow Pricing.
- 3) Conversion Factors.
- 4) Economic Analysis-Comparative Benefit-Cost Method.
- 5) Social Cost-Benefit Analysis.

g. Project Implementation & Management

- 1) CPM Network Planning.
- 2) Project Control.
- 3) Use of consultants.
- 4) Procurement of equipment and services.
- 5) Project Supervision.
- 6) Project Evaluation

2. Workshops are to be based on case materials supplied by the Consultant and also on projects already financed or being appraised by the Bank.

B. Study of Preliminary Design for Similar Course

The Consultant will prepare a two-stage study of the demand for and, if appropriate, preliminary designs for establishment of a similar course, as follows:

1. Demand study
 - a. Investigate the present and potential demand within Egypt for establishment of a similar course, to be available to the bank, other banks and financial institutions, planning agencies, government ministries and any private sector institutions.

- b. A report on the demand for establishment of a similar course will be prepared and submitted three months after the effective date of the contract. Copies will be distributed as follows:

- 1) Five copies to Mr. A.H. Kabodan, Chairman, DIB
- 2) Ten copies to Mr. R.N. Bakley, USAID/CAIRO

2. Preliminary Designs

If potential demand appears sufficient as determined by AID and the Bank:

- a. Investigate and describe appropriate institutional capabilities, in universities, bank training programs, and others, for establishing such a course. Prepare preliminary designs for establishing such a course, including institutional location (existing or new) and preliminary estimates of costs including both local currency and foreign exchange (for advisors and equipment); and recommend a preferred design.

- b. A report on the preliminary project designs, including identification of appropriate institutional capabilities, preliminary project designs, and a recommended design, will be prepared and submitted six months after the effective date of the contract. Copies, to be bound with the demand study, will be distributed as follows:

- 1) Five copies to: Mr. A. H. Kabodan, Chairman, DIB
- 2) Fifteen copies to: Mr. R. N. Bakley, USAID/CAIRO

c. Manual on Project Appraisal and Implementation

1. Develop and establish a manual on project appraisal and implementation, suitable for use as Bank's internal procedures guideline.

2. The manual on Project Appraisal and Implementation should be prepared as follows:

a. Draft Manual

A draft manual will be prepared and submitted four months after the effective date of the contract. Copies will be distributed as follows:

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- 1) Five copies to: Mr. Kabodan, Chairman, DIB
- 2) Five copies to: Mr. R.N. Bakley, USAID, CAIRO

b. Final manual

A final manual, including comments from the Bank and AID will be prepared and submitted prior to course completion. Copies should be distributed as follows:

- 1) Fifty copies to: Mr. A.H. Kabodan, Chairman, DIB
- 2) Ten copies to: Mr. R.N. Bakley, USAID/CAIRO.

D. Bank's Library

Evaluate and recommend additions to the Bank's reference library on project appraisal and development banking, including books and periodicals; supervise procurement; establish cataloging and charge-out systems. Assist the Bank in developing methods to maintain a high quality library.

E. Training Programs

Recommend appropriate training and courses, presently available at U.S. universities, which cover project financial analysis and information systems, investment policies, projects promotion, development banking, and economic development. These programs should not exceed one academic quarter/semester and are to be attended by one or two Bank officers per quarter/semester. These training programs are not expected to result in the awarding of a university degree.

F. Advisor in Project Appraisal

Provide services of an advisor in project appraisal who will contribute to strengthening DIB's capabilities in project appraisal and supervision.

This advisor is expected to have engineering background or to have supervised engineers because of the importance of task 3 below. He will work as an advisor to the General Manager of the Term Lending Department and, although independent of the training team, will coordinate with and draw on the team's and Consultant capabilities, as appropriate.

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Particular tasks include but are not limited to:

1. Provide training to DIB's staff in techniques of project appraisal and implementation by direct participation, giving, on-the-job training and holding working level seminars.
2. Develop and assist in carrying out procedures to ensure that appraisal work focuses on the developmental impact in addition to financial, technical and economic soundness of projects proposed for financing.
3. Help coordinate work of DIB's engineering staff, financial analysts and economists during project appraisal. The engineering staff has been increased recently to provide greater in-house capability; the DIB expects to continue to draw on outside engineers and technical experts for specialized engineering capabilities.
4. Assist in establishing and operating follow-up procedures for projects which the Bank finances, especially in relation to visits to borrower's plants and review of borrower's projects.
5. Provide advice on organizational improvements within or among Bank units to improve efficiency.
6. Advise on formulation and drafting of Bank policies and procedures.

III. TECHNICAL PROPOSAL

A. Content of Technical Proposal

In general, the technical proposal should demonstrate by the quality of its content a knowledge of the training requirements and an understanding of the requisite tasks set forth in the Scope of Work. Its contents should include but not be limited to the following:

1. Training Overview

Information demonstrating an understanding of the training program, including actions taken to become familiar with the Bank's requirements, views on the adequacy of the Scope of Work and any suggested modifications or comments on other

important training program aspects.

2. Work Program

Details of the proposed approach to the planning and performance of the training program, describing individual tasks, their sequencing and inter-relations. A time schedule in bar chart form indicating start and end dates (from notice to proceed) for such tasks.

3. Organization and Level of Effort

An organization chart showing relationships among all professional level personnel assigned to the training program and division of duties. A manpower schedule indicating, for professional, technical and clerical positions, number of people to be assigned, their function, estimated man-months of effort, period of assignment and location where work will be performed. Information concerning the work load of the Consultant and its ability should be provided.

4. Staffing

Experience resumes and biographic data of every professional and key technical staff member to be assigned including nationality, education, professional qualifications and registration, chronological experience record indicating years, job title and description, employer, level of responsibility; overseas experience by years and country.

5. Qualifications

The Consultant may resubmit basic information concerning itself previously submitted as prequalifying information. Any additional information or elaboration of such, fully demonstrating the Consultant's particular capability to perform the tasks described in the scope of work, should be provided. Full information should be provided concerning any Egyptian associates proposed to perform the study.

B. Basis for Evaluation of Proposals

Technical proposals shall be evaluated on the basis of the following factors:

- Quality of the proposal as demonstrated by its scope, detailed planning and technical content.
- Understanding of the services to be performed as demonstrated by the

-10-

proposal content and task coverage.

- Intention and ability to assign experienced, qualified personnel, both technical and managerial, preferably from its own organization or joint venture.
- Intention and ability to perform the work in a realistically timely manner, utilizing appropriate staff levels.

Selection of a Consultant to perform professional services will not be made on the basis of price. Therefore, prices must not be included in the proposals.

C. Selection and Negotiation

The Bank's evaluation of proposals and selection of the Consultant shall be final and not subject to further appeal. The Bank reserves the right to reject any or all proposals.

On completion of the evaluation, the proposers will be ranked in order of evaluated capability to perform the required services. Upon approval by AID, negotiations will be started with the top ranked proposer toward establishment of contract provisions and costs. In the event an agreement is not reached, negotiations will be terminated prior to initiation of negotiations with the second ranked firm.

D. Submission of Proposals

1. Technical proposals should be received by the addressees named below not later than August 15, 1978. Proposals shall be forwarded in envelopes marked "Technical Proposal for Training Program in Project Appraisal".

2. Copies of the proposal should be addressed to each of the following:

a. Three copies to:

Mr. A.H. Kabodan, Chairman, Development Industrial Bank, 110, Galesa Street, Cairo, Arab Republic of Egypt.

b. One copy to:

1) NE/CD, Mr. Thomas A. Sterner, Agency for International Development, Department of State, Washington, D.C. 20523.

- 2) USAID . Attn: Mr. Robert N. Bakley.
American Embassy, Box 10, FPO New York 09527.

IV. PROPOSED CONTRACT

The proposed contract shall be a cost-plus-fixed fee type and shall conform to the standard type of agreement used by AID for engaging management consulting services. Dollar and local costs of the contract will be financed by AID.

Only contracts and subcontracts with (a) individuals of U.S. citizenship; (b) proposers organized under the laws of the U.S.; or (c) joint ventures or associations of such firms shall be eligible for AID dollar financing. Except as otherwise approved by AID, all employees providing services in Egypt under AID-financed contracts must be either U.S. citizens or legal residents of the U.S.

Execution of the contract is expected by approximately October 1978. It is expected that contract services should begin within 30 days of contract signing. Sub-contracting of contract services will not be permitted without the written approval of USAID

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MANAGEMENT CONSULTANT

FOR

DEVELOPMENT BANK

SCOPE OF WORK

AND

INSTRUCTIONS FOR PREPARATION AND SUBMISSION
OF TECHNICAL PROPOSALS

The Arab Republic of Egypt, acting through the Development Industrial Bank (Bank), plans to contract with a qualified U.S. management consulting firm for professional services to conduct a review of existing management methods and recommend improvements to the Development Industrial Bank, Cairo, Arab Republic of Egypt.

I. GENERAL

A. Management Review

The purpose of this management review is to improve the quality and to reduce the cost of bank operations. The Scope of Work will include a review and recommendations, together with a time-phased implementation plan, for improvements in strategy, organizational structure, operating procedures, business development, personnel, information storage, management information system,

public reporting, accounting, internal audit, and specialized areas. Follow-on services to implement approved recommendations will be agreed after presentation of conclusions of the review and recommendations. Also, the services of a senior management advisor are to be furnished. The Scope of Work is defined more fully in Section II below.

The Bank is interested in having its overall operations reviewed by a management consulting firm because of its high rate of growth during the first year and a half of operations as an independent bank. The Development Industrial Bank, formerly a division of the Bank of Alexandria (a commercial bank), began operating as an independent institution on August 1, 1976. At that time, its loan portfolio totalled \$33.0 million and the international lenders had committed \$72.0 million in loans to the Bank. As of December 31, 1977, the loan portfolio had grown to \$72.0 million and international lenders were considering further commitments of nearly \$80.0 million. Bank staff has worked hard to keep up with the large increase in portfolio. Officer staff (excluding typists and non-clerical staff) as of December 31, 1977, totalled 217, which represented a 17% increase over start of operations. Most of the Bank's equipment dates from its previous form as a division of a large commercial bank, as do many of its operating procedures.

The Bank wants to improve and modernize its own operations so that it will maintain its position as a leading investment institution in Egypt.

B. The Development Industrial Bank (DIB)

The Bank, established in 1976, is a successor to previous organizations dating back to 1946. It is the only wholly Egyptian owned industrial development bank in Egypt. It operates chiefly as a development bank but also provides some commercial banking services to established customers. DIB's activities include financing of public and private sectors including small and medium size projects.

Staff of the Bank as of April 30, 1978 numbers 326 including 227 officers. Of the professional staff, 14 are involved in the Department of Long-Term Lending, seven in the Department of Credit and eight are assigned to Follow-Up Department. Credit Departments of Galaa and Alexandria Branches have 10 and four officials respectively. The Bank employs seven engineers of which one is stationed in Alexandria.

C. Consultant's Performance

The Consultant shall work directly with the Bank and in close consultation with U.S.A.I.D. staff retaining, however, full responsibility for its own work.

The Consultant shall submit a monthly progress report in letter form to the Bank and U.S.A.I.D. not later than the 10th of the following month, listing field personnel, indicating progress toward work completion, citing any constraints on progress and recommending corrective actions. All reports and correspondence shall be in English.

The Consultant may associate itself with Egyptian firms in performance of the Scope of Work without, however, abrogating its primary responsibility for satisfactory completion of each task. In its proposal, the firm should state the extent to which it intends to associate itself with Egyptian firms and, if applicable, the nature of association contemplated.

II. SCOPE OF WORK

A. Phase I - Management Review and Recommendations

1. Review the Bank's overall strategy, based on its legal status, internal policy statements, and market opportunities. This task will be undertaken as a synthesis of tasks described below and is expected to result in recommendations to modify, if advisable, the following:
 - a. Legal status;
 - b. Policy statements;
 - c. Marketing strategy; or
 - d. Other areas of operations.

2. Review the Bank's organizational structure to carry out its strategy and recommend any appropriate modifications, including but not limited to the following areas:
 - a. Placement of functions within organizational divisions and sub-divisions.
 - b. Delegation of authority and exercise of responsibility by managers of divisions and sub-divisions.
 - c. Span of control suitable for managers of divisions and sub-divisions.

3. Review the Bank's operating procedures and recommend any modifications to improve efficiency of operations, including modifications which will:
 - a. Speed service to customers;
 - b. Provide senior management with information for appropriate decision-making;
 - c. Reduce costs of operations.

4. Review and recommend appropriate modifications in the Bank's business development (marketing) strategy, taking into account its segmented market, conditions imposed by various foreign lenders, its organizational structure, and staffing. In executing this task, the Consultant will:

- a. Describe present methods of market analysis, to maximize profits from larger customer categories, and recommend improvements.
 - b. Describe present methods of developing customer relationships, and recommend improvements, including but not limited to:
 - i) customer services offered;
 - ii) frequency of customer calls; and
 - iii) follow-up of existing loans.
 - c. Describe present institutional promotion efforts including advertising, and recommend appropriate modifications.
5. Review the Bank's personnel system and recommend any appropriate modifications. In executing this task, it must be borne in mind that the Bank's personnel system is subject to Government regulations.

Consultant's review and recommendations should include but not be limited to:

- a. Recruitment policies and effectiveness in attracting new staff.
- b. Job descriptions and required qualifications.

- c. Development opportunities for staff, including on-the-job training, outside/inside training programs, usage, and effectiveness.
 - d. Career development system, methods of evaluation, and results.
 - e. Turnover frequency, reasons for leaving, and steps undertaken to retain and develop competent individuals.
 - f. Promotion policies and effectiveness in developing individuals capable of filling senior management positions from inside of the organization.
 - g. Pay structure; including salary and other income earned as a result of Bank employment, together with recommendations for improving income structure, including merit or bonus proposals.
6. Review the information storage and retrieval system and recommend any modifications.
7. Review the present management information system and recommend desired improvements, including but not limited to the following areas:

- a. Cash: including satisfaction of reserve requirements, disbursements, and projected repayments; maturing of time deposits placed with other banks.
- b. Loan Portfolio: including amounts of applications; approvals; commitments; disbursements; amortization schedules; and past due amounts, together with monitoring of deadlines for borrowers' submitting of information or for Bank action.
- c. Deposits: including amounts; maturities; interest rate; and interest due, if any.
- d. Long-Term Debt: obligations; installments due; and projected amortization schedules.
- e. Letters of Credit: including date of application, date of issuance, date of expiration, correspondent bank, amount, customer, sub-loan, and information on arrival of goods and clearance from customs.
- f. Periodic reports prepared for internal and external needs together with recommendations to consolidate reports and mechanize preparation.

8. Review Bank's present system of reporting to the public, including publication of audited annual financial statements and other publications. Make recommendations regarding appropriate reports and publications which could improve the Bank's marketing strategy in Task No. 4 above, correspondent relationships in Task No. 11.c. below, relationships with foreign lenders, and for any other appropriate reasons which support the Bank's strategy.
9. Review and recommend modifications in the Bank's accounting system. The Bank is primarily concerned with strengthening its cost accounting system so that it can establish profit and cost centers within its Bank.
10. Review and recommend improvements in the Bank's internal audit procedures, particularly but not limited to the following areas:
 - a. Reporting responsibility of audit unit.
 - b. Staffing and authority of audit unit.
 - c. Frequency, depth, and scope of audit function, in relation to Bank's:
 - i) general operations; and
 - ii) individual sub-loans.

11. The Bank is particularly interested in investigating possibilities which may exist in the following functional areas and desires the Consultant to address them, independently of the above tasks:
 - a. Establishment of promotional activities which can be appropriately undertaken by the Bank in developing each segment of its market, including particularly the small scale industry market segment. (Certain foreign loans are available solely or partially for this market segment.)
 - b. Development of internal economic research capability.
The present unit supports the medium-term lending (project appraisal) unit, and the Bank wants to consider the expansion of its economic research capabilities to include other functions, including possibly preparation of macro-economic studies, financial sector studies, and industry studies, for the purposes of promoting additional investment in Egypt.
 - c. Review and recommend improvements in methods of developing cooperation with domestic and foreign financial institutions in regard to sharing of financial, information, and management relationships:

B. Phase II - Plan for Implementation of Recommendations

The Consultant will prepare a plan to carry out recommendations in Phase I - Management Review and Recommendations above. This plan, to be mutually agreed among the Consultant, the Bank, and AID, will include for each recommendation:

1. Description of the proposed method of implementation, including time phasing;
2. Description of any further advisory services required, including capabilities and experience needed, man-months required, and estimated costs;
3. Preliminary specifications of any equipment recommended for purchase together with estimated costs; and
4. Assessment of the cost effectiveness of adopting the proposed recommendation, when quantifiable. When a recommendation cannot be quantified, benefits of adoption should be described.

C. Phase III - Implementation of Recommendations

The Consultant is expected to be asked to assist the Bank in implementing the Plan described in Phase II above, by providing further advisory services and assisting in procurement of equipment.

The extent of these services will be determined and negotiated after the Bank evaluates the Review and Plan described in Phase I and II above.

D. Senior Management Advisor

The Consultant will provide a senior management advisor, acceptable to the Bank's Board of Directors and to U.S.A.I.D., who may be asked to advise the Chairman of the Board on any and all matters relating to the Bank for an initial period of six months, subject to renewal for an additional six months on the same terms and conditions. It is expected that the advisor will have substantial experience in the following areas:

1. Management of financial institutions at a senior level;
2. Promotion of development finance companies; and
3. Operation of development finance companies.

The Senior Management Advisor will advise and assist the Bank's Chairman in:

1. Planning the overall operational strategy of the Bank;
2. Developing and elaborating the Bank's investment criteria;
3. Establishing an appropriate management information system and control procedures;
4. Developing and strengthening the Bank's internal organization procedures;
5. Establishing the needs of the Bank for financial resources and preparing the necessary projections of its operations and finances;

6. Negotiating investment proposals;
7. Setting up suitable promotional activities which can be undertaken by the Bank in accordance with its plans for increasing this capability, with particular reference to development of small scale industry;
8. Developing the Bank's internal economic research capability;
9. Developing suitable working relationships with industrial financial and banking institutions inside and outside of Egypt.

E. Reports

It is anticipated that the Consultant will prepare a draft Management Review and Recommendations (Review) and Plan for Implementation of Recommendations (Plan), as described above in Sections A and B, within four (4) months after the effective date of his contract. The draft report shall be submitted in five (5) copies each to the Bank and U.S.A.I.D./Cairo for review and comment.

The Consultant shall issue the final Plan within sixty (60) days after submission of the draft Review and Plan. The final Plan, in bound form, shall be submitted in ten (10) copies to each to the Bank and U.S.A.I.D./Cairo.

III. TECHNICAL PROPOSAL

A. Content of Technical Proposal

In general, the technical proposal should demonstrate by the quality of its content a knowledge of the management review and advisory requirements and an understanding of the requisite tasks set forth in the Scope of Work. Its contents should include but not be limited to the following:

1. Management Review and Senior Advisor

Information demonstrating an understanding of the management review and senior management advisor requirements, including actions taken to become familiar with the Bank's requirements, views on the adequacy of the Scope of Work and any suggested modifications or comments on other important management aspects.

2. Work Program

Details of the proposed approach to the planning and performance of the management review, describing individual tasks, their sequencing and interrelations. A time schedule in bar chart form indicating start and end dates (from notice to proceed) for such tasks, and a CPM analysis of the study indicating interdependence among tasks should be included.

3. Organization and Level of Effort

An organization chart showing relationships among all professional level personnel assigned to the management review and division of duties. A manpower schedule indicating, for professional, technical and clerical positions, number of people to be assigned, their function, estimated man-months of effort, period of assignment and location where work will be performed. Information concerning the workload of the Consultant and its ability should be provided.

4. Staffing

Experience resumes and biographic data of every professional and key technical staff member to be assigned including: nationality, education, professional qualifications and registration, chronological experience record indicating years, job title and description, employer, level of responsibility, overseas experience by years and country.

5. Qualifications

The Consultant may resubmit basic information concerning itself previously submitted as prequalifying information. Any additional information or elaboration of such, fully demonstrating the Consultant's particular capability to perform the tasks described in the Scope of Work, should be provided. Full information, including AID Form 1420-6

or Standard Forms 254 and 255, should be provided for any firm now being proposed as an associate or subcontractor which was not proposed in the prequalification information. Full information should be provided concerning any Egyptian firm or associates proposed to perform the study.

B. Basis for Evaluation of Proposals

Technical proposals shall be evaluated on the basis of the following factors:

- Quality of the proposal as demonstrated by its scope, detailed planning and technical content.
- Understanding of the services to be performed as demonstrated by the proposal content and task coverage.
- Intention and ability to assign experienced, qualified personnel, both technical and managerial, preferably from its own organization or joint-venture.
- Intention and ability to perform the work in a realistically timely manner, utilizing appropriate staff levels.

Selection of a Consultant to perform professional services will not be made on the basis of price. Therefore, prices must not be included in the proposals.

C. Selection and Negotiation

The Bank's evaluation of proposals and selection of the Consultant shall be final and not subject to further appeal. The Bank and U.S.A.I.D. reserve the right to reject any or all proposals.

On completion of the evaluation, the proposers will be ranked in order of evaluated capability to perform the required services. Upon approval by U.S.A.I.D., negotiations will be started between the top-ranked proposer and the Bank toward establishment of contract provisions and costs. In the event an agreement is not reached, negotiations will be terminated prior to initiation of negotiations with the second-ranked firm.

D. Submission of Proposals

1. Technical proposals should be received by the addressees named below not later than (six weeks from mailing date of this request). Proposals shall be forwarded in envelope marked "Technical Proposal for Consulting Services - Management Review."
2. Copies of the proposal should be addressed to each of the following:

a. Three copies to:

Mr. A.H. Kabodan, Chairman, Development Industrial Bank, 110, Galaa Street, Cairo, Arab Republic of Egypt.

b. One copy to:

NE/PD, Mr. Thomas A. Sterner, Agency for International Development, Department of State, Washington, D.C. 20523.

c. One copy to:

USAID, Attn: Mr. Robert N. Pakley, American Embassy, Box 10, P.O. New York 09527.

IV. PROPOSED CONTRACT

The proposed contract shall be a cost-plus-fixed-fee type and shall conform to the standard type of agreement used by AID for engaging professional and technical services. Dollar costs of the contract will be financed by AID, and local currency costs will be paid in Egyptian pounds by the Bank.

Only contracts and subcontracts with: (a) individuals of U.S. citizenship; (b) proposers organized under the laws of the U.S.; or (c) joint-ventures or associations of such firms shall be eligible for AID dollar financing. Except as otherwise approved by AID, all employees providing services in Egypt under AID-financed contracts must be either U.S. citizens or legal residents of the U.S.



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

ANNEX 5

February 10, 1978

ACTION MEMORANDUM FOR THE DIRECTOR

FROM : Robert N. Bakley, CDE *mb*
SUBJECT: AID Loan No. 263-K-035: Development Industrial Bank
Sub-Loan to Mr. Ahmed Ashour Ahmed.

Problem:

The DIB has approved a sub-loan with a total foreign exchange requirement of over \$250,000, subject to AID and IDA approval. USAID's Sub-loan Approval Committee has reviewed the DIB project appraisal, summarized below, and recommends your approval.

Discussion:

1. Sub-loan:

Borrower : Mr. Ahmed Ashour Ahmed
Amount : \$226,325 from AID (L.E.90,983)
DM941,480 from IDA (L.E.165,700)
Repayment : 6 years in 6 annual installments
Interest Rate: 11% p.a.
Security : Mortgage on equipment, buildings, and land;
Maintain cash balance of 20% of loan.
Purpose : Importation of U.S. machinery.

2. Project:

Expansion of a recently established printing plant located at Giza with headquarters in Cairo. Total project cost is estimated at L.E.642,000 of which L.E.256,683 or 40% is in foreign exchange. Foreign exchange costs will be financed by DIB sub-loans from AID (L.E.90,983) and IDA (L.E.165,700); local currency costs will be financed from the Borrower's own funds.

Present status of the project is: land was purchased two years ago; building construction is nearly completed; some equipment has been installed and is operating. Orders for loan-financed equipment are ready to be placed, and the equipment is expected to be operating within five months.

3. Borrower:

The Borrower is a proprietorship established by Mr. Ahmed Ashour Ahmed in June 1977 with paid-in capital of L.E.125,000. This company will print ordinary paper and packaging materials (cellophane, aluminum foil, and polyethylene) and will manufacture envelopes (both plain and window).

The Borrower is a member of a printing family. The father started in the printing business in 1926, and five of his six sons are in the same business. The Borrower shares half of two other printing companies with brothers: Isis (postcards, wrapping paper, and calendars) and Ahmed & Moustafa Ashour Press (box labels and packaging).

We have met Mr. Ahmed and seen his three companies. He impresses us as knowledgeable in printing; his plants seem clean and efficient.

4. Market:

The printing industry in Egypt is predominately privately owned and totals approximately 1,100 firms of various sizes and specialities; more than half are located in Cairo. This project targets on the corporate packaging segment of the market. In plain paper printing, the company has several large customers, including Cleopatra cigarettes, and in flexographic printing the company will substitute for imported printed packaging. In envelope manufacture, only a few small scale units now produce envelopes, and the company's production is expected to be absorbed by increases in domestic demand.

A sales force is not employed. Large corporate contracts are obtained by the brothers, chiefly from cigarette, pharmaceutical, cosmetic, and food manufacturers. Envelopes (also postcards and other retail products) are distributed through wholesalers who operate nationally. A company office is maintained in downtown Cairo.

The project will substitute for some imported printing and envelopes. The economic rate of return has been estimated by DIB at 30%.

5. Technical:

This project involves three production lines: (1) Printing of ordinary paper with capacity of 706 tons/year; (2) Flexographic printing of 605 tons/year; and (3) Manufacture of 57.6 million envelopes per year. Machinery for the first production line has been imported with the Borrower's own funds. Machinery for flexographic printing is to be imported from Germany with an IDA loan of DM941,480 (L.E.165,700), and the envelope-making machinery is to be financed with \$226,325 (L.E.90,983) in AID funds. Suppliers will provide installation and operation training. U.S. machinery was selected after soliciting 11 U.S. companies. DIB engineers have reviewed the selections and have approved technical suitability. Additional bag-making equipment is expected to be purchased later.

Raw materials, including paper, cellophane, aluminum foil, polyethelene, and inks, are produced locally; however, if shortages occur, they are imported. Utilities appear adequate for plant operation. Labor will be trained by the Borrower and will total 30 persons.

6. Financial:

DIB-prepared financial projections appear reasonable and show the project will be able to repay its debt comfortably.

Net profit as a percentage of sales increases from 14% (at 60% capacity) to 18% (at 80% capacity). Operating profit margin remains at approximately 40% throughout the project.

Current position is not calculated because no current liabilities are projected. Inventory requirements are estimated at approximately 60 days worth; short-term debt financing is not contemplated.

Leverage is low by U.S. standards. Debt: equity ratio in the first year of operation is 0.56:1 and decreases thereafter as long-term debt is repaid. Debt coverage is acceptable in the first year at 1.8 and improves to 2.1 in the next year and thereafter rises steadily to 3.0.

Cash flow generated internally provides for repayment of debt, capital improvements, payment of dividends, and retention of earnings as the company grows.

The financial rate of return of 20% exceeds the 15% minimum required in Section 6.01(g) of the Loan Agreement.

7. Conclusion:

This project appears to be a suitable sub-loan for the DIB.

Recommendation:

That you approve this sub-loan.

APPROVED



DISAPPROVED

DATE

2/14/78

Sub-Loan Committee

CDE:TRTiffitt TRT
CDE:PSLewis (draft) _____
PRM:PDavis PD
LEG:JPhippard JP

CDE:TRTiffitt:gt:2/10/78

Clear:

DD:JROleson JRO



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

June 14, 1978

ACTION MEMORANDUM FOR THE ACTING DIRECTOR

FROM : Robert N. Bakley, Assistant Director, CDE *mb*

SUBJECT: AID Loan No. 263-K-035; Development Industrial Bank
Sub-loan to Egyptian Poultry Co. (EGYPCO)

Problem:

The DIB has approved a sub-loan of more than \$250,000, subject to AID approval. USAID's DIB Sub-loan Approval Committee has reviewed the DIB project appraisal, summarized below, and recommends your approval.

Discussion:

1. Sub-loan

Borrower : Egyptian Poultry Co. (EGYPCO)
Amount : \$1,500,000 (LE 600,000 at official exchange rate).
Repayment : 7 years including a 2 year grace period, in
5 equal installments.
Interest Rate: 11% p.a.
Security : (a) Mortgage of land, buildings, and machinery
(b) Compensating balances of 20% of loan amount
Purpose : Importation of U.S. equipment

2. Project

Establishment of a new integrated poultry farm at several locations near Cairo. This project will be capable of producing and selling annually: 12 million hatchery eggs; 7.5 million table eggs; 10 million chicks; 3 million broilers; and 50,000 tons of poultry feed. Total project costs are estimated at LE 6,629,493 of which foreign exchange costs are estimated at LE 3,448,175 or 52%.

Sources of foreign exchange include: a) LE 600,000 from AID sub-loan of \$1,500,000 (official rate); b) LE 1,050,000 (parallel rate) at 11% p.a. repayable on the same terms as the AID loan but with a lower compensating balance requirement of 10%; and c) remainder from owner's equity contributions in foreign exchange.

Present status of the project is: land has been purchased; half of shareholder subscriptions received; equipment contracts for several items are ready to be awarded; and construction has started. The project will begin operating in stages; the feed mill is scheduled for completion in May 1979; and all operations are to be ready during 1980.

3. Borrower

The borrower is the Egyptian Poultry Company (EGYPCO), a corporation authorized under Law 43 in August 1977 with a life of 25 years, extendable with approval of the Investment Authority. The company is authorized to engage in a wide range of poultry activities. Authorized capital is LE 4,209,240 comprised of 2,104,620 shares with a par value of LE 2; two of four assessments have been paid in and the others are scheduled for receipt during June 30-July 15, 1978, and January 1979.

Stock was sold in an interesting manner. In March 1978, the sponsors advertised in Egyptian newspapers the sale of stock during the next 30 days. The minimum subscriptions was LE 20 for 10 shares plus Pts 70 handling fee, payable in four installments of which the first LE 5.70 was due immediately and the other three of LE 5 each were due upon call. Stock sale was handled by the Misr International Bank, which used Misr Bank branches and its own correspondents overseas, chiefly in Saudi Arabia and Kuwait. After three weeks, the issue had been over subscribed by 20% and sales were terminated. Subscriptions totalled LE 4,209,240. The total number of shareholders is 8,500 and the majority are Egyptians resident either here or overseas. The seven project sponsors hold 29% of the shares.

The first board of directors is composed of the seven project sponsors, who will serve a five-year term. Thereafter, the board will be increased to nine members who will serve three-year terms. Of the present board members, five are Egyptian citizens and most have worked in Kuwait in finance or government. DIB informs us they are all highly competent and reputable businessmen.

The project is located at six different locations near Cairo. Five sites are west of Cairo and one is south of Helwan. All land has been purchased, and the architect is preparing detailed designs.

The project includes four chief elements:

- (a) Parent rearing farms to raise day-old chicks until they are 20 weeks old and transferred to the adult laying farms. There they produce eggs for the hatchery;
- (b) Hatchery where eggs are hatched and day-old chicks produced;
- (c) Broiler production areas where day-old chicks are raised until they are six weeks old and ready for the slaughterhouse.
- (d) Feed mill, which will manufacture chicken feed, made of grains, oil meals and animal protein.

Principal foreign equipment includes: hatchery (Holzer Co., U.S.), feed mill (Koopers Co., U.S.), slaughterhouse, cold storage plant and other pieces. Equipment supplier and Imperial Group's Ross Poultry will provide training in operation and maintenance. AID funds will be used for the hatchery, feed mill and other equipment. Local currency is being used for land, construction, vehicles, furniture, import duties and other items.

Raw materials to be imported include poultry stock, some feed concentrates and medicines. Other materials are available in Egypt.

6. Financial

DIB-prepared financial projections appear to be based on reasonable assumptions and show the company should be able to repay its debt. Financial statements convert all foreign exchange at the parallel market rate because, at the time of preparation, exact uses of AID official rate funds had not been determined. Adjustments if made would: increase cash in the balance sheet; reduce depreciation charges, thereby increasing profits in the income statement; and reduce initial project cost in the cash flow, thereby improving the IRR. Without adjustment, projected financial performance is somewhat understated and satisfactory.

Profitability (net income/revenue) is projected to increase from 6% (at 60% of production capacity) to 19% (at 80% of production capacity), which is relatively low when compared to some other sub-loans. The company will enjoy a tax holiday for the first five years of production, during which the loan will be repaid. Return on equity (net profit/equity) is projected to rise from 3% in the first year to 13% in the fifth year.

Current position and working capital appear adequate. The company plans to obtain an overdraft facility from DIB to take care of short-term working capital needs.

Leverage (total debt/equity) is conservative with full disbursement of the loan, at 0.28:1.00, and declines as the loan is repaid. Debt coverage ratio starts at 1.9:1.0 in 1981 and increases thereafter, which is satisfactory.

Cash flow internally generated is projected to provide adequate funds for repayment of debt and payment of dividends. The company plans to distribute all net profits as dividends to shareholders. Positive cash flow is expected throughout the life of the sub-loan.

The financial rate of return is calculated at approximately 15% and the economic rate of return is calculated at 17%; both would be slightly higher if AID-financed equipment had been valued at the official rate in these statements. These rates satisfy our loan agreement minimum of 15%.

7. Conclusion

This project appears to be a suitable sub-loan for the DIB.

Recommendation:

That you approve this sub-loan.

APPROVED John B. Olson
DISAPPROVED _____
DATE June 20, 1978

Sub-loan Committee:

CDE:TRTiff TRT
CDE:PSLewis (draft)
AGR:MNovins MNovins
PRM:JNorris JNorris
LEG:JPhippard JPhippard

CDE:TRTiff:gt:6/14/78

INITIAL ENVIRONMENTAL EXAMINATION
NARRATIVE DISCUSSION

1. Project Location: Egypt
2. Project Title: Development Industrial Bank II
3. Funding (Fiscal Year and Amount): FY 78 - \$2.0 million
4. IEE Prepared By: T.R. Tifft Date: October 20, 1977
5. Action Recommended: Negative Determination
6. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

This project is a proposed second AID loan to the Development Industrial Bank. This loan will finance the procurement of equipment, technical assistance and training to upgrade the DIB's capabilities.

Because of the nature of this loan, the project lacks significance in terms of its environmental impact. The mission recommends, in accordance with usual AID actions in such a case, that a Negative Determination be made.

THRESHOLD DECISION BASED ON
INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Egypt

Project Title: Development Industrial Park II

Funding (Fiscal Year and Amount): FY 78 - \$25.0Million

IEE Prepared By: WRM:fft

Date: Oct. 20, 1977

Environmental Action Recommended: Negative Determination

Mission Decision:

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

Approved: [Signature]

Disapproved: _____

Date: 1/21/78

Clearances:

JFSnead
PSLewis

Environmental Coordinator: [Signature]
Other Mission Offices: [Signature]
CDE: R.N. Bakley

Date: 1/25/78
Date: 1/23/78
Date: 1/23/78
Date: 1/30/78

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas

Impact
Identification
and Evaluation/

A. LAND USE

- 1. Changing the character of the land through:
 - a. Increasing the population N
 - b. Extracting natural resources N
 - c. Land clearing N
 - d. Changing soil character N
- 2. Altering natural defenses N
- 3. Foreclosing important uses N
- 4. Jeopardizing man or his works N
- 5. Other factors

B. WATER QUALITY

- 1. Physical state of water N
- 2. Chemical and biological state N
- 3. Ecological balance N
- 4. Other factors

- N - No environmental impact
- L - Little environmental impact
- M - Moderate environmental impact
- H - High environmental impact
- U - Unknown environmental impact

EFFECT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

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

N

N

N

D. NATURAL RESOURCES

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

N

N

E. CULTURAL

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

N

N

F. SOCIOECONOMIC

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

N

N

N

IMPACT IDENTIFICATION AND EVALUATED FORM

G. HEALTH

- 1. Changing a natural environment
- 2. Eliminating an ecosystem element
- 3. Other factors

N

N

H. GENERAL

- 1. International impacts
- 2. Controversial impacts
- 3. Other factors

N

N

I. OTHER POSSIBLE IMPACTS (not listed above)

Prepared By:

Date: Oct. 20, 1977

Project Location: Egypt

Project Title: Development Industrial Bank II

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 78 ___ to FY 84 ___
Total US Funding \$1 million
Date Prepared: April 22, 1978

Project Title & Number: Development Industrial Bank II (203-0025)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Increase the capacity of the private sector by provision of medium term foreign exchange loans through the DIB</p>	<p>Measures of Goal Achievement:</p> <p>There are no short-run verifiable indicators of goal achievement/progress. Over the longer term a revitalized private sector will have significant impact on overall economic performance.</p>	<p>N/A</p>	<p>Assumptions for achieving goal targets:</p> <p>Continuation of GOE policies favorable to private sector expansion.</p>
<p>Project Purpose:</p> <p>Improve the institutional capability of the DIB</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>Decreased loan application processing time, increased obligation rate, increase in loan quality</p>	<p>Data provided by DIB on internal operations and assessment by USAID and World Bank of loan quality</p>	<p>Assumptions for achieving purpose:</p> <p>That a higher level of individual competence and training of DIB staff and management will result in improved institutional performance</p>
<p>Outputs:</p> <p>Trained DIB management and staff, organizational and operational improvements.</p>	<p>Magnitude of Outputs:</p> <p>No specific measurements available to assess magnitude of outputs. All outputs expected to be achieved by FY 1984</p>	<p>None</p>	<p>Assumptions for achieving outputs:</p> <p>The full cooperation of DIB staff and management</p>
<p>Inputs:</p> <p>AID will provide \$2 million for technical assistance training and equipment and materials for the DIB</p>	<p>Implementation Target (Type and Quantity)</p> <p>Management assistance consisting of a full time senior advisor and the services of a management consulting firm. Training for selected bank employees in the U.S. and at other DEC's. Equipment such as calculators and teaching aids.</p>		<p>Assumptions for providing inputs:</p> <p>none</p>

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