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UNUSED BALANCE OF
THE PRIVATE INVESTMENT ENCOURAGEMENT
FUND PROJECT
SHOULD BE DEOBLIGATED
PROJECT NO. 263-0097
Audit Report No. 6-263-84-3
July 26, 1984

In September 1979, AID provided up to $33 million in grant funds for a Private Investment Encouragement Fund to provide medium to long-term credit and equity capital to private sector companies in Egypt. On September 28, 1983, $22.2 million was deobligated, reducing the project funding to $10.8 million. As of March 31, 1984 expenditures were $805,000.

The project was a non-starter. No loan or equity financing was ever disbursed. The GOE never provided a staff capable of administering the fund. Payments of $805,000 for advisory services were wasted. We are recommending that USAID terminate the project and deobligate the remaining $10 million.

USAID/Egypt officials did not agree with our conclusion that the expenditure for advisory services was wasted. In their opinion, the GOE failed to properly utilize the services provided by the consultants.

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EXECUTIVE SUMMARY

Background

On September 22, 1979, USAID/Egypt signed a grant agreement with the Ministry of Economy (MOE) of the Government of Egypt (GOE) to establish a Private Investment Encouragement Fund (PIEF) to provide medium to long term financing to private sector enterprises in Egypt.

The grant agreement financial plan earmarked $78.2 million for the project to be funded by USAID/E ($33 million), participating Egyptian banks ($45 million) and the GOE ($200,000). On September 28, 1983, the USAID/E deobligated $22.2 of $33 million grant reducing AID funding to $10.8 million.

The project was requested by the GOE because of a scarcity of capital and long term credit in Egypt which hindered the growth of the private sector. PIEF was to implement the project with a small team of qualified professional staff assisted by outside consultants.

In March 1980 the GOE signed a contract with Robert R. Nathan & Associates, Inc. (RRNA) to provide technical assistance. Payments to the contractor totaled $803,000.

As of March 31, 1984, USAID/E had disbursed $805,000 out of its obligation of $10.8 million. The project assistance completion date is September 30, 1984.

Objectives, Scope and Methodology

Our objective was to determine: if the project was in compliance with the grant agreement and AID regulations; objectives were being achieved; and amounts claimed were eligible for reimbursement. Our audit covered activities of the project from July 31, 1981 through March 31, 1984. The audit was made in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

Findings, Conclusions and Recommendations

The project never became operational. Over four years after inception, no equity or credit funds were disbursed. According to USAID/E officials the GOE was unfamiliar with an institution and business concept like PIEF. As a result, the GOE did not provide adequate staff or legal, accounting and financial expertise for

PIEF, project planners failed to assess GOE ability to administer the fund and AID financed advisory services were ineffective. In spite of extensive efforts by USAID to get the project on track, the GOE has been non-responsive. As a result, millions of dollars committed to the project have been undisbursed for years in this private sector initiative with no benefit to Egypt and the $800,000 paid for technical assistance has been wasted.

USAID was well aware of the project's problems, and after four years of frustrated effort to get corrective action, negotiated a $22.2 million deobligation in September 1983. We found no progress since the deobligation. We are recommending that the USAID arrange for deobligation of the $10 million remaining in the project.

Payments of $81,000 to the advisory services contractor are questioned due to either lack of documentary support or failure to conform to requirements for certification and negotiation of overheads.

USAID/Egypt Comments

Our draft audit report was discussed with USAID/E officials whose comments were considered in preparing this report. (See Appendix A for USAID/E comments.)

BACKGROUND

In September 1979, USAID/Egypt signed a grant agreement with the Ministry of Economy (MOE) of the Government of Egypt (GOE) to provide up to $33 million for a Private Investment Encouragement Fund (PIEF). The purpose of PIEF was to provide medium to long-term credit to private sector companies to finance new productive facilities and expand and modernize existing facilities. Of the authorized amount, $30 million was allocated for credit and equity financing. The remaining $3 million was for consulting services, feasibility studies and contingencies. PIEF was to be a co-financier along with Egyptian participating banks who would manage the fund investments as agents. In addition, PIEF was to develop institutional capabilities through: advisory services for project implementation, project appraisal and training programs.

The grant agreement financial plan earmarked $78.2 million for the project to be funded by:

USAID	-	$33,000,000
Participating Banks	-	45,000,000
GOE	-	200,000
TOTAL		$78,200,000

It was anticipated that the participating banks would commit $45 million along with AID's $33 million to finance new productive facilities, expansion and modernization. The PIEF would hold in its portfolio the longer maturing securities whereas the participating banks would hold the shorter maturities.

In September 1983, $22.2 million was deobligated by an amendment to the grant agreement reducing AID funding to $10,805,000. As of March 31, 1984, the financial status of the grant was:

Amount Obligated	$10,805,000
Total Expenditures	804,867
Unexpended Balance	$10,000,133

The project assistance completion date is September 30, 1984.

The GOE request for the project was based on the findings of a feasibility study conducted during mid-1979 by Robert R. Nathan Associates, Inc., a U.S. consulting firm, under AID contract. The contract was for $96,600. The study concluded that there was a strong and expanding demand for capital and long-term credit among larger-sized projects in the Egyptian private sector. The supply of such finance was not adequate to meet the demand because banks operating in Egypt limited their project financing to short and medium term loans. Few provided venture capital and those that did, restricted equity participation to very modest levels. Foreign exchange lending on a long term basis was also severely restricted. To meet the demand for development finance for the private sector, the study proposed a special fund to channel its resources through existing banks to the private sector in the form of medium and long term loans and equity participation.

The GOE was to administer the project through an Executive Director and a small staff to assist in project implementation, overseen by an Advisory Board. The Board was to review and monitor the implementation of the Fund and report to the Ministry of Economy. In June 1983, the GOE transferred the Board's functions to a "Steering Committee". However, as of March 31, 1984, we were informed by USAID/E officials that the Committee never exercised its monitoring role over the Fund's activities.

In March 1980, the MOE signed a host country cost reimbursement plus fixed fee contract with Robert R. Nathan Associates to provide technical assistance to the project. The contract was awarded without competition. The non-competitive award was justified by USAID/Egypt on the basis of the Contractor's predominant capability which in turn resulted from experience gained while doing the feasibility study. The contract was completed on December 31, 1981. Total payments to the contractor were $803,000.

RIG/A/Cairo performed a limited scope audit of this project in November 1981 and issued a report on January 20, 1982 (Audit Report No. 6-263-82-4). The report concluded that a full scope audit should be conducted at a later date. The Audit Report No. 6-263-82-4 contained three recommendations; two were to resolve questioned contractor billings of $73,533, and one was that the USAID/E work with the GOE to provide adequate professional staffing to administer the fund. All three recommendations were closed prior to the current audit. The current status of the recommendation to provide adequate staff is discussed in the Findings, Conclusions and Recommendations section of this report (Page 6).

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit was made to: determine if the project was achieving its objectives and being implemented in compliance with the grant agreement and AID regulations. We also examined contractor vouchers to determine if amounts claimed were eligible for reimbursement under the terms of the contract.

We did not review internal controls because our prior audit reviewed procedures for paying the contractor and substantially all project expenditures during the period of audit were reimbursements to the contractor. We examined contractor vouchers in detail for eligibility of costs claimed.

The period covered was from the cutoff date of the last audit, July 31, 1981 to March 31, 1984.

Our audit was made in accordance with the Comptroller General's standards for Audit of Governmental Organizations and accordingly included a review of project documents and reports at USAID/E and GOE offices, discussions with AID and GOE officials and such other auditing procedures we considered necessary in the circumstances.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

NO PROGRESS AFTER FOUR AND ONE-HALF YEARS

The project agreement was executed in September 1979 to provide medium to long term credit and equity to larger sized local and US-Egyptian joint venture private enterprises by arranging for co-financing with participating Egyptian banks. The grant agreement allocated $30 million to provide credit and equity. At March 31, 1984 no funds had been used for this purpose. AID deobligated $22.2 million in September 1983. At the conclusion of the audit, there were no proposals under consideration for commitment of the $10 million remaining in the project. The project was never operational because of: (a) a lack of GOE commitment and failure to provide agreed to inputs, (b) poor planning, (c) ineffective advisory services, and (d) non-responsiveness of the GOE to extensive USAID efforts to get the project on track. As a result, millions of dollars of AID funds have remained undisbursed for years with no benefit to Egypt. Expenditures of $800,000 have been wasted.

No Accomplishment

In June 1981 PIEF received four financing proposals totaling $6,767,000 from private sector enterprises. After review and analysis by PIEF and four participating banks, the proposals were forwarded to USAID/E for approval. USAID approved one proposal in November 1981 and the remaining three in January 1982. However, no financing of the proposals materialized because of: (a) withdrawals by sponsors from the joint ventures; (b) delays by PIEF in further processing applications; and (c) a breakdown in negotiations with the participating banks.

Between October 1981 and January 1982, ten more financing proposals totaling $34 million were submitted to PIEF by private sector enterprises. However, none of these proposals were subjected to the required financial and technical appraisals by PIEF, nor were they approved by the PIEF Advisory Board. None were financed under the project.

According to USAID/E officials, the GOE was unfamiliar with an institution and business concept like PIEF which is new to Egypt. They also attributed the failure of PIEF to negotiate financing agreements with investors and participating banks to inadequate staffing and lack of legal, accounting and financial expertise.

Lack of GOE Commitment

The project agreement was signed in September 1979. The GOE however did not issue a decree authorizing PIEF operations till November 1980. The GOE has never provided the staff required to implement the project.

The project paper established the following time frame for project implementation:

Event	Date
Ministry of Economy establishes PIEF	October 1979
Contractor Starts Work	November 1979
First Sub-Project Approved	January 1980
Last Sub-Project Approved	January 1982

Project planners anticipated that PIEF would begin operations in early 1980 and all sub-loans would be approved by 1982 with full disbursement of AID's $33 million grant by September 1984.

The grant agreement and the project paper specified that the GOE should recruit adequate staff for the PIEF who would:

- Promote PIEF activities with potential participating banks.
- Screen and pre-select projects in conjunction with USAID.
- Organize and provide consulting assistance to participating banks.
- Review and approve project proposals.
- Ensure participating banks' reporting on fund investments.
- Organize and manage PIEF sponsored training programs for participating banks.

The project paper stated that the PIEF staff should include one professional economist or financial specialist, one professional staff assistant and one secretary to carry out these functions.

Initiation of the project was delayed for a year because the required ministerial decree, authorizing the fund's operation was not issued until November 1980.

Although the project agreement was executed in September 1979, no GOE staff was provided until March 1981 when an Executive Director was appointed. He resigned in May 1983. Although the GOE named a replacement in August 1983, the appointee never assumed office. Between March 1981 and May 1983, PIEF also employed one secretary for 8 to 9 months, and two professionals who worked part time for 3 and 12 months respectively. According to the then PIEF Executive Director, he was unable to attract competent professional staff from the Egyptian private sector because of unattractive GOE salary scales.

Our prior audit identified PIEF staffing problems and the report included a recommendation that USAID/E coordinate with the GOE to provide adequate professional staff to implement PIEF project activities. This recommendation was closed in June 1982 based on a memorandum from USAID/E that PIEF had recruited one staff member and was actively seeking another. However, as noted above, PIEF staffing has continued to be inadequate; since May 1983 PIEF has had no staff.

The project planners also recognized the need for PIEF to obtain local consulting services. The AID project agreement provided $800,000 in local currency for consulting services. In meetings and correspondence with GOE officials, USAID/E urged PIEF to contract for legal, accounting, auditing and technical advisory services with competent local firms to facilitate implementation of project activities.

In his discussions with USAID/E project officials, the PIEF Executive Director stated that he was engaged in negotiations with several local firms for legal, accounting and technical advisory services. However, as of March 31, 1984, only $2,345 was disbursed; all to a local attorney for legal services to PIEF.

The USAID exerted great effort to get the project underway. In a letter dated April 26, 1982 addressed to the PIEF Executive Director, USAID/E said that no sub projects would be approved for funding until PIEF was placed on a sound operational and administrative basis, including sufficient technically capable staff. The letter reiterated USAID's prior requests that PIEF contract with legal, accounting, auditing financial and economic consultants to assist in project implementation. The GOE did not comply.

USAID also put forward alternatives to a PIEF staff, namely: (a) placing the management of PIEF with a commercial or a public sector bank; (b) placing PIEF management with an appropriate consulting firm; (c) merging the PIEF project with a large USAID/E umbrella project. These options were reviewed but never acted upon by the GOE.

Finally, in August 1983, the USAID/E Director met with the GOE Minister of Investment and International Corporation and they mutually agreed to deobligate $22.195 million of the $33 million AID grant leaving a balance of $10.8 million. USAID/E again urged GOE to take neccessary measures to make the fund operational, namely: (a) recruit an Executive Director and professionally qualified staff; (b) establish sound operating procedures; (c) contract for legal, accounting and economic/financial services with outside consultants.

On September 8, 1983, USAID/E placed the PIEF project on its "Alert list" and, in December 1983, the mission determined that if the project was not operational by May 1984, USAID/E would seek GOE agreement to deobligate the balance of the project.

As of March 31, 1984, GOE had not taken any of the actions recommended by USAID/E to revive the project.

Project Planning And Design Did Not Assess GOE Capability

USAID/E planning and design for the PIEF project was based on a feasibility study conducted during mid-1979 by Robert R. Nathan Associate, Inc. (RRNA) under an AID contract. The contract was for $96,600. The study concluded that there was a strong and expanding demand for capital and long-term credit in the Egyptian private sector. The supply of such finance from Egyptian banks was not adequate to meet the demand. The study therefore proposed that GOE establish a special fund which would channel its resources through Egyptian banks to provide development finance to the private sector. USAID/E relied heavily on the findings and recommendations of the feasibility study in developing the PIEF project paper.

On determining the feasibility of a project implementation plan, AID Handbook Number 3 (Appendix 3G) states in part:

> "The initial assessment of an agency's capabilities will lead to conclusions on the functions and specific tasks which the agency can be assigned with the expectation that its performance will at least be adequate. Should the conclusion be that the agency cannot perform any of the functions considered, it is tantamount to the conclusion that the project cannot be implemented. In most cases, the conclusion will be rather that there are weaknesses in the management, organization or staffing of the Implementation Agency which must be overcome if it is to perform its function. Such weaknesses must be taken into account in developing an implementation plan."

Our review of the PIEF project paper and the RRNA feasibility study showed that neither document included an assessment of the GOE's capability to staff the project. Our discussions with USAID/E project officials and review of project files and correspondence showed that lack of adequate PIEF staffing was the chronic impediment to the project's operations. In the opinion of the officers responsible for monitoring the project, the GOE was unfamiliar with an institution and business concept like PIEF, which is new to Egypt. USAID/E officials stated that PIEF staff lacked the necessary technical expertise to negotiate and finalize loan proposals with participating banks and investors, promote the project, develop relations with banks, make legal arrangements, risk identifications and measurements, and conduct financial analyses of loan proposals.

Management Comments

USAID/E did not agree that they failed to identify GOE incapability to staff the PIEF project. In their opinion, Egypt has thousands of competent professionals who are capable of implementing such a loan program and there was a reasonable basis to assume that capable staff would be available. The project failed because the GOE did not choose to create the administrative structure required to implement the project.

Technical Advisory Services of U.S. Consultant Did Not Produce the Intended Results

In March 1980, GOE signed a host country contract for technical assistance with a U.S. consulting firm - Robert R. Nathan & Associates (RRNA). RRNA was to provide the GOE with the technical assistance required to: establish the PIEF, implement its program of financial assistance to the private sector; and organize a training program in project appraisal and implementation.

The contract was awarded to RRNA on a non-competitive basis because the GOE requested a waiver for negotiation with a single source contractor. USAID/E granted the GOE a waiver because RRNA conducted a feasibility study of the PIEF project in mid 1979 under an IQC contract which cost USAID/E $96,600. In the opinion of USAID/E, RRNA achieved a special capability in Egyptian private sector investment finance as a result of its feasibility study. Moreover, a delay of up to seven months in project implementation was anticipated if competitive procedures were followed by GOE for procurement of management consulting services.

The RRNA resident advisor arrived in Egypt in March 1980, but the PIEF Executive Director was not appointed until March 1981. Thus, for one year, RRNA did not have any PIEF staff to work with. During this period they worked with a GOE official from the Ministry of Economy.

The RRNA contract was completed in December 1981. When the consultant's contract expired, PIEF had failed to finalize any financing proposals and did not have a competent professional staff.

In the opinion of USAID/E officials, absence of regular PIEF professional staff and personality conflicts between the PIEF Executive Director and the RRNA resident advisor hindered progress in project implementation. The cost to USAID/E for RRNA's services was $803,000, the only major expenditure incurred under the project.

Although AID is not a party to contracts executed by host countries, it is nonetheless responsible for assuring the proper and prudent use by the host country of the contractor's services which are AID-funded. We believe that USAID/E failed to discharge this responsibility by not coordinating the activities of all participants and resources involved in the project.

Management Comments

USAID/E acknowledged that the project failed to accomplish its objectives. However, in their opinion, the consultants provided the required services to GOE by completing the scope of their work. Had their services been properly utilized by the GOE, the project objectives could have been attained.

Conclusions and Recommendation

The project never became operational because of poor GOE support. This USAID/E effort to promote the development of private sector in Egypt failed; potential investors lost a major source of financing; and participating banks lost an opportunity to enter into long term investments in the Egyptian private sector. The only project beneficiary was the U.S. technical service contractor, Robert R. Nathan & Associates, who received $803,000 from a non-competitive technical services contract on the basis of their AID financed feasibility study. We believe the cost of this contract was wasted.

Given the current situation, we believe that the project has virtually no chance of achieving its purpose. The GOE does not appear to have the capability to implement the project, nor has it demonstrated a willingness to take aggressive corrective action or contract for appropriate outside assistance despite repeated proddings by USAID/E. Although USAID/E has taken several steps to reactivate the project, its efforts have been frustrated.

Given these circumstances, we believe AID's deobligation of $22.2 million in September 1983 was a proper and commendable action. The deobligation of such a large amount of money was a concrete manifestation of USAID management's dissatisfaction with GOE performance. However, it failed to elicit a positive response from the GOE. It is now time for AID to cut its losses, deobligate the remaining funds and terminate the project.

Management Comments

USAID/E commented that if no progress is made by the GOE in the near future in implementing the project, the balance of AID funds should be deobligated. However, they stated that a new financing proposal is currently under consideration which would utilize $5 million of PIEF credit funds. USAID/E therefore proposes to delay the deobligation of the remaining $10 million of PIEF project funds until the final outcome of this new financing proposal.

RIG/A/Cairo Comments

The project has shown no sign of progress over a period of four and one-half years because the GOE chose not to provide the support agreed to in the grant agreement. Given this situation, we believe there are no grounds to reassess our conclusion. The USAID/E should deobligate the balance of the project.

Recommendation No. 1

USAID/Egypt should deobligate the balance of $10.0 million of PIEF project funds, and terminate the project.

COSTS BILLED BY THE PROJECT CONSULTANTS, ROBERT R. NATHAN & ASSOCIATES, INC. (RRNA) NOT SUPPORTED

We reviewed expense vouchers totaling $316,437 billed to USAID/E by RRNA comprising of: (a) U.S. dollar expenditures of $158,536 incurred from August 1981 through January 1982; and (b) local currency expenses of LE 110,531 ($157,901) incurred from April 1980 through September 1981. Of this amount we found costs totaling $80,913 which were not supported by adequate documentation. The major portion of this amount, $66,311, was a unilateral adjustment by the contractor of provisional overhead and fringe benefit rates. This adjustment did not conform to contract requirements for audit and negotiation of said rates. The details are shown in Exhibit I.

We also reviewed the interest charges billed by USAID/E on RRNA's delinquent accounts receivable balances and found an underbilling to RRNA by USAID/E of $765. The details are shown in Exhibit II.

Recommendation No. 2

USAID/Egypt (a) arrange for certification and negotiation of overhead and fringe benefit rates in accordance with the terms of Section 7 (c) of the contract, (b) require documentation and justification of $14,602 questioned costs, and, (c) issue a bill for collection for $765 of interest due plus any portion of the $14,602 questioned costs that RRNA cannot support. The bill for collection should be adjusted for changes in overhead and fringe benefits resulting from the above negotiation.

PRIVATE INVESTMENT ENCOURAGEMENT FUND
ROBERT R. NATHAN & ASSOCIATES, INC.
Summary of Questioned Costs
For the Period March 1, 1980 through January 31, 1982

	Costs Billed		Costs Questioned	
	LE	US Dollar	LE	US Dollar
Dollar Costs:				
August 1, 1981 - January 31, 1982 1/				
Direct Labor		$ 26,649		
Overheads and Fringe Benefits		97,249		66,311 3/
Service Fee		18,584		
Post Differential		2,906		
Travel and Transportation		10,839		2,661 4/
Other Direct Costs		2,309		1,259 4/
		$158,536		$70,231
Local Currency Costs				
April 1, 1980 - September 30, 1981 2/				
	LE110,531	157,901	LE7,478	10,682 4/
		$316,437		$80,913

NOTES:

1/ Dollar costs from contract inception (March 1980) to July 31, 1981 were reviewed in the prior RIG/A/C audit.

2/ Represents the entire local currency costs billed by the contractor for period April 1, 1980 - September 30, 1981. The exchange rate in effect for the period was LE.70 : $1.00.

3/ Overhead and Fringe Benefit Adjustments - $66,311
In their final reimbursement voucher, RRNA billed USAID/E for $66,311 based a unilateral adjustment of overhead and fringe benefit rates for the fiscal years ended January 31, 1981 and 1982. Section 7(c) of the host country contract between GOE and RRNA states:

> "The contractor, not later than six months after the close of each fiscal year of the contractor, shall submit to the government and AID a proposed final overhead rate for that period, together with appropriate supporting cost data. If available this shall be the final rate certified by a U.S. Government audit agency. In the absence of such rate, the contractor shall submit a rate certified by the contractor's independent certified public accountant (CPA). The rate certified by the contractor's CPA shall be certified to be in conformance with the requirements of this contract and shall be subject to negotiation. Such negotiation shall be undertaken as promptly as possible thereafter, allowing for the time necessary for audit or other independent verification of the data on the contractor's cost proposal."

RRNA's FY 1981 final overhead and fringe rates were certified by the Defense Contract Audit Agency (DCAA); however, their FY 1982 rates were: (i) not certified by a U.S. Government audit agency; (ii) not certified by their independent CPA to be in conformance with requirements of this contract; (iii) not negotiated by RRNA either with GOE or USAID/E. Also, RRNA did not provide adequate cost data in support of their computations. This unilateral adjustment of overhead rates did not conform to the requirements of the contract.

4/ Other Costs not supported by adequate documentation - $14,602
This is made up of $10,682 (LE 7,478) local currency and $3,920 of U.S. dollar costs which were not supported by invoices, receipts, cancelled checks or other acceptable documentary evidence. The costs comprised of telephone, telex, travel, storage, and office services.

AID reimbursement regulations require such costs to be supported by adequate documentation. Therefore the amount of $14,602 is not eligible for reimbursement by USAID/E. The costs questioned for lack of documentation were:

U.S. Dollar Questioned Costs

RRNA Invoice Number	Period of Expenditure	Item of Expenditure		Amount
16	August 1981	Telephone	$ 281	
		Storage	278	
17	September 1981	Telephone	37	
18	October 1981	Storage	278	
		Telephone	118	
		Travel	210	
19	November 1981	Travel/Per Diem	450	
		Telephone	30	
20	December 1981	Air Travel	2,001	
		Storage	139	
		Telephone	98	$ 3,920

Local Currency Costs

	Telex	LE 732	
	Telephone	965	
	Cables	667	
	Lodging	3,655	
	Photocopy Services	725	
	Car Driver's Salary	504	
	Error in Fiscal Report	230	
		LE 7,478	
Conversion @ 0.70			$10,682
	TOTAL		$14,602

EXHIBIT II

PRIVATE INVESTMENT ENCOURAGEMENT FUND
ROBERT R. NATHAN & ASSOCIATES, INC.
Recomputation Of Interest Charges On Overdue
Bills Of Collection

Bill of Collection Number	Billing Date	Amount Outstanding	Period	Interest Rate	Number of Days	Interest Computation
CO-263-91437	07/07/82	$14,377.22	08/07/82 to 12/31/82	20% p.a.	146/360	$1,166
			01/01/83 to 03/14/83	16% p.a.	73/360	466
						$1,632 (A)
CO-263-91434	06/29/82	$12,556.54	07/29/82 to 12/31/82	20% p.a.	155/360	$1,081
			01/01/83 to 03/14/83	16% p.a.	73/360	407
						$1,488 (B)
			Total Interest Due (A) + (B)			$3,120
			Amount of Interest Billed:			
			CO-263-91437 $1,177			
			CO-263-91434 $1,178			2,355
			Amount Recoverable from RRNA			$765

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

June 21, 1984

M E M O R A N D U M

TO: Harold R. Gill, RIG/A/C OAP 86-2-4-84

FROM: M.P.W. Stone, Director USAID/Egypt

SUBJECT: Draft Audit Report
The Private Investment Encouragement Fund
Project (PIEF) - Project No. 263-0097

The mission would like to respond to the following points raised by the subject draft audit report.

1. Payments of $805,000 for advisory services to the consultant Robert R. Nathan & Associates, Inc (RRNA), were wasted.

2. RRNA's feasibility study and USAID's initial assessment of the project failed to identify weakness in GOE's capability in staffing the PIEF project.

3. The balance of $10 million of PIEF project funds be deobligated.

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1. The mission agrees that so far the project has failed to accomplish its objective of providing medium to long term financing to private sector enterprises in Egypt. But that does not imply that the amounts spent on the consultants were wasted. The consultants provided the services for which they were hired and submitted their report for implementation of the PIEF project. No question has been raised about their competency or about their failure in completing the scope of work assigned to them. Their findings and recommendations, if implemented, would provide credit to finance new productive facilities and to expand and modernize existing facilities, irrespective of whether the GOE uses the PIE Fund or another instrumentality for those purposes and irrespective of whether implementation occurs in 1984 or 1985 or 1986. The GOE is still planning to establish a medium-term credit instrument, and so long as that intention remains the GOE policy, the RRNA study has relevance and value. The consulting contract did not call for the consultant to guarantee implementation of their design. We disagree with the conclusion that the expenditure on the consultant's contract was wasted.

2. The USAID/E disagrees with the auditors' conclusion that the Mission failed to identify that GOE will be incapable of staffing the PIEF project.

With the benefit of the hindsight such determination can possibly be made today, but there were no indications in 1981-82 that the GOE would not actively pursue the staffing of PIEF project. The GOE has thousands of competent Egyptians employed in the day to day running of the government machinery. Its banking structure is well established and has fulfilled the financial needs of the country in the public and private sector for the last fifty years. There was a reasonable basis to assume that capable professionals would be available to fulfill the tasks required for running a loan program like PIEF. There was no basis to suspect that GOE would not aggressively move to set up an office with an able chief executive to run the PIEF. The PIEF project goals have not yet been fulfilled because over the last four years GOE did not choose to establish and staff the administrative structure required for running the program. GOE choice was involved, not GOE capability. Neither the consultant nor the USAID could have foreseen that in 1981.

3. USAID recognizes that if no progress is made by the GOE in the near future in establishing the administrative support for the PIEF project, the remaining $10 million should be deobligated. However, a new plan is under consideration for utilization of the funds, which, if it materializes, will constitute an important implementation of the project's purposes.

The Investment Authority in Egypt has authorized General Motors Egypt (GME) - a Law 43 joint stock company incorporated in April 1983 - to produce light and medium duty trucks and buses in Egypt. GME is a joint venture with the equity shares owned by various shareholders: 33% owned by several private Egyptian investors; 31% by General Motors Corp; 20% by Isuzu Motors Limited (GM owns 34.2% of Isuzu); 8% by Kuwaiti investors and 8% by Saudi investors. The paid up capital of GME is LE 16,800,000 (Equivalent to $20,200,000). The construction of the plant, located in the 6th of October City, is expected to be completed by June 30, 1985. In the initial stages the plant will employ 470 people. The employment is expected to increase to 1200 by 1989 when the plant is expected to reach 85% of its double shift capacity producing 1400 units annually.

GME is at present attempting to secure a comprehensive syndicated bank credit facility in the area of LE 100 million, one part of which is proposed to be a $5 million loan from PIEF to procure commodities and technical services from USA. If this PIEF activity is successful, it is expected to increase dramatically US investor interest in the PIEF. USAID proposes to delay the deobligation of the remaining $10 million in the PIEF project until all prospects for the successful use of this new activity are exhausted.

--the GM project

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APPENDIX B

LIST OF REPORT RECOMMENDATIONS

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APPENDIX C

LIST OF REPORT RECIPIENTS

Assistant To The Administrator For Management (AA/M)	1
Assistant Administrator/Bureau For Near East (AA/NE)	5
Director, USAID/Egypt	5
Audit Liaison Office (AA/NE)	1
Office Of Egypt Affairs (NE/E)	1
Office Of Financial Management (M/FM/ASD)	2
Directorate For Program And Management Services (M/DAA/SER)	6
Bureau For Program And Policy Coordination (PPC/PDPR/PDI)	1
General Counsel (GC)	1
Office Of Legislative Affairs (LEG)	1
Office Of Public Affairs (OPA)	2
Office Of Evaluation (AAA/PPC/E)	1
Office Of Development Information And Utilization (S&T/DIU)	4
Office Of International Training (S&T/IT)	1
Inspector General (IG)	1
RIG/A/Dakar	1
RIG/A/Karachi	1
AAP-New Delhi	1
RIG/A/Latin America/W	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections (RIG/II/C)	1