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PD-ABF-497
81403

Project Assistance Completion Report

Project Title: Private Investment Encouragement Fund

Project Number: 263-0097

Grantee: The Government of Egypt (GOE)

Coordinating Entities: The Ministry of Economy (MOE) and The Ministry of International Cooperation

Implementing Entities: Private sector banks/General Authority for Investment and Free Zones (GAFI):

PACR completed by: Fred K. Kirschstein (6/15/92)

I. SUMMARY BACKGROUND: The Project was authorized and the Grant Agreement was signed by USAID/Egypt and the Ministry of Economy (MOE) in September 1979. The goal of the Project was to increase productivity in the private sector. Its purpose was to create a credit fund which would co-finance with participating local banks medium to long term credit for larger sized private sector enterprises. The Project was designed to help finance the foreign exchange and local currency costs of equipment, materials and services imported from the U.S. It was also designed to finance advisory services for the implementation of the Project, training programs for bankers in loan appraisal, and training programs in Project procurement procedures.

A condition precedent to disbursement was evidence of formal establishment of the credit fund and affiliation of the fund with an agency of the Government of Egypt to include: (1) a commitment by the agency to furnish a structure or facility to house the fund; (2) establishment of a special section within the agency to be adequately staffed; and (3) evidence of establishment of an organizational plan for the fund including delineation of operational responsibility. The agency chosen was the General Authority for Investments and Free Zones (GAFI). GAFI was to administer the Project through an Executive Director and a small professional staff to assist in Project implementation, overseen by an Advisory Board.

The credit fund created was the Private Investment Encouragement Fund (PIEF). GAFI gave the Fund a strong statutory and legal role within the Agency. It was established as a "semi-autonomous agency" subject to external audit and ministerial review. Although the Fund was designed to receive loan repayments and dividends on equity investments, it was not designed to be sustainable. It was described as an "administrative unit" in the

Project purpose section of the Project Paper. The Fund was to receive 75% of the reflows of interest and 100% of principal payments while the participating banks received 25% of interest as management fees.

Credit was to be channeled to participating banks from the Fund. Participating banks managed the Fund and acted as "agent" for the Fund. The Fund financed U.S. dollar denominated loans to a maximum of $5 million dollars with participating banks providing a minimum equivalent of U.S. $300,000 in Egyptian Pounds. Exchange rates were fixed at the time the borrower signed the loan agreement. The original design called for the Fund to absorb the foreign exchange risk and to hold longer term maturities (6-12 years) while the banks were to hold shorter term maturities (up to 5 years).

Thirty-three million dollars was initially obligated for the Fund. Of the $33 million, $5 million was earmarked to meet special employment generation and geographic location criteria. Three million dollars was allocated for advisory services to the Fund, project appraisal, training in project appraisal, and studies of Egyptian long-term finance.

Interest rates were to be the prevailing rates for medium/long term funds, as decreed by the Central Bank of Egypt. At that time rates were 10-12%. Interest rates were fixed for the life of each loan. Banks could request changes in the interest rate charged to customers with the written agreement of the Fund and USAID/Egypt. Equity participation was to be the lesser of 12.5% of total equity or 5% of total project cost. The Fund would hold non-voting shares convertible to voting shares upon sale by the Fund. (While provision was made for equity participation, there is no indication in the files that any equity investments were made by the Fund.)

In 1979 AID was relatively new to Egypt. Perhaps because of this lack of experience, there was a felt need for USAID/Egypt to review and approve sub-loans to the private sector. This cautious approach triggered a variety of U.S. statutory and regulatory requirements which made the loan approval process too cumbersome for banks and their borrowers. Consequently, the Project took ten years to make eight medium sized loans. After ten years of frustration, the Project Paper was amended to allow for the commitment of the remaining $15.2 million through Private Sector Commodity Import Program (PSCIP) procedures which effectively bypassed the cumbersome procedures designed into the original Project.

I.A. ORIGINAL PROJECT:

The original PACD was September 30, 1984. It was extended until September 21, 1989, and later extended until September 21, 1991. The financial plan was as follows:

FINANCING PLAN
(figures in $000 or equivalent)

	Dollars	Local Currency	Investors Banks	GOE	Total Sources
a) Sub-Project Investments	28,550	1,200	45,000	0	75,000
b) Consulting Services					
(i) Project Advisor	250	50		200	500
(ii) Appraisal Consultants	600	600			1200
(iii) Training Program	350	150			500
c) Long-term Finance study	600				600
d) Escalation and Contingency	400				400
Total	31,000	2,000	45,000	200	78,000

The Project was delayed awaiting the completion of several conditions precedent. The formal establishment of the Fund required a ministerial decree authorizing its operation and the hiring of professional staff. Hiring of professional staff by GAFI was further complicated by the inability to pay competitive salaries. The decree authorizing the Fund was made on November 23, 1980. According to USAID/Egypt inter office memoranda, it was reportedly further delayed by the need for a syndicated loan agreement. (No syndicated loan agreement could be found in the files nor was it clear why one was needed.) The original start up of the project was delayed 17 months.

In March 1980, the MOE signed a host country contract with Robert Nathan & Associates to provide a jointly developed implementation

plan for the Fund, technical assistance in the establishment of eligibility and appraisal criteria, a description of procurement procedures consistent with AID regulations, and to ensure that environmental concerns were considered. The technical assistance team from Robert Nathan & Associates was temporarily housed at International Business Associates (IBA) which provided office space, equipment, and secretarial support at no cost. In July 1981, Robert Nathan & Associates leased office space at 18 Khaleed Ebn el Waleed, Dokki.

In March 1981, GAFI hired an Executive Director and made provisions for office space, secretarial assistance, and miscellaneous supplies for the administrative unit of the Fund.

Robert Nathan & Associates completed a Policy and Procedure Manual, an Information and Guidelines Manual for Participating Banks, a Promotional Brochure, and a Procurement Manual. They also completed the design of training courses in Project Evaluation, Procurement and Loan Appraisals. Training courses were carried out by Egyptian instructors in each of the subject areas and were well attended. All elements of the scope of work for Robert Nathan & Associates were successfully completed.

PIEF received four financing proposals in June 1981, totaling $6.7 million, from private sector enterprises. After review and analysis by PIEF and four participating banks, the proposals went to USAID/Egypt for approval. One proposal was approved in November and the remaining three in January 1982. However, no financing of the proposals occurred because of: (a) withdrawals by sponsors from the joint ventures; (b) delays by PIEF in further processing of 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 completed the required financial and technical appraisals required by USAID/Egypt. None were approved by the PIEF advisory board and none were financed under the Project.

The delays experienced in start-up led USAID/Egypt and GAFI to complain of each other's procedures. A letter from GAFI to USAID/Egypt noted the delays from USAID/Egypt's end. GAFI complained of USAID/Egypt's questioning of conditions precedent, the complicated nature of source/origin requirements, the necessity for an Economic Rate of Return for each sub-loan proposal (which he maintained was not customary in Egyptian banking practices), and other clarifying needs of USAID/Egypt. During the year following the appointment of the Executive Director, GAFI sent to USAID/Egypt 14 private sector proposals for approval.

Later in the Project cycle the situation would reverse itself. USAID/Egypt would complain of the bureaucratic procedures of the Egyptian government entities. Specifically, USAID/Egypt complained of GAFI's desire to review for technical soundness proposals forwarded by the banks. By mid-Project cycle, loan review by GAFI sometimes took 12 to 18 months. It was USAID/Egypt's opinion that GAFI should approve or disapprove proposals within ten days. The required approval by the Ministry of Economy also increased delays.

By late 1982, the only disbursements from the Project were payments under the Robert Nathan & Associates contract (of approximately $805,000). At this time, USAID/Egypt had received 14 loan proposals requesting more than $40 million.

I.B. FIRST GRANT AMENDMENT:

Because of organizational, operational, and administrative deficiencies the Fund was formally suspended by AID in April 1982. The fund's Executive Director, appointed in March 1981, resigned in May 1983. In August 1983, (a sixteen-month period from the April 1982 suspension) USAID/Egypt and the GOE mutually agreed to deobligate $22.15 million of the original $33 million grant. Simultaneously, USAID/Egypt and the GOE agreed to use the remaining $10.805 million in restarting the project and making it operational. The First Amendment to the Grant Agreement deobligated $22.15 million and was signed on September 28, 1983.

I.C. SECOND AMENDMENT:

From mid-1984 to April 1985, USAID/Egypt worked with the Ministry of Economy and GAFI to relaunch the PIEF. Throughout, the Investment Authority and other GOE entities were "responsive and supportive of this effort," according to AID memoranda. In April, a Project Paper Amendment was completed. In July 1985, a Second Grant Amendment was signed. The grant amendment changed the implementing ministry from the Ministry of Economy to the Ministry of International Cooperation (MIC). Section 4.3, of the Grant Agreement, which required as a condition precedent that the GOE furnish an acceptable contract for the conduct of long-term finance studies, was deleted in its entirety.

It was anticipated that the remaining funds ($10.805 million) would be fully allocated to sub-projects by the end of FY85. It was also anticipated that the Second Grant Amendment reobligated funds ($22.15 million) would be allocated to sub-projects by the end of FY86. From June 1985, until December 1987, eight PIEF loans were approved for a total loan value of approximately $17 million.

A revised budget was prepared as an annex to the Grant Amendment.

(in 000s)

	AID	Part.Banks	GOE	Total
A. Sub-Project Investments	31,500	31,500	0	63,000
B. Technical Assistance PIEF staff & Facilities	1,000		200	1,000
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)

The first loan made under the PIEF was to General Motors Egypt. GME first approached USAID/Egypt with the proposal in 1983. There was substantial interest in USAID/Egypt to make the loan to GME a success. It would demonstrate that there was a demand for the type of credit offered by the PIE Fund and that the Project structure could indeed work. As late as 1986, USAID/Egypt was still refining the procedures for loan disbursement and payments to make the first loan from the Fund. The lead bank in the loan syndication agreement was to be Chase National Bank of Egypt (CNBE) which had already made two syndicated loans to GME. One loan was for working capital of LE 25 million. An additional loan of LE 30 million was for a construction facility. The $5 million PIEF loan was attractive to GME because of the official exchange of 1:1 while the unofficial exchange rate was approximately 3:1. Foreign exchange was extremely scarce and the potential for obtaining a dollar denominated loan repayable in Egyptian Pounds at a favorable exchange rate was very attractive to GME. The $5 million PIEF loan was inserted into the existing LE 25 million loan agreement with GME. Neither leverage nor additionality was present.

According to the PIEF loan manager at CNBE, both CNBE and GME had substantial difficulty meeting all the reports and analyses required by USAID.

After May 1987, the participating banks did not market any further PIE Fund loans. The reason may have been indicated by a quotation found in the files from a January 1988 portfolio review. "Banks have made it clear that it is not worth it to them or to their clients to put up with the overly bureaucratic review and approval processes within the Investment Authority and USAID in order to get tied funds at a market exchange rate."

On June 1, 1988, the PIEF Advisory Board held a meeting to review a proposal presented by the PIEF participating banks. The proposal was designed to streamline the PIEF loan approval process and transfer much of the authority for loan approval to the participating banks. USAID/Egypt wrote to GAFI and stated if " ..no action is taken by the Board (on the proposed changes) and no new loans are approved by July 15, 1988, USAID will have no choice but to take action to terminate the PIEF project."

On August 4, 1988, USAID/Egypt wrote to the Minister of International Cooperation informing him that AID was taking steps to terminate the Project. The Project, however, was not terminated. A February 14, 1989 legal opinion by AD/LEG/E, stated that there was "insufficient evidence that the GOE had been properly informed of USAID's intention to terminate the project." The opinion stated that "we believe the project's uncommitted balance remains available as a currently valid obligation."

In January of 1989, then Mission Director, requested Washington approval to extend the PACD for an additional two years. The stated reason was the need to commit the remaining $15.2 million. Since there was no reobligation/deobligation authority for the Economic Support Fund (the account under which the Project was funded) in 1989, the $15.2 million would have been lost to Egypt. According to the memorandum, "the loss may have serious negative political implications to the GOE administration. Accordingly, this request is being made for foreign policy considerations at the request of the U.S. Ambassador to Egypt." The requested extension of the PACD noted that the remaining $15.2 million would be folded into a new Private Enterprise Credit Project (PEC-No. 263-0201). As noted below, that did not occur.

On May 11, 1989, an AID/W cable provided ad hoc redelegation of authority to the USAID/Cairo Mission Director, approved by the Administrator to extend the current PACD for the PIE Fund Project to September 21, 1991.

On February 2, 1989, a "Vulnerability Assessment" was completed on the PIEF Project. The report listed a number of possible issues the most important of which were:

1. Changes in Project Implementation Inappropriately Documented and Other Issues: "USAID may be criticized for reimbursements

made, in 1986, to General Motors--Egypt (GM-Egypt). In this case, GM-Egypt was reimbursed by USAID, in June/July 1986, for the cost of services paid by GM-Egypt to its parent, General Motors Overseas Corporation as early as 1983. USAID management approved the loan to GM-Egypt in January 1986. The following is a statement in the December 2, 1985 Action Memorandum to the Associate Director, concerning the intended reimbursement: 'As stated earlier, the project is operational. Eligible equipment and services financed by PIE Fund will necessitate a reimbursement of approximately $4 million. Chase's letter to USAID via PIE Fund, requesting reimbursement, will explicitly state the amount to be paid for goods and services supported by copies of invoices with supplier's certification that all such invoices have been paid in full' (sic).. Despite this approval, there may be some question as to whether USAID should have reimbursed GM-Egypt for costs that were incurred long before USAID approved reimbursing GM-Egypt for its parent company's services. USAID may be cited for paying for an investment that already had taken place." (Note: There is evidence in the files that GME had discussed this loan with USAID/E as early as 1983 and may have received expression of strong interest. Given the procedures involved, it may have taken three additional years for USAID/E to finalize their procedures and for GME to prepare the necessary studies and analyses required by the PIEF.)

2. "PIEF project reflows at this time amount to approximately LE 4.6 million. By mid-1988, the level of reflows in the PIEF reflow account had not even reached the LE 3 million mark. Moreover, since the project was due to terminate on September 21, 1989, no plan was developed for use of the reflows." (Note: Either this sentence is poor grammar or it simply doesn't make sense.)

Following the legal opinion confirming the availability of the uncommitted balance and the PACD extension approval, a new Project Paper Amendment was prepared and approved in February 1989.

The Project Paper Amendment created a new component, the Project Financing Facility (PFF), which was modeled on the successful procedures used in the PSCIP. USAID/Egypt felt that a facility to finance medium and long term credit was still needed. All of the $15.2 million was quickly disbursed using the efficient procedures of the PSCIP which did not contain the need for environmental assessments, economic rates of return, and other procedures of the original PIE Fund.

II. SUMMARY OF CONTRIBUTIONS:

USAID FUNDING:

PIEF PROJECT ELEMENTS:	LOP OBLIGATION
FIRST BUDGET:	
A) Subproject Investments	$29,750
B) Consulting Services	
(i) Implementation Advisor	$300
(ii) Appraisal Consultant	$1200
(iii) Training Program	$500
C) Long term Finance Study	$600
D) Escalation & Contingency	$400
Total	$33,000
SECOND BUDGET:	
A. Subproject Investments	$31,500
B. Technical Assistance & PIEF staff & facilities	$1,000
C. Evaluation & Post Audit	$150
D. Contingency	$350
Total	$33,000

II.A. GOE CONTRIBUTION:

The Vulnerability Assessment completed on February 2, 1989, states, "The host country contribution to the PIEF project, per Attachment No. 1 to Annex 1 of the Second Amendment to the Project Grant Agreement, dated July 31, 1985, calls for a GOE contribution of $200,000, which translates into LE 200,000 based on the exchange rate of 1:1 in effect in July 1985. The purpose of the GOE contribution is discussed neither in the PIEF Project Paper Amendment nor in the Second Amendment to the Project Grant Agreement. However, in the original PP, written in September 1979, reference was made to the $200,000 pound equivalent contribution, which was to be used to pay for the services of a "project implementation advisor." The $200,000 GOE contribution translated into LE 140,000, at an exchange rate of .7:1 in effect at that time. ...It is doubtful that much, if any, of the $200,000 equivalent GOE contribution was ever utilized."

The report goes on to say that "Investment Authority PIEF staff time and office supplies expended while GAFI managed the project, particularly since June 1985, should be counted as part of the GOE's in-kind contribution. Also included should be the services of an economic advisor to the PIEF project (this person would be considered, more or less, as a project implementation advisor, whose services were paid for by GAFI. The project office will request that GAFI provide an accounting of local currency expenditures as part of the GOE's host country contribution." (This request, if sent, cannot be located in the files, nor can a response from GAFI be located in the files.) GAFI employed an Executive Director from March 1981 till May 1983, one secretary for nine months, one professional for three months, and one professional for 12 months.

II.B. CONTRIBUTIONS BY PARTICIPATING BANKS:

Amount of bank funds leveraged: LE 50,951,999 and $3,187,000 (source: Q-sheet 1/23/89)

III. REVIEW OF PROJECT ACCOMPLISHMENTS:

A. Analysis of Section C. 4.05 of the Project Paper: End of Project Status & Assumptions:

Section 4.05 states, "As a result of this project, we expect to encourage development of longer-term investment finance for private sector productive facilities. These results are to be achieved by project elements which:

1. Encourage financial institutions to undertake longer-term investments, using Fund assets.

Results: Eight loans were made under the PIE Fund totaling $17.8 million. Loans were made to: General Motors Egypt, Fayrouz Hospital, Pioneer Seed, Berzi Confectionary and Food Co., Arab Aluminum Co., Arab Medical Food Co., MISR Poultry Grandparents, and South Egypt Drug Company. Six banks participated in the PIE Fund: Suez Canal Bank , National Bank for Development, Nile Bank, MISR Bank, Chase National Bank of Egypt, and the Export Development Bank of Egypt. The Fund leveraged over LE 50 million in additional investments in the private sector. The average maturity length of the loans was five years. While not considered "long term" by U.S. standards, five years is considered a long term loan in the Egyptian context. However, the LE 50 million figure is open to question. In at least one case (GME) the banks had already made their side of the loan agreement. The $5 million PIEF loan did not leverage additional loan monies to GME. Further, the structure of the PIE Fund, dollar denominated loans repayable in Egyptian Pounds at a fixed exchange rate and a fixed interest rate, is not a structure that

would secure the maintenance of the Fund's value. In the Egyptian economic environment, such a loan structure would be ill-advised.

The Project Paper Amendment completed in 1989 which allowed $15.2 million to be disbursed through the PSCIP procedures had no relationship to the encouragement of financial institutions to undertake longer-term investments, using Fund assets.

2. Encourage financial institutions to collobaratemore closely.

Results: The loan syndication agreements on the GME loan were made prior to the PIE Fund's involvement. There is no indication that the PIEF Project had any impact on this objective. In addition, the project Paper amendment of 1989 allowing $15.2 million to be disbursed through the PSCIP mechanism evaluated both the syndication procedures and the bankers review committee as impediments to rapid disbursement of funds.

3. Establish a Fund for Repayments for future project, although this Fund will not be large for over a decade and real value will be eroded by inflation.

Results: The Commercial International Bank collected repayments and forwarded principal and interest to the Ministry of International Cooperation. It has not been determined whether MIC established a plan for utilizing the reflows from the 8 loans made under the PIEF mechanism.

Alternative procedures were establshed for the reflows of the $15.2 million disbursed through the PSCIP mechanism. These reflows were to accrue to the Local Currency Special Account under the PIEF grant no. 263-0097. As of June 30, 1992 the status of the reflows in the special account was as follows:

Grant Amount:	$15,146,473.00
Disbursed Amount:	$15,041,182.00
Deposits to Special Acct. LE:	$11,299,906.00
Releases LE:	$61,262.53
Balance:	$11,238,643.63

On June 7, 1992, a letter was sent from USAID/Egypt to the Administrator, Finance and Loans Sector, of the Ministry of

Finance. The letter states in part, "Our review of Special Account deposits under subject agreement, indictated that deposits made are less than what should have been generated". The FM status report indicates that $5,291 remains to be disbursed and $3,741,276 remains to be deposited to the Special Account.

4. Train bank officers and others in appraisal of investment projects.

Results: Bank officers and others were trained in loan appraisals, Project evaluation, and AID project procurement regulations.

5. Establish a design for a training program in project appraisal taught by Egyptians in Egypt. Encourage the use of Egyptian consultants and experts in project appraisal teams.

Results: All project training components were done by Egyptians and Egyptian consultants were used in most project appraisals.

6. Study financial sector institutional problems to encourage development of long-term sources of funds.

Results: Studies of the financial sectors institutional problems were completed. However, no plan for their subsequent use was found in the project files.

Additional Accomplishments:

--Number of new jobs provided: 2,700
--Number of new investment projects: 8
--Amount of PIEF investment funds provided: $16,989,000
--Amount of bank funds leveraged: LE 50,951,999 and $3,187,000
Total value of projects: LE 157,288,000 (note: these accomplishments relate only to the 8 loans made under the PIEF structure.)

IV. Extent to which the Project resolved the Original Problem:

1. The PIEF credit design had minimal impact encouraging participating financial institutions to make longer term investments in the private sector. AID credit project designs should avoid using appropriated funds when AID wants an approval role for individual loan decisions. That design triggers a variety of statutory requirements on AID which makes the length of time required for loan approvals incompatible with the speed and flexibility needed by banks and their private sector borrowers. In addition, banks in Egypt were operating in an environment heavily regulated and controlled by the GOE. The GOE determined credit allocations by economic activity, and set exchange and interest rates (the exchange rate was overvalued and

interest rates were negative). Such administratively set variables (as opposed to market pricing) worked against banks making longer term investment decisions. The AID requirements were, and still are, incompatible with normal banking practices, even if the policy and regulatory environment had been more favorable for investment lending. In sum, given that the banks were not allowed by GOE and AID regulations to carry out normal, market-based intermediation services, the Project did not address the original problem of the lack of sufficient foreign exchange for long term lending to the private sector.

V. Recommendations for final adjustments in project design:

None

VI. Post Project Monitoring Responsibilities:

AID Egypt must continue to monitor the Repayment Fund at CIB and other participating banks in order to make periodic decisions related to any participating bank requests for changes in loan portfolio elements. Further research needs to be conducted to determine if a plan was put in place for use of the reflows.

FM will need to continue to monitor the Special Account to ensure that all reflows are deposited to the Special Account.

VII. Review of data collection results and evaluations remaining to be undertaken.

There are no remaining evaluations to be undertaken. Throughout the course of this project, it was maintained that the PACR would serve as the final evaluation. (Special note: AID loan projects rarely evaluate the long term benefits derived from loans to private sector entities. Future evaluations of other projects may wish to consider following these types of loans for a number of years to determine the true number of additional jobs created, the amount of tax realized from both profits and payroll, the amount of technology transferred, and the level of export earnings if any. This type of evaluation is outside the scope of this PACR and thus the PACR may vastly understate the projects true benefits.)

VIII. Lessons Learned:

1. AID should avoid designing directed credit projects except in extraordinary cases where market failure can be clearly demonstrated or where past discriminatory practices are in need of redress for overriding development or social goals. The PIEF Project was, by virtue of its conception and design, ill-conceived to address the perceived problem of unmet credit demand for longer term lending. The underlying causes of the problem

were unattended: inappropriate and excessive government intervention in the overall economy and in the financial system (e.g., GOE centrally determined credit allocations, interest rates, and exchange rates.)

2. The PIEF Project only compounded the problems mentioned above by adding AID regulations and administrative requirements to those imposed by GOE central authorities on banks' on-lending operations. AID's regulations, including source/origin and other Congressionally legislated requirements for approval and implementation of projectized assistance for credit activities, are incompatible with market determined savings mobilization and investment decisions.

3. If AID wishes to address the problem of unmet credit demand, it should analyze the host country's policy, legal and regulatory framework which affects resource allocation in the economy in general and savings mobilization and investment decisions by households, firms, and financial institutions in particular.

4. AID interventions to improve savings and efficient resource allocation are more appropriately done through policy-based non-project assistance that is supportive of reforms aimed at liberalizing the economy and the financial system. Projectized assistance can be effective as catalytic agents for new financial products or new financial activities in partially favorable policy environments. Demonstration projects or technical assistance and training can assist needed reforms.

5. While "soft loans" may at times be desirable, credit projects designed to leverage additionality from financial institutions should be designed to ensure that true risk sharing is actually present and additionality will occur. This project is 12 years old. Currently, AID avoids credit projects with negative interest rates.

6. The project placed an over reliance on government institutions for project implementation. However, this review does not share the overwhelming opinion of many other AID officers that the principal problem with this grant was the ability and efficiency of GAFI. During the first year that GAFI had an Executive Director, 14 loans valued at over $40 million were approved by GAFI and sent to AID for approval. GAFI's approval process was a streamlined one. AID Egypt noted the many reports and analyses it required for approval and imposed these same requirements on GAFI's approval process. After those events, GAFI did prove incapable of accomplishing the reviews in a timely manner. By the time USAID/E decided to remove these responsibilities from GAFI, GAFI was unwilling to give them up. Thus, the conclusion here is that lesson number one above was the principal design flaw.

7. There was insufficient start-up funding in the original project budget.

8. Projects implemented by host government agencies requiring highly paid professional staff should design alternatives to host country salary ceilings.

9. Many AID officers correctly identified bureaucratic procedures as the principal problem. None went so far as to conclude that it was AID's Congressionally imposed bureaucratic procedures which were a significant part of the problem. Many smaller changes were made in the project during its life but the principal problem was not solved.

10. Any analysis of the transaction costs associated with this project would conclude that they far exceeded any reasonable cost in making eight medium sized loans. Government institutions do not normally have to consider transactions costs in the provision of service. However, the design of projects which insert AID into private sector activities must consider the impact of transaction cost on the ability of the private sector to work with AID. The design of many projects elements were too complicated. The advice to "keep it simple" would have assisted this project.

RECOMMENDATION

It is recommended that project status be changed from "active" to "completed" and that the project be removed from the quarterly implementation reporting system.

Clearances:

OD/TI, Larry Brown — HK for LB
AD/TI, P. delBosque — PDB
AD/FM, D. Franklin — by exception
Leg, V. Moore — VM 11/5
A/AD/PDS, B. Jordan — BJ 11/4
PDS/P, J. Malick — by exception
A/AID/DDIR, C. Crowley — by exception
AID/DIR, H. Bassford — HB