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UNCLASSIFIED

INTERNATIONAL DEVELOPMENT

COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

ARAB REPUBLIC OF EGYPT: Private Investment Encouragement Fund. (263-0097)

UNCLASSIFIED

3. COUNTRY/ENTITY ARAB REPUBLIC OF EGYPT

4. BUREAU/OFFICE NEAR EAST 03

1. TRANSACTION CODE: 1

2. PROJECT NUMBER 263-0097

5. PROJECT TITLE Private Investment Encouragement Fund

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM	DD	YY
09	21	89

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

A. Initial FY 79 B. Quarter 4 C. Final FY 85

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

A. FUNDING SOURCE	FIRST FY 85 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(22,195)	( )	(22,195)	(33,000)	( )	(33,0[illegible])
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s) Participating Banks		200	200		200	20[illegible]
		31,500	31,500		31,500	31,50[illegible]
TOTALS	22,195	31,700	53,895	33,000	31,700	64,70[illegible]

9. SCHEDULE OF AID FUNDING ($000)

A. APPRO-PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	700	840		10,805		22,195		33,000	
(2)									
(3)									
(4)									
TOTALS				10,805		22,195		33,000	

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE

To expand investment in productive Private Sector Enterprise:

14. SCHEDULED EVALUATIONS

	MM	YY	MM	YY		MM	YY
Interim	10	86			Final	05	89

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☐ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 13 page PP Amendment.)

This Amendment adds $22.195 million to reinstate life of project funding of $33 million and provide continuation of the program into late FY86 by which time a new project will be designed and operational. Implementation plan and methods of financing are included in this Amendment.

Concurrence: FM/AD, Terrence J. McMahon

17. APPROVED BY

Signature

Frank B. Kimball

Title

Director

Date Signed 14 JUN 1985

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

MM DD YY

AID 1330-4 (3-79)

PRIVATE INVESTMENT ENCOURAGEMENT FUND (263-0097)

Project Paper Amendment. No. 1,

prepared by:

Project Review Committee

Chairman, James O. Watson IS/FI
Walter Coles IS/FI
Jim Suma OD/FI
Paul Crowe DPPE/PAAD
Pat Ramsey LEG
Youssef Khalick FM/FA

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PROJECT PAPER AMENDMENT

EGYPT: PRIVATE INVESTMENT ENCOURAGEMENT FUND (263-0097)

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Egypt: Private Investment Encouragement Fund
Amendment No. 1
Project Paper Supplement

I. Summary and Recommendations:

1. Project Title: Private Investment Encouragement Fund (PIE) Fund).

2. Project Number: 263-0097.

3. Grantee: The Government of Egypt (GOE).

4. Coordinating Entities: The Ministry of Economy (MOE) and the Ministry of Planning and International Cooperation (MPIC).

5. Implementing Entities: Public and Private Banks in Egypt (Joint Venture or Egyptian owned), Central Bank of Egypt, and the Office of Deputy Chairman, Investment and Free Zones Authority under the Ministry of Economy (MOE).

6. Grant Amount: This reobligation of $22.195 million reinstates life of project funding of $33.0 million.

7. Project Goal: To increase the private sector's contribution to Egyptian productive output.

8. Project Purpose: To expand investment in productive private sector enterprises.

9. Purpose of the Obligation: To provide $22.195 million in additional funding in order to meet project objectives. Due to the demand for this project's funds, it is anticipated that the present obligation of $10.805 million will be fully committed during Fiscal Year 1985. This $22.195 million reobligation should provide approximately one year of additional financing and allow for continuation of the program into late Fiscal Year 1986. There have been modifications to the PIE Fund's on-lending criteria plus a revision to the Fund's organizational structure. These changes enhance the project's operating capability and are in accordance with the project's original design and the objective to permit flexibility during implementation. The changes do not involve significant policy issues and are in accordance with the findings and recommendations of the recently completed Term Credit Study and Report of Term Credit Assessment Team which are discussed in subsequent sections of this Project Paper Supplement.

Succinctly, PIEF is now operational. Demand for existing and additional funds is demonstrated by the number of potential investors daily inquiring about the timing and availability of project financing. Even when the 1983 deobligation occurred, it was envisioned that a reobligation would occur if the Project could get started. A reobligation is warranted for the following reasons:

a. Term Credit is of prime importance to the economic development of the Egyptian private industrial sector.

b. PIEF provides an opportunity to learn, adapt and improve the delivery of AID term credit.

c. The Egyptian private sector is at a development stage needing AID support.

d. If the GM automobile proposal (or a similar package in another targeted sector) is implemented, AID needs a fully operational term credit mechanism to respond in a timely manner.

10. Project Description: The Private Investment Encouragement Fund project is a product of AID's strategy (started in 1976) to provide term credit assistance and a source of equity investment funds to the private sector. As an important component of AID's private sector credit assistance program, the PIE Fund offers medium to long-term credit to private sector enterprises for start-up or improvement of productive facilities, i.e., it provides "project financing".

The Fund serves as a co-financier with participating banks. Participating banks will manage Fund investments as agents of the Fund. The Fund may finance both loan and equity investments although equity investment, if any, is anticipated to be minimal during the early years of operation. Furthermore, it is contemplated that the PIE Fund loans will primarily finance capital goods and materials related to productive facilities in Egypt. It may also finance services. Technical assistance activities to assist PIE Fund in the loan application, project appraisal and loan approval process are included in the scope of project activities. Project funds are available to finance training of bank officers and others in appraisal of investment projects and other banking and financial skills.

11. Total Project Cost: The cost of this obligation is estimated at $22.195 million.

12. Source of the U. S. Funds: Fiscal Year 1985 Economic Support Fund.

13. Statutory Requirements: All statutory criteria have been met.

14. Recommendation: That an obligation of $22.195 million be authorized on terms and conditions described in the second amendment to the Project Grant Agreement.

15. List of Annexes:

A. Project Grant Agreement Amendment.
B. Project Authorization Amendment.
C. Statutory Check List.
D. Advisory Board Membership.
E. Project Information Check List.

II. Project Background:

In September 1979, USAID/Cairo signed a grant agreement with the Ministry of Economy of the Government of Egypt to provide up to $33 million for the Private Investment Encouragement Fund (PIEF). The purpose of PIEF is to provide medium to long-term credit to private sector companies to finance new productive facilities and expand and modernize existing facilities. PIEF is a co-financier along with selected Egyptian participating banks. The banks will serve as agents and manage all sub-loans financed through PIEF. In addition, following a period of operational activities and on-hands experience, PIEF may initiate further development of institutional capabilities through advisory services for enhancing project implementation, project appraisal and training programs.

The Ministry of Economy (MOE) is responsible for implementing the project. An Advisory Board was created in early 1981 to review and monitor the implementation of the Fund and report its findings and recommendations to the Ministry of Economy. The Board was advisory: the MOE could accept or reject its findings and recommendations. The MOE signed in March 1980, a host country contract with Robert R. Nathan Associates, Inc., a U. S. consulting firm, to provide technical assistance to the project. By late 1982, the only disbursements from the project were payments under the contract (approximately $805,000), although at least 14 loan proposals requesting more than $40 million were received and four sub-loans were approved by AID for approximately $6.67 million.

Notwithstanding the fact that there was an extensive and exhaustive effort to launch PIEF during a period of more than four years, the Fund never became operational because it needed organizational, administrative and operational components that were not put into place. For example, the Fund was unable to hire qualified staff with experience in banking and financial analysis. Consequently, the Fund was unable to analyze projects presented by participating banks. Key operating mechanics were not established, e.g., Fund staff were unable to negotiate a loan agreement with the banks, a cornerstone for commencement of Fund operations.

With these deficiencies coupled with other impediments, the project was formally suspended by AID in April, 1982. This notification of suspension included conditions to be met to remove suspension. They were: (1) acquisition of two staff members with some prior banking experience and knowledge of financial analysis; (2) establishment of some basic procedures for review and decision-making loan requests; and, (3) contractual or other relationships with legal, economic/financial and accounting/auditing firms to bolster Fund staff. The Fund's Executive Director, appointed in March 1981, resigned in May, 1983, and despite the selection of a replacement in August, 1983, the appointee never assumed office. PIEF was unable to attract competent professional staff from the Egyptian private sector because it was able to offer only unattractive GOE salaries.

During the period from 1981 through 1982, AID proposed alternatives to the PIEF staff dilemma, namely: (1) placing the management of PIEF with a commercial or a public sector bank; (2) placing PIEF management with an appropriate consulting firm; (3) merging the PIEF project with a large USAID/Cairo umbrella project. These options were reviewed but never acted upon by the GOE.

Finally, in August 1983, AID and GOE mutually agreed to deobligate $22.195 million of the $33 million AID grant leaving a balance of $10.805 million. However, both AID and GOE agreed to renew efforts to launch the Project and make it operational.

In a spirit of mutual cooperation and convinced that the PIEF concept had merit, USAID and the GOE's Investment Authority agreed that the balance of $10.805 million should be utilized to resurrect the Project incorporating those operational and technical changes that would offer a practical means for disbursing Project funds. In May 1984, General Motors Egypt (GME) requested a $5 million sub-loan from PIEF. USAID and GOE agreed to process the GME request using it as a model or test case as a way to establish some practical procedure for setting up a bank agreement, appraising the loan, executing the loan and disbursing the funds. On August 30, 1984, the Investment Authority's new Deputy Chairman (Dr. Sultan Abou Ali) and USAID agreed to continue working together to process GME's loan application on a test basis. Of major significance, both governmental entities agreed that, regardless of the outcome of GME's sub-loan request, they would work together to relaunch PIEF.

From September 1984 through April 1985, substantial negotiations were undertaken to establish the requisite framework contributing to making: (1) PIEF operational, and (2) funding the GME's sub-loan. First, Chase National Bank (Egypt) (GME's bank) and Misr Iran Development Bank were selected as the initial agent banks to manage the PIEF sub-loans plus fulfill the requirements of participating banks by co-financing with PIEF. Second, it was agreed by USAID and GOE that the conditions for removing the 1982 suspension had been met. Finally, the participating bank agreement was executed by all parties in April, 1985.

Both USAID and GOE believe that with the recently modified PIEF lending criteria, PIEF can reduce its risk and concommittantly rely upon the participating bank to: (1) protect both the bank's own, majority interest in the total investment as well as PIEF's; and, (2) handle the project appraisal activity on behalf of the PIEF in its agent capacity. It is important to make reference to a significant provision of the recently executed participating bank agreement:

> "The required loan (PIEF's) does not exceed 20% of total project costs (including working capital) and the maximum amount of the required U.S. Dollar loans to be financed by the First Party (PIEF) shall not exceed $5 million, unless the Authority and USAID decide otherwise."

This provision ensures that the participating bank's level of risk is much greater than PIEF's exposure to a sub-loan borrower's default. Therefore, the participating bank's incentive to conduct a professional and in-depth project appraisal on its own behalf and the PIEF is highly significant. Conversely, in the event the sub-loan borrower encounters financial difficulty, the participating bank's need and incentive to aggressively take the lead to confront and, presumably, resolve the problems on behalf of itself and the PIEF is very substantial.

The events and decisions made in the past year underscore the Project's original intent and goal to create a format, wherein all cognizant and responsible parties can act with a degree of flexibility and be responsive to any perceived need for change. The newly revitalized PIEF operating structure meets the objective to shift management and administrative responsibility to the agent banks to reduce the burden of creating staff increases at both GOE and AID to serve PIEF loan demands. Utilizing a post-audit system, USAID and GOE involvement with PIEF can be limited. This alleviates to a significant extent, requirements to expand GOE or AID staff resources.

III. Project Credit Policy Issues

The Private Investment Encouragement Fund Project was designed to expand the private sector's contribution to total output by providing foreign exchange resources and credit, by financing training of bankers and others in appraisal of private sector investment projects, and by engaging the GOE in a policy dialogue on credit issues.

A. Foreign Exchange

The 1979 Project Grant Agreement includes a section establishing a system for conversion of AID funds into Egyptian currency "at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Arab Republic of Egypt". The Project Paper states that the Foreign Exchange Risk is "to be borne by the Fund not the investor. The rate of exchange for converting dollar disbursements into equivalent Egyptian pounds will be determined on the date of signing the loan agreement with the Fund, based upon the unified rate, presently (1979) L.E. 0.70 = U.S.$1.00". Repayment of PIEF loans is in Egyptian Pounds, thus removing the necessity for earning or converting to obtain foreign exchange.

In the intervening years from 1979 to 1985, AID has successfully implemented other private sector credit projects while the Egyptian financial environment experienced significant changes in the GOE's foreign exchange rate. For example, AID's grant financed Production Credit project's current governing Circular provides that repayments shall be calculated at the highest official rate of exchange prevailing on the date of repayment. This rate was L.E. .84 per dollar when the project started in 1983. Today the prevailing Egyptian (premium or Central Bank Committee) "market" exchange rate is approximately L.E. 1.43 per dollar. In early 1985, the Mission Director formulated a strategy for obtaining GOE agreement that all AID-funded procurement of U.S. source and origin of goods and services will use a more "market" oriented exchange rate. As an initial step, he negotiated an agreement with the GOE to approve an amendment to the Production Credit Circular. The Amendment increases the rate to L.E. 1 = U.S.$1. The Mission continues to aggressively pursue a policy dialogue with the Central Bank, Ministry of Economy and other GOE officials to negotiate forward movement in the rate of exchange.

Nevertheless, a justification for a rate somewhat below the Egyptian "market" rate is based upon the findings of a credit evaluation team. The USAID/Cairo Mission Director signed the Project Evaluation Summary on February 13, 1985. The team recognized the fact that the Production Credit program imposed a cost on borrowers by restricting them to U.S. goods. The team estimated the cost of tied aid to be 20-30% on average. Therefore, any exchange rate difference in excess of 20-30% could not be justified. A recommendation was made by the team that a flexible mechanism be developed to periodically adjust the effective foreign exchange rate in accordance with the foreign exchange market. A March 1985 Project Paper amendment increased life-of-project by $20 million providing only approximately six months of operation, but accomplished an immediate increase in the exchange rate from L.E. .84 = U.S. $1 to L.E. 1

= U.S. $1. Simultaneously, with the Production Credit negotiations with the GOE, the PIEF participating bank agreement negotiations produced a modification in the foreign exchange rate from L.E. .70 = U.S.$1.00 to L.E. 1 = U.S.$1.

Again, in the spirit of PIEF's original design and in accordance with policy dialogue discussions between USAID and GOE, efforts will be made to move the rate towards the "market" rate (presently L.E. 1.43 = U.S.$1.00) while taking into account a necessity to accommodate AID's tied procurement regulations. As PIEF develops sufficient operating experience to evaluate the need for an exchange rate adjustment, USAID will assess the practicality and/or legality of implementing the various combinations of user fees, exchange rates, downpayment percentages and, if feasible, interest rate changes that will produce the desired result, i.e., an effective cost of capital reflecting market conditions. Cost of capital will be a major policy position of the Mission's Private Enterprise Credit Project Design effort scheduled for early FY86.

B. Interest Rate

The 1979 Project Paper established PIEF's interest rate guideline by stating:

> "Prevailing rate for medium/long term funds, as decreed by the Central Bank of Egypt, presumably 10-12% per annum, to be fixed for the life of the loan at the time of signing of a sub-loan agreement with the Fund".

Subsequently, in 1981, the Central Bank set a maximum interest rate ceiling of 13% on industrial credit in the hope of encouraging longer-term productive investments. Also, to discourage short-term trade credits, a minimum interest rate of 16-18% was set. Although the Central Bank's professed intention to support long-term productive investment was noble, its strategy was counterproductive. This interest rate structure maximizes profit, i.e., short-term 16-18% loans. Participating banks are required by the 1981 Central Bank edict to comply with a maximum interest rate of 13% for industrial loans. Working with this constraint, PIEF is a vehicle to sustain USAID's pursuit of interest rate reform.

C. Effective Cost of Capital

The April 1985 Term Credit Assessment Team found that Maintenance of Value is "one of the two or three crucial factors that will ultimately dictate the success or failure of whatever private sector term credit program may be designed for use in Egypt today and the near future." The Team endorsed the recommendation and findings of the Production Credit Evaluation Team that the MOV requirement be eliminated from the Production Credit Program, particularly if a medium term lending component is to be added to the existing program. "More to the point, our discussions with businessmen and bankers alike reveal very clearly that to launch a MOV-encumbered program would mean having no program at all. The uncertainty of final costs inherent in an MOV device is a risk borrowers are neither willing nor able to assume. The added realization that all of this is placed in a setting where private business is in direct competition with public enterprises that are not subject to a MOV correction would make it appear that we (AID) are working at cross purposes in enhancing the role of the private sector relative to the public sector. Finally, the Team also notes that, after intense negotiations with the GOE the World Bank (recently) dropped the MOV requirement from its $125 million loan for export development."

Effective Cost of Capital is a prominent issue to be addressed in next year's design effort. Inter alia, it will take into consideration an increase in interest rates, utilization of user fees, movement toward "market" exchange rates plus, perhaps, some other mechanism.

D. Revolving Fund

PIEF's original design envisioned a fund for repayments to assure the continual availability of credit funds for private sector use. The project paper clearly advocates a fund for repayments in Egyptian Pounds to be established in the Ministry of Economy and Economic Cooperation. The design contemplated a revolving fund comprised of the repayment of loans and the sales of project shares (PIEF equity investments). Although reflows were not anticipated to be significant for about 10-14 years, it was intended that the revolving fund's "features and essential objectives could nonetheless retain the features of the proposed Private Investment Encouragement Fund." In 1979, USAID recommended against involvement in the management of the revolving fund and urged that the responsibility for this fund should lie solely with the Ministry.

PIEF's current implementation plan stipulates that the repayments flow into a PIEF special account administered by the Central Bank of Egypt. With the relaunching of the Fund, USAID will enter into negotiations with the GOE with the expressed objective of obtaining GOE agreement that a revolving fund program be implemented to direct reflows from PIEF to private sector use and that this occur in areas of major developmental impact.

E. General Credit Policy Issues

Supporters of PIEF have always underscored the significance of one of the design's most important characteristics, i.e., flexibility to efficiently react to changes in the Egyptian financial and banking milieu. By allowing the Fund's structure and implementation techniques to evolve from interaction within the banking system and private sector investment environment, modifications or adjustments can be undertaken in a beneficial way.

This "rolling planning" concept permits maximum involvement of the Egyptian banking sector through co-lending arrangements with selected participating institutions. As PIEF develops operational experience, it may enlarge the number of participating banks to expand the availability of term credit to a wider spectrum of potential borrowers.

Presently, there are no plans for the creation of an institution (bank, finance company or fund) devoted to the employment and administration of reflows. There is flexibility, however, to allow for the establishment of such an entity in later years, assuming evidence leads to favor such an endeavor. Throughout recent discussions with Sultan Abou Ali, pertaining to PIEF's resurrection, he emphasized his interest (in his position as Deputy Chairman of the Investment Authority and Director of PIEF; on March 30, 1985, he became Minister of Economy) in creating an independent investment bank to manage both new funding and reflows to the PIEF.

F. Contingency Plan vis-a-vis Potential Changes in Egyptian Government and Egypt's Banking Community.

Section II (page 3) describes the project's history and provides evidence for the decision to document the FY85 obligation utilizing a PP supplement rather than a PP amendment. This section further describes the sequence of events leading to the decision to deobligate $22.195 million and to use the spur of that deobligation in order to make one last attempt to put PIEF into operation. It also describes the likely impact if the current contribution of GOE officials and participating banks were to no longer be involved.

Looking first to the GOE, USAID's and GOE's cooperative effort to resurrect the project intensified with Sultan Abu Ali's appointment as Deputy Chairman of the Investment Authority in August 1984. He became the key GOE catalyst for the Fund. USAID's confidence in GOE's continued enthusiasm for the Fund was further enhanced when Sultan Abu Ali became Minister of the Economy (March 1985). Yet, it is important to underscore that the agreement to undertake a concerted effort to relaunch the Fund was made with the Minister of MIIC in September 1983 at the time of the deobligation. This agreement reflects a substantial GOE endorsement and is not tied to one individual's sponsorship.

In the event of Minister Abu Ali's departure (or any other GOE official), we believe the Fund is designed to withstand the loss of a single staunch advocate. PIEF's administrative implementation is predicated upon extensive use of participating banks in handling the day-to-day Fund activities. These banks are expected to aggressively pursue the project's goals. They will initiate loan proposals in accordance with the Fund's lending criteria. USAID believes there are sufficient incentives and reasons to motivate banks to take whatever steps are needed to assure PIEF's successful sub-project lending activities.

Presently, two banks (Chase National Bank and Misr-Iran Development Bank) have been selected as the initial agent banks to manage PIEF sub-loans. Both USAID and GOE have not planned to add more participating banks until replenishment of project funds. Once the additional $22.195 million is available and operational experience has been gained, GOE will announce the opportunity for other banks to participate in this co-financing project. Careful consideration will be given to each prospective bank's lending record, project appraisal capability, international banking experience and stature/reputation. USAID and GOE will collaborate in the selection process. There is considerable expression of interest by the banking community to participate with PIEF. For example, some of the following banks have the potential to become PIEF agent banks:

1. Misr International Bank
   (First National of Chicago - Joint Venture)

2. Egyptian American Bank
   (American Express - Joint Venture)

3. Misr America International Bank
   (Bank of America - Joint Venture)

4. National Bank of Egypt

5. Cairo Barclays International Bank

6. Export Development Bank of Egypt

7. Development Industrial Bank.

8. Credit Foncier Egyptian Bank

As stated frequently throughout this PP supplement, the 1979 Project Paper's design and implementation plan have remained intact throughout the past six years. Adequate flexibility has been deliberately included to offer room for change when unforeseen events occur such as appointment of new government officials or banks modifying their individual business policies.

IV. Implementation Plan and Methods of Financing.

In the intervening period from the time of the original design, 1979, to the recent relaunching of PIEF, changes have occurred to the implementaton plan for this project. However, the changes, surprisingly, have been more in the realm of fine-tuning rather than of sufficient size and import to warrant categorizing them as involving "significant policy issues"

The Ministry of Economy with its Investment Authority continues to be the designated implementing agency and will be advised on policy by a new PIEF Advisory Board. This Board is comprised of government and private sector representatives (see Annex D for its present list of members). To assure continuity and to handle day-to-day administrative matters, the Deputy Chairman of the Investment Authority has been appointed the Director of PIEF; Authority staff will be called on a case-by-case basis for reviewing and recommending approval/disapproval of sub-projects for Fund financing to be submitted by the participating banks. The staff's recommendations will be submitted to the Advisory Board's PIEF sub-committee for a final, sub-project financing decision.

Criteria for review, approval/disapproval is being established by the Advisory Board with assistance from USAID. A PIEF Project Information Checklist to be utilized in the PIEF sub-project loan proposal approval process is found in Annex E. USAID will also review and approve the sub-projects before financing can take place.

A major objective is to expand the authority and responsibility of participating banks in their role as agents for the Fund. At the present time, the participating banks are responsible for day-to-day implementaion of Fund investments in sub-projects. With an increase in confidence based on a successful operating history, GOE and USAID will take steps, when appropriate, to minimize cumbersome government controls and bureaucratic regulations. It is intended that the participating banks, with strengthened management capability and improved project appraisal capability and project financing experience, will become a prime source of project implementation responsibility.

The 1985 implementation plan corresponds closely with the plan designed in 1979. Inherent in all PIEF planning is the built-in flexibility to adjust and make modifications in response to the reality of operating in the "marketplace".

A. Implementation Plan and Procurement:

1. Investments in Sub-Projects:

a. Sub-project sponsor prepares a sub-project description and presents it to a Participating Bank. Often this will be a feasibility study, particularly for new projects.

b. Participating Bank undertakes an evaluation to determine whether the sub-project is financially and technically feasible; in doing so, it prepares a project appraisal (possibly with assistance from project appraisal consultants).

c. Participating Bank approaches PIEF with: project description, its evaluation and project appraisal, and its request for a PIEF Loan.

d. PIEF reviews and approves/disapproves the sub-project investment and submits it to the USAID.

e. USAID reviews the project and approves or disapproves the project for AID financing.

f. After AID approval, AID issues Letter of Commitment in amount of PIEF's investment, in favor of the Participating Bank's correspondent bank in the U.S.A.

g. Sub-project borrower obtains bids and makes awards to equipment suppliers on the basis of AID regulations, using procurement procedures described in AID Handbook One, Supplement B, Chapter 19.

h. Participating Bank issues Letters of Credit in favor of the client supplier against the above Letter of Commitment.

i. Goods are shipped, arrive, are installed, and plant begins production.

j. Participating Bank services its own and the PIEF's sub-loan, including records of disbursement and repayment, compliance with covenants, continued validity of mortgage or other security arrangements, etc. A simplified reporting system, serving both the PIEF and AID, will be employed.

k. With respect to PIEF sub-loans, the Participating Bank's management obligation to PIEF ceases with final repayment.

l. The project funds will be administered by already established credit institutions. These institutions are Public and Private Banks established under the GOE regulations and are following their accounting procedures. Determination was made by USAID that GOE accounting procedures are satisfactory.

2. Implementation Schedule:

From mid-1984 to April 1985, USAID worked closely with the Ministry of Economy's Investment Authority to relaunch the PIEF. Throughout, the Investment Authority, as well as other GOE entities, were responsive and supportive of this effort. In April 1985, the PIEF was renewed and became operational. It is anticipated that the remaining funds ($10.8 million) will be fully allocated to sub-projects by the end of FY85 and the obligated funds ($22.2 million) will be allocated to sub-projects by the end of FY86.

3. Terminal Dates:

   a. The terminal date for satisfaction of conditions precedent to initial disbursement has been met.

   b. With the obligation of $22.195 million, it is requested that the Project Assistance Completion Date (PACD) be extended from September 30, 1985, to September 30, 1989; this allows sufficient time to approve sub-projects, receive equipment and services and allow for start of sub-project operations.

   c. Terminal Date for opening Letters of Commitment will be nine months prior to PACD.

   d. Terminal Date for Disbursements will be nine months after PACD. This period should permit disbursements of funds under Letters of Credit opened pursuant to the last Letter of Commitment.

4. Monitoring and Reporting:

The 1979 Project Paper's design outlines the format to be followed by USAID to monitor this project. The USAID Office of Finance and Investment will maintain, initially, frequent but not daily contact with PIEF staff, participating banks and (occasionally) sub-project borrowers to monitor project progress and visit project sites. The USAID project officer will draw on assistance from other divisions as needed, e.g., engineering, legal, program economists, etc. In addition, following receipt of post-audit reports and as the need arises, periodic consultations will be scheduled with the Ministry of Economy, Investment Authority, PIEF Advisory Board, et al, to assess portfolio impact, problems, management and appropriate adjustments to the implementation plan. As operating experience develops, USAID's and GOE's direct involvement is expected to lessen based on experience and portfolio status reports prepared by the banks. Both USAID and GOE will be available, on a case-by-case basis, to address problems confronted by PIEF staff.

USAID approval of sub-projects proposed for PIEF investment will follow standard, Mission procedures: review and endorsement by FI office if favorable; and approval by the Associate Director, Industry and Support based on an appropriate Action Memorandum prepared by FI.

USAID has recently issued a separate Letter of Instructions to PIEF which delineates guidelines and procedures to follow in the process of screening and approving sub-project loan proposals.

5. Evaluation:

The first evaluation, covering both PIEF investments and effectiveness of operations, will be performed by outside banking and finance specialists approximately a year after disbursements for sub-loans commence. A final evaluation will be performed by the USAID Project Committee (and, if needed, AID/W personnel) after the total project funds ($33 million) are disbursed.

6. Conditions and Covenants:

Reference is made to the Project Grant Agreement dated September 22, 1979. Conditions Precedent to Disbursement have been met. The proposed second Amendment to the Grant Agreement will delete the provision for a Condition Precedent to Long-Term Financial Studies which is no longer required. All other Grant Covenants remain in full force and effect.

B. Methods of Financing.

The project will use Direct Letter of Commitment and Bank Letter of Commitment financial procedures. Direct Letters of Commitment are preferred mechanisms for making payments to U.S. contractors when the implementing agency has limited foreign currency. Bank Letters of Commitment are only utilized in the event multi-vendors are expected to participate in the procurement of commodities.

Periodic post-audits will be undertaken to assure project funds have been expended in accordance with project criteria and designed sub-loan procedures. These audits plus project evaluations are included in the project financing plan with a budget of $150,000.

DOC.2701I

ANNEX A

A.I.D. Project No. 263-0097

SECOND AMENDMENT

TO THE

PROJECT GRANT AGREEMENT

BETWEEN

THE ARAB REPUBLIC OF EGYPT

AND THE

UNITED STATES OF AMERICA

FOR THE

PRIVATE INVESTMENT ENCOURAGEMENT FUND

DATED: JUL 31 1985

CONFORMED COPY

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Second Amendment, dated JUL 31 1985, to the Grant Agreement, dated September 22, 1979, between the Arab Republic of Egypt ("Grantee") and the United States of America, acting through the Agency for International Development ("A.I.D.") for Private Investment Encouragement.

SECTION 1. The Grant Agreement, as amended on September 28, 1983, is hereby further amended as follows:

A. The first paragraph of Section 3.1 is amended by deleting "Ten Million Eight Hundred and Five Thousand United States ('U.S.') Dollars ($10,805,000)" and substituting "Thirty-Three Million United States ('U.S.') Dollars ($33,000,000)" therefor.

B. The second paragraph of Section 3.1 is deleted in its entirety and the following substituted therefore:

> The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

C. Section 3.3(a) is amended by deleting "September 30, 1984" and substituting "September 21, 1989."

D. Section 4.3 is deleted in its entirety.

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E. Article 5 is amended by adding a new section 5.4. Ratification, as follows: "The Grantee shall take all necessary action to complete all legal procedures necessary to ratification of this Agreement and will notify A.I.D. as promptly as possible of the fact of such ratification."

F. Section 8.1 is amended by adding "Ministry of Planning and International Cooperation, 8 Adly Street."

G. Section 8.2 is amended by deleting "Minister of Economy, Foreign Trade and Economic Affairs" and substituting "Minister of Economy, Chairman of the General Authority for Investment, Minister of Planning and International Cooperation and/or the Administrator of the Department for Economic Cooperation with U.S.A."

H. Article 8 is further amended by adding a new section 8.4. Language of the Agreement, as follows: "This Agreement and/or its amendments are prepared in both English and Arabic. In the event of ambiguity or conflict between the two versions, the English language version will control."

I. Annex 1 and Attachment 1 to Annex 1 are deleted in their entireties and the attached revised Annex 1 and Attachment are substituted therefor.

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SECTION 2. This Second Amendment shall enter into force when signed by both parties hereto.

SECTION 3. Except as specifically amended or modified herein, the Grant Agreement shall remain in full force and effect in accordance with all of its terms.

IN WITNESS WHEREOF, the Arab Republic of Egypt and the United States of America, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

BY : K. A. El G.

NAME : Kamal Ahmed El-Ganzoury

TITLE: Minister of Planning and International Cooperation

BY : Ahmad Abdel Salam

NAME : Ahmad Abdel Salam Zaki

TITLE: Administrator of the Department for Economic Cooperation with U.S.A.

UNITED STATES OF AMERICA

BY : Nicholas A. Veliotes

NAME : Nicholas A. Veliotes

TITLE: American Ambassador

BY : Frank B. Kimball

NAME : Frank B. Kimball

TITLE: Director, USAID/Egypt

Implementing Organization

In acknowledgement of the foregoing Agreement, a representative of the implementing organization has subscribed his name:

MINISTRY OF ECONOMY

BY : Abou Ali M Sultan

NAME : Sultan Abu Aly

TITLE: Minister of Economy

(revised as of June 1985)

PROJECT DESCRIPTION

Set forth below is an amplified description of the Project, including an illustrative financial plan. Elements of this description may be changed by written agreement of the authorized representatives of the parties named in this Agreement without formal amendment of the Agreement, provided such changes are within the definition of the Project as stated in Section 2.1 of this Agreement.

The project finances a Fund to provide medium to long-term credit (i.e., medium-term—1-5 years and long-term--6-12 years) and some equity to private sector companies to finance new productive facilities and the expansion and modernization of existing production facilities. The Fund is a co-financier with Participating Banks that will manage Fund investments as agents. In addition, the project will develop certain institutional capabilities through advisory services for project implementation and project appraisal, and a training program in project appraisal.

Project elements will include but are not limited to the following:

- Encouraging financial institutions to undertake longer-term investments by using Fund assets and other means;
- Encouraging financial institutions, including commercial banks, investment/development banks, and other financial organizations, to collaborate more closely and to draw on each institutions's unique financing capabilities;
- Establish a Fund for Repayments for future project financing;
- Train Bank officers and others in appraisal of investment projects and other banking and financial skills as jointly agreed upon; and
- Other activities, as appropriate, to aid achievement of the project purpose.

The Fund is financed by a grant to the Government of Egypt. The Ministry of Economy is the implementing Ministry. The Ministry of Economy, the Investment Authority, the Participating Banks and the USAID will collaborate and work together during startup and the early implementation phase. The Fund may utilize consultants and others from time to time, as required to assist in implementation. Such assistance will be financed by the Fund. In addition, Investment Authority staff may be used as determined by the Deputy Chairman of the Investment Authority. With respect to implementation, the Investment Authority will assist with the following activities:

- Promotion of the Fund with potential Participating Banks;
- Preliminary screening and pre-selection of projects proposed by interested Participating Banks;

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- Organization and provision of local or foreign consulting assistance to a Participating Bank when requested or when deemed necessary. Such assistance may be required by some Banks in the area of project appraisal or to review questions relating to specialized marketing or product issues;
- Screening and recommending approval or disapproval of sub-project proposals. USAID will also screen sub-projects until the Fund gains sufficient experience;
- Coordination with Participating Banks to ensure appropriate periodic reporting on Fund investments and operations;
- Coordination with USAID of Fund-sponsored training programs for Participating Bank staff.

An Advisory Board to the Fund has been created to review and monitor, in an advisory capacity, the implementation of the Fund and to report its findings and recommendations to the Ministry. This Board is limited to individuals drawn from the highest professional levels of banking, finance, government and business circles in Egypt.

A principal-agency relationship has been established between the Fund and Participating Banks to administer Fund investments. This relationship invests the selected Participating Bank with authority to manage the Fund's contribution to a particular sub-project. The responsibilities, obligations, rights and privilages of both parties have been defined in a written agreement. The Participting Bank as agent assumes responsibilities of disbursement, collection, supervision, monitoring and reporting.

In addition, the Grantee will discuss with A.I.D. means to improve availability in Egypt of additional long-term financing facilities to be available to the private sector, including appropriate institutional arrangements to achieve this objective.

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Attachment No. 1 to Annex 1

(Revised as of June 1985)

ILLUSTRATIVE FINANCIAL PLAN

Project total costs of 64.7 million are expected to be financed from the AID Grant, Participating Banks and the GOE as follows (figures in $000 or equivalent).

	AID Grant	Participating Banks	GOE	Total Sources
A. Sub-Project Investments	$31,500	$31,500*/		$63,000
B. Technical Assistance	1,000			1,000
PIEF Staff & Facilities			$200	200
C. Evaluation Post-Auditing	150			150
D. Contingency	350			350
TOTAL	$33,000	$31,500*/	$200	$64,700

*/ Minimum Participating Bank/PIEF co-financing ratio is 1:1. It is expected that most sub-project loans will be based upon a ratio of 2:1 or greater.

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SECOND AMENDMENT

TO

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Private Investment Encouragement Fund

Number of Project: 263-0097

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Private Investment Encouragement Fund was authorized on September 21, 1979 and amended on September 27, 1983. The authorization is hereby further amended as follows:

A. The first paragraph of the Authorization is amended to add, after "following paragraph", this sentence: "The expected life of project is approximately 10 years from the date of initial obligation."

B. The third paragraph of the authorization, beginning "the entire amount..." is hereby deleted.

C. Paragraph C (1) is amended to delete the phrase "special employment generation and geographic localities criteria for the $5.0 million allocation."

D. Paragraph D is hereby deleted in its entirety.

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

Frank B. Kimball

Frank B. Kimball
Mission Director, USAID/Egypt

Date June 13, 1985

Clearances:
OD/IS/FI, J. Suma 5/22/85
AD/IS, D. Pressley
AD/DPPE, G. Laudato
AD/FM, T. McMahon
DD, A. Handly

DraftedLEG:ERamsey:ss:5/16/85
Doc. 1607L

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Annex C

STATUTORY CHECKLIST UPDATE

Listed below are statutory criteria, applicable to projects, for which an update is necessary or which were added to the Checklist after 1979, when the PIEF Project Paper was the first prepared.

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

Yes

Yes

1. <u>FY 1985 Continuing Resolution Sec. 525, FAA Sec. 634A; Sec. 653(b).</u>

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

Congress has been notif in accordance with regular agency practice.

Yes

2. <u>FAA Sec. 612 (b).</u> Does the U.S. own excess foreign currency of the host country, and, if so, what arrangements have been made for its release?

The U.S. owns no excess Egyptian currency.

3. <u>FAA Sec. 118(c) and (d).</u> Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program taken into consideration the problem of the destruction of tropical forests?

Yes

N/A

4. <u>FAA Sec. 121(d).</u> If a Sahel project, has a determination been made that the host government has an adequate system for accounting

N/A

for an controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

5. <u>FY 1985 Continuing Resolution Sec. 536.</u> Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

6. <u>FAA Sec. 534.</u> Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No

7. <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

The focus of the project purpose is on institution building. Per '85 State 068759, local currency generated by the incidental sale of commodities need not be deposited into the Special Account. Reflows generated will, however, be used to recapitalize the PIEF.

8. <u>FAA Sec. 604 (g).</u> Will construction of engineering services be procured from firms of countries which are direct aid recipients and which are otherwise eligible under code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

No

9. FAA Sec. 104 (F); FY 1985 continuing Resolution Sec. 527. Will arrangements preclude use of financing (1) to pay for any biomedical research which relates, in whole or part, to methods or the performance or abortions or involuntary sterilizations as a means of family planning; (2) to lobby for abortion?

Yes

10. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Decleration of Human Rights?

No

Private Investment Encouragement Fund

Advisory Board

Dr. Mohamed Zaki Shafie
Professor, Ein Shams University

Dr. Helmy Mahmoud El Nomor
Professor, Cairo University

Mr. Mohamed Ezzat Ghidan
Chairman, Federation of
Egyptian Chamber of Commerce
Member, Shourah Council

Mr. Said El Tawil

Chairman, Egyptian Business Association

Dr. Motaz Bellah Ahmed Mansour
General Manager,
Misr Iran Development Bank

Dr. Eng. Adel Gazarin
Chairman, Public Sector Authority
for Engineering and Industry
President, Federation of Egyptian Industries

ANNEX E

TABLE OF CONTENTS

Project Investment Encouragement Fund (PIEF)

Loan Application to PIEF and USAID

I. Letter of Transmittal From Bank to PIEF

- Certification that loan is in compliance with Terms of Bank Agreement and specifically sections 4.1 through 6.6 of the Agreement

- Project Description and Overview

- Bank Recommendation to PIEF relative to PIEF participation in the proposal loan

II. Summary of PIEF Terms and Conditions

- PIEF Limits compared to Proposed Project (See attachment I)

III. Project Information Checklist - Guideline for types of Information expected for bank appraisal and review and screening by PIEF and USAID (see attachment II)

IV. Loan Agreement
(To be prepared by bank)

Attachment I

PRIVATE INVESTMENT ENCOURAGEMENT FUND (PIEF)

Summary of PIEF Terms and Conditions

	Conditions	PIEF Limits
1.	Private Egyptian Ownership	Not less than 30%
2.	Governemnt or Public Sector Ownership	Not to exceed 30%
3.	Maximum Foreign Ownership	Not to exceed 70%
4.	Total Project Cost	Not less than one million pounds or equivalent FX
5.	Minimum PIEF Loan Amount	Not less than $300,0000
6.	Maximum PIEF Loan Amount	Not to exceed 20% of total Project Cost
7.	Maximum PIEF Loan Amount	Not to exceed $5.0 million
8.	Bank Co-financing Loan Amount	1/1-Equal or exceed PIEF Loan Amount
9.	Status of Litigation or other court proceeding	Bank confirmation and recommendation
10.	Maximum debt/equity ratio	3/1
11.	Currency conversion for Project Calculations	U.S.$1 = L.E. 1 unless otherwise specified
12.	Financial Rate of Return (FRR)	Exceeds the effective interest rate on all loans
13.	Economic Rate of Return (ERR)	Positive - calculated in accordance with Annex I (attached)
14.	Economic Focus	Adds to Economic development of Egypt

Conditions	PIEF Limits
15. Environmental Review	Review completed and indicates compliance with conditions stated in Annex 2 (attached)
16. Special Articles in bank loan agreement to borrower	As negotiated with banks and PIEF
17. PIEF Terms	As negotiated but not to exceed 12 years
18. Bank Terms for co-financed loan	As negotiated
19. PIEF Grace period for co-financed loan	Not to exceed 36 months

Private Investment Encouragement Fund (PIE)

Project Information Checklist

General Information

1. New Enterprise or Expansion/Modernization:

2. Type product/service:

3. Company Legal/Tax Status:

4. Ownership (Nationality and Names of holders of 5% or more):

5. Management (Attached - names, positions and resumes of principal officers):

6. Technical Assistance (Attached summary of terms and conditions of managment/technical assistance agreements, if any):

7. Source of Feasibility Study (Attached):

8. Collateral Offered:

Financial Structure

1. Bases for Projections (current or constant prices; currency conversion rates, etc.):

2. Financing Plan, Including Local and Foreign Sources of Equity and Debt:

3. PIEF Debt Terms (interest rate, maturity, grace period):

4. Bank Debt Terms (interest rate, maturity, grace period):

5. PIEF Schedules of Draw-downs and Repayments:

6. Bank Schedules of Draw-downs and Repayments:

7. Debt/Equity Ratio, by Year:
8. Debt/Service Capacity, by Year:

9. Current and Fixed Asset Ratios, by Year:

10. Depreciation Policy:

11. Dividend Policy:

Project Cost

1. Land (describe location)
2. Buildings
3. Raw Materials
4. Machinery and Equipment
5. Labor
6. Fees (detailed)
7. Foreign Exchange Requirements
8. Requirements for U.S. Goods and Services (detailed)
9. Construction Financing
10. Working Capital
11. Contingencies (explain basis)

Financial Projections (by operating year through loan repayments)

1. Physical Output and % of Capacity (state assumptions)
2. Total Revenues
3. Operating Expenses (detailed)
4. Operating Profit
5. Other Income (detailed)
6. Other Expense (detailed)
7. Pre-Tax Profit
8. Taxation (state basis)
9. Net Profit

10. Net as a % of Sales, Total Capitalization and Equity

11. Financial Rate of Return (state assumptions)

12. Sources and Application of Funds Statement

13. Balance Sheet

Economic Aspects

1. Market Analysis (detailed)

2. Pricing Policy (detailed)

3. Distribution Channels

4. Export Sales and Earnings, by Year

5. Economic Rate of Return ERR (state assumptions) follow attached Guidelines for Calculating ERR.

6. Employment Generation.

Details of Equipment/Materials and Incidental Services to be Financed by the FIEF Loan

1. Item | Quantity | Estimate Value FOB Alex

2. Incidental Services
   Type | Estimate Value

3. Status of required approval, Permits, Customs, Contractual Relationships for above.

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A. Introduction

1. The purpose of economic analysis is to determine whether a project is a worthwhile investment for the country, i.e., whether the outputs from a project are sufficiently valuable as to warrant the expenditure of scare resources. Economic analysis also allows project designers to select the least-cost design from among alternative options, as well as to choose among different projects in the same sector or in different sectors.

B. General Features of Any Economic Analysis

1. Economic analysis compares the real benefits of any given project with its real costs. The larger the discounted benefits for a given set of costs or the similar the costs for any given set of benefits, the more worthwhile is the project. Economic analysis measures the costs and benefits in terms of a common yardstick-(1) measuring the real value of any input or output; and (2) comparing inputs or outputs across time. The first difficulty underlines the distinction between "financial" and "economic" analysis, while the second necessitates the need for a time discounting factor.

2. Financial analysis compares the stream of nominal benefits from any project to the stream of nominal costs as determined by using (normally) local market prices. If the present value of benefits is susbstantially larger than the present value of the costs, then the project is profitable. Financial analysis is used to measure "private profitability," i.e., whether or not a project is profitable from the point of view of the project owners or actors - farmers, private firms, public sector entities, etc. If the financial analysis results in an adequate financial return, then it is likely that the actors will behave in ways projected by the project design. If financial returns are small or negative, the project objectives are not likely to be achieved.

3. Economic analysis is similar to financial analysis except that in the place of (nominal) market prices one uses (real) "shadow prices" or "opportunity costs." In economic analysis the objective is to determine the social profitability of a project. Since the actual situation often does not reflect such an ideal, the prices of inputs and outputs have to be adjusted prices. Other modifications are necessary to financial data and are briefly noted below.

4. For example, the price of labor (the market wage) often

1/ Abstracted from AID Handbook 3, chapter 3. A data bank on shadow prices is being maintained by the USAID/Cairo Program Office (DPPE/PAAD).

overstates the real cost to the economy of using labor, since wages are artificially high. The existence of unemployment or worker scarcity is prima facia evidence that the opportunity cost within certain segments of the labor market is lower than the market price.

5. The shadow price of foreign exchange is often higher than the market price given by the official exchange rate.

6. Real interest rates, especially in times of high inflation are often lower than opportunity cost of capital because of government policy to encourage certain investment activities. The problem is to estimate what discount rate represents the scarcity value of capital in the economy.

7. All economic values have to be netted from subsidies and taxes. These are financial costs or benefits, but not economic costs since they do not invlove payments for the use of scarce resources.

8. Project costs are made up of both capital and recurrent costs, denominated in both foreign exchange and local currency costs. Any project analysis should include as costs all resources which could be used as productive inputs in another project or sector, including building, machinery, labor costs, etc. Indirect costs of a project need to be included. Salvage value is treated as a benefit in the last year of the project.

9. Benefits are two kinds - measurable and immeasurable. In between are those items that cannot be measured with any confidence or precision. The primary dimension of benefits is the increase in income directly attributable to a project. Some benefits are not easily measurable and cannot be reduced to a benefit-cost calculus. These benefits should be noted and their importance discussed.

10. Both costs and benefits should be calculated on an incremental basis, that is, only those portions of costs and benefits that are due to the project. Calculations of incremental costs and benefits, require a "with project/without project" procedure, where all costs and benefits with the project are calculated net of costs and benefits that would occur without the project.

11. Costs and benefits need not be adjusted for projected rates of inflation.

12. An output five years from now is less valuable than an output today. Therefore, since project costs and benefits occur across time, they have to be discounted in order to compare them. The critical question is the choice of a discounting factor - the social rate of return on capital. Because of numerous interferences on the part of government in financial markets, it is not possible to rely on market rates as indicators of real social rates of return. Therefore, estimates need to be made on the basis of information about private market rates, commercial rates for foreign exchange loans, etc.

13. Once economic costs and benefits have been calculated as flows over time, it is a relatively simple matter to compare them in order to

determine whether a given project is economically worthwhile. The normal procedure is to calculate an internal rate of return (IRR). A project could not be justified on economic grounds if the IRR is below what is believed to be the opportunity cost of capital.

14. Since all these calculations depend in part on some imprecise estimate of cost and benefit flows it is useful to perform a sensitivity analysis on the IRR.

15. Economic analysis can be used, where benefits are largely immeasurable, to compare the stream of costs of any set of alternative project designs. Shadow price should be used where appropriate in a least-cost analysis.

16. The economic analysis should incorporate income distribution criteria to the extent possible. If employment creation is a major objective of the project, criteria such as cost per job should be calculated.

C. <u>The Use of Economic Analysis in Different Sectors</u>

1. In general, the project analysis procedure described above is most easily applied in projects clearly designed to have marketable economic outputs - increments in income or outputs. This is true of most agricultural and industrial projects, as well as most infrastructure projects. An important indirect benefit of such projects is the increase in the value of land when transport costs are reduced. While this is difficult to estimate in the absence of competitive land markets, such benefits are fully represented by the increase in the value of agricultural output due to the decrease in transport costs.

2. Many AID projects involve more than one type of activity. If these activities are integrated, such as an integrated rural development project that include credit, extension, seed, fertilizer, and research components, all the activities should be analyzed together in the cost-benefit analysis.

3. While it is more difficult to estimate economic benefits in human resources projects - i.e., education, health and population - methodologies are available for converting quantifiable, but non monetary, benefits into monetary ones.

4. Even when it is not possible to reduce quantifiable outputs into monetary measures, economic analysis allows one to estimate the cost per unit output that can then be compared to alternatives.

5. Where outputs are not easily quantifiable <u>ex ante</u>, it still might be possible to determine whether such a project is economically sound. One procedure is to estimate a desired rate of return and calculate the stream of net benefits necessary to achieve such a rate of return.

DPPE/PAAD, SMishriki, sb, 03/13/85
DOC ID: 1293P

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Deputy Chairman
The General Authority for
Investment and Free Zones

Decree #12, issued on February 19, 1985 by the Deputy Chairman of the General Authority for Investment and Free Zones

The Deputy Chairman ---

Having considered,

- The constitution;
- Law #43 for 1974, amended by Law #2 for 1977, on the Investment of Arab and Foreign Capital and Free Zones;
- Law #159 for 1981 on Joint Stock Companies, Partnership limited by Share Companies, and Limited Liability Companies;
- Grant Agreement for the proposed fund for encourgement of private investment signed between the Governments of the Arab Republic of Egypt and the U.S.A. on September 22, 1979.
- The Decree #32 for 1980 issued by the President of A.R.E. approving the grant agreement for the project of establishing the Private Investment Encouragement Fund signed on September 22, 1979 between Egypt and U.S.A., and approved by the People's Assembly on February 19, 1980.
- The Decree #35 for 1980 issued by the President of the A.R.E. approving the grant agreement signed on September 22, 1979 between Egypt and U.S.A. and approved by the People's Assembly on February 19, 1980 regarding the project of the Feasibility Studies for Private Sector.
- The Decree #299 for 1984 issued by the President of the A.R.E. on the appointment of the Deputy Chairman for the General Authority for Investment of Arab and Foreign Capital and Free Zones;
- The Decree #327 for 1980, amended by Decrees #4 for 1981 and 138 for 1982 issued by the Deputy Premier for Economical and Financial Affairs and Minister of Economy, and the Decree #3109 for 1983 issued by the Minister of Investment Affairs and International Cooperation;

- The Decree issued by the Board of Directors of the General Authority for Investment of Arab and Foreign Capital and Free Zones in its meeting on January 27, 1985 in connection with the arrangements for encouraging the Private Sector Investments, in addition to delegating the authority to the Deputy Chairman so as to form a Committee set up by the Authority Board of Directors and given the responsibilities of the Fund Consulting Committee and has the right to take necessary measures to assist the Fund carrying out its responsibilties.;

Decreed

First Article:

The Consulting Committee of the Fund specified for the Private Sector Investments is formed and headed by the Deputy Chairman of the General Authority for Investment and Free Zones, and the following members:

1. Dr. Mohamed Zaki Shafii
2. Dr. Helmy Mahmoud Nemr
3. Prof. Mohamed Ezzat Ghidan
4. Prof. Said El Tawil
5. Dr. El Motaz Bellaah Ahmed Mansour
6. Dr. Eng. Adel Gazzarin

And the Committee has the right to seek assistance from experts as it sees fit.

Dr. Mohamed Abdel Meguid Ghazali is assigned the responsibilities of Secretary of this Committee.

Members are entitled to a Session Attendance Allowance of L.E. 40 for each member per session.

The Secretary of the Committee gets half of this amount.

Second Article:

This Decree is enforced as from the date of issuance.

Deputy Chairman
(signature)
Dr. Sultan Abu Ali

Jean L. Guirguis
PRL/TU

April 11, 1985

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Ministry of Economy
and Foreign Trade

Decree # 82 for 1985
Issued by the Minister of Economy & Foreign Trade

The Minister of Economy and Foreign Trade
Having considered,

- The Constitution;
- Law #43 for 1974, amended by Law 32 for 1977, on the Investment of Arab and Foreign Capital and Free Zones;
- Law #159 for 1981 in connection with Joint Stock Companies, Partnership limited by Share Companies, and Limited Liability Companies;
- Grant Agreement for the proposed fund for encouragement of private investment signed between the Governments of the Arab Repbulic of Egypt and the U.S.A. on September 22, 1979.
- Decree #32 for 1980 by the President of Arab Republic of Egypt on the Approval for Grant Agreement on the Project of establishing the Private Investment Encouragement Fund signed on September 22, 1979 between Egypt and U.S.A. and approved by the People's Assembly on February 19, 1980.
- Decree #35 for 1980 by the President of A.R.E. on the Approval for Grant Agreement on the Project of the Feasibility Studies for the Private Sector signed on September 22, 1979 between Egypt and U.S.A. and approved by the People's Assembly on February 19, 1980.
- Decree #299 for 1984 by the President of A.R.E. on the appointment of the Deputy Chairman for the General Authority for Investment of Arab and Foreign Capital and Free Zones;

- Decree #327 for 1980, amended by Decrees #4 for 1981 and #138 for 1982 by the Deputy Premier for Economical and Financial Affairs and Minister of Economy, and Decree #3109 for 1983 by the Minister of Investment Affairs and International Cooperation;
- Decree by the Board of Directors of the General Authority for Investment of Arab and Foreign Capital and Free Zones in its meeting on January 27, 1985 in connection with the arrangements for encouraging the Private Sector investments;

Decreed

First Article: The Deputy Chairman of the General Authority for Investment of Arab and Foreign Capital and Free Zones - or his delegate is assigned the Executive Director responsibilities of the Private Sector Encouragement Investment Fund.
He is to assume the responsitilities stipulated in the Ministerial Decree #138 for 1982 and has the Authority to seek assistance from experts at his convenience.

Second Article: The Decree is enforced as from the date of issuance.

Minister of Economy
and Foreign Trade
Dr. Mostafa El Said

Jean L. Guirguis
PKL/TU

April 16, 1985

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memorandum

DATE: April 29, 1985

REPLY TO ATTN OF: Walter Coles, IS/FI

SUBJECT: Potential Investors

TO: Jim Sama, OD/FI
Jim Watson, IS/FI

I. Listed below are selected potential investors that have visited the Office of Finance and Investment during the period 3/12/85 through 4/24/85. This list is illustrative and represents only those investors undertaking one-on-one discussions with Walter Coles.

Company/Investor	Estimate Project Cost	Type Project
1. Owens-Corning-Fiberglass/ Gilbert Soor	$14.0	Two plants - Fiberglas Pipes and Insulating Material
2. ITT/W.S. Tyler	$20.0	Telephone Switching Systems
3. TLB/Thomas Bond	$ 5.0	Pre-stressed Concrete Plant
4. First Arabian/John Hilken	$12.0	Tomato Paste Plant
5. Medical Services Int./ Dan Brown	$ 1.5	Referral Lab for all Hospitals
6. Abbot Labs/R. Hegay	$ 6.0	Infant Formal and Drugs
7. Solectric/Chris Gadomski	$ 1.5	Solar Electrical Power
8. Carey Int'l/Jeff Peterson	$11.0	Integrated Farm
9. Jasamro Inc./Jeff Hodes	$20.0	Private Hospitals & Clinics
10. Eli Lilly/K. Tucker	$11.0	Medical-Drugs

11. Exide/J. Coker	\$ 6.0	Industrial Batteries
12. Icon/GE Magdi Imam	\$ 6.0	Light Fixtures
13. Aricon/ITT Grinnell/ Samir Makory	\$32.0	Pipe Valves
14. Pioneer Seeds/ Harry Ramshukla	\$ 8.0	Seed Plant-Seed Disbribution
15. Clark Tubular/ James Mitchell	\$ 5.0	Pipe Threading for Oil Industry
16. Fairuz Hospital/Mohamed Abdullah	\$ 8.0	Private Sector Hospital
17. Noriwck Eaton Pharmceuticals Division of Procter & Gamble/ Ronald Brandt	\$ 6.0	Drugs
18. Beatrice Foods	\$16.0	Processed Foods
19. GME	\$80.0	Truck Plant

II. Listed below are selected companies that have been approved to participate in the PSFS program or are expected to submit an application.

1. Ralston Purina	Approved	Concentrate Feeds
2. Continental Grain	Approved	Concentrate Feeds
3. A.P. Parts	Approved	Auto Feeder Industry
4. National Can	In-process	Tin plate
5. Sheller - Globe		Auto gaskets etc.
6. Procter & Gamble		Soaps
7. Echlin		Auto parts
8. Allis-Chalmer		Pumps

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9.	Aegis Group	In-process	Electrical Switches
10.	Maremont		Shock Absorbers & Brakes
11.	C.R. Industries		Auto Parts
12.	American Standard, Inc.		Brass & Chrome Sanitary Fixtures

III. Listed below are companies that may participate in the GM car and Feed Indsutries Projects.

1.	Goodrich	$130.0	Tires
2.	Inland	$ 6.0	Seat Trim
3.	Pittsburgh Paint & Glass	$ 16.0	Paints
4.	ITT	-	Shocks-Mufflers
5.	Bendix	-	-
6.	TRW	-	Power Steering
7.	Harrison Radiator	-	Radiators

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SCHEDULE OF ESTIMATED DISBURSEMENTS

AID GRANT ONLY

($000's)

	1979-1984 Dollars	1985 Dollars	1986 Dollars	1987 Dollars	Total Dollars
A. Fund for sub-projects					
Sub-project investments		$5,000	$20,000	$6,500	$31,500
B. Technical Assistance	$805		195		$1,000
Training Program			100		100
C. Evaluation and Post-Auditing			75	75	150
D. Contingency		20	175	55	250
TOTAL	$805	$5020	$20,545	$6,630	$33,000

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX G

Life of Project:
From FY 79 to FY 89
Total U.S. Funding 33,000,000
Date Prepared: 5/15/[illegible]

Project Title & Number: PRIVATE INVESTMENT ENCOURAGEMENT FUND (263-0097)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Increase productivity of private sector by providing improved industrial base for Egypt's development.	Measures of Goal Achievement: Number of private companies assisted.	Participating Bank statistics.	Assumptions for achieving goal targets: 1. GOE will continue to encourage private sector development through policy changes and incentives. 2. Private sector investor will respond to opportunity to increase production by investing. 3. Private sector will be competitive in pricing goods and wages.
Project Purpose: Provide medium/long-term credit for larger sized private sector companies to finance new and modernized productive facilities.	Conditions that will indicate purpose has been achieved. End of project status. 1. Banks undertaking longer-term investments. 2. Broader range of financial institutions involved in investment. 3. 12 new or expanded private sector enterprises functioning as a result of credit inputs.	1. Participating bank sub-project investment records. 2. GOE Fund records.	Assumptions for achieving purpose: 1. GOE incentives will encourage and assist private sector.
Outputs: 1. Participating Bank credit co-financing facilities established. 2. Fund for Repayments established. 3. Participating Bank staff trained in project appraisal and implementation.	Magnitude of Outputs: 1. 12 Fund investments to private sector companies.	Examination of records.	Assumptions for achieving outputs: 1. Goods of U.S.source/origin are competitive given incentives under the Fund. 2. Participating Banks and investors will find Fund facility attractive. 3. GOE will assist in developing private sector credit facilities and will not impose restrictions.
Inputs: 1. Grant resources to finance: A. Sub-Project investments ($31.5) B. Technical assistance (1.0) C. Training Program (0.1) D. Evaluation and Auditing (0.15) E. Contingency (0.25) 2. Bank Sub-Project investments (31.5) 3. GOE PIEF staff and facilities (0.2)	Implementation Target (Type and Quantity) 1. U.S. Contribution $$33.0 million 2. Estimated $$31.5 million/equivalent LE 3.–Numbers to be determined, now estimated at 3.	1. Controller records. 2. Participating Bank/GOE records.	Assumption for providing inputs 1. Participating Banks and investors willing to invest own funds. 2. GOE will establish Fund staff and Advisory Board. 3. U.S. and GOE funds available.

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