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Folder Title: Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence

Folder ID: 1264632

Project ID: P005021

Dates: 10/10/1978 – 9/29/1987

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THE WORLD BANK

Washington, D.C.

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62

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Archives



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R1994-192 Other #: 17

Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan
1842 - P005021 - Correspondence

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SEN
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KJ

File BB

September 29, 1987

AIR MAIL

MISR Iran Development Bank
8 Adly Street
Cairo, Arab Republic of Egypt

Attn: Mr. Abdel Abou Madg
Assistant General Manager

Gentlemen:

Re: Loan No. 1842-5 EGT
MISR Iran Development Bank

With reference to your letter dated September 15, 1987, reference 44546/41, we are enclosing Amendment No. 9 to the Amortization Schedule. Please confirm your acceptance by signing the copy and returning it to us as soon as possible.

Sincerely yours,

Michael Del Gigante
Chief, Accounting Division
Controller's

Attachment

cc: Dr. Erfan A. Shafey
First Undersecretary
Ministry of Planning and
International Cooperation
8 Adly Street
Cairo, Arab Republic of Egypt

/cc: Mr. G. El Rifai, EM3 (H10-047)
File: Loan Doc. 1842-5 EGT
PSolis/mtr

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AMENDMENT NO. 1 TO THE AMORTIZATION SCHEDULE*

(Expressed in U.S. dollars)**

LOAN NO. 1842 EGT

Date Payment Due	Original Schedule 1	Revised Schedule 1
June 15, 1983	250,000.00	250,000.00
December 15, 1983	250,000.00	245,500.00
June 15, 1984	1,000,000.00	410,500.00
December 15, 1984	1,000,000.00	410,500.00
June 15, 1985	1,562,500.00	410,500.00
December 15, 1985	1,562,500.00	410,500.00
June 15, 1986	1,712,500.00	1,410,500.00
December 15, 1986	1,712,500.00	1,410,500.00
June 15, 1987	1,812,500.00	1,410,500.00
December 15, 1987	1,812,500.00	1,660,500.00
June 15, 1988	1,812,500.00	1,775,500.00
December 15, 1988	1,812,500.00	1,775,500.00
June 15, 1989	1,812,500.00	1,725,500.00
December 15, 1989	1,812,500.00	1,500,000.00
June 15, 1990	1,812,500.00	1,500,000.00
December 15, 1990	1,812,500.00	1,500,000.00
June 15, 1991	1,562,500.00	1,300,000.00
December 15, 1991	1,562,500.00	1,200,000.00
June 15, 1992	812,500.00	1,200,000.00
December 15, 1992	812,500.00	1,200,000.00
June 15, 1993	250,000.00	1,200,000.00
December 15, 1993	250,000.00	1,200,000.00
June 15, 1994	250,000.00	812,500.00
December 15, 1994	250,000.00	812,500.00
June 15, 1995	250,000.00	812,500.00
December 15, 1995	250,000.00	812,500.00
June 15, 1996	100,000.00	822,000.00
December 15, 1996	100,000.00	822,000.00
	<u>30,000,000.00</u>	<u>30,000,000.00</u>

* The Amortization Schedule is subject to amendment pursuant to the provisions of Section 2.09 of the Loan Agreement.

** To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in these columns represent dollar equivalents determined as for purposes withdrawal.

CONFIRMED:

ARAB REPUBLIC OF EGYPT

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENTBy: [Signature]
(Authorized Representative)By: [Signature]
Sunder Subramanian
Chief, Loan Accounts Division
Loan DepartmentDate: December 12, 1983Date: December 12, 1983

Ministry of Investment and
International Cooperation

Mr. Alberto Favilla
Division Chief
EMENA I
World Bank
Washington D.C
U.S.A

OFFICIAL
DOCUMENTS

Lh 1842 EGT 5

Cairo, December 9, 1982

Dear Mr. Favilla,

Reference to Mr. Sherif Hassan's letter dated Sept. 9, 1982 concerning the Bank approval of the amendment of Loan Agreement No. 1842 - EGT (Misr Iran Development Project). Please find enclosed herewith a copy of the letter after being signed on behalf of the Egyptian Government.

Thanks and best regards

Happy New Year
Ale

Samir Koraïem

Senior Undersecretary of State

W/M.



Record Removal Notice

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File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 09 September, 1982	Document Type Letter			
Correspondents / Participants To : Ministry of Economy and economic Cooperation From : International Bank for Reconstruction and Development				
Subject / Title Re : Loan No. 1842 EGT (Misr Iran Development Bank Project) - Amendment of Loan Agreement				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

MISCELLANEOUS

File BB

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ZCZC N3EC0134 N3ES0146

WDIAL

REF : EM3DR

OINFO

-SUBJECT: LOAN 1842-EGT
-DRAFTED BY: ESAWAYA/IC
-AUTHORIZED BY: V. BHARGAVA
-CW/CC: MESSRS. ABU-AKEEL, NELSON
-CC: MS. E. HUBERT, MRS. C. LINDER (O/R)

EXT: 33412

927 23348 =

-MINISTRY OF INTERNATIONAL COOPERATION
-CAIRO, EGYPT
-ATTN DR. ERFAN SHAFAY, FIRST UNDERSECRETARY

927 92389 =

-KISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT
-ATTN MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR

BT

WASHINGTON DC 30-OCT-1987

ADDRESSED TO DR. ERFAN SHAFAY, FIRST UNDERSECRETARY, MIC. COPIED TO MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR, MIDB. REFERENCE MIDB'S TELEX OF OCTOBER 18, 1987 REQUESTING CANCELLATION OF UNDISBURSED BALANCES UNDER LOAN 1842-EGT AND TELEX OF OCTOBER 28, 1987 CONFIRMING THE AMOUNT TO BE CANCELLED. SUBJECT TO YOUR CONFIRMATION AS THE REPRESENTATIVE OF THE BORROWER UNDER THE LOAN AGREEMENT, THE AMOUNT OF US DOLLARS 6,435,912 REMAINING UNDISBURSED IN LOAN ACCOUNT 1842-EGT WOULD BE CANCELLED EFFECTIVE OCTOBER 18, 1987.

BEST REGARDS, BHARGAVA, CHIEF, EM3IE

=10301650

IN DROPCOPY OF:M3ER

NNNN

WORLDBANK MSS

WDIAL
.EM3DR
OINFO

fill
B/B
M3ES0022
EH ofr

-SUBJECT: LOAN 1842-EGT
-DRAFTED BY: ESAWAYA/IC
-AUTHORIZED BY: E. SAWAYA
-CW/CC:
-CC: MR. BHARGAVA, MMES. E. HUBERT (EM3CO), C. LINDER (LOA),
-M. EL-SAIFI, I. CSEKEY (EM3IE), MR. ABU-AKEEL

EXT: 32612

927 92389 =
-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT
-ATTN MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR
BT
WASHINGTON DC 28-AUG-1987

REFERENCE URTLX OF AUGUST 27, 1987. WE ARE TRANSFERRING THE AMOUNTS APPROVED FOR SUBPROJECTS NO. AG2 (MISR INVESTMENT COMPANY) AND AG4 (MEDICAL SOLUTIONS) TO THE UNALLOCATED CATEGORY UNDER LOAN 1842-EGT. WILL ALSO AWAIT THE INFORMATION YOU PROPOSE TO SEND US BEFORE WE DECIDE ON FURTHER ACTION WITH REGARD TO LOAN 1842-EGT. BEST REGARDS, SAWAYA, SENIOR OPERATIONS OFFICER, INDUSTRY AND ENERGY OPERATIONS, COUNTRY DEPARTMENT III

ZCZC M3EN0034 OPER9890
QX DELMSG
REF : SYSCOM

YOUR M3ES0022 OF 08281113
WAS DELIVERED AS FTC70230 AT 08281924
AAB: 20474 MIDD UN

=08281924

OFFICE MEMORANDUM

TO: Files

FROM: Hans-Eberhard Köpp, Division Chief, Country
Programs Department 1, EMENA Region

SUBJECT: EGYPT: Misr-Iran Development Bank Project

DATE: May 5, 1980

1. A meeting was held in the US Executive Director's office on Monday, April 28 to respond to some questions which the US representatives had raised on the above loan. The meeting was attended by Mr. Colbert King, Executive Director, Mr. David King, Alternate Executive Director, Ms. Bradley, Technical Assistant, Mr. Zaborski and myself.
2. The main question raised was how could one justify a loan to the Misr-Iran Development Bank these days in view of the fact that dividends apparently were being paid to the two Iranian shareholders owning 50 percent of MIDB. In response, we acknowledged that dividends had been paid to the two Iranian shareholders as follows: about \$0.5 million per annum from 1975 to 1978; about \$0.8 million in 1979. In 1980 and until the capital would be called dividends were expected to amount to \$1 million per year, thereafter \$1.6 million. The benefits to the Iranian shareholders amounted thus to 8 percent on paid-in equity.
3. We emphasized, however, that the objective of making a loan to a DFC is not to support it so that it can pay dividends but to use it as a channel for financing economically justified priority projects in the country where the DFC is located. Only to the extent of assuring that one was dealing with an efficient financial intermediary was one interested in indications of financial soundness such as dividends and profits. In addition to the financial soundness, however, a number of other important criteria had to be met to justify the selection of such DFC, e.g. its management capability, its appraisal criteria and experience. Because it met these criteria in a very satisfactory way, MIDB had been chosen as another channel to support private industry in Egypt. We pointed out that judging from past experience one could expect that MIDB would become involved in about 40 to 45 projects through mid-1982 with a total cost of about \$550 million and with an expected annual output of \$870 million per year. In the past, about 65 to 70 percent of total cost of the projects financed by MIDB involved imported goods and services. Thus it was obvious that the profit to Egypt by far outweighed the very minor profit to Iran represented by payment of dividends. We also emphasized that in accordance with the draft Loan Agreement, the Bank funds could only be used for projects in Egypt; moreover, in practice MIDB has financed from all its resources only projects located in Egypt.

May 5, 1980

4. In response to another question and after some further investigation, we explained that of the 88 staff members of MIDB, including 50 professionals, only one was an Iranian national. The most important personality in MIDB was its Managing Director Mr. Fouad Sultan (an Egyptian national), who was very well respected in the Egyptian business community and had also visited the US repeatedly, inter alia attending a US-Egypt business conference last year. The only Iranian staff member mentioned above was the General Manager who was reporting to Mr. Sultan and in practice had more of an advisory role. He has been with MIDB since mid-1977. Both the Managing Director and the General Manager and two members of the board (one Egyptian and one Iranian) formed a management committee, whose main function was to approve projects if necessary on an exceptional basis between two board meetings. As the Egyptian board member in that committee, Engineer Mashhour, the Chairman of the Suez Canal Authority, who holds the rank of a Cabinet Minister was recently appointed. The Iranian board member had represented Iran in this capacity already since 1976. The board was composed of four Egyptian and Iranian members each, including ex-officio both the Managing Director and the General Manager. 1/

5. We also mentioned that the Iranian shareholders had been represented in all recent board meetings, e.g. at the July 1979 board meeting when an increase of the share capital was approved. They had also paid in the 25 percent of the capital increase. Above all, we stressed the fact that we had repeatedly asked the Egyptian Government whether they continued their support for MIDB. The Egyptian Government's support had been reconfirmed inter alia at the level of the Minister of Economy and is illustrated by the fact that the loan would be made to the Egyptian Government and onlent to MIDB since for legal reasons the Egyptian Government cannot guarantee a loan to a joint venture.

6. The US representatives indicated that they were satisfied with our logical arguments for supporting the proposed loan; however, they felt that at this particular time it would be very difficult to argue on a logical basis with certain parts of the Government and Congress when one was dealing with some actions which might be construed as supporting Iran. They promised to check with their authorities and to keep us informed.

1/ MIDB has informed us today that according to the latest official notice, three of four Iranian board members have been replaced recently. The only member remaining from before is the General Manager. The Iranians, with the exception of the General Manager, were not able to attend the latest meeting on April 27 but sent their apologies.

May 5, 1980

7. On Friday, May 2, Ms. Bradley called to enquire whether any dividends allocated to the Iranian shareholders had actually been repatriated to Iran. We reported that we could not ascertain whether or not this had been the case without checking with MIDB directly, which, however, Ms. Bradley suggested not to do at this time. We added, however, that total profits in, for instance, 1979 had amounted to \$4 million and that the board of MIDB including the Iranian representatives had decided to put \$2.4 million of these profits into reserves, provisions, etc. and pay out only \$1.6 million as dividends, i.e. \$0.8 million each to the Egyptian and the Iranian shareholders.

cc: Messrs. Chaufournier (RVP, EMENA Region)
El Darwish, Zaidan, El Daher (Projects, EMENA)
Chaudhry (IFC)
Abu-Akeel (Legal)
Zaborski (Division 1A, CPD 1, EMENA)
Salman (IPA)

HEKöpp:orp

OFFICE MEMORANDUM

TO: Files

DATE: October 3, 1980

FROM: Robert W. Zaborski, EM1DA

SUBJECT: EGYPT : Misr Iran Development Bank

1. A meeting was held October 1, 1980 to discuss MIDB. Attending were Mr. Sultan (Chairman, MIDB) and Messrs. Zaidan, Malik, Abu Akeel and Zaborski.

2. The meeting discussed the current situation between the Egyptian and Iranian shareholders after the September 23 meeting in London (the minutes of that meeting are attached a/). The minutes mentioned two proposals which were discussed: (i) rotating on an annual basis, the Chairman and the Vice Chairman/Managing Director between the Iranian and Egyptian shareholders, and (ii) the sale of the Iranian shareholders of all their share capital to the Egyptian shareholders at a price acceptable to both partners. As the first proposal was not acceptable to the Egyptian shareholders, the second is the only proposal under active consideration. The meeting agreed that by October 30, 1980, the Iranian shareholders would forward their decision to MIDB. If the response were negative or if no decision were received, the Egyptian shareholders would take the necessary legal action.

3. Mr. Sultan stated that there were four scenarios:

- 1) The Iranians agree to sell all of their shares in MIDB and the two parties agree on a price of the shares;
- 2) The Iranians agree to sell but the two parties cannot agree on a price;
- 3) The Iranians refuse to sell; or
- 4) The Iranians pay the \$2.5 million they owe MIDB (their half of the 25% of the increase in the share capital which was called by MIDB's board in June 1980).

Mr. Sultan felt that, since the Iranians know that the Iranian share of the capital increase (\$10 million) could be sold (discussed below), the possibilities were great that the first scenario would materialize, i.e. that the Iranian shareholders would be willing to sell their shares in MIDB and agree on a price. Mr. Sultan went on to explain, however, that if the second or third scenario were to come to pass, an ordinary meeting of the Board would be convened within two weeks (by November 15) under Article 8 of MIDB's Articles of Incorporation (at which the Chairman, Mr. Sultan, has the power to cast a vote to break a stalemate) and the Iranian share of the capital increase (\$10 million) would be offered to the existing shareholders (i.e. Misr Insurance Company and Bank of Alexandria) who would buy the shares at par value. (The Deputy Prime Minister, Dr. Meguid, has agreed to this in writing as well as fully authorized the Egyptian shareholders to conduct these negotiations). If the Iranians could not accept this decision, they could challenge it in the Egyptian courts. However, the decisions of the ordinary shareholders meeting can be implemented without waiting for a court ruling. He indicated that a recent

a/ Mr. Sultan clarified that Mr. Zabetien, representing IMBDI, also attended the meeting. Dr. Almassi represented Bank Mellî.

legal opinion by the Council of State issued particularly for the case of MIDB, has concluded that when the Board of Directors fails to act on any matter of administration, an ordinary meeting of the General Assembly may take such matter into its hands and solve it by an absolute majority vote. Assuming that the course of action proposed here was carried out, still the Iranian shareholders can seek a court provisional order staying its execution, pending a court ruling on the merits of the dispute. Mr. Sultan would not comment on such possibility, which is, in any event, a matter of speculation. Mr. Sultan also explained that the Iranian shareholders have the right to sell their shares to a third party but this sale must be approved by the Investment Authority and the other existing shareholders have right of first refusal.

4. The worst scenario, in Mr. Sultan's opinion, would be the fourth. In this case the Egyptian shareholders would have to find a good legal cause, i.e. disruptive practice by the Iranians, in order to achieve their objective of eliminating their control over MIDB's management and policies.

5. Assuming the Iranians sold all their shares to the existing shareholders at an agreed price, Mr. Sultan explained, the board would then look for other investors to take what was formerly the Iranian equity. He mentioned several possibilities: Wells Fargo, a Swiss banking concern, IFC and Abu Dhabi (through the Arab Investment Bank). As for attempts by the National Development Bank (NDB), to merge MIDB into NDB, he said that Dr. Meguid had said he did not favour such a scheme. (Certain interests in the new NDB had put forward the proposal that the Egyptian shareholders in MIDB should sell their shares at par to NDB against shares in NDB.) Dr. Meguid, however, felt that NDB could buy shares in MIDB since it would, in the process, be able to learn from MIDB's experience.

6. Finally, we discussed the effectiveness of the Bank's loan to MIDB as it relates to the above uncertainties. Mr. Sultan explained that parliamentary ratification would probably have to await a resolution of MIDB's ownership issue. On our part we explained that in any case we would have difficulty declaring our loan effective if MIDB were not in fact a functioning institution and could not, therefore, use the loan. Mr. Sultan was hopeful that the present impasse would be settled by the end of November.

7. In the meantime, the Government has requested that the period by which the loan is to be made effective be extended by three months, from October 6, 1980 to January 5, 1981. Given the uncertainties involved with the negotiations between the shareholders, it seems likely that at least this much time will be needed to resolve the management issue and restore MIDB's ability to operate again..

cleared with and cc: Messrs. Zaidan and Abu Akeel
cc: Messrs. Karaosmanoglu, El Darwish, Köpp, Coudol, El Daher, Malik



MISR IRAN DEVELOPMENT BANK

Date : 23 September 1980

Ref. :

HEADS OF UNDERSTANDING

Reference is being made to the decision taken by MIDB Board of Directors at its 22nd Session held on August 7th, 1980 whereby the Board agreed to extend invitations to the Central Bank representatives in both countries as well as representatives of MIDB shareholders to hold a meeting outside Egypt to decide upon the five different proposals discussed during the afore-mentioned Board session.

A meeting was held in London on September 23rd, 1980 and attended by:

\ Mr. Mohamed Shalabi	Deputy Governor	Central Bank of Egypt
Dr. E. Rashidzadeh	Deputy Governor	Central Bank of Iran
Mr. Mohamed Bayoumi	Chairman	Bank of Alexandria
Mr. Fathi Ibrahim	Chairman	MISR Insurance Co.
Mr. Fouad Sultan		
Eng. Mashhour A. Mashhour		
Dr. H.S. Almassi		
Mr. Shahrokh Zavosh		

After lengthy discussions the Central Bank representatives of the two countries reached the following tentative agreement for further consideration by the respective authorities in the two countries:

Proposal No. 1. In case both parties agree to continue with the investment the posts of the Chairman and the Vice Chairman and Managing Director would be alternatively rotated yearly



MISR IRAN DEVELOPMENT BANK

Date :

Ref. : Page 2

between the Egyptian and the Iranian Board Members starting by an Egyptian Chairman.

Proposal No. 2. In case no agreement was reached as regards Proposal No. 1, the sale of the share of the Iranian shareholders in MIDB share capital to the Egyptian shareholders at a price acceptable to both parties.

The Iranian shareholders stated that if the final decision is to sell the Iranian shares in MIDB share capital and if the price offered is not acceptable, the Iranian shareholders reserve their right to sell their shares to a third party in accordance with the Egyptian laws.

The Egyptian shareholders confirmed their ability to immediately decide upon one of the above two proposals and opted for the second proposal on account that the first proposal is, in their opinion, inconsistent with a healthy structure of MIDB's management and entails a yearly shuffle in the management, whereas their original proposal was to have the intended rotation every three years.

Accordingly, it was agreed to fix October 30th 1980 as the deadline for receiving the Iranian shareholders' response to the Egyptian shareholders' decision.

In case the response is positive a joint meeting between the shareholders will be held in Cairo within the following week to discuss terms of sale. However, in case no response is received by October 30th or in case the response is negative the Egyptian shareholders would take the necessary legal action in accordance with MIDB's statutes and the Egyptian laws.

SIDE LETTERS

0014M (p.-41)

WDIAL
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OINFO

M3ES0063
FBI BRS
1842 EGT

-SUBJECT: LOAN 1842-EGT
-DRAFTED BY: ESAWAYA/IC
-AUTHORIZED BY: V. BHARGAVA
-CW/CC: MR. ABU-AKEEL, MS. C. LINDER
-CC: MESSRS/MMES. STOUTJESDIJK, EL-RIFAI, E. HUBERT
EXT: 32612

927 23348 =
-MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION
-CAIRO, EGYPT
-ATTN DR. ERFAN SHAFEY, FIRST UNDERSECRETARY
927 92389 =
-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT
-ATTN MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR
BT
WASHINGTON DC 16-SEPT-1987

REFERENCE LOAN 1842-EGT. WOULD LIKE TO INFORM YOU THAT SINCE THE
CLOSING DATE OF THIS LOAN WAS JUNE 30, 1987, THE BANK WOULD KEEP
THE LOAN ACCOUNT OPEN FOR 6 MONTHS AFTER THAT DATE FOR COMMITMENTS
MADE OR ENTERED INTO PRIOR TO THE CLOSING DATE.
BEST REGARDS, BHARGAVA, CHIEF, INDUSTRY AND ENERGY OPERATIONS,
COUNTRY DEPARTMENT III

ZCZC M3EN0104 DPER2119
QX DELMSG
REF : SYSCOM

YOUR M3ES0063 OF 09161601
WAS DELIVERED AS FTCC6813 AT 09162119
AAB: FTCC6813

=09162120

ZCZC M3EN0105 DPER3174
QX DELMSG
REF : SYSCOM

YOUR M3ES0063 OF 09161601
WAS DELIVERED AS FTCC99218 AT 09162322
AAB: 23235 MOPIC UN

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0014M (p. 7)

0014M (p. 7)

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.EM3DR

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~~MS~~ MSES0023
E/Ho/a H-10-017

-SUBJECT: LOAN 2002-EGT

-DRAFTED BY: W.P. O'NEIL/IC

EXT: 32612

-AUTHORIZED BY: V. BHARGAVA

-CW/CC: MS. LINDER

-CC: MESSRS. BURMEISTER, ISKANDER, MEUNIER, A. ROA, MS. E. HUBERT

✓ 927 92007 =

-EGYPTIAN IRON AND STEEL CO. (HADISOLB)

-CAIRO, EGYPT

-ATTN MR. HASSAN ABOU EL DAHAB, GENERAL DIRECTOR OF PROJECTS SECTORS
BT

WASHINGTON DC 28-AUG-87

RE LOAN 2002-EGT, HADISOLB.

AAA - WE THANK YOU FOR YOUR TELEX OF AUGUST 24, 1987. WE FULLY UNDERSTAND THE POTENTIAL DIFFICULTIES FOR HADISOLB THAT ARE ASSOCIATED WITH PRESENTLY ESTABLISHED LOAN CLOSING DATE FOR LOAN 2002 OF SEPTEMBER 30, 1988. WE WILL TAKE YOUR REQUEST FOR EXTENSION OF LOAN CLOSING DATE, UNTIL END MARCH 1991, UNDER CONSIDERATION ON ITS MERITS, AND WILL GIVE YOU OUR RESPONSE IN DUE TIME. HOWEVER, GIVEN THE SUBSTANTIAL IMPLEMENTATION DELAYS INCURRED ALREADY, AND PREVIOUSLY GRANTED EXTENSIONS OF CLOSING DATE, WE CANNOT IMPLY ANY AGREEMENT AT THIS TIME.

BBB - WITH RESPECT TO BILLET CASTER REHABILITATION (CONSIDERED A KEY COMPONENT OF THE PROJECT), WE AGREE TO FINANCE UP TO US DOLLARS 500,000 OF DOWN PAYMENT, UPON RECEIPT OF A PROPERLY DOCUMENTED APPLICATION.

BEST REGARDS, BHARGAVA, CHIEF, INDUSTRY AND ENERGY OPERATIONS,
COUNTRY DEPARTMENT III

ZCZC M3EN0028 OPER4236

QX DELMSG

REF : SYSCOM

YOUR M3ES0023 OF 08281402

WAS DELIVERED AS FTC19109 AT 08281406

AAB: 92007 SOLB UN

=08281412

File BB

OFFICE MEMORANDUM

DATE: August 5, 1987

TO: Mr. V. Bhargava, Division Chief, EM3IE

FROM: Emile B. Sawaya, Sr. Operations Officer, EM3IE

EXTENSION: 3-3051

SUBJECT: EGYPT - Loan 1842-EGT to MIDB
- Loan Closing Date

1. This is in reference to Mrs. C. Linder's request whether we intend to postpone the closing date of Loan 1842-EGT, currently June 30, 1987.
2. The last supervision mission that visited MIDB in late September 1986 recommended in its report dated October 29, 1986 that MIDB be advised that the closing date would not be postponed to apply pressure on MIDB to accelerate disbursements. The mission observes that disbursements under Loan 1842-EGT have been slow due to "a variety of reasons (land allotment, negotiations with public sector enterprises, foreign technical cooperation) but MIDB is confident that disbursements would be completed by the end of 1987, i.e., the closing date of June 30, 1987 plus 6 months". The supervision mission also recommended that MIDB be allowed to submit a new subproject, on an exceptional basis, to utilize left-over funds, if MIDB can assure that disbursements would be completed prior to the end of 1987. This recommendation was approved and conveyed to MIDB, but I see no record of MIDB having submitted a new subproject for approval.
3. A review of the status of disbursements reveals that the undisbursed amount of US\$6.58 million consists of US\$5.89 million for two subprojects 1/, and the balance of US\$0.69 million which appears to be the sum of left-over funds from disbursements for seven other subprojects.
4. The original closing date of this loan was June 30, 1985 has been postponed twice before, each time by one year. Before we decide on whether to postpone the closing date a third time, we should verify with MIDB its latest assessment of expected disbursements under Loan 1842-EGT. If you agree, a telex to MIDB is attached for your signature.

Attachment

cc: Messrs./Mmes. Maweni, El Saifi (EM3IE), E. Hubert (EM3CO),
 C. Linder (LOA), S.O. Hassan, Abu-Akeel (LEG)

- 1/ One subloan (No. AG-2), approved on March 19, 1984, finances MIDB's equity participation in Misr Investment Co. with a net approval of US\$3.183 million, of which US\$2.147 million, remains undisbursed. The other subloan (No. AG-4), approved on November 13, 1984, for a medical supplies company in the amount of US\$3.745 million remains completely undisbursed.

WDIAL
.EM3DR
OINFO

-SUBJECT: LOAN NO. 1842-EGT
-DRAFTED BY: ESAWAYA/CML EXT: 33051
-AUTHORIZED BY: V. BHARGAVA, CHIEF, EM3IE
-CC: E. HUBERT (EMP), C. LINDER (LOA), EL SAIFI (EM3IE)

927 92389 =
-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT
-ATTN MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR
927 23348 =
-MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION
-CAIRO, EGYPT
-ATTN DR. ERFAN SHAFAY, FIRST UNDERSECRETARY
BT
WASHINGTON DC 06-AUG-87

REFERENCE LOAN 1842-EGT. AS YOU KNOW THE CLOSING DATE FOR THIS LOAN IS JUNE 30, 1987 AND OUR RECORDS SHOW THAT AS OF AUGUST 5, 1987 ABOUT USDOLLARS 6,579,000 REMAINS UNDISBURSED, OF WHICH USDOLLARS 2,147,147 IS THE UNDISBURSED COMMITMENT TOWARD SUBPROJECT NUMBER AG-2 (MISR-INVESTMENT COMPANY) AND USDOLLARS 3,745,000 IS THE AMOUNT ALLOCATED FOR SUBPROJECT NUMBER AG-4 (ARAB COMPANY FOR MEDICAL SOLUTIONS), THE BALANCE OF ABOUT USDOLLARS 687,000 APPEARS TO BE LEFTOVER AMOUNTS FROM ALLOCATIONS TO SEVEN OTHER SUBPROJECTS. IN ORDER TO ACCOMMODATE PAYMENTS UNDER CONTRACTS APPROVED PRIOR TO CLOSING DATE, THE BANK WOULD BE PREPARED TO HOLD THE BOOKS OPEN UNTIL DECEMBER 31, 1987, BEFORE IT CANCELS THE AMOUNTS REMAINING UNDISBURSED. IN THE CASE OF THIS LOAN IT WOULD MEAN CANCELLING THE AMOUNTS WHICH REMAIN UNDISBURSED ON DECEMBER 31, 1987 UNLESS THE CLOSING DATE IS EXTENDED BEYOND JUNE 30, 1987. WE NEED TO KNOW URGENTLY FROM YOU WHETHER THE ABOVE MENTIONED TWO SUBPROJECTS (AG-2 AND AG-4) ARE STILL ACTIVE AND THE FUNDS ALLOCATED TO THEM WOULD BE FULLY DISBURSED BY DECEMBER 31, 1987. ALSO, BEFORE TAKING A DECISION ON CANCELLING UNDISBURSED AMOUNTS OR EXTENDING THE LOAN CLOSING DATE FOR A THIRD TIME, WE WOULD APPRECIATE IT IF YOU WOULD INFORM US AT YOUR EARLIEST CONVENIENCE OF YOUR EXPECTATIONS AND PLANS FOR FURTHER DISBURSEMENTS UNDER THIS LOAN.

BEST REGARDS, BHARGAVA, CHIEF, INDUSTRY AND ENERGY DIVISION,
COUNTRY DEPARTMENT III, EMENA

WDIAL
.EM3DR
OINFO

-SUBJECT: LOAN NO. 1842-EGT
-DRAFTED BY: ESAMAYA/CML EXT: 33051
-AUTHORIZED BY: V. BHARGAVA, CHIEF, EM3IE
-CC: E. HUBERT (EMP), C. LINDER (LOA), EL SAIFI (EM3IE)

927 92389 =

-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT
-ATTN MR. AL-MOTAZ MANSOUR, MANAGING DIRECTOR

927 23348 =

-MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION
-CAIRO, EGYPT
-ATTN DR. ERFAN SHAFAY, FIRST UNDERSECRETARY

BT

WASHINGTON DC 06-AUG-87

REFERENCE LOAN 1842-EGT. AS YOU KNOW THE CLOSING DATE FOR THIS LOAN IS JUNE 30, 1987 AND OUR RECORDS SHOW THAT AS OF AUGUST 5, 1987 ABOUT USDOLLARS 6,579,000 REMAINS UNDISBURSED, OF WHICH USDOLLARS 2,147,147 IS THE UNDISBURSED COMMITMENT TOWARD SUBPROJECT NUMBER AG-2 (MISR-INVESTMENT COMPANY) AND USDOLLARS 3,745,000 IS THE AMOUNT ALLOCATED FOR SUBPROJECT NUMBER AG-4 (ARAB COMPANY FOR MEDICAL SOLUTIONS), THE BALANCE OF ABOUT USDOLLARS 687,000 APPEARS TO BE LEFTOVER AMOUNTS FROM ALLOCATIONS TO SEVEN OTHER SUBPROJECTS. IN ORDER TO ACCOMMODATE PAYMENTS UNDER CONTRACTS APPROVED PRIOR TO CLOSING DATE, THE BANK WOULD BE PREPARED TO HOLD THE BOOKS OPEN UNTIL DECEMBER 31, 1987, BEFORE IT CANCELS THE AMOUNTS REMAINING UNDISBURSED. IN THE CASE OF THIS LOAN IT WOULD MEAN CANCELLING THE AMOUNTS WHICH REMAIN UNDISBURSED ON DECEMBER 31, 1987 UNLESS THE CLOSING DATE IS EXTENDED BEYOND JUNE 30, 1987. WE NEED TO KNOW URGENTLY FROM YOU WHETHER THE ABOVE MENTIONED TWO SUBPROJECTS (AG-2 AND AG-4) ARE STILL ACTIVE AND THE FUNDS ALLOCATED TO THEM WOULD BE FULLY DISBURSED BY DECEMBER 31, 1987. ALSO, BEFORE TAKING A DECISION ON CANCELLING UNDISBURSED AMOUNTS OR EXTENDING THE LOAN CLOSING DATE FOR A THIRD TIME, WE WOULD APPRECIATE IT IF YOU WOULD INFORM US AT YOUR EARLIEST CONVENIENCE OF YOUR EXPECTATIONS AND PLANS FOR FURTHER DISBURSEMENTS UNDER THIS LOAN.

BEST REGARDS, BHARGAVA, CHIEF, INDUSTRY AND ENERGY DIVISION,
COUNTRY DEPARTMENT III, EMENA

File BB
1842-EGT
Closing Date

July 14, 1987

Mr. Bhargava:

Re: EGYPT: Misr Iran Development Bank (MIDB) Project
(Loan No. 1842-EGT)

The closing date for the above-mentioned project was June 30, 1987, at which time US\$6.6 million remained undisbursed. All funds have been committed to subprojects. It is necessary now to verify with MIDB whether disbursements under these subprojects will be completed prior to December 31, 1987, i.e., when the six months for which the loan account is normally left open will be reached; if not, we should consider an extension of the loan closing date.

K.S. Venkatraman
K.S. Venkatraman

cc: Messrs. El-Rifai, Gupta (EM3), Abu-Akeel (LEG)
Mesdames Hubert (EM3), Linder (LOA)

WORLDBANK MS SYSTEM

ZCZC M1EP1053 RCA9393
EM1DR EM1EG
REF : TCP1 MET

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248423 WORLDBANK
CAIRO 27/4/1986

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B.B.

MR. EUGENIO F. LARI

DIRECTOR, EMENA REGION

WORLD BANK,

THANKS UTLX APR 14 REGARDING BANK APPROVAL ON EXTENTION
OF MUCH THE CLOSING DATE OF LOAN NO 1842 EGT. MISR TRAN
DEVELOPMENT BANK REGARDS.

DR. ERFAN SHAFAY.

248423 WORLDBANK
23348 GAFEC UNT

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=04271026

NNNN

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

BB

DATE April 10, 1986

TO Mr. Eugenio F. Lari, Director, EM1

FROM Alberto J. Favilla, Division Chief, EM1EG

EXTENSION 32464

SUBJECT EGYPT: Misr-Iran Development Bank (MIDB) Loan 1842-EGT
Extension of Closing Date



Loan Amount:	\$30 million
Amount Disbursed:	\$16.4 million
Loan Signing Date:	June 1980
Effectiveness Date:	December 1980
Original Closing Date:	June 1985
Present Closing Date:	June 1986

1. The MIDB has requested an extension of the closing date of this loan by one year. This would be the second extension.
2. The delays in commitment and disbursement of this loan have occurred primarily due to the following reasons:
 - (a) the initial arrangements for the project/loan were for the subborrowers to carry the full exchange risk. This obligation to service the loans in U.S. dollars put the MIDB at a marked disadvantage compared to other term lenders, especially the Development Industrial Bank. We finally agreed to change the arrangement in May 1983, but the Government did not approve until November 1983 and in effect this had delayed the utilization of the funds by almost three years; and
 - (b) the change in import regulations in early 1985 disrupted the opening of letters of credit for imported commodities.
3. In view of the fact that the causes of these delays were outside the control of MIDB, the request for the extension of the closing date appears justified and we recommend that it be agreed to.
4. If you approve, please sign the attached telex.

Cleared & cc: Messrs. Banerji (EMP), Abu-Akeel (LEG), Ms. Linder (LOA).

cc: Mr. Segura (EMPID).

SAWMoini:rm

WDIAL
.EMIEG
OINFO

-SUBJECT: EGYPT: MIDB (LOAN 1842-EGT)-EXTENSION OF CLOSING DATE
-DRAFTED BY: SAWMOINI:RM EXT: 32455
-AUTHORIZED BY: EUGENIO F. LARI, DIRECTOR, EM1
-CC: MR. SEGURA (EMPID).
-CLEARED WITH & CC: MESSRS. BANERJI (EMP), ABU-AKEEL (LEG),
- MS. LINDER (LOA).

927 93261 =

-DR. ERFAN A. SHAFAY, FIRST UNDERSECRETARY
-MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION
-CAIRO, EGYPT

927 92389 =

-MR. MOTAZ MANSOUR, GENERAL MANAGER
-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT

BT

WASHINGTON DC 14-APRIL-1986

TELEX ADDRESSED TO DR. ERFAN SHAFAY. COPIED TO MR. MOTAZ MANSOUR.
RE LOAN 1842-EGT MISR IRAN DEVELOPMENT BANK AND YOUR REQUEST FOR
EXTENSION OF CLOSING DATE. PLEASED TO INFORM YOU THAT BANK AGREES
TO ONE YEAR EXTENSION AND THE NEW CLOSING DATE OF THE LOAN WOULD BE
JUNE 30, 1987. BEST REGARDS, EUGENIO F. LARI, COUNTRY PROGRAMS
DIRECTOR, EMENA REGION, WORLD BANK.

Eugenio F. Lari

WORLDWANK MS SYSTEM

PK

WORLDWANK MS SYSTEM

WORLDWANK MS SYSTEM

ZCZC ALTC0058 MIES0623

WDIAL

REF : EMIEG

OINFO

-SUBJECT: EGYPT: MISR (LOAN 1842-EGT)-EXTENSION OF CLOSING DATE
-DRAFTED BY: SAWMOINI:RM EXT: 32455
-AUTHORIZED BY: EUGENIO F. LARI, DIRECTOR, EM1
-CC: MR. SEGURA (EMPID).
-CLEARED WITH & CC: MESSRS. BANERJI (EMP), ABU-AKEEL (LEG),
MS. LINDER (LOA).

927 93261 =

-DR. ERFAN A. SHAFFY, FIRST UNDERSECRETARY
-MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION
-CAIRO, EGYPT

927 92389 =

-MR. MOTAZ MANSOUR, GENERAL MANAGER
-MISR IRAN DEVELOPMENT BANK
-CAIRO, EGYPT

BT

WASHINGTON DC 14-APRIL-1986

TELEX ADDRESSED TO DR. ERFAN SHAFY. COPIED TO MR. MOTAZ MANSOUR.
RE LOAN 1842-EGT MISR IRAN DEVELOPMENT BANK AND YOUR REQUEST FOR
EXTENSION OF CLOSING DATE. PLEASED TO INFORM YOU THAT BANK AGREES
TO ONE YEAR EXTENSION AND THE NEW CLOSING DATE OF THE LOAN WOULD BE
JUNE 30, 1987. BEST REGARDS, EUGENIO F. LARI, COUNTRY PROGRAMS
DIRECTOR, EMENA REGION, WORLD BANK.

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ALT RTD FROM:MIEC

IN DROP COPY OF:M1ER

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YOUR MIES0623 OF 04141000
WAS DELIVERED AS TBX29702 AT 04150129
AAB: 92235 INVST UN

YOUR MIES0623 OF 04141000
WAS DELIVERED AS OK015111 AT 04150213
AAB: WLD BNK UR

WORLDBANK MS SYSTEM

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EMPID EM1EG
REF : TCP FCA

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248423 WORLDBANK
20824 MIDE UN
FROM MISR IRAN DEVELOPMENT BANK CAIRO
TO 248423 WORLDBANK WASHINGTON
2/4/86

ATT: S. BENERJI
EMENA/IDF DIVISON

REF. W/B LOAN NO 1842 EGYPT AND YOUR TELEX 2 JULY
1985 REGARDING EXTENTION OF CLOSING DATE FOR ONE
YEAR ENDING ON JUNE 30,1986
PLEASE BE ADVISED THAT WITHDRAWALS FROM THE LOAN ARE
PROCEEDING REPIDLY. HOWEVER WE HAD A PROBLEM IN TWO
AREAS. FIRST, COMPANIES THAT HAD TO OPEN LETTERS OF
CREDIT FOR IMPORTED COMMODITIES FACED GREAT
DIFFICULTIES DUE TO CHANGES IN IMPORT REGULATIONS
EARLY IN 1985 ALTHOUGH THIS PROBLEM HAS BEEN GREATLY
ALLEVIATED IT HAD ALREADY CAUSED TREMENDOUS DELAY
SECOND, EQUITY PARTICIPATION IN OUR ASSOCIATED
COMPANIES WAS NOT AS FAST AS EXPECTED AS A REFLECTION
OF GENERAL DELAY IN COMPANY INCORPORATION AND
PROJECT IMPLEMENTATION

FOR THESE COMPELLING REASONS, WE ARE REQUESTING AN
ADDITIONAL ONE YEAR EXTENSION OF THE DEADLINE OF
WITHDRAWALS, I.E. TO DESIGNATE JUNE 30,1987 AS THE
NEW DATE FOR PURPOSES OF SECTION 2.03 OF THE LOAN
AGREEMENT.

AWAITING YOUR RESPONE AT YOUR EARLIEST CONVENIENCE.
BEST REGARDS

DR. ALI A SOLIMAN
ASST. GENERAL MANAGER

248423 WORLDBANKMMMMMM

=04021630

=04021148

NNNN

OFFICE MEMORANDUM

DATE July 1, 1985

TO Mr. Eugenio F. Lari, Director, EM1

FROM Alberto Favilla, Division Chief, EM1EG

EXTENSION 32464

SUBJECT EGYPT - Loan No. 1842 - Misr Iran Development Bank (MIDB)
First Extension of Closing Date

Alberto:
Mr. Damski, I
know, that really
you will inform Dr.
Shafey that we will
review the situation at
end of 85 and before
6/86 to consider a
second extension

1. MIDB has requested an extension of closing date for this loan, of which the status is as below:

Loan Amount	\$30.0 Million
Last date for subproject submission	12/31/1983 ^{1/}
Closing date for disbursements	06/30/1985
Amount committed in subloans	\$30.0 Million
Amount disbursed (05/31/1984)	\$14.3 Million
Undisbursed balance	\$15.7 Million

2. A total of 13 subloans have been committed. Eight are fully disbursed while the remaining five are partly disbursed to varying percentages.

3. It would be recalled that the loan had a very slow start due to the unfavorable foreign exchange risk arrangements originally in existence which required MIDB Sub-borrowers to repay their loans in dollars. After extended discussions between the Government, Bank and MIDB, MIDB was brought under the same exchange rate and interest spread arrangements applied to other Bank lines-of-credit then in existence, which permit the sub-borrowers to repay their loans in local currency, with effect from August 1983. Commitments of approved but uncommitted loans occurred rapidly thereafter and the loan was fully committed by December 31, 1983.

4. Considering that most of the loan was committed in the second half of 1983, the disbursement performance is satisfactory, especially because of \$9.168 million out of the loan is committed for equity investments by MIDB in MIDB financed projects. These investments will disburse only as the companies issue calls for capital. This is expected to be completed within the proposed one-year extension period.

5. The Government is the borrower for the loan and has supported MIDB's request for an extension of two years to the closing date of 06/30/1985. This would be the first, and most likely the only extension to the closing date. Taking the one year extension of the last date for subproject submission (which proved to be adequate) we should agree to an extension of the closing date to 06/30/1986. Progress of disbursements should be reviewed in December 1985.

^{1/} Extended from 12/31/82

Cleared with and cc: Messrs. Zaidan, Act. Asst. Dir. (EMP), Abu-Akeel (LEG)
 cc: Mr. Damski (LOA).
 ADeshpande

WDIAL
.EMIEG
OINFO

-SUBJECT: EGYPT: MIDB LN. NO. 1842
-DRAFTED BY: ADESHPANDE:YLG EXT: 33049
-AUTHORIZED BY: EUGENIO F. LARI, DIRECTOR, EM1
-CC: MESSRS. ZAIDAN (EMP), ABU-AKEEL (LEG).
-

927 23348 =
-DR. ERFAN SHAFAY, FIRST UNDERSECRETARY, MINISTRY OF PLANNING AND
-INTERNATIONAL COOPERATION, CAIRO, EGYPT
962 22345 =
-DR. AL MOTAZ MANSOUR, GENERAL MANAGER, MISR IRAN DEVELOPMENT BANK,
-CAIRO, EGYPT
BT
WASHINGTON DC 01-JUL-85

TELEX ADDRESSED TO DR. ERFAN SHAFAY. COPIED TO DR. MANSOUR. RE LOAN
NO. 1842-EGT. REFERENCE TO YOURS AND MIDB'S REQUESTS OF EXTENSION
OF CLOSING DATE. PLEASED TO INFORM YOU THAT BANK AGREES TO EXTEND
THE CLOSING DATE FOR THE ABOVE LOAN BY ONE YEAR AND TO ESTABLISH
THE DATE OF JUNE 30, 1986 AS THE NEW DATE FOR PURPOSES OF SECTION
2.03 OF THE LOAN AGREEMENT FOR THE LOAN. BEST REGARDS, EUGENIO F.
LARI, DIRECTOR, COUNTRY PROGRAMS DEPARTMENT I, EUROPE, MIDDLE EAST
AND NORTH AFRICA REGION, WORLD BANK.

Eugenio F. Lari

WORLD BANK 77502

ZCZC M1EC0017 M1ES0184

WDIAL

REF : EM1EG

OINFO

-SUBJECT: EGYPT: MIDB LN. NO. 1842

-DRAFTED BY: ADESHPANDE:YLG

EXT: 33049

-AUTHORIZED BY: EUGENIO F. LARI, DIRECTOR, EM1

-CC: MESSRS. ZAIDAN (EMP), ABU-AKEEL (LEG).

927 23348 =

-DR. ERFAN SHAFAY, FIRST UNDERSECRETARY, MINISTRY OF PLANNING AND

-INTERNATIONAL COOPERATION, CAIRO, EGYPT

962 22345 =

-DR. AL MOTAZ MANSOUR, GENERAL MANAGER, MISR IRAN DEVELOPMENT BANK,

-CAIRO, EGYPT

BT

WASHINGTON DC 02-JUL-85

TELEX ADDRESSED TO DR. ERFAN SHAFAY. COPIED TO DR. MANSOUR. RE LOAN NO. 1842-EGT. REFERENCE TO YOURS AND MIDB'S REQUESTS OF EXTENSION OF CLOSING DATE. PLEASED TO INFORM YOU THAT BANK AGREES TO EXTEND THE CLOSING DATE FOR THE ABOVE LOAN BY ONE YEAR AND TO ESTABLISH THE DATE OF JUNE 30, 1986 AS THE NEW DATE FOR PURPOSES OF SECTION 2.03 OF THE LOAN AGREEMENT FOR THE LOAN. BEST REGARDS, EUGENIO F. LARI, COUNTRY PROGRAMS DIRECTOR, EUROPE, MIDDLE EAST AND NORTH AFRICA REGION, WORLD BANK.

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IN DROP COPY OF:M1ER

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Record Removal Notice

File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 13 January, 1981	Document Type Memorandum			
Correspondents / Participants To : Messrs. A. Karaosmanoglu (EM1), R. Picciotto (EMP) and M. Hattori (CTR) From : Aly Abu-Akeel (LEG)				
Subject / Title Egypt - Loan No. 1842 EGT (Misr Iran Development Bank Project) - Effectiveness				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

BOOK OF THREE (SEE ATTACHED TEXT)

1. HIS EXCELLENCY

DR. ABDEL RAZZAK ABDEL MEGUID
DEPUTY PRIME MINISTER FOR ECONOMIC AND
FINANCIAL AFFAIRS
MINISTRY OF ECONOMY
CAIRO, EGYPT
TELEX: 348 GAFEC UN

2. MR. FOUAD SULTAN

CHAIRMAN
MISR IRAN DEVELOPMENT BANK
CAIRO, EGYPT
TELEX: 92389 MIDB UN

3. MR. SAMIR KORAIEM

UNDERSECRETARY
MINISTRY OF ECONOMY
CAIRO, EGYPT
TELEX: 348 GAFEC UN

END
OF
TEXT

NOT TO BE TRANSMITTED

SUBJECT:

EGYPT: MIDB (Loan 1842)

CLEARANCES AND COPY DISTRIBUTION:

Cld w & cc: Messrs. Abu Akeel,
Feige
cc: Messrs. Karaosmanoglu o/r,
Zaidan o/r, El Daher o/r,
Hakim o/r

DRAFTED BY:

RWZaborski:aw

AUTHORIZED BY (Name and Title):

Hans-Eberhard Küpp, Acting Director

DEPARTMENT:

Country Programs 1, EMENA Region

CHECKED FOR DISPATCH

WORLD BANK OUTGOING MESSAGE FORM (Telegram, Cable, Telex)
IMPORTANT (PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM)Class of Service **TELEX** Date: **DECEMBER 31, 1980**
Telex No. _____ Originators Ext: **74787**

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1 START HERE TO
CITY/COUNTRY
MESSAGE NO
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ADDRESSED HIS EXCELLENCY, DR. ABDEL RAZZAK ABDEL MEGUID,
DEPUTY PRIME MINISTER FOR ECONOMIC AND FINANCIAL AFFAIRS,
MR. FOUAD SULTAN, CHAIRMAN, MISR IRAN DEVELOPMENT BANK AND
MR. SAMIR KORAIEM, UNDERSECRETARY, MINISTRY OF ECONOMY, CAIRO,
EGYPT.

PLEASED TO INFORM YOU THAT BANK ACCEPTS EVIDENCE SUBMITTED IN
FULFILLMENT OF CONDITIONS PRECEDENT TO EFFECTIVENESS OF LOAN
AND PROJECT AGREEMENTS FOR MIDB PROJECT (LN. 1842) DATED
JUNE 4, 1980 BETWEEN THE ARAB REPUBLIC OF EGYPT, MIDB AND THE
BANK, RESPECTIVELY. CONSEQUENTLY, THE LOAN BECOMES EFFECTIVE
TODAY, DECEMBER 31, 1980. BEST REGARDS, KOEPP, ACTING DIRECTOR,
WORLD BANK.

END
OF
TEXT

NOT TO BE TRANSMITTED

SUBJECT:

EGYPT: MIDB

CLEARANCES AND COPY DISTRIBUTION:

Cld w & cc: Messrs. Abu Akeel,
Fergecc: Messrs. Karaosmanoglu o/r,
Zaidan o/r, El Daher o/r,
Hakim o/r

DEAL

RWZaborski:aw

AUTHORIZED BY (Signature)

Hans-Eberhard Koepf, Acting Director

DEPARTMENT

Country Programs 1, EMENA Region

SECTION BELOW FOR USE OF CHECKING OFFICER
CHECKED FOR DISPATCH

N. Köpp
December 18, 1980

NOTE ON MIDB.

A meeting attended by Messrs. Köpp, Zaidan, El Daher and Zaborski was held on December 18, 1980 to discuss MIDB.

The current date of effectiveness for the project is January 5, 1981 and the meeting discussed the question of whether or not the Bank should declare the loan effective at that time, assuming we had received the necessary documentation. (The subsidiary loan agreement has been signed although we have not yet received it or the necessary legal opinions.) The meeting noted that the latest action by MIDB's shareholders meeting (selling the Iranian shares of the capital increase which gave the Egyptian shareholders majority control): (1) had not changed MIDB's position detrimentally, in fact the opposite was true; and (2) allowed MIDB to function normally again since the Iranians were no longer in a position to block MIDB's day-to-day operations. If by subsequent legal actions, the Iranians were able to disrupt MIDB's operations (and this was considered unlikely since the Egyptian courts would probably not side with the Iranians), the Bank would still be covered since the loan was to the Government and the Bank would have adequate grounds to suspend disbursements.

One of the outstanding questions, however, concerning possible Iranian legal actions was the period of time they had under Egyptian law to request the courts to issue a stay of execution. It was felt that this would probably be a month or two. As the Assistant General Manager of MIDB was currently in town, Mr. El Daher undertook to find this out. If this period of time were one or two months, the meeting agreed that it would be better if this deadline had elapsed before we declare the loan effective. Since the action by the Shareholders' Meeting took place on November 29, this would mean December 29 or January 29. If it were two months, or so, Projects would telephone Mr. Sultan informally to see about the possibility of his delaying sending to the Bank the legal instruments for effectiveness so that the Bank could postpone effectiveness by another month or so, i.e. until after the date the Iranians can request a stay of execution has passed. If this period is longer or if we receive the necessary documentation the meeting agreed the loan should be declared effective.

RWZ
R. W. Zaborski

Division 1A
CPD 1, EMENA Region

OFFICE MEMORANDUM

TO: Mr. Attila Karaosmanoglu, Director, EMI

DATE October 3, 1980

FROM: Hans-Eberhard Köpp, Division Chief, EMIDA

SUBJECT: EGYPT : MIDB Project - Extension of Period by Which
Loan to be Effective

1. The Egyptian Government has requested that the period by which the above loan is to be made effective be extended by three months, from October 6, 1980 to January 5, 1981. The Agreements cannot be submitted to the People's Assembly until it reconvenes in early November. From the Bank's point of view we would like to see the differences between the Egyptian and Iranian shareholders settled before the loan is declared effective. The recent shareholders meeting in London did not produce agreement on the basis of the most likely alternatives outlined by them earlier. Rather the proposal was put forward that the Iranian shareholders sell all of their shares in MIDB, and the Iranians were to report back to MIDB on a decision on this proposal by the end of October. During a recent meeting, Mr. Sultan, the Chairman, was hopeful that the outstanding issues could be resolved by the end of November (please see Mr. Zaborski's memorandum attached). However, given the uncertainties, it seems likely that at least 90 days will be needed to resolve the management issue. If you agree, please sign the attached telex.

Attachments

Cleared with and cc:(without attachments): Messrs. Abu Akeel, El Daher

cc: (without attachments) Messrs. Zaidan, Malik, Hakim (o/r)

RZaborski:cys

Class of Service: **BOOK OF TWO** Date: **October 3, 1980**
 Telex No: **(see attached text)** Originators Ext: **74787**

12

10

ART
HERE TO
CITY/COUNTRY
MESSAGE NO

ADDRESSED MR. SAMIR KORAIEM, UNDERSECRETARY, MINISTRY OF
 ECONOMY, CAIRO, AND MR. FOUAD SULTAN, VICE CHAIRMAN AND
 MANAGING DIRECTOR, MISR IRAN DEVELOPMENT BANK, CAIRO, EGYPT.
 RE MIDB PROJECT (LOAN 1842-EGT) AND MR. KORAIEM'S LETTER OF
 SEPTEMBER 30, 1980 BANK AGREES TO POSTPONE THE DATE BY WHICH
 THE AGREEMENT HAS TO BECOME EFFECTIVE AND HAS ESTABLISHED
 JANUARY 5, 1981 FOR THE PURPOSE OF SECTION 12.04 OF THE GENERAL
 CONDITIONS. REGARDS, ATTILA KARAOSMANOGLU, DIRECTOR, WORLD
 BANK.

END
OF
TEXT

NOT TO BE TRANSMITTED

SUBJECT

EGYPT: MIDB Egypt

RZaborski;cys

CLEARANCES AND COPY BY

Clrd. with and cc: Messrs. Mayer (CTR)
 cc: Messrs. Abu Akeel, El Daher, Zaidan
 Malik and Hakim (o/r)

Attila Karaosmanoglu, Director

EM1

SECTION BELOW FOR USE OF CABLE SECTION

CHECKED FOR DISPATCH



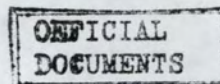
Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 15 February, 1983	Document Type Outgoing wire			
Correspondents / Participants To : Mr. Samir Koraaïem, Senior Undersecretary From : Sherif O. Hassan, Chief Counsel				
Subject / Title Loan No. 1842 EGT				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

CAIRO MAY 15, 1960

ATT MR KOEPP



RYRTLX MAY 13, THKS FOR BOARD'S APPROVAL MIDB PROJECT,

PLEASE TO INFORM THAT EGYPTIAN AMBASSADOR IS AUTHORISED TO

SIGN THE LOAN AGREEMENT ON BEHALF OF THE GOVT. MR SULTAN IS

AUTHORISED TO SIGN PROJECT AGREEMENT ON BEHALF OF MIDB.

REGARDS

SAMIR KORAIEM

☒

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(see attached text)

DATE June 5, 1980

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Book of Two (see attached text)

MESSAGE NO

1. Mr. Samir Koraïem, Undersecretary
Ministry of Economy
Cairo, Egypt

TELEX: 348 GAFEC UN

2. Mr. Fouad Sultan
Chairman and Managing Director
Misr Iran Development Bank
Cairo, Egypt

TELEX: 2389 MIDB UN

END
OF
TEXT

SUBJECT

Egypt : MIDB

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APPROVED BY (NAME AND TITLE)

Hans-Eberhard Köpp

DEPARTMENT

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(see attached text)

June 5, 1980

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ADDRESSED MR. SAMIR KORAIEM, UNDERSECRETARY, MINISTRY OF
ECONOMY, AND COPIED MR. FOUAD SULTAN, CHAIRMAN AND MANAGING
DIRECTOR, MISR IRAN DEVELOPMENT BANK, CAIRO, EGYPT. PLEASED
TO INFORM YOU DOCUMENTS FOR MIDB PROJECT, LN. 1842-EGT, SIGNED
JUNE 4, 1980. DATE OF EFFECTIVENESS IS OCTOBER 6, 1980. COPIES
OF FINAL DOCUMENTS WILL BE SENT AT LATER DATE. BEST REGARDS,
HANS-EBERHARD KOEPP.

END
OF
TEXT

Egypt : MIDB

cys

Hans-Eberhard Koepf

EM1

Mr. Roger Chaufournier, Vice President, EMENA Region,
Through Mr. Attila Karaosmanoglu, Director, EMI *AK*
Hans-Eberhard Kopp, Division Chief, EMIDA

May 30, 1980

EGYPT - Signing of Misr Iran Development Bank Project
(\$30 Million Loan); Textiles II Project
(\$69 Million Loan); Pulp and Paper Project
(\$50 Million Loan); Cairo Gas Distribution
Project (\$50 Million Credit) :
Wednesday, June 4, 1980, Room A-1100, 11:00 a.m.

The following are brief notes on the projects to be signed:

- By this second signing, will almost complete lending program for FY80 (Power Distribution - \$127 million - scheduled for June).

- Program for the year thus far already almost equals FY79 program. 6 projects for \$294 million - (v. FY79 of 6 projects for \$322 million).

- Four projects show Bank's support of Government's interest in private sector and development of its energy resources.

1. MIDB (\$50 Million Loan)

- We welcome today a new institutional borrower: Mr. Fouad Sultan, Vice Chairman and Managing Director, Misr Iran Development Bank, present to sign Project Agreement.

- MIDB's role unique in promoting and financing medium and larger private industrial projects, especially joint-ventures which bring into Egypt appropriate modern technology and efficient managerial know-how.

- Bank loan will cover about 50 percent of MIDB's resource needs for two coming years, contributing to an estimated total capital investment of some \$200 - \$300 million.

- Specific allocation of funds under Bank loan for these priority sectors: construction/contracting, capital goods and export-oriented industries.

- We look forward to long and fruitful relationship.

2. Pulp and Paper Project (\$50 Million Loan)
Textiles II Project (\$69 Million Loan)

- Loans to three companies (National and RAKTA Paper Companies and National Spinning and Weaving) now public sector companies but under the

projects being transferred to joint-venture sector under Law 43. This will allow them greater autonomy in such areas as compensation, pricing, profit retention and can provide models for other industries.

- Good examples of on-going industrial dialogue; both based on studies financed by the Bank and address priority needs identified in the studies and subsequent discussions.

- Studies included under projects provide for next logical steps in the development of the two sectors and will address issues relevant to public sector industries in general.

3. Cairo Gas Distribution Project (\$50 Million Credit)

- Second involvement in the sector (the first was Gulf of Suez Gas in FY79).

- Project would use domestically available source - natural gas, to replace extremely expensive import, LPG.

- Price increases agreed under the project should lead to more rational energy pricing in general.

- Other projects in the sector under consideration, including gas exploration, would assist Egypt in optimizing domestic energy resources and keeping it as a net exporter of petroleum products.

RZ
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International Bank for Reconstruction and Development
International Development Association

SecM80-423
IDA/SecM80-222

FROM: Vice President and Secretary

May 29, 1980

SIGNING OF LOANS AND CREDIT: EGYPT

1. Second Textile Project (\$69 m. loan)
2. Pulp and Paper Project (\$50 m. loan)
3. Misr Iran Development Bank Project (\$30 m. loan)
4. Cairo Gas Distribution Project (\$50 m. credit)

1. The following arrangements have been made for signing the above loans and credit to Egypt.

Date and Hour - Wednesday, June 4, 1980 - 11:00 a.m.

Place - Board Room

Signing Officials - For the Borrower: His Excellency
Ashraf Ghorbal
Ambassador of Egypt

- For MIDB: Mr. Fouad Sultan
Vice Chairman and
Managing Director,
MIDB

- For the Bank and
the Association: Mr. Chauffournier
Vice President
EMENA Region

Seating:

4(R) Mr. Al-Hegelan
3(R) Mr. El-Naggar
2(R) H. E. The Ambassador

1 Mr. Chauffournier

2(L) MIDB
3(L) EMENA Region

2. Mr. Zaborski (EMENA Region) will arrange for the attendance of the signing officials. Messrs. Abu Akeel, Duval and Sakuragi (Legal Department) will supervise the execution of the documents.

Distribution:

Mr. El-Naggar	Mr. Nurick	Mr. Knox
Mr. Al-Hegelan	Mr. Qureshi	Mr. Merriam
President	Mr. Rotberg	Mr. Zaborski
Mr. Cargill	Mr. Bart	Mr. Abu Akeel
Mr. Baum	Mr. Gabriel	Mr. Duval
Mr. Chauffournier	Mr. Hattori	Mr. Sakuragi
	Mr. Karaosmanoglu	

CAIRO MAY 15, 1980

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MAY 15 AM 10:15

ATT MR. KOEPP

RYRTLX MAY 13, THKS FOR BOARD'S APPROVAL MIDD PROJECT,
PLEASE TO INFORM THAT EGYPTIAN AMBASSADOR IS AUTHORISED TO
SIGN THE LOAN AGREEMENT ON BEHALF OF THE GOVT. MR SULTAN IS
AUTHORISED TO SIGN PROJECT AGREEMENT ON BEHALF OF MIDD.

REGARDS

SANIR KORAIEM

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348 SAFEC UN

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Book of Two

Date:

May 28, 1980

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CITY/COUNTRY

MESSAGE NO

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1.

Mr. Fouad Sultan
Vice Chairman and Managing Director
Misr Iran Development Bank
Cairo, Egypt

TELEX: 2389 MIDB UN

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2.

Mr. Samir Koraïem
Undersecretary
Ministry of Economy, Foreign Trade
and Economic Development
Cairo, Egypt

TELEX: 348 GAFEC UN

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SUBJECT:

EGYPT : MIDB Signing

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RZaborski:cys

AUTHORIZED BY (Name and Signature):

H.E. K8pp

DEPARTMENT:

EM1

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ADDRESSED MR. FOUAD SULTAN, VICE CHAIRMAN AND MANAGING
DIRECTOR, MISR IRAN DEVELOPMENT BANK, AND COPIED MR.
SAMIR KORAIEM, UNDERSECRETARY, MINISTRY OF ECONOMY,
FOREIGN TRADE AND ECONOMIC COOPERATION, CAIRO, EGYPT.
WE HAVE ARRANGED SIGNING OF MIDB LOAN AND PROJECT
AGREEMENTS FOR WEDNESDAY JUNE 4, 1980 AT ELEVEN A.M.
IN ROOM A-1100 ALONG WITH SIGNING OF THREE OTHER
PROJECTS APPROVED FOR EGYPT THUS FAR. LOOK FORWARD
TO SEEING YOU AT THAT TIME. PLEASE CONFIRM. BEST
REGARDS, KOEPP.

NOT TO BE TRANSMITTED

SUBJECT
EGYPT : MIDB SIGNING
CLEARANCES AND COPY DISTRIBUTION:
Cleared with and cc:
Mr. Malik (IDF)
cc: Mr. Zaidan

BY
RZaborski:cys
Hans-Eberhard Koepf
EM1

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Hh. Kopp

OFFICE MEMORANDUM

TO: Mr. Suk Hong Choi, Secretary's

DATE: May 28, 1980

FROM: Hans-Eberhard Kopp, Division Chief, EMIDA

SUBJECT: EGYPT : Misr Iran Development Bank Project (MIDB) - \$30 Million Loan
Textiles II Project - \$69 Million Loan
Cairo Gas Distribution Project - \$50 Million Credit
Pulp and Paper Project - \$50 Million Loan
Signing of Loans and Credits

Arrangements have been made for the legal documents relating to the above projects to be signed on June 4, 1980 at 11:00 a.m. in Room A-1100. Mr. Chauffournier, Vice President, EMENA Region, will sign for the Bank, His Excellency Ashraf Ghorbal, Ambassador of Egypt will sign all of the documents on behalf of the Government of Egypt and the beneficiaries with the exception of the project agreement for the MIDB project for which Mr. Fouad Sultan will sign on behalf of MIDB. The legal documents will be executed by Messrs. Abu Akeel, Duval and Sakuragi.

cc: Dr. El Naggar, Executive Director

cc: Messrs. Chauffournier (EMNVP), Karaosmanoglu (EM1), Knox, Carmignani(EMP), Fuchs (IPD), Zaidan, El Darwish (o/r), El Daher (EMP), Chaudhry (IFC), Kopp, Dervis, Kaps (EM1), Iskander, Carpio, Chalk, Ichishima, Sandig (IPD), Rovani, Bourcier, McCarthy, Nayyar, Wormser, Ms. Zurayk (EGY), Sakuragi, Duval, Abu Akeel (LEG)

RZaborski:cys

PLEASE NOTE THAT THE MINISTRY HAS DULY AUTHORIZED DR. ASHRAF
GORBAL , OUR AMBASSADOR TO THE U.S.A. TO SIGN LOAN AGREEMENT
ON BEHALF OF THE EGYPT GOVERNMENT.

LOOKING FORWARD TO SEEING YOU.

BEST REGARDS

FOUAD SULTAN

MMMM

STATUTORY COMMITTEE
REPORT

STATUTORY COMMITTEE REPORT

OFFICIAL
DOCUMENTS

Hand Book

M1842-EGT²

To: The President, International Bank for Reconstruction and Development

Report of Committee under Section 4(iii) of Article III of the Articles of Agreement on the Proposed Loan (Misr Iran Development Bank Project) to the Arab Republic of Egypt

The undersigned Committee constituted under Section 7 of Article V of the Articles of Agreement of International Bank for Reconstruction and Development (the Bank) hereby submits its report pursuant to Section 4(iii) of Article III of said Articles in respect of the proposal that the Bank grant to the Arab Republic of Egypt a loan in an amount in various currencies equivalent to US\$30,000,000 for use by Misr Iran Development Bank (MIDB). The purpose of said loan is to assist MIDB in financing specific industrial development projects through loans and investments in private enterprises in the territories of the Arab Republic of Egypt, in furtherance of the corporate purposes of MIDB.

1. The Committee has carefully studied the merits of the proposal to grant such a loan, and of the purposes to which the proceeds of the loan are to be applied.

2. The Committee is of the opinion that the project toward the financing of which the proceeds of such loan are to be applied comes within the purposes of the Bank as set forth in Article I of said Articles of Agreement, and that said project is designed to promote the development of the productive facilities and resources of the Arab Republic of Egypt and is in the interests of the Arab Republic of Egypt and of the members of the Bank as a whole.

(Arab Republic of Egypt)

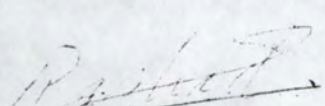
(Misr Iran Development Bank Project)

3. Accordingly, the Committee finds that said project merits financial assistance from the Bank, and hereby recommends said project for such assistance.

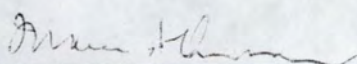
COMMITTEE



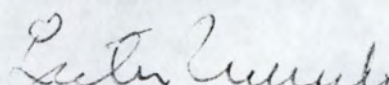
Acting Vice President, Operations



Expert selected by Governor for the
Arab Republic of Egypt



Vice President, Finance



Vice President and General Counsel



Regional Vice President
Europe, Middle East and North Africa



Vice President, Projects Staff

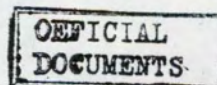

Dated at Washington, D.C.

April 24, 1980

248423 WORLDBANK

CAIRO APRIL 19, 1980

ATT MR KOEPP



Mr. Lova
EGT Power (3)
W 1842 EGT⁴
CR 1024 EGT⁴
W 1849 EGT⁴

RYRTLX APRIL 18 REGARDING MIDB , GAS DISTRIBUTION, PULP AND
PAPER AND POWER III PROJECT AGREEMENTS MR SHAMEL RASHAD THE
COMMERCIAL COUNSELLOR IN WASHINGTON WILL SERVE ON
THE STATUTORY COMMITTEE. REGARDS

SAMIR KORAIEM

COMMUNICATIONS DIVISION

1980 APR 19 AM 10:16

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File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 20 May, 1980	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Minutes of Meeting of the Executive Directors of the Bank and IDA held in the Board Room on May 13, 1980 at 10:45 a.m.				
Exception(s) 				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

PRESENTATION TO
THE BOARD

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TO WORLD BANK - WASHINGTON

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Mr. Köpp

RE YOUR TLX MAY 15 WE REPEAT OUR TLX DTD 15 MAY AT YOUR
REQUEST

QUOTE

ATT MR. KOEPP.

RECEIVED WITH THANKS YOUR TLX DTD MAY 15, 1980.

PLEASED TO KNOW OF APPROVAL OF MIDB PROJECT. PLEASE NOTE
THAT I HAVE BEEN AUTHORIZED BY THE BOARD TO SIGN FOR MIDB.
SHALL BE ARRIVING WASHINGTON MONDAY 2.6.80 PROPOSE TO SIGN
ON 3RD OR 4TH JUNE.

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COMMUNICATIONS DIVISION



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File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date	Document Type Board Record			
Correspondents / Participants				
Subject / Title Egypt - Board Presentation of the MIDB Project				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

MIDB - POTENTIAL QUESTIONS FOR BOARD

1. Question: Has there been any communication with Iranian shareholders? Are they public sector banks (now)?

Answer: On occasion of World Bank missions to Cairo coinciding with MIDB's board or general shareholders (sh.hs) meetings, Bank staff did discuss, with representatives of MIDB's sh.hs (including Bank Melli and IMDBI), matters of interest to MIDB. In addition, discussions were held with representatives of IMDBI (Mr. Kheradjiou) during the 1978 World Bank Annual Meetings in Washington. More recently, however, representatives of Iranian sh.hs could not be contacted because of the the situation in Iran. Yet the dialogue is maintained with MIDB's General Manager who is the Iranian board member representing IMDBI, and seconded by it to MIDB.

IMDBI and Bank Melli were nationalized in July 1979. All the Banking sector is now nationalized in Iran.

2. Question: What would happen if the Iranian sh.hs refuse to pay in the remaining 75 percent of the share capital increase?

Answer: Doubling of MIDB's share capital was decided by MIDB's General sh.hs meeting in July 1979. All MIDB's sh.hs have so far honoured their commitments and abided by MIDB's board resolutions on payment of callable share capital. In its end April 1980 meeting, MIDB's board resolved to call in an additional 25 percent of the subscribed share capital increase, to be paid in by end June 1980. Should any of the sh.hs not pay, as and when required, the remaining portion of the callable capital, their unpaid share would be offered to other existing shareholders, and later, to new parties. Given MIDB's image in the Egyptian business community, MIDB would have no difficulty in finding new sh.hs. Inclusion of new sh.hs may change MIDB's ownership to an Egyptian majority, and would have no adverse effect on MIDB's operations.

3. Question: Is it sound practice for MIDB to use part of its short term resources for long term investments?

Answer: Use of short term resources for long term investments is only considered by MIDB as interim measure pending mobilization of additional long term resources including the proposed Bank loan. Furthermore, commitment of short term resources for long term investments is restricted by MIDB's policy to an amount which MIDB's shareholders pledge to provide in standby long term resources; these are in the form of unpaid subscribed capital. Procedures have been adopted to ensure that this capital, or part thereof, would be paid in should MIDB encounter liquidity problems arising from the use of short-term resources for long term investments.

4. Question: How many jobs will be created during the period of the Bank loan?

Answer: Over ten thousand job opportunities are expected to be created under MIDB's financed projects during the two-year commitment period of the Bank loan.

5. Question Why is the cost per job created so high?

Answer: The relatively high average cost per job in MIDB's financed projects should be viewed in relation to the nature and scale of these projects. MIDB promotes and finances medium and larger scale projects which often involve advanced technology and up-to-date equipment, and employ experienced managerial know-how. MIDB's projects show good economic returns and have demonstrated output quality and production efficiency.

6. Question: What is IFC doing to assist the capital market in Egypt?

Answer: IFC has assisted Egypt in drafting legislation for a Capital Market Authority which was ultimately established in Egypt at the end of 1979. An IFC technical assistance program is underway for the development of the capital market, including (i) training schemes, (ii) setting up policies and regulations for the market operations, and fiscal and other measures to broaden market and strengthen the Capital Market Authority, and (iii) assessment of potential demand for capital market instruments and ways of raising capital.

7. Question: Why 25 percent each for construction/contracting, capital goods and export oriented industries, especially the latter? What is the risk in this respect?

Answer: Specific allocations of funds under the proposed loan are made for the construction industry, the capital goods industries, and the export oriented industries, identified as priority areas for industrial development in Egypt. These priorities are in line with those of the Government and of MIDB. Given the difficulties which may be encountered in using funds for capital goods and export oriented projects, the Bank has adopted a flexible approach allowing for reallocation among components should this be necessary.

a) Assistance to the construction sector is justified by the need to expand the capacity of the domestic contracting firms, and develop the building materials industry to meet increasing requirements in housing, civil works and industrial buildings. A study of the construction sector is underway to formulate a sector strategy and recommendations to meet the sector's objectives.

MIDB has been active in the construction sector, where it realized about 15 percent of its operations so far. MIDB plans to pursue its supportive role to this sector as shown by its pipeline which includes operations in building materials, pipes, prefabricated pannels, pre-mixed concrete, piling and contracting, as well as leasing of construction equipment.

b) Support to the export oriented industries is justified to help overcome difficulties faced by Egyptian exports, particularly traditional exports, as a result of shrinking markets, termination of bilateral agreements and increased competition. The growing domestic market also dampens export interests. Non-traditional exports also need to be expanded. Some of Egypt export industries have promising potentials notably cosmetics, perfumed and essence oils, carpets, cotton waste, dry legumes, alcoholic beverages, jams fruit juices, printed books, leather goods and light engineering products. Prospects for export expansion to new and diversified markets can only be achieved through improved product quality and design, and production efficiency. MIDB's role can be valuable in promoting and assisting efficient export-oriented joint ventures with reputable international partners who contribute modern technological and managerial know-how, and effective marketing expertise facilitating access to new markets. MIDB's project pipeline includes joint ventures with export components in aluminum extrusion, cotton waste, pvc pipes, soap and disinfectants, and footwear. Given the difficulties involved in breaking into the export market after years of an inward looking policy and bilateral trade agreements, the allocation of 25 percent of the proposed loan to export industries may not be fully utilized. (There was no similar allocation in the case of DIB for the private sector, since DIB's operations are primarily of a smaller scale where the opportunities for exports do not exist to the same extent).

c) Support to the capital goods industries will help expand domestic supply of equipment to meet increasing demand in Egypt. Some capital goods industries are relatively less capital intensive than other modern industries and can benefit from the availability of skills in Egypt. There is often scope for using varying levels of technology and scales of production. The intermediate technology required can be acquired under joint ventures and licensing arrangements, and MIDB's role can be valuable in promoting such projects and facilitating transfer of technology. Potentials for such projects can be developed in the fields of fabricated metal products, electrical and non-electrical machinery (machine tools, agricultural equipment, tractors, etc.) and transport equipment, including railway and commercial vehicles.

POTENTIAL QUESTIONS FOR BOARD

1. Why 17 years repayment compared to 15 (?) for DIB?
2. Why 25 percent each for building material, construction; capital goods; and export oriented industries, especially the latter? What is the risk in this respect?
3. What is IFC doing to help develop capital market?
4. Has there been any communication with the Iranian shareholders? Are they public sector banks (now)?
5. What would happen if the Iranian shareholders refused to pay in the remaining 75 percent of the share capital increase?
6. Is it sound practice for MIDB to use part of its short-term resources for long-term investments?

OFFICE MEMORANDUM

TO: Files
FROM: R. W. Laborski, Loan Officer, Country Programs
Department 1, EMENA Region
SUBJECT: EGYPT: MIDB Project
Questions from the Executive Directors

DATE: May 12, 1980

1. The following additional questions were received from Executive Directors' offices since my last memorandum:

2. The Technical Assistant of the German Executive Director asked why we chose MIDB as a channel for the Bank loan rather than some other institution or building up DIB, given the risks involved with MIDB. In answering this question, I mentioned that there were no other institutions in Egypt which could play the role MIDB is now successfully playing in identifying, promoting and financing medium and larger institutions in Egypt and stressed MIDB's complementarity with DIB which deals with the smaller scale industries. We are gradually building up DIB but the institution could not also assume the role played by MIDB because of institutional constraints. The commercial banking institutions were neither willing nor equipped to assume this role. Finally, the Government of Egypt had put forward MIDB as a candidate for Bank financing, realizing the role which it plays, and with Bank support, can continue to play in the economy.

3. He said he felt the \$1 million dollar free limit was high given the fact that this was our first loan to MIDB and the fact that MIDB was a relatively new institution. I responded that the first two subprojects would be subject to Bank review regardless of the size of the subloan. The amount of the free limit, however, was related not only to length of time the Bank had dealt with an institution but to the type of institution and the size of its subloan. MIDB's loans tended to be rather large (\$1.5 million on average); its appraisal techniques were satisfactory; and the \$1 million dollar free limit would allow for a satisfactory number of subprojects for Bank review (over half of the total). To have made the free limit any less would have meant the Bank would have had to review a disproportionate number of subloans which the Bank felt was not necessary and would have made it that much more difficult to use the Bank loan.

4. He asked whether or not the fact that MIDB could not deal in local currency was a constraint. I responded that MIDB has been quite successful in putting together financing packages, including the necessary local funds; and that we did not foresee any difficulties in this regard.

May 12, 1980

5. He asked if the fact that MIDB was not under the control of the Central Bank of Egypt could pose difficulties. What would keep MIDB from losing a lot of money in speculative ventures. I responded that we felt MIDB's management was quite prudent and responsible. We had also reviewed MIDB's Policy and Strategy Statements and found them sound. Substantial changes in the former would be subject to prior Bank approval.

6. Finally, he asked about the political (i.e. Iranian) question. After I explained the various contingencies which could arise and what could be done to deal with these (as explained previously), he asked what would happen if the Iranian shareholders decided to actively oppose MIDB. I explained that in this case, MIDB, as an institution incorporated under Egyptian laws, would have remedy to these laws and MIDB could be reincorporated which would safeguard the existing shareholders.

7. The Technical Assistant to the Italian Executive Director called. He was also interested in the Iranian question, the question of the lack of Central Bank of Egypt authority over MIDB, and why the free limit was "so high." I answered these questions as previously discussed.

8. He also asked if adequate provision had been made for possible losses on the portfolio. I explained that since 1978 MIDB had started setting aside annual amounts for this purpose (1 percent of the long-term loan and equity investments with the target to reach 5 percent of such portfolio, as well as additional provisions against short-term loans to be held at 1 percent of outstanding short-term loans). This was considered satisfactory.

9. He asked if a provision similar to the one made for the DIB IV project to encourage operations outside of Cairo and Alexandria had been made for MIDB. I replied that since the medium and larger industries would mostly be concentrated in these two cities and the infrastructure existed for them there, it was not possible in the case of MIDB to have a similar provision.

10. He then asked if the provision with regard to export-oriented industries which was included under the DIB IV project (that 20 percent of the output be exported for "freely convertible currencies") applied also to the MIDB project. I responded that the wording in the legal documents was a bit different for MIDB, i.e. that 20 percent be exported "in accordance with criteria satisfactory to the Bank." Since MIDB is, in large part, financing Law 43 companies, the rationale for which includes exporting the output for freely convertible currencies, we did not feel it necessary to spell this out in the legal documents.

May 12, 1980

11. Finally, he said that the only possible question which he could recommend be asked at the Board concerned the possible threat posed by the Iranian shareholding. After reviewing these possible difficulties and the fact that the Government continues to support MIDB with its current shareholding structure, I said that while these difficulties could pose some short-term inconveniences, MIDB would survive as an institution and be able to continue to operate.

cc: Messrs. Chaufournier, Regional Vice President, EMENA; Knox (EMP)
El Darwish, Zaidan, El Daher (EMENA Projects Department)
Chaudhry (IFC)
Abu-Akeel (Legal Department)
Köpp, Dervis, Kaps (Division 1A, EMENA)

RWZaborski:orp

OFFICE MEMORANDUM

TO: Files

DATE: May 12, 1980

FROM: R. Zaborski, Loan Officer, EMIDA

SUBJECT: Egypt : MIDB Project
Questions from the Executive Directors

1. The Technical Assistant to the Australian Executive Director called with the following set of related questions:

What would happen if the Iranians pull out of MIDB or do not pay their share of the remaining 75 percent of the capital increase. Would the institution be able to operate?

I explained that the equity paid in by the Iranian Shareholders could not be taken out of MIDB. If the Iranians do not pay the additional callable capital, the shares would be offered to the existing shareholders (Egyptian), and then would be offered to third parties. On the question of impact on the institution if the Iranians pulled out, I explained that MIDB was basically an Egyptian run and staffed institution, with the exception of the General Manager who is seconded from IMBDI and who essentially has only an advisory role. Thus the operational impact would be minimal.

2. The Technical Assistant to the Canadian Executive Director called with the following questions:

He noted that 25 percent of the loan proceeds were allocated for export-oriented industries, for capital goods industries and for construction contracting industries. He wondered if there would not be some overlap among the three categories.

I explained that the 25 percent for the export oriented industries excluded the allocations for the capital goods and construction industries. He then noted that in the risk section we had mentioned that there were risks involved for the capital goods and export-oriented industries. Was there no risk involved for the construction sector? I said, given the backlog of work that needed to be done in this sector, we do not foresee any difficulty at all for MIDB utilizing the proceeds of the loan for this purpose.

He then asked if the construction/contracting and building material studies which were referred to in the President's Report were related to the project. I said while MIDB would probably benefit from some of the information which would be made available from this study, it was not part of this project.

He then asked if I knew what the Iranian attitude to the MIDB would be, given the traditional Islamic attitude towards interest rates and usury? I said I did not know how this traditional belief would affect Iran's attitude in this case. The Iranian shareholders, however, had been supportive up to

this time, having voted for the capital increase and paying in their share.

On the issue of MIDB's exposure in the Miratex project, he asked whether or not the guarantee still existed. I responded that the exposure of MIDB in Miratex project had been reduced to \$6 million by two counter guarantees, one from the Bank of Alexandria and one from the National Bank, which meant in effect the risk would be passed through MIDB to these two institutions should there be any difficulty.

He asked if defaults and late payments by subborrowers would affect the amortization schedule. I explained that the amortization schedule was flexible and reflected the composite amortization schedule of the individual subloans and investments. Any substantial change in the schedule, however, once it had been agreed, would necessitate the Bank's prior approval.

He then asked if it were wise for MIDB to use short term resources for long term lending. I explained that using a small amount of such resources for long term lending (less than \$1 million committed for long-term investments vis-vis- \$140 million in short-term resources as of end 1979) was not inconsistent with sound Banking practice as the shareholders have pledged to provide standby long-term resources in the form of subscribed capital to back up the use of short term resources. In the case of MIDB none of these short-term resources had been disbursed yet for this purpose. I mentioned that the triggering mechanism which we have in the legal documents was designed precisely to ensure that MIDB would not get into any liquidity difficulties and that MIDB had also called an additional 25 percent of its share capital in order to be able to have enough long-term resources to continue its long-term lending. He said the only possible question he might have his Executive Director ask would be to compare MIDB to a recent Korean DFC where the Bank maintained that the DFC needed funds because it could not use any of its short term resources. After explaining, however, that MIDB's use of a small amount of such resources on an interim basis was not inconsistent with the rationale proposed by the Bank in the case of the Korean DFC (although I was not familiar with that loan), he said he was not planning to recommend that any question be asked.

3. The Technical Assistant to the United Kingdom Executive Director called and asked what would happen if the Iranians failed to pay in their remaining 75 percent. I replied that the portion not paid would be offered to the existing shareholders and then to third parties. I explained that after the July 1979 capital increase, MIDB's management had already made provision for this contingency so in a sense we have already had a trial run. He then asked if the reference in the reports to the Government's support for MIDB's mobilizing long-term resources included financial support as well. I

May 12, 1980

said that the Government had promised to favourably consider augmenting MIDB's long-term resources should this be necessary. It was unlikely, however, that this would be necessary since we expected MIDB to successfully mobilize any necessary funds.

RWZaborski:cys

cc: Messrs. Chaufournier (EMNVP)
El Darwish, Zaidan, El Daher (EMP)
Chaudhry (IFC)
Abu-Akeel (LEG)
Köpp, Dervis, Kaps (EM1)

OFFICE MEMORANDUM

TO: Files

DATE: May 5, 1980

FROM: Hans-Eberhard Köpp, Division Chief, Country
Programs Department, 1, EMENA RegionSUBJECT: EGYPT: Misr-Iran Development Bank Project

1. A meeting was held in the US Executive Director's office on Monday, April 28 to respond to some questions which the US representatives had raised on the above loan. The meeting was attended by Mr. Colbert King, Executive Director, Mr. David King, Alternate Executive Director, Ms. Bradley, Technical Assistant, Mr. Zaborski and myself.

2. The main question raised was how could one justify a loan to the Misr-Iran Development Bank these days in view of the fact that dividends apparently were being paid to the two Iranian shareholders owning 50 percent of MIDB. In response, we acknowledged that dividends had been paid to the two Iranian shareholders as follows: about \$0.5 million per annum from 1975 to 1978; about \$0.8 million in 1979. In 1980 and until the capital would be called dividends were expected to amount to \$1 million per year, thereafter \$1.6 million. The benefits to the Iranian shareholders amounted thus to 8 percent on paid-in equity.

3. We emphasized, however, that the objective of making a loan to a DFC is not to support it so that it can pay dividends but to use it as a channel for financing economically justified priority projects in the country where the DFC is located. Only to the extent of assuring that one was dealing with an efficient financial intermediary was one interested in indications of financial soundness such as dividends and profits. In addition to the financial soundness, however, a number of other important criteria had to be met to justify the selection of such DFC, e.g. its management capability, its appraisal criteria and experience. Because it met these criteria in a very satisfactory way, MIDB had been chosen as another channel to support private industry in Egypt. We pointed out that judging from past experience one could expect that MIDB would become involved in about 40 to 45 projects through mid-1982 with a total cost of about \$550 million and with an expected annual output of \$870 million per year. In the past, about 65 to 70 percent of total cost of the projects financed by MIDB involved imported goods and services. Thus it was obvious that the profit to Egypt by far outweighed the very minor profit to Iran represented by payment of dividends. We also emphasized that in accordance with the draft Loan Agreement, the Bank funds could only be used for projects in Egypt; moreover, in practice MIDB has financed from all its resources only projects located in Egypt.

May 5, 1980

4. In response to another question and after some further investigation, we explained that of the 88 staff members of MIDB, including 50 professionals, only one was an Iranian national. The most important personality in MIDB was its Managing Director Mr. Fouad Sultan (an Egyptian national), who was very well respected in the Egyptian business community and had also visited the US repeatedly, inter alia attending a US-Egypt business conference last year. The only Iranian staff member mentioned above was the General Manager who was reporting to Mr. Sultan and in practice had more of an advisory role. He has been with MIDB since mid-1977. Both the Managing Director and the General Manager and two members of the board (one Egyptian and one Iranian) formed a management committee, whose main function was to approve projects if necessary on an exceptional basis between two board meetings. As the Egyptian board member in that committee, Engineer Mashhour, the Chairman of the Suez Canal Authority, who holds the rank of a Cabinet Minister was recently appointed. The Iranian board member had represented Iran in this capacity already since 1976. The board was composed of four Egyptian and Iranian members each, including ex-officio both the Managing Director and the General Manager. 1/

5. We also mentioned that the Iranian shareholders had been represented in all recent board meetings, e.g. at the July 1979 board meeting when an increase of the share capital was approved. They had also paid in the 25 percent of the capital increase. Above all, we stressed the fact that we had repeatedly asked the Egyptian Government whether they continued their support for MIDB. The Egyptian Government's support had been reconfirmed inter alia at the level of the Minister of Economy and is illustrated by the fact that the loan would be made to the Egyptian Government and onlent to MIDB since for legal reasons the Egyptian Government cannot guarantee a loan to a joint venture.

6. The US representatives indicated that they were satisfied with our logical arguments for supporting the proposed loan; however, they felt that at this particular time it would be very difficult to argue on a logical basis with certain parts of the Government and Congress when one was dealing with some actions which might be construed as supporting Iran. They promised to check with their authorities and to keep us informed.

1/ MIDB has informed us today that according to the latest official notice, three of four Iranian board members have been replaced recently. The only member remaining from before is the General Manager. The Iranians, with the exception of the General Manager, were not able to attend the latest meeting on April 27 but sent their apologies.

May 5, 1980

7. On Friday, May 2, Ms. Bradley called to enquire whether any dividends allocated to the Iranian shareholders had actually been repatriated to Iran. We reported that we could not ascertain whether or not this had been the case without checking with MIDB directly, which, however, Ms. Bradley suggested not to do at this time. We added, however, that total profits in, for instance, 1979 had amounted to \$4 million and that the board of MIDB including the Iranian representatives had decided to put \$2.4 million of these profits into reserves, provisions, etc. and pay out only \$1.6 million as dividends, i.e. \$0.8 million each to the Egyptian and the Iranian shareholders.

cc: Messrs. Chaufournier (RVP, EMENA Region)
El Darwish, Zaidan, El Daher (Projects, EMENA)
Chaudhry (IFC)
Abu-Akeel (Legal)
Zaborski (Division 1A, CPD 1, EMENA)
Salman (IPA)

HEKöpp:orp



Record Removal Notice

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File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 06 May, 1980	Document Type Board Record			
Correspondents / Participants 				
Subject / Title Egypt - Board Presentation of the MIDB Project				
Exception(s) 				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION

A80-20
IFC/A80-7

FROM: Vice President and Secretary

May 7, 1980

NOTICE OF MEETING

Following an Executive Session of the Executive Directors of the Bank at 10:00 a.m. on Tuesday, May 13, 1980 (the notice and agenda for which will be distributed separately), a meeting of the Executive Directors of the Bank and IDA, followed by a meeting of the Board of Directors of IFC will be held in the Board Room. The agenda is as follows:

AGENDA

BANK/IDA BUSINESS

1. Report on Bank and IDA Operations (R80-116)*
2. Minutes of Previous Meetings (M80-16[IDA/M80-16], M80-17[IDA/M80-17])
M80-18[IDA/M80-18])
3. Proposed Loan - Tunisia (Fourth Highway Project)
President's Report and Recommendation (R80-91, R80-91-L and 2201-TUN)
- ✓ 4. Proposed Loan - Egypt (Misr Iran Development Bank Project)
President's Report and Recommendation (R80-90, R80-90-L and 2738-EGT[SecM80-838])
5. Proposed Loan - India (Industrial Credit and Investment Corporation of India)
President's Report and Recommendation (R80-92, R80-92-L and 2431-IN)
6. Proposed Credit - Togo (First Education Project)
President's Report and Recommendation (IDA/R80-62, IDA/R80-62-L and 458a-TO)
7. Record of Previous Approval:

Draft Minutes of Executive Session of April 22, 1980 (XM80-10)
8. Other Business
9. Date of Next Meeting

*To be distributed

IFC BUSINESS

1. Proposed Investment in Development Finance Company of Kenya Limited - Kenya
President's Report and Recommendation (IFC/R80-35)
2. Proposed Investment in Avicultura Asociada, S.A. - Dominican Republic
President's Report and Recommendation (IFC/R80-36)
3. Record of Previous Approval:

Thailand: Bangkok Glass Industry Company Limited - Share
Subscription (IFC/R80-29)
4. Other Business

Distribution:

Executive Directors and Alternates
President
Senior Vice President
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC
Secretary, IMF

Mr. E.H. Rotberg, Treasurer

March 31, 1980

Hans-Eberhard Köpp, Division Chief, EMIDA

EGYPT : Loan of \$30 Million to the Arab Republic of
Egypt for a Misr Iran Development Bank Project

1. Borrower: Arab Republic of Egypt
2. Amount: US\$30 Million
3. Purpose: The project is part of a long-term effort to build up adequate institutional capacity in Egypt for the promotion and financing of industry in the private sector and would provide a part of MIDB's foreign exchange requirements through mid-1982 for onlending for private sector industrial projects with an emphasis on three areas: (1) building materials and construction contracting industries; (2) capital goods industries, and (3) export oriented industries.
4. Terms: The loan would be repaid substantially in conformity with the aggregate of the amortization schedules for sub-loans, with a maximum repayment period of 17 years.
5. Disbursements:

1980	-	--
1981	-	2.3
1982	-	11.0
1983	-	12.2
1984	-	4.0
1985	-	0.5
6. Source of Supply: Unknown
7. Interest Rate: Standard
8. Maturities: Amortization Schedule (which is subject to revision) is attached
9. Date of Executive Directors Consideration: May 13, 1980

Attachment

cc: Tokyo Office (Attention : Mr. Soejima)
European Office (Attention : Mr. de Lesseps)

RWZaborski:cys

ARAB REPUBLIC OF EGYPT

June 4, 1980

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

OFFICIAL
DOCUMENTS

1842 EGT

Re: Loan No. 1842 EGT
(Misr Iran Development Bank Project)
External Debt

Gentlemen:

In connection with the loan to the Arab Republic of Egypt for a Misr Iran Development Bank Project, in an amount in various currencies equivalent to US\$30,000,000, I am writing on behalf of the Arab Republic of Egypt to set forth certain facts relating to the external debt of the Arab Republic of Egypt.

1. You have been furnished with the following:

Form 1 : Description of individual external public debt listed in Forms 2 (or A, AA and B);

Form 1A : Schedule of principal and interest payments for individual external public debt described in Form 1.

Form 2 : Individual external public debts: current status and transactions during period as of December 31, 1979.

2. You have also been furnished with Forms 1 and 1A for external public debt contracted during the period January 1, 1980 through March 31, 1980.

No substantial additional external public debt has been contracted since March 31, 1980.

3. Such forms accurately set forth the amounts and principal terms and conditions of all outstanding external public debt of the Arab Republic of Egypt, its political subdivisions and agencies, and of the agencies of its political subdivisions, and debts guaranteed by them up to March 31, 1980.

4. We represent that no mortgages, pledges, charges, privileges, priorities or other liens exist on any governmental assets as security for any external debt. No defaults exist in respect of any external public debt referred to herein or in any of the documents mentioned above.

It is our understanding that, in making the proposed loan, the Bank may rely on the statements and facts set forth herein and in the documents mentioned above.

Very truly yours,

ARAB REPUBLIC OF EGYPT

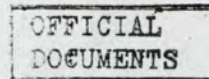
By

Abdel El Wahed
Authorized Representative

MISR IRAN DEVELOPMENT BANK

June 4, 1980

International Bank for Reconstruction
and Development
1818 "H" Street, NW
Washington, DC 20433
United States of America



1842-EGT

Re: Loan No. 1842 EGT
(Misr Iran Development Bank Project)
Representations

Dear Sirs:

In connection with the Project Agreement of even date herewith between the International Bank for Reconstruction and Development (hereinafter called the Bank) and Misr Iran Development Bank (hereinafter called MIDB), MIDB hereby undertakes and warrants to you as follows:

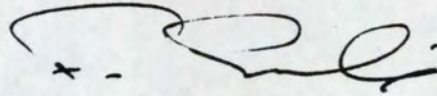
1. MIDB's balance sheet of December 31, 1979, copies of which have been furnished to the Bank, correctly sets forth the financial condition of MIDB as of such date, and since such date there has been no material adverse change in the financial and operating conditions of MIDB.
2. MIDB is not engaged in litigation, as plaintiff or defendant, the outcome of which might materially and adversely affect the financial condition of MIDB or its organization.
3. Except for debt set forth in the balance sheet referred to above, MIDB has no outstanding agreements or liabilities, including tax liabilities, contingent or otherwise, which might materially and adversely affect its financial position.
4. MIDB is not in violation of, and the execution and delivery of the Project Agreement and the compliance with all its terms does not result in any violation of any existing contractual agreement or of any provision of any law or decree or regulation presently in effect and applicable to MIDB.
5. MIDB is a banking institution, possessing legal personality and administrative and financial independence, duly organized under the laws of the Arab Republic of Egypt with full authority to carry on its present business, to carry out the Project to be financed under the Loan Agreement of even date herewith between the Bank and the Arab Republic of Egypt and to execute and deliver in its own name the Project Agreement relating to said Project.
6. MIDB has heretofore disclosed in writing to you all agreements material to the Project Agreement and the Project and all other circumstances which may materially affect the carrying on of MIDB's business, its legal status, the Project or the compliance by MIDB with its obligations under the Project Agreement.

7. MIDB has furnished to the Bank a true copy in the English translation of the MIDB Law of Incorporation and Policy Statement.

It is our understanding that in making the above Loan, the Bank may rely on the financial statements and representations contained or referred to herein.

Very truly yours,

MISR IRAN DEVELOPMENT BANK

A handwritten signature in dark ink, consisting of a series of loops and a long horizontal stroke, positioned above a horizontal line.

By _____
Authorized Representative

MISR IRAN DEVELOPMENT BANK

Date : March 28, 1980

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

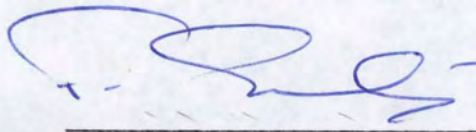
Dear Sirs:

Re : Misir Iran Development Bank Project

I hereby confirm the approval of the draft Project Agreement (Misir Iran Development Bank Project) as negotiated in Washington, March 24 to 28, 1980.

Sincerely yours,

MISR IRAN DEVELOPMENT BANK



Fouad Sultan
Managing Director

MISR IRAN DEVELOPMENT BANK

June 4, 1980

International Bank for Reconstruction
and Development
1818 "H" Street, NW
Washington, DC 20433
United States of America

OFFICIAL
DOCUMENTS

Ln 1842-EGT

Re: Loan No. 1842 EGT
(Misr Iran Development Bank Project)
Eligibility Criteria for Export-Oriented Projects;
Procurement under International Competitive Bidding

Dear Sirs:

We refer to:

(1) Section 2.02(a) III of the Project Agreement of even date herewith between us and confirm that in order to establish export eligibility criteria referred to in said section, MIDB shall include in the appraisal report of the Investment Project, evidence demonstrating to the satisfaction of the Bank, the export potential of the Investment Project as well as the taking of adequate steps by its sponsors to export part of its products. This shall include, as relevant to each case, evidence of a) past export performance of the Investment Enterprise and of the sector concerned; b) the existence of effective marketing channels; c) purchase orders, if any, from foreign importers of goods to be produced under the Investment Project, and d) market study demonstrating, inter alia, the competitiveness, in respect of price and quality, in foreign markets of the products to be produced by the Investment Project;

(2) Section 2.08(a) of said Project Agreement and confirm that MIDB will stipulate in its contracts with the Investment Enterprises that whenever an amount of a sub-loan or an investment will be utilized to procure goods under a contract estimated to cost the equivalent of \$5,000,000 or more, the Investment Enterprise:

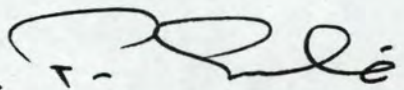
- (a) shall award such contract in accordance with procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977, on the basis of international competitive bidding procedures as described in Part A of the Guidelines;
- (b) shall require bidders to state in their bids the c.i.f. (port of entry) price for imported goods, customs duties and other import taxes levied in connection with the importation of the goods, shall not be taken into account for the purposes of evaluation and comparison of bids; and

- (c) shall (i) before bids are invited, provide MIDB and the Bank, directly or through MIDB, with the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as MIDB and the Bank shall reasonably request. Any further modification to the bidding documents shall require the concurrence of MIDB and the Bank before it is issued to the prospective bidders; (ii) after bids have been received and evaluated, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to MIDB and the Bank, in sufficient time for their review, a detailed report on the evaluation and comparison of the bids received, and such other information as MIDB and the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines, promptly inform MIDB and state the reasons for such determination; and (iii) see to it that the terms and conditions of the contract shall not, without the concurrence of MIDB, materially differ from those on which bids were asked or prequalification invited.

Please indicate your agreement with the foregoing by signing the form of confirmation below.

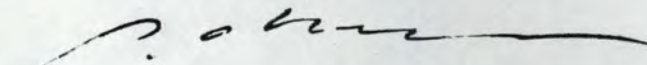
Sincerely yours,

MISR IRAN DEVELOPMENT BANK

By 
Authorized Representative

CONFIRMED:

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By 

B. B.
April 6, 1986

AIR MAIL

MISR Iran Development Bank
8 Adly Street
Cairo, Arab Republic of Egypt

Attn: Mr. Abdel Abou Madg
Assistant General Manager

Gentlemen:

Re: Loan No. 1842-5 EGT
MISR Iran Development Bank

Further to our telex of March 27, 1987, we have revised the amortization for this loan conforming to your proposal and are enclosing Amendment No. 8 to the amortization schedule. Please confirm your acceptance by signing the copy and returning it to us as soon as possible.

Sincerely yours,

Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Enclosures

cc: Dr. Erfan A. Shafey, First Undersecretary
Ministry of Planning and International
Cooperation
8 Adly Street
Cairo, Arab Republic of Egypt

cc: Mr. Favilla, EM1 (H-7003)
File: Loan Doc. 1842 EGT
PSolis/ij

Blue

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AMENDMENT NO 8 TO THE AMORTIZATION SCHEDULE*

LOAN NO. 1842 EGT

(MISR Iran Development Bank)

(Expressed in U.S. dollars)**

Date Payment Due	Original Schedule 1	Revised Schedule 1	
		1842-0 EGT	1842-5 EGT
June 15, 1983	250,000.00	250,000.00	-
December 15, 1983	250,000.00	245,500.00	-
June 15, 1984	1,000,000.00	185,000.00	-
December 15, 1984	1,000,000.00	135,000.00	1,322,209.35
June 15, 1985	1,562,500.00	285,479.23	2,336,066.42
December 15, 1985	1,562,500.00		2,387,523.49
June 15, 1986	1,712,500.00		961,239.60
December 15, 1986	1,712,500.00		1,367,709.03
June 15, 1987	1,812,500.00		4,014,900.00
December 15, 1987	1,812,500.00		774,014.62
June 15, 1988	1,812,500.00		791,100.00
December 15, 1988	1,812,500.00		1,176,593.13
June 15, 1989	1,812,500.00		1,131,100.00
December 15, 1989	1,812,500.00		1,122,910.92
June 15, 1990	1,812,500.00		1,081,100.00
December 15, 1990	1,812,500.00		656,100.00
June 15, 1991	1,562,500.00		1,538,590.00
December 15, 1991	1,562,500.00		1,274,290.00
June 15, 1992	812,500.00		1,472,926.31
December 15, 1992	812,500.00		825,500.00
June 15, 1993	250,000.00		800,000.00
December 15, 1993	250,000.00		550,000.00
June 15, 1994	250,000.00		550,000.00
December 15, 1994	250,000.00		550,000.00
June 15, 1995	250,000.00		550,000.00
December 15, 1995	250,000.00		550,000.00
June 15, 1996	100,000.00		500,000.00
December 15, 1996	100,000.00		615,047.90
	30,000,000.00	1,100,979.23	23,899,020.77

* The Amortization Schedule is subject to amendment pursuant to the provisions of Section 2.09 of the Loan Agreement.

** The figures in these columns represent dollar equivalents determined as for purposes of withdrawal.

CONFIRMED:

ARAB REPUBLIC OF EGYPT

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By: _____
(Authorized Representative)

By: S. Subramanian
Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Date: _____

Date: April 6, 1987



MINISTRY OF PLANNING
& INTERNATIONAL COOPERATION
INTERNATIONAL FINANCE

Mr. Alberto Favilla,
Division Chief,
World Bank,
Washington D.C.,
U.S.A.

Cairo, Oct. 23, 1984.

Dear Mr. Favilla,

Reference to our letter dated 17-5-1984.
concerning Misr Iran Development Bank's officers
authorized to sign on behalf of the Bank for Loan No.
1842.

Please find enclosed herewith the specimen
signature of Mr. Mahmoud Ibrahim Hassan, Manager Investments
Correspondents Accounts Department, in addition to the
persons mentioned in the above mentioned letter.

Best Regards

Dr. Erfan Shafey

First Undersecretary of State

S.A.

BB
SAW/M
CJ

*Copies (i) IDF
(ii) LOA
(iii) EMENA Informer
Original: Legal Dept
(Mr A. A. Shal)*



File No. 2
Subsec. 5

MD OFFICE
File No : MD outgoing
Subsection : *Wald*

MISR IRAN DEVELOPMENT BANK

Mr. Samir Koreim
Under Secretary
Ministry of Economy

Date : 14/3/1983
Ref. : 1917/1

Dear Mr. Koreim,

In pursuance to our letter dated 22.4.1982 ref. 10758/1 regarding the bank's officers authorized to sign jointly on behalf of MIDB in the subsidiary loan agreement concluded between the Arab Republic of Egypt and Misr Iran Development Bank.

Please note that as of January 1983 the following officers are authorized to sign jointly on behalf of the Bank:

- Mr. Al-Motaz Bellah Ahmed Mansour
General Manager

- Mr. Ibrahim Mokhtar Ibrahim
Deputy General Manager
Banking Affairs

- Mr. Michel Mina Rizk
Deputy General Manager
Financial Affairs

- Mr. Adel A. Magd
Manager Accounts Department.

Mr. Mahmoud Ibrahim Hassan
Acting Manager
Investment Correspondants & Accounts department

Attached herewith please find the specimen signature of Mr. Mahmoud Ibrahim Hassan.

Best personal regards.

Yours Sincerely

وزارة التخطيط والتعاون الدولي



بنك مصر ايران للتنمية

MISR IRAN DEVELOPMENT BANK

Page No 8

توقيعات درجة (1)

CATEGORY "A" SIGNATURES

السيد / محمود ابراهيم حسن



مدير ادارة حسابات الاستثمارات والمراسلين

Mr. MAHMOUD IBRAHIM HASSAN

Manager Investments & Correspondents
Accounts Department

Confirmed

DR. Erfan Shafey

بالتزامات مالية

With Financial Commitments

September 1984

CJ
RZ

April 5, 1984

AIR MAIL

Misr Iran Development Bank
8 Adly Street
Cairo, Arab Republic of Egypt

Attn: Abdel Abou El Magd
Manager, Accounts Dept

Gentlemen:

Re: Loan No. 1842 EGT - Reference your letter
Ref. 6964/40 dated February 23, 1984

We acknowledge receipt of your above referenced letter and are enclosing the revised Schedule 1 of the loan agreement.

If you are in agreement with the enclosed amendment No. 2 to the amortization schedule, please confirm your acceptance by signing the copy and returning it to us as soon as possible.

Sincerely yours,

Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Enclosure

cc: Dr. Erfan Shafey
First Undersecretary
Ministry of Investment and
International Cooperation
8 Adly Street
Cairo, Arab Republic of Egypt

cc: Messrs. Favilla - EM1
Zaidan - EMP

File: Loan Doc. 1842 EGT
PSolis/ij

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AMENDMENT NO. 2 TO THE AMORTIZATION SCHEDULE*

(Expressed in U.S. dollars)**

LOAN NO. 1842 EGT

<u>Date Payment Due</u>	<u>Original Schedule 1</u>	<u>Revised Schedule 1</u>
June 15, 1983	250,000.00	250,000.00
December 15, 1983	250,000.00	245,500.00
June 15, 1984	1,000,000.00	185,000.00
December 15, 1984	1,000,000.00	185,000.00
June 15, 1985	1,562,500.00	785,500.00
December 15, 1985	1,562,500.00	785,500.00
June 15, 1986	1,712,500.00	1,535,500.00
December 15, 1986	1,712,500.00	1,535,500.00
June 15, 1987	1,812,500.00	1,535,500.00
December 15, 1987	1,812,500.00	1,785,500.00
June 15, 1988	1,812,500.00	1,650,500.00
December 15, 1988	1,812,500.00	1,900,500.00
June 15, 1989	1,812,500.00	1,725,500.00
December 15, 1989	1,812,500.00	1,725,500.00
June 15, 1990	1,812,500.00	1,725,500.00
December 15, 1990	1,812,500.00	1,500,000.00
June 15, 1991	1,562,500.00	1,300,000.00
December 15, 1991	1,562,500.00	1,200,000.00
June 15, 1992	812,500.00	1,200,000.00
December 15, 1992	812,500.00	1,200,000.00
June 15, 1993	250,000.00	1,200,000.00
December 15, 1993	250,000.00	1,200,000.00
June 15, 1994	250,000.00	650,000.00
December 15, 1994	250,000.00	650,000.00
June 15, 1995	250,000.00	650,000.00
December 15, 1995	250,000.00	650,000.00
June 15, 1996	100,000.00	522,000.00
December 15, 1996	100,000.00	522,000.00
	<u>30,000,000.00</u>	<u>30,000,000.00</u>

* The Amortization Schedule is subject to amendment pursuant to the provisions of Section 2.09 of the Loan Agreement.

** To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in these columns represent dollar equivalents determined as for purposes withdrawal.

CONFIRMED:

ARAB REPUBLIC OF EGYPT

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By: _____

By: _____

FORM NO. 75
(9-78)

THE WORLD BANK

ROUTING SLIP		DATE: 1/3/84
NAME		ROOM NO.
① Mr A. Abu-Akeel		
② Mr. R. Zaboriski		
APPROPRIATE DISPOSITION		NOTE AND RETURN
APPROVAL		NOTE AND SEND ON
CLEARANCE		PER OUR CONVERSATION
COMMENT		PER YOUR REQUEST
FOR ACTION		PREPARE REPLY
☒ INFORMATION		RECOMMENDATION
INITIAL		SIGNATURE
NOTE AND FILE		URGENT
REMARKS: Re. MIDB - Loan No 1842		
FROM: Ray Deshpande	ROOM NO.: H10-D13	EXTENSION:



MISR IRAN DEVELOPMENT BANK

① New Contract

(- " -)

② AD

Trans. No.
c.c. to { Proposals
Legal. G

Date : 22.11.1983

12/20

Ref. : 12887/7

Dr. George C. Zaidan
Chief, Industrial Development
& Finance Division
Europe, Middle East and North
Africa Region,
The World Bank

INDUSTRIAL DEVELOPMENT AND FINANCE
DATE RECEIVED NOV 23 1983
COUNTRY/IDY Egypt - MIDB
LOAN/CREDIT NO. 1842
ACTION BY AD

Dear Dr. Zaidan,

In pursuance to our previous correspondence I am pleased to advise you that the Ministry of Investments and Economic Cooperation has finally approved the amendment of the Subsidiary Loan Agreement. The Amendment Agreement, copy of which is attached herewith, was signed on 14/11/1983 and is effective as of same date.

I would also like to advise you that the amendments introduced to the Subsidiary Loan Agreement, are not applicable to commitments made prior to date of the Amendment Agreement and which amount to U.S.\$ 7.556 million. Said commitments are still subject to the terms and conditions stipulated in the original Subsidiary Loan Agreement signed on 3/11/1980. Unutilized balance of the Loan, i.e U.S.\$ 22,444,000 is subject to the following new terms and conditions:

Commitment Fee:

MIDB shall pay to the Egyptian Government in Egyptian Pounds a commitment charge at the rate of (3/4% of 1%) p.a. on the unutilized balance of the loan presently amounting to U.S.\$ 22.444 million.

Interest Rate:

MIDB shall pay to the Government in Egyptian Pounds interest at the rate of 11.97% p.a on amounts withdrawn and outstanding from the unutilized balance of the loan presently equal to U.S.\$ 22.444 million. Such interest rate represents interest due to the IBRD at the rate of 8.25% p.a, in addition to the commission due to the Government at the rate of 3.72% p.a.

Special Commitments Charge:

MIDB shall pay to the Government, in Egyptian Pounds, the equivalent of the amount of any charges for special commitments entered into by the Bank pursuant to section 5.02 of the General Conditions.



MISR IRAN DEVELOPMENT BANK

Date :

Ref. :

Currency of Repayment:

- MIDB shall continue to repay to the IBRD directly in U.S. Dollars the net outstanding balance of the commitments made to date in U.S. Dollars presently amounting to U.S.\$ 7.306 million.
- MIDB shall repay to the Egyptian Government in Egyptian Pounds the equivalent of U.S.\$ 22.444 million to be computed at the highest exchange rate declared by the Central Bank of Egypt on the date of repayment.

Repayment shall be made in accordance with the amortization schedule set forth in the related Agreements which shall be amended from time to time in accordance with section 2.09 of the Loan Agreement.

Special Covenant:

MIDB shall ensure that as of date of the Amendment Agreement Loan Agreements to be concluded with its Sub-borrowers in foreign currencies, out of the proceeds of the Subsidiary Loan will stipulate that repayment by the sub-borrowers of principal, interest, as well as other related debt service charges shall be made in Egyptian Pounds computed at the highest exchange rate declared by the Central Bank of Egypt on the date of repayment.

With best personal regards.

Yours Sincerely,

Al-Motaz Mansour
General Manager

بسم الله الرحمن الرحيم

اتفاق

بشان تعديل اتفاق القرض التابع الموقع بتاريخ ١١/٣/١٩٨٠
بين حكومة جمهورية مصر العربية وبك مصر ايران للتنمية

انه فى يوم الاثنين الموافق ١٤/١١/١٩٨٣ ابرم هذا الاتفاق بين كل من :

اولاً : حكومة جمهورية مصر العربية (المسماه فيما بعد "الحكومة"
وبمثلها السيد الدكتور/ عرفان على شافعى وكيل اول وزارة شئون
الاستثمار والتعاون الدولى لشئون التمويل الدولى .

ثانياً : بنك مصر ايران للتنمية (المسمى فيما بعد "بنك مصر ايران"
وبمثله السيد الاستاذ / فؤاد عبد اللطيف سلطان رئيس مجلس الادارة .

تمهيد

(١) حيث انه بتاريخ ٤/٦/١٩٨٠ ابرمت الحكومة اتفاق القرض رقم ١٨٤٢
مع البنك الدولى للانشاء والتعمير (المسمى فيما بعد "البنك"
والذى وافق البنك بمقتضاه على ان يقرض الحكومة مبلغا بعملات اجنبية
مختلفة تعادل فى مجموعها ثلاثين مليون دولار امريكى لمساعدة
بنك مصر ايران للتنمية فى تمويل المشروعات الانتاجية فى مصر .

(٢) وحيث انه بذات تاريخ اتفاق القرض المشار اليه ابرم اتفاق مشروع بين
بنك مصر ايران والبنك والذى تعهد بنك مصر ايران بمقتضاه ، ببعض
الاجراءات المتعلقة باستخدام حصيلة القرض وتنفيذ المشروع .

(٣) وحيث انه بتاريخ ٣/١١/١٩٨٠ ابرمت الحكومة اتفاق قرض تابع
مع بنك مصر ايران تقوم الحكومة ، بمقتضاه ، باعادة اقراض كـمـمـل
حصيلة القرض المقدم لها من البنك الى بنك مصر ايران وذلك بالشروط
والاحكام الواردة فيه والتي وافق عليها البنك .

سنة



- ٢ -

(٤) وحيث أن مجلس إدارة الهيئة العامة للاستثمار والمناطق الحرة قد وافق بجلسته المنعقدة في ٢٦/ ١٢/ ١٩٨٢ على أن يتعامل بنك مصر ايران بالعملة المحلية بجانب العملات الاجنبية الحرة وزيادة حصة الجانب المصري في رأس مال بنك مصر ايران إلى ٧٥٪ منه.

(٥) وحيث أن مجلس إدارة البنك المركزي المصري قد وافق بجلسته المنعقدة في ١٠/ ٢/ ١٩٨٣ على أن يتعامل بنك مصر ايران بالعمله المحلية بجانب العملات الاجنبية الحرة.

(٦) وحيث أن بنك مصر ايران لم يستخدم - حتى تاريخ هذا الاتفاق - مبلغ القرض التابع بالكامل .

(٧) وحيث أن بنك مصر ايران أفاد بكتابه المؤرخ ٩/ ١١/ ١٩٨٣ بأن العقود التي تم ابرامها مع عملائه ، على قوة حصيلة القرض التابع ، تبلغ ٧٥٥٦ مليون دولار امريكي (فقط سبعة مليون وخمسمائة ستة وخمسون الف دولارا امريكيا) .

(٨) وحيث أن بنك مصر ايران قد قام بسداد مبلغ ٢٥٠ الف دولار امريكي (مائتي وخمسين الف دولار) للبنك مباشرة ، وهو قيمة القسط الاول - المستحق في ١٥/ ٦/ ١٩٨٣ - من اقساط استهلاك القرض التابع . وبذلك يكن المبلغ المتبقى من حصيلة القرض التابع - الذي سيقوم بنك مصر ايران بسداده للحكومة هو مبلغ ٢٩٧٥٠٠٠ ر. دولار امريكي (تسعة وعشرون مليون دولار امريكي وسبعمائة وخمسون الف دولار امريكي) .

لذلك وبناء على ما تقدم ، وافقت الحكومة وبنك مصر ايران على ما يأتي :

المادة الاولى

يعتبر التمهيد السابق جزء لا يتجزأ من هذا الاتفاق كما يعتبر هذا الاتفاق جزء لا يتجزأ من اتفاقات القرض والمشروع والقرض التابع المشار اليها في مقدمة هذا الاتفاق .



مست

مست

CJ
RZ

April 5, 1984

AIR MAIL

Misr Iran Development Bank
8 Adly Street
Cairo, Arab Republic of Egypt

Attn: Abdel Abou El Magd
Manager, Accounts Dept

Gentlemen:

Re: Loan No. 1842 EGT - Reference your letter
Ref. 6964/40 dated February 23, 1984

We acknowledge receipt of your above referenced letter and are enclosing the revised Schedule 1 of the loan agreement.

If you are in agreement with the enclosed amendment No. 2 to the amortization schedule, please confirm your acceptance by signing the copy and returning it to us as soon as possible.

Sincerely yours,

Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Enclosure

cc: Dr. Erfan Shafey
First Undersecretary
Ministry of Investment and
International Cooperation
8 Adly Street
Cairo, Arab Republic of Egypt

cc: Messrs. Favilla - EMI
Zaidan - EMP
File: Loan Doc. 1842 EGT
PSolis/ij

- ٤ -

بند ٢-٣ يستبدل نص البند ٢-٥ من المادة الخامسة من اتفاق القرض
التابع بالنص الآتى :

"يدفع بنك مصر ايران للحكومة ، بالجنيهات
المصرية ، ما يعادل قيمة المبالغ التى تستحق
على الارتباطات الخاصة التى يقوم بها البنك
وفقا للبند ٢-٥ من الشروط العامة."

بند ٢-٤ يستبدل نص البند ٢-٧ بالكامل من المادة الثانية من اتفاق
القرض التابع بالنص الآتى :

(أ) يتعهد بنك مصر ايران بأن يسدد للبنك
مباشرة الرصيد الحالى لمبلغ القرض التابع
وهو مبلغ ٧٣٠.٦ مليون دولار امريكى (سبعة
مليون وثلاثمائة وستة الف دولار امريكى) بذات
العملة والذى يمثل الرصيد القائم فى تاريخه
للارتباطات التى يتم سحبها بالدولار الامريكى .

(ب) يتعهد بنك مصر ايران بأن يدفع للحكومة
ما يعادل مبلغ ٢٢٤٤٤ مليون دولار امريكى
(اثنان وعشرون مليون واربعمائة اربعة
وأربعون الف دولار امريكى) بالجنيهات
المصرية على اساس اعلى سعر صرف معلن من
البنك المركزى المصرى للدولار الامريكى فى
تواريخ السداد .

وذلك كله طبقا لجدول الاستهلاك المرفق او وفقا لما يدخل
على هذا الجدول من تعديلات من وقت لآخر بالقدر الذى
يأخذ فى الاعتبار اى تعديل فى مبلغ القرض التابع او الغاء
البنك لاي مبلغ من القرض المتاح لبنك مصر ايران .



بند ٥-٢ يتعهد بنك مصر ايران للتنمية بأن تكون عقود القروض التي
يبرمها مع عملائه بالعملات الاجنبية - من حصيله القروض
التابع - اعتبارا من تاريخ تحرير هذا الاتفاق ، متضمنه نصا
على أن يكون سداد العملاء لهذه القروض وفوائدها والتكاليف
الاخرى المتعلقة بها بالجنه المصري على اساس اعلى سعر
صرف معلن من البنك المركزي المصري للدولار الأمريكي في
تواريخ السداد .

المادة الثالثة

بند ١-٣ يبدأ سريان هذا الاتفاق وتطبق احكامه وشروطه من تاريخ
توقيعه المدون في صدره .

بند ٢-٣ ينتهي هذا الاتفاق وجميع حقوق والتزامات طرفيه الناشئه عنه
عند ما يسدد بنك مصر ايران للحكومة جملة المبالغ التي سحبتها
من حصيله القرض التابع بالاضافة الى الفوائد والتكاليف الاخرى
المستحقة عليه .

واشهادا على ما تقدم قام طرفا هذا الاتفاق - من خلال ممثليهما -
بالتوقيع عليه بأسميهما في مدينة القاهرة في اليوم والسنة المدونين في صدره
وذلك من ثلاث نسخ اصلية لكل منها حجيتهما وتكون في مجموعها وثيقة
واحدة .

عن
بنك مصر ايران

خبر

فؤاد عبداللطيف سلطان
رئيس مجلس الادارة

عن
حكومة جمهورية مصر العربية

خبر

د. عرفان على شافعي
وكيل اول وزارة شؤون الاستثمار
والتعاون الدولي لشؤون التمويل
الدولي



December 12, 1983

AJF
~~RWZ~~
CJ

AIR MAIL

Misr Iran Development Bank
3 Adly Street
Cairo, Arab Republic of Egypt

Attn: Abdel Abou El Magd
Manager, Accounts Dept

Gentlemen:

Re: Loan No. 1842 EGT - Reference your letter
12097/40 dated November 14, 1983

We acknowledge receipt of your letter dated July 7, 1983 and are enclosing the revised Schedule 1 of the loan agreement. Amounts shown on June 15 and December 15, 1983 are the actual amounts received and to be paid.

If you are in agreement with the enclosed amendment No. 1 to the amortization schedule, please confirm your acceptance by signing the copy and returning it to us as soon as possible.

Sincerely yours,

Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Enclosure

cc: Dr. Erfan Shafey
First Undersecretary
Ministry of investment and
International Cooperation
8 Adly Street
Cairo, Arab Republic of Egypt

cc: Messrs. Favilla - EM1
Zaidan - EMP

File: Loan Doc. 1842 EGT
PSolis/ij

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AMENDMENT NO. 1 TO THE AMORTIZATION SCHEDULE*

(Expressed in U.S. dollars)**

LOAN NO. 1842 EGT

Date Payment Due	Original Schedule 1	Revised Schedule 1
June 15, 1983	250,000.00	250,000.00
December 15, 1983	250,000.00	245,500.00
June 15, 1984	1,000,000.00	410,500.00
December 15, 1984	1,000,000.00	410,500.00
June 1, 1985	1,562,500.00	410,500.00
December 1, 1985	1,562,500.00	410,500.00
June 1, 1986	1,712,500.00	1,410,500.00
December 1, 1986	1,712,500.00	1,410,500.00
June 1, 1987	1,812,500.00	1,410,500.00
December 1, 1987	1,812,500.00	1,660,500.00
June 1, 1988	1,812,500.00	1,775,500.00
December 1, 1988	1,812,500.00	1,775,500.00
June 1, 1989	1,812,500.00	1,725,500.00
December 1, 1989	1,812,500.00	1,500,000.00
June 1, 1990	1,812,500.00	1,500,000.00
December 1, 1990	1,812,500.00	1,500,000.00
June 1, 1991	1,562,500.00	1,300,000.00
December 1, 1991	1,562,500.00	1,200,000.00
June 1, 1992	812,500.00	1,200,000.00
December 1, 1992	812,500.00	1,200,000.00
June 1, 1993	250,000.00	1,200,000.00
December 1, 1993	250,000.00	1,200,000.00
June 1, 1994	250,000.00	812,500.00
December 1, 1994	250,000.00	812,500.00
June 1, 1995	250,000.00	812,500.00
December 1, 1995	250,000.00	812,500.00
June 1, 1996	100,000.00	822,000.00
December 1, 1996	100,000.00	822,000.00
	<u>30,000,000.00</u>	<u>30,000,000.00</u>

* The Amortization Schedule is subject to amendment pursuant to the provisions of Section 2.09 of the Loan Agreement.

** To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in these columns represent dollar equivalents determined as for purposes withdrawal.

CONFIRMED:

✓ ARAB REPUBLIC OF EGYPT

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By: _____
(Authorized Representative)

By: Sunder Subramanian
Sunder Subramanian
Chief, Loan Accounts Division
Loan Department

Date: _____

Date: December 12, 1983

Ministry of Investment and
International Cooperation

~~File~~
RWZ
P. 10/10/82
11/11/82
12/12/82

Mr. Alberto Favilla
Division Chief
EMENA I
World Bank
Washington D.C
U.S.A

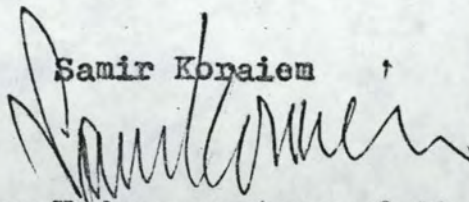
Cairo, December 9/ ,1982

Dear Mr. Favilla,

Reference to Mr. Sherif Hassan's letter dated Sept.9,1982 concerning the Bank approval of the amendment of Loan Agreement No. 1842 - EGT (Misr Iran Development Project). Please find enclosed herewith a copy of the letter after being signed on behalf of the Egyptian Government.

Thanks and best regards

Happy New Year
Ale

Samir Koraïem


Senior Undersecretary of State

W/M.



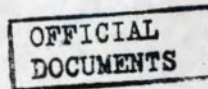
Record Removal Notice

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Archives
& Records Management

File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 09 September, 1982	Document Type Letter			
Correspondents / Participants To : Ministry of Economy and Economic Cooperation From : International Bank for Reconstruction and Development				
Subject / Title Re : Loan No. 1842 EGT - (Misr Iran Development Bank Project) - Amendment of Loan Agreement				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			

Ministry of Economy and
Economic Cooperation

Mr. Attila Karaosmanoglu,
Director ,
World Bank ,
1818 H.Street ,
Washington D.C.
U.S.A.



Ln 1842 EGT-4

Cairo, May 17, 1982

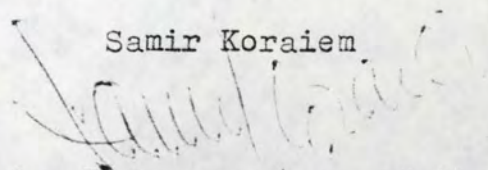
Dear Mr. Karaosmanoglu,

Reference to Loan No. 1842 (Misr Iran
Development Bank) ;

✓
Please find enclosed herewith specimen
signature of Mr. Adel A. Maged Ahmed Deputy Manger
Accounts Department who is authorized to sign withdrawal
Applications instead of Mr. Mahmoud Sadek Ali .

With my best regards .

Samir Koraiem


Senior Undersecretary of State

W/M.



MIDB



نائب مدير إدارة الحسابات

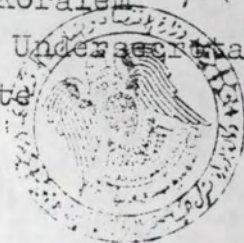
Mr. ADEL A. MAGD AHMED

Adel A. Magd

Deputy Manager Accounts Dept.

Confirmed

Samir Koraïem
Senior Undersecretary
of State



بالتزامات مالية

With Financial Commitments

January 1981

CONFORMED COPY

LOAN NUMBER 1842 EGT

Loan Agreement

(Misr Iran Development Bank Project)

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 4, 1980

LOAN AGREEMENT

AGREEMENT, dated June 4, 1980, between ARAB REPUBLIC OF EGYPT (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) the Borrower has requested the Bank to assist in the financing of the Project described in Section 3.01 to this Agreement by making the Loan as hereinafter provided;

(B) the Project will be carried out by Misr Iran Development Bank (hereinafter called MIDB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to MIDB the proceeds of the Loan as hereinafter provided; and

WHEREAS the Bank has agreed, on the basis inter alia of the foregoing, to make the Loan available to the Borrower upon the terms and conditions set forth hereinafter and in a project agreement (hereinafter called the Project Agreement) of even date herewith between the Bank and MIDB;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 2 to this Agreement (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions, the Preamble to this Agreement and the Project Agreement have the respective meanings therein set forth and the term "Subsidiary Loan Agreement" means the Agreement to be entered into between the Borrower and MIDB pursuant to Section 3.01 (b) of this Agreement, and the term "Subsidiary Loan" means the loan provided for therein.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to thirty million dollars (\$30,000,000).

Section 2.02. The Borrower designates MIDB as its representative for the purpose of taking any action required or permitted under the provisions of Article V of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 1985 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of eight and twenty-five hundredths per cent (8.25%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall amend the amortization schedule applicable to the Subsidiary Loan to the extent required to: (a) conform in relevant part substantially to the aggregate of the amortization schedules applicable to Sub-Loans and the schedules of repayment to the Borrower in respect of Investments, which have been approved or authorized for withdrawals from the Loan Account under Section 2.03 of the Project Agreement; and (b) take into account any cancellation pursuant to Article VI of the General Conditions and any repayment made by MIDB to the Borrower pursuant to Section 2.07 of the Project Agreement.

Section 2.08. (a) The Borrower shall promptly repay to the Bank the amounts repaid to the Borrower by MIDB pursuant to Section 2.07 of the Project Agreement.

(b) Any amount so repaid by the Borrower shall be applied by the Bank as follows: (i) in the case of a Sub-Loan, to the maturity or maturities of the Loan in amounts corresponding to the outstanding amounts of the maturity or maturities of the Sub-Loan repaid or disposed of; and (ii) in the case of an Investment, pro rata to the maturity or maturities of the Loan reflecting amounts to be repaid on account of such Investment.

(c) Paragraph (b) of Section 3.05 of the General Conditions shall not apply to any repayment made under paragraph (a) of this Section.

Section 2.09. (a) The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement, as such schedule shall be amended from time to time by the Bank to the extent required to correspond with the provisions of Sections 2.07 and 2.08 hereof.

(b) Without limitations upon any of its obligations under this Agreement, the Borrower may authorize MIDB, under the Subsidiary Loan Agreement, to effect repayment, on behalf of the Borrower, of principal, interest and commitment charges due under this Agreement directly to the Bank.

ARTICLE III

Description of the Project; Use of the Proceeds of the Loan

Section 3.01. (a) The purpose of the Project is to assist MIDB in financing such productive facilities and resources in the territory of the Borrower as will contribute to the economic and social development of the country. The Project consists in the financing of specific industrial development projects through loans to and investments in private enterprises in the territories of the Borrower, in furtherance of the corporate purposes of MIDB.

(b) The Borrower shall relend the proceeds of the Loan to MIDB under a subsidiary loan agreement to be entered into between the Borrower and MIDB, under terms and conditions which shall have been approved by the Bank, including, inter alia, (without restriction on the provisions of Sections 2.07 and 2.08 hereof) a repayment period not exceeding seventeen years, and interest at the rate of 8.75% per annum and provisions whereby MIDB shall bear

all losses and acquire all gains resulting from changes in the value in terms of U.S. dollars of the currency or currencies in which debt service payments shall be made on the Loan pursuant to Sections 4.02, 4.03 and 4.04 of the General Conditions.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Borrower, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Borrower shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Borrower, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such subdivision, including gold and other foreign exchange assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Borrower.

Section 4.02. The Borrower shall not take or permit to be taken any action which would prevent or materially interfere with the performance by MIDB of any of its obligations under the Project Agreement or the Subsidiary Loan Agreement.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) a default shall occur in the performance of any obligation of MIDB under the Project Agreement;

(b) the Articles of Incorporation of MIDB shall have been amended so as to affect materially and adversely the operations or financial condition of MIDB;

(c) MIDB shall be unable to pay its debts as they mature or any action or proceeding shall have been undertaken whereby any of the property of MIDB shall or may be distributed among its creditors;

(d) any part of the principal amount of any loan to MIDB having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity, as a consequence of MIDB's failure to perform its obligations under the relative contractual instruments, or any security for any such loan shall have become enforceable;

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of MIDB or for the suspension of its operations; and

(f) a Subsidiary or any other entity shall have been created or acquired or taken over by MIDB, if such creation, acquisition or taking over would adversely affect the conduct of MIDB's business, its financial situation, the efficiency of its management and personnel or the carrying out of the Project.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof:

(a) any event specified in paragraphs (a) or (b) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and MIDB; and

(b) any event specified in paragraphs (c), (d), (e) or (f) of Section 4.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and MIDB respectively.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by MIDB, and is legally binding upon MIDB in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and MIDB and is legally binding upon the Borrower and MIDB in accordance with its terms.

Section 6.03. The date October 6, 1980, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Economy, Foreign Trade and Economic Cooperation and the Under Secretary of International Finance of the Borrower are designated as representatives of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economy and Economic Cooperation
8 Adly Street
Cairo
Arab Republic of Egypt

Cable address:

Telex:

Ministry of Economy and Economic Cooperation 348 UN
8 Adly Street
Cairo

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in the

District of Columbia, United States of America, as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By /s/ Ashraf Ghorbal

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Roger Chaufournier

Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Amortization Schedule*

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)**</u>
June 15, 1983	250,000
December 15, 1983	250,000
June 15, 1984	1,000,000
December 15, 1984	1,000,000
June 15, 1985	1,562,500
December 15, 1985	1,562,500
June 15, 1986	1,712,500
December 15, 1986	1,712,500
June 15, 1987	1,812,500
December 15, 1987	1,812,500
June 15, 1988	1,812,500
December 15, 1988	1,812,500
June 15, 1989	1,812,500
December 15, 1989	1,812,500
June 15, 1990	1,812,500
December 15, 1990	1,812,500
June 15, 1991	1,562,500
December 15, 1991	1,562,500
June 15, 1992	812,500
December 15, 1992	812,500
June 15, 1993	250,000
December 15, 1993	250,000
June 15, 1994	250,000
December 15, 1994	250,000
June 15, 1995	250,000
December 15, 1995	250,000
June 15, 1996	100,000
December 15, 1996	100,000

* The Amortization Schedule is subject to amendment pursuant to the provisions of Section 2.09 of the Loan Agreement.

** To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or to Section 2.09 (a) of the Loan Agreement:

<u>Time of Prepayment</u>	<u>Premium</u>
Not more than three years before maturity	1.45%
More than three years but not more than six years before maturity	2.90%
More than six years but not more than eleven years before maturity	5.35%
More than eleven years but not more than fifteen years before maturity	7.30%
More than fifteen years before maturity	8.25%

SCHEDULE 2

Modifications of the General Conditions

For the purposes of the Loan Agreement, the provisions of the General Conditions are modified as follows:

(1) The following subparagraph (d) is added to Section 3.05:

"(d) The Bank and the Borrower may from time to time agree upon arrangements for prepayment of the Loan and the application of such prepayment in addition to, or in substitution for, those set forth in paragraph (b) of Section 3.05."

(2) The words "Investment Projects" are substituted for the words "the Project" at the end of Section 5.03.

(3) Section 6.03 is deleted and replaced by the following new Section:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) by the date specified in paragraph (d) of Section 2.03 of the Project Agreement no applications or requests permitted under paragraph (a) or paragraph (b) of such Section shall have been received by the Bank in respect of any portion of the Loan, or having been so received, shall have been denied, or (c) after the Closing Date an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may by notice to the Borrower terminate the right to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice such amount or portion of the Loan shall be cancelled."

(4) The words "Project Agreement" are substituted for the words "Guarantee Agreement" in Section 6.06.

(5) The words "Project Agreement" are substituted for the words "Guarantee Agreement" in Section 10.03.

LOAN NUMBER 1842 EGT

Project Agreement

(Misr Iran Development Bank Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

MISR IRAN DEVELOPMENT BANK

Dated

June 4, 1980

PROJECT AGREEMENT

AGREEMENT, dated June 4, 1980, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and MISR IRAN DEVELOPMENT BANK (hereinafter called MIDB).

WHEREAS (A) by the Loan Agreement of even date herewith between Arab Republic of Egypt (hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to thirty million dollars (\$30,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that MIDB agree to undertake such obligations toward the Bank as are hereinafter set forth;

(B) by a subsidiary loan agreement to be entered into between the Borrower and MIDB, the proceeds of the loan provided for under the Loan Agreement will be made available to MIDB on the terms and conditions therein set forth; and

WHEREAS MIDB, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Sub-Loan" means a loan made or proposed to be made by MIDB out of the proceeds of the Loan lent to it by the Borrower to an Investment Enterprise for an Investment Project and "free-limit sub-loan" means a sub-loan, as so defined, which qualifies as a free-limit sub-loan pursuant to the provisions of Section 2.02 (b) of this Agreement;

(b) "Investment" means an investment, other than a sub-loan, made or proposed to be made by MIDB out of the proceeds of the Loan relented to it by the Borrower in an Investment Enterprise for an Investment Project;

(c) "Investment Enterprise" means an enterprise to which MIDB proposes to make or has made a sub-loan or in which it proposes to make or has made an investment;

(d) "Investment Project" means a specific industrial development project to be carried out by an Investment Enterprise utilizing the proceeds of a sub-loan or investment;

(e) "Foreign currency" means any currency other than the currency of the Borrower;

(f) "Articles of Incorporation" means the Article of Incorporation of MIDB dated May 27, 1975, as amended to the date of this Agreement;

(g) "Statement of Policy" means the statement of lending and investments policy approved by the Board of Directors of MIDB on October 17, 1979, as amended to the date of this Agreement;

(h) "Strategy Statement" means the strategy statement approved by the Board of Directors of MIDB dated October 17, 1979, as amended to the date of this Agreement; and

(i) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by MIDB or by any one or more subsidiaries of MIDB or by MIDB and one or more of its subsidiaries.

ARTICLE II

The Project; the Subsidiary Loan; Management and Operations of MIDB

Section 2.01. MIDB shall carry out the Project described in Section 3.01 of the Loan Agreement and conduct its operations with due diligence and efficiency and in conformity with appropriate economic, financial and administrative practices, with qualified and experienced management and in accordance with MIDB's Articles of Incorporation, the Policy Statement and Strategy Statement.

Section 2.02. (a) MIDB shall, acting on behalf of the Borrower pursuant to Section 2.02 of the Loan Agreement and to the provisions of the Subsidiary Loan Agreement, be entitled to withdraw from the Loan Account amounts paid for (or, if the Bank shall so agree, for amounts to be paid) by MIDB on account of withdrawals made by an Investment Enterprise under a Sub-Loan or Investment to meet the reasonable foreign currency cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; provided (unless the Bank may otherwise agree), that:

- (i) at least 25% of the Loan amount shall be allocated for Investment Projects in the sector of building materials and construction industries;
- (ii) at least 25% of the Loan amount shall be allocated for Investment Projects in the sector of manufacture of capital goods;
- (iii) at least 25% of the Loan amount shall be allocated for Investment Projects (other than those qualifying under paragraphs (i) and (ii) of this Section) not less than 20% of the output of which is expected for export, in accordance with criteria satisfactory to the Bank;
- (iv) not more than \$3,000,000 equivalent shall be allocated out of the proceeds of the Subsidiary Loan for a single Investment Project; and
- (v) no withdrawal shall be made in respect of a Sub-Loan or Investment unless (A) the Sub-Loan or Investment shall have been approved by the Bank, or (B) the Sub-Loan shall be a free-limit Sub-Loan for which the Bank shall have authorized withdrawals from the Loan Account.

(b) Except as the Bank may otherwise agree, a free-limit sub-loan shall be a sub-loan for an Investment Project, the estimated cost of which does not exceed \$8,000,000 equivalent, in an amount to be financed out of the proceeds of the Loan which shall not exceed in the aggregate the equivalent of \$1,000,000, the foregoing amounts being subject to change from time to time as determined by the Bank.

(c) Except as the Bank and MIDB shall otherwise agree, no withdrawals shall be made on account of (i) expenditures before the date of this Agreement or (ii) expenditures by an Investment Enterprise in respect of a Sub-Loan or in respect of an Investment if such expenditures shall have been made more than ninety days prior to the date on which the Bank shall have received in respect of such Sub-Loan or Investment the application and information required by Section 2.03 (a) or (b) of this Agreement, as the case may be.

Section 2.03. (a) For approval by the Bank of any Investment, the first two Sub-loans and thereafter of any Sub-Loan (other than a free-limit Sub-Loan), MIDB shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, (ii) the proposed terms and conditions of the Sub-Loan or Investment, including the schedule of amortization of the Sub-Loan or of repayment to the Borrower of the amount of the Loan to be used for the Investment, and (iii) such other information as the Bank shall reasonably request.

(b) Each request by MIDB for authorization to make withdrawals from the Loan Account in respect of a free-limit sub-loan shall contain (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Sub-Loan, including the schedule of amortization therefor.

(c) In considering the provision of a Sub-Loan or an Investment for an Investment Project estimated to cost more than \$25,000,000 equivalent, and in addition to the applicable requirements of the preceeding paragraphs (a) and (b), MIDB shall (i) seek the Bank's views at an early stage of the appraisal of such Investment Project, and (ii) take such views into consideration in deciding on whether to make a Sub-Loan for or an Investment in such Investment Project.

(d) Except as the Bank and MIDB shall otherwise agree, applications and requests made pursuant to the provisions of paragraphs (a) and (b) of this Section shall be presented to the Bank on or before December 31, 1982.

Section 2.04. The Closing Date shall be June 30, 1985 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and MIDB of such later date.

Section 2.05. (a) Unless otherwise agreed between the Bank and MIDB, MIDB shall charge interest at a rate of not less than 11% per annum on the principal amount of any Sub-Loan withdrawn and outstanding from time to time.

(b) MIDB shall review with the Bank at least annually the interest rate policy of MIDB in light of prevailing market conditions with a view to determining the most appropriate interest rates to be applied by MIDB to its lending operations.

Section 2.06. (a) MIDB shall repay the principal amount of the Subsidiary Loan in accordance with the amortization schedule set forth in the Subsidiary Loan Agreement as such Schedule shall be amended from time to time by the Borrower, pursuant to the provisions of Section 2.07 of the Loan Agreement, to the extent required to: (i) conform in relevant part substantially to the aggregate of the amortization schedules applicable to Sub-Loans and the schedules of repayment to the Borrower in respect of Investments, which have been approved or authorized for withdrawals from the Loan Account under Section 2.03 of this Agreement; and (ii) take into account any cancellation pursuant to Article VI of the General Conditions and any repayments made by MIDB under Section 2.07 of this Agreement.

(b) The amortization schedule applicable to each Sub-Loan and the schedule of repayment to the Borrower in respect of each Investment shall provide for an appropriate period of grace, and, unless the Bank, the Borrower and MIDB shall otherwise agree (i) shall not extend beyond fifteen years from the date of approval by the Bank of such Sub-Loan or Investment, or in the case of a free-limit sub-loan, of authorization by the Bank to make withdrawals from the Loan Account in respect thereof, and (ii) shall provide for approximately equal semi-annual, or more frequent, aggregate payments of principal and interest or approximately equal semi-annual, or more frequent, payments of principal.

(c) MIDB shall pass the exchange risk assumed by it pursuant to Section 3.01 (b) of the Loan Agreement to the Investment Enterprises in regard to their respective Sub-loans.

(d) MIDB shall transmit to the Bank, for its prior approval, any substantial changes proposed to be made by MIDB in respect of the repayment provisions of any Sub-Loan.

Section 2.07. Unless the Bank, the Borrower and MIDB shall otherwise agree:

If a Sub-Loan or any part thereof shall be repaid to MIDB in advance of maturity or if a Sub-Loan or an Investment or any part thereof shall be sold, transferred, assigned or otherwise disposed of for value by MIDB, MIDB shall promptly notify the Borrower and shall repay to the Borrower on the next following interest payment date, the amount withdrawn from the Loan Account in respect of such Sub-Loan or Investment or part thereof and not theretofore repaid to the Borrower.

Section 2.08. (a) MIDB undertakes that, unless the Bank shall otherwise agree, any Sub-Loan or Investment will be made on terms whereby MIDB shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and MIDB, including, in the case of any Sub-Loan and to the extent that it shall be appropriate in the case of any Investment, the right of MIDB to: (i) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records; (ii) require that: (1) the goods and services to be financed out of the proceeds of the Subsidiary Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; (2) such goods to be financed out of the proceeds of the Subsidiary Loan, and which are included in a contract estimated to cost the equivalent of not less than \$5,000,000, shall be procured under bidding procedures ensuring international competition; and (3) such goods and services shall be used exclusively in the carrying out of the Investment Project; (iii) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents; (iv) require that: (1) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against

such risks and in such amounts, as shall be consistent with sound business practice; and (2) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Subsidiary Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods; (v) obtain all such information as the Bank or MIDB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and (vi) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Subsidiary Loan upon failure by such Investment Enterprise to perform its obligations under its contract with MIDB.

(b) MIDB shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Borrower, the Bank and MIDB; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.09. (a) MIDB shall furnish to the Bank at regular intervals all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Subsidiary Loan, the Project, the Investment Enterprises, the Investment Projects, the Sub-loans and Investments and, where appropriate, the benefits to be derived from the foregoing.

(b) Within six months following the last withdrawal from the Loan Account, MIDB shall prepare and furnish to the Borrower and the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Investment Projects, their costs and the benefits derived and to be derived from them, the performance by MIDB and the Bank of their respective obligations under this Agreement and the accomplishment of the purposes of the Subsidiary Loan.

Section 2.10. MIDB shall duly perform all its obligations in agreements (including the Subsidiary Loan Agreement) under which funds have been lent or otherwise put at its disposal by the Borrower or its agencies or others for relending, investment or management. MIDB shall promptly inform the Bank of any action which would have the effect of assigning, amending, abrogating or waiving any material provision of any such agreement, and which

may adversely affect the carrying out by MIDB of its obligations under this Agreement.

Section 2.11. If MIDB establishes or acquires any subsidiary, MIDB shall cause such subsidiary to observe and perform the obligations of MIDB hereunder to the extent to which such obligations shall or can be applicable thereto, as though such obligations were binding upon such subsidiary.

Section 2.12. MIDB shall require an economic rate of return of not less than 12% for any Investment Project to be financed from the proceeds of the Subsidiary Loan.

Section 2.13. MIDB shall not effect any changes in the Policy Statement without the prior consent of the Bank.

ARTICLE III

Financial Covenants

Section 3.01. MIDB shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of MIDB.

Section 3.02. MIDB shall: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank; (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall reasonably request; and (iii) furnish to the Bank such other information concerning the accounts and financial statements of MIDB and the audit thereof as the Bank shall from time to time reasonably request.

Section 3.03. Except as the Bank shall otherwise agree, MIDB shall: (i) conduct its operations and affairs in such manner as shall be necessary to maintain, at all times, its debt/equity

ratio within the limit referred to in Section 3.05 of this Agreement; and (ii) if such ratio shall, for reasons beyond MIDB's control, be exceeded, promptly take all such reasonable action as shall be necessary or advisable to bring such ratio within such limit.

Section 3.04. MIDB shall not make any repayment in advance of maturity in respect of any outstanding debt of MIDB which would materially affect MIDB's ability to meet its financial obligations.

Section 3.05. Except as shall be otherwise agreed between the Bank and MIDB (and shall be acceptable to the Borrower), MIDB shall not incur or permit any subsidiary to incur any debt if, after the incurring of such debt, the consolidated debt of MIDB and all its subsidiaries then incurred and outstanding would be greater than four times the consolidated capital and surplus of MIDB and all its subsidiaries. For the purposes of this Section:

(a) "debt" means any debt incurred by MIDB or any subsidiary maturing more than one year after the date on which it is originally incurred, but including all amounts of short-term resources available for MIDB and used by it for long-term loans or investments;

(b) debt shall be deemed to be incurred: (i) under a loan contract or agreement (including the Subsidiary Loan Agreement) on the date and to the extent the amount of the loan is drawn down and outstanding pursuant to such loan contract or agreement; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding and not covered by a counter-guarantee;

(c) whenever in connection with this Section it shall be necessary to value in terms of dollars (the currency of operation of MIDB and in which its capital is payable) debt payable in other currency, such valuation shall be made at the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable by MIDB for the purposes of servicing such debt;

(d) "consolidated debt of MIDB and all its subsidiaries" means the total amount of debt of MIDB and its subsidiaries, excluding any debt owed by MIDB to any subsidiary or by any subsidiary to MIDB or to any other subsidiary; and

(e) "consolidated capital and surplus of MIDB and its subsidiaries" means the aggregate of the unimpaired paid-up capital, surplus and free reserves of MIDB and its subsidiaries after excluding therefrom such amounts as shall represent equity interests of MIDB in any subsidiary or of any subsidiary in MIDB or any other subsidiary.

Section 3.06. MIDB shall take such steps satisfactory to the Borrower and the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies used in its lending and borrowing operations.

Section 3.07. The Bank and MIDB shall from time to time, at the request of either party, exchange views through their representatives with regard to the administration, operations and financial condition of MIDB and its subsidiaries, and MIDB shall furnish to the Bank all such information as the Bank shall reasonably request concerning the administration, operations and financial condition of the MIDB and its subsidiaries.

Section 3.08. MIDB shall enable the Bank's representatives to inspect the records referred to in Section 3.01 of this Agreement and any relevant documents.

Section 3.09. MIDB shall adopt, by December 31, 1980, procedures whereby MIDB's shareholders shall be required to pay in such portion of MIDB's authorized share capital as shall be required to ensure that the amount of short-term resources available for MIDB and used for long-term loans and investments shall not exceed, at any time for longer than a one-month period, the equivalent of 50% of short-term deposits with MIDB.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of MIDB thereunder shall terminate on the date on which the Loan Agreement shall terminate.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For MIDB:

8 Adly Street
Cairo
Arab Republic of Egypt

Cable address:

MIRBANK
Cairo

Telex:

92389 MIDB UN
92545 MIDB UN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of MIDB may be taken or executed by the Managing Director of MIDB or such other person or persons as the Managing Director shall designate in writing, and MIDB shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By */s/ Roger Chauhournier*
Regional Vice President
Europe, Middle East and North Africa

MISR IRAN DEVELOPMENT BANK

By */s/ Fouad Sultan*
Authorized Representative

92543 MIDB UN

sd

FROM MISR IRAN DEVELOPMENT BANK CAIRO
TO THE WORLD BANK WASHINGTON

Distribution:

Mr. Zaidan

Mr. Koepf

3/6/80

ATT. MR. GEORGE ZAIDAN

CHIEF INDUSTRIAL DEVELOPMENT AND FINANCIAL DIVISION

(EMENA)

PLEASE RELAY THE FOLLOWING MESSAGE TO MR. FOUAD SULTAN

QUOTE

PLEASE CHECK SECTION 3.0 2 OF ARTICLE (III) OF MIDB PROJECT
AGREEMENT, AS REGARDS THE WORD " BORROWER " MENTIONED ON
PAGE 14 LINE 18.

UNQUOTE

BEST REGARDS

A. MAGED

MIRBANK

↑
This should
read MIDB
& has been
corrected.
RZ

WP#L-1061-C/jat
Legal Department
CONFIDENTIAL DRAFT
(Subject to Change)
AAbu-Akeel
May 30, 1980

DECLASSIFIED
MAR 12 2015
WBG ARCHIVES

LOAN NUMBER 1842 EGT

SUGGESTED MODEL FOR THE
SUBSIDIARY LOAN AGREEMENT

(Misr Iran Development Bank Project)

between

ARAB REPUBLIC OF EGYPT

and

MISR IRAN DEVELOPMENT BANK

Dated

, 1980

SUBSIDIARY LOAN AGREEMENT

AGREEMENT, dated _____, 1980 between the ARAB REPUBLIC OF EGYPT (hereinafter called the Government) and MIRS IRAN DEVELOPMENT BANK (hereinafter called MIDB).

WHEREAS, by the Loan Agreement (Misr Iran Development Bank Project) dated _____, 1980, between the Government and the International Bank for Reconstruction and Development (hereinafter called the Bank), the Bank has agreed to make available to the Government a loan (hereinafter called the Loan) in an amount equivalent to thirty million United States dollars (U.S.\$30,000,000) on the terms and conditions set forth therein;

WHEREAS under the Loan Agreement, the Government, for the purpose of assisting in the carrying out of the Project, has agreed to relend to MIDB the equivalent of the amount of the Loan under terms and conditions satisfactory to the Bank; the amount so relent being hereinafter called the Subsidiary Loan;

WHEREAS by the Project Agreement (Misr Iran Devevelopment Bank Project) dated _____, 1980, between the Bank and MIDB, MIDB has undertaken certain obligations toward the Bank pertinent to the utilization of the proceeds of the Loan and the execution of the Project; and WHEREAS in view of the foregoing, the parties hereto have agreed to enter into this Agreement which is the

Subsidiary Loan Agreement referred to in Section 3.01 (b) of the
Loan Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the preamble to this Agreement, the Loan Agreement, the Project Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

The Subsidiary Loan

Section 2.01. (a) The Government agrees to lend to MIDB, on the terms and conditions set forth or referred to in this Agreement, the amounts withdrawn from time to time from the Loan Account on account of expenditures under the Project.

(b) The Government designates MIDB as its representative for the purpose of taking any action required or permitted under the provisions of Article V of the General Conditions; therefore, applications for withdrawal from the Loan Account and any request for special commitments pursuant to Section 2.05 of this Agreement shall be prepared, signed and presented directly by MIDB to the Bank on behalf of the Government prior to the Closing Date, together with all such documents and other evidence as shall be requested by the Bank in connection with such withdrawals and requests.

Section 2.02. (a) The Government shall open a subsidiary loan account on its books in the name of MIDB.

(b) Each part of the Subsidiary Loan shall be deemed to have been withdrawn by MIDB from said subsidiary loan account on the date and in the amount of currency or currencies of the corresponding withdrawal from the Loan Account, on account of expenditures under the Project.

Section 2.03. MIDB shall pay to the Government ~~[in terms of United States dollars]~~, a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the amount of the Loan credited to the subsidiary loan account referred to in Section 2.02 (a) hereof and not withdrawn from time to time.

Section 2.04. MIDB shall pay to the Government in terms of United States dollars interest at the rate of 8.75% per annum on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time.

% TBD

Section 2.05. MIDB shall pay to the Government the amount of any charges for special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions.

delete reference to US dollars in Arabic version

Section 2.06. Interest and commitment charges, if any, shall be paid by MIDB to the Government semi-annually on _____ and _____ in each year.

Section 2.07. (a) ~~The amount of the currency or currencies withdrawn from the Loan Account shall constitute the principal amount of the Subsidiary Loan. The equivalent in terms of United States dollars (determined as of the date, or the respective dates, of repayment) of such principal amount shall be repaid by MIDB to the Government in accordance with the amortization schedule set forth in the Schedule to this Agreement as such Schedule shall be amended from time to time to the extent required to take~~

Delete and substitute A or A and B →

into account my modification in the amount of the Subsidiary Loan or cancellation by the Bank of any amount of the Loan otherwise to be made available to the MIDB.

(b) Notwithstanding the provisions of the preceding paragraph (a) the Government [may authorize MIDB] [hereby authorizes MIDB] to effect on behalf of the Government repayment of principal and payment of interest and commitment charges due under the Loan Agreement directly to the Bank. Such repayment and payment shall be promptly reflected in the subsidiary loan account.

Section 2.08. MIDB may on any maturity date specified in the Schedule to this Agreement repay in advance of maturity the amount of one or more maturities of the Subsidiary Loan, together with all accrued interest; provided that on the date of such prepayment there shall not be outstanding any portion of the Subsidiary Loan maturing after the portion to be paid.

Add Section 2.09 -

ARTICLE III

Execution of the Project

Section 3.01. MIDB shall carry out the Project with due diligence and efficiency and in conformity with appropriate managerial, administrative and financial practices and shall duly perform all of its obligations under the Project Agreement.

Section 3.02. MIDB shall perform its obligations and exercise its rights under this Agreement in such manner as: (i) to protect the interest of the Government and the Bank; and (ii) to achieve the purposes of the Project.

ARTICLE IV

Remedies

Section 4.01. If a default shall have occurred in the performance of any covenant or agreement on the part of MIDB under this Agreement and shall continue for a period of sixty days after notice thereof shall have been given by the Government to MIDB, then at any subsequent time during the continuance thereof, the Government may at its option, declare the principal amount of the Loan then outstanding to be due and payable immediately.

ARTICLE V

Miscellaneous

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. Whenever the total amount of the principal of the Subsidiary Loan and all interest and other charges due in connection with the Subsidiary Loan shall have been paid, this Agreement and all the obligations of the parties thereunder shall terminate.

Section 5.03. (a) The _____ of the Government or any other person or persons duly authorized in writing by him for this purpose may, in the name of the Government, take any action or execute any document required or permitted under this Agreement.

(b) The _____ of MIDB or any other person or persons duly authorized in writing by him for this purpose may, in the name of MIDB, take any action or execute any document required or permitted under this Agreement.

Section 5.04. Any notice, demand, or request required or permitted to be given or made under this Agreement shall be in writing and shall be deemed to have been duly given or made when it shall be delivered in the case of the Government to _____,

and in the case of MIDB to _____, or at such other
address which the Government or MIDB may from time to time specify
in writing to the other party.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and have exchanged counterpart copies thereof in Cairo as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By

Authorized Representative

MISR IRAN DEVELOPMENT BANK

By

Authorized Representative

SCHEDULE

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)</u>
On each [] and []	--
beginning [,]	--
through [,]	--
on [,]	--

[17 years]

Abu-Akeel

MET

Circle

There send

a copy to each

of Zaborski and

and

and signed to

610 (Loan 1842-261)

Mr. Zaborski

RCA FEB 17 01593

248423 WORLDBANK

CAIRO 17/2/1983

21-525

MR. SHERIF O. HASSAN

CHIEF COUNSEL

WORLD BANK

WASHINGTON D.C.

PLEASED TO ADVISE THAT WE RECEIVED YOUR TLX FEB.15

CONCERNING THE EFFECTIVENESS OF THE AMEDEMMENT TO SECTION

1/01 OF LOAN NO. 1842.

REGARDS

SAMIR KORAIKEM

248423 WORLDBANK

348 GAFEC UN

Ministry of Investment and
International Cooperation

~~File~~
RWZ
R2

Mr. Alberto Favilla
Division Chief
EMENA I
World Bank
Washington D.C
U.S.A

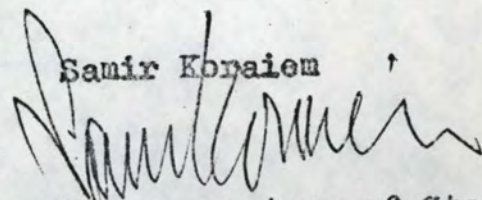
Cairo, December 21, 1982

Dear Mr. Favilla,

Reference to Mr. Sherif Hassan's letter dated
Sept. 9, 1982 concerning the Bank approval of the amendment
of Loan Agreement No. 1842 - EGT (Misr Iran Development
Project). Please find enclosed herewith a copy of the
letter after being signed on behalf of the Egyptian
Government.

Thanks and best regards

Happy New Year
Ale

Samir Koraïem


Senior Undersecretary of State

W/M.



Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title Misr Iran Development Bank Project [MIDB I] - DFC IV - Egypt, Arab Republic of - Loan 1842 - P005021 - Correspondence		Barcode No. 1264632		
Document Date 09 September, 1982	Document Type Letter			
Correspondents / Participants To : Ministry of Economy and Economic Cooperation From : International Bank for Reconstruction and Development				
Subject / Title Re : Loan No. 1842 EGT - (Misr Iran Development Bank Project) - Amendment of Loan Agreement				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date 13-Mar-15</td></tr></table>	Withdrawn by Chandra Kumar	Date 13-Mar-15
Withdrawn by Chandra Kumar	Date 13-Mar-15			



OFFICIAL
DOCUMENTS

File MIDB Black Book
In 1842 EOT⁴

MISR IRAN DEVELOPMENT BANK

RZ

Date : 23.12.1980

Ref. : 25767/1

Mr. Samir Koreim
Under Secretary
Ministry of Economy

Dear Mr. Koreim,

Reference is being made to item 5.3 b Article (V) of the Subsidiary Loan Agreement concluded between the Arab Republic of Egypt and Misr Iran Development Bank regarding relending the proceeds of the World Bank Loan , amounting to U.S.\$ 30 mn, to MIDB ;

We have the pleasure to advise you that our Chairman , Mr. Fouad A.L. Sultan, is authorized to sign separately on behalf of the Bank. Moreover, any two of the bank officers mentioned hereunder are authorized to sign jointly on behalf of MIDB :

- Mr. Al-Motaz Bellah Ahmed Mansour
Assistant General Manager
- Mr. Ibrahim Mokhtar Ibrahim
Manager Loans and Investments Supervision Dept.
- Mr. Mahmoud Sadek Ali
Manager Banking Department
- Mr. Michel Mina Rizk
Manager Financial and Accounts Dept.

Attached herewith please find the specimen signatures of the Bank officers mentioned above.

Best personal regards.

Sincerely Yours,

Fouad Sultan
Chairman



MIDB

السيد / فؤاد عبد اللطيف سلطان

رئيس مجلس الإدارة

Mr. FOUAD A.L. SULTAN

CHAIRMAN



Confirmed

Samia Koraïem

December 1980

To Sign Separately

توقيع منفرد



MIDB

Page No. 4

السيد / المعترف بالله احمد منصور

مدير عام مساعد

Mr. AL-MOTAZ BELLAH AHMED MANSOUR

ASSISTANT GENERAL MANAGER

December 1980



Confirmed

Samir Koraïem

To Sign Jointly

توقيع مشترك



MIDB

Page No. 7

السيد / محمود صادق على

مدير الادارة المصرفية

MR. MAHMOUD SADEK ALI

Manager, Banking Dept.

December 1980

Confirmed



Samir Koraiem

To Sign Jointly

توقيع مشترك



MIDB

Page No. 8

السيد / ابراهيم مختار ابراهيم

مدير ادارة القروض ومتابعة الاستثمارات

Mr. IBRAHIM MOUKHTAR IBRAHIM

Manager, Loans & Investment Supervision
Department

December 1980



Confirmed

Samir Koraïem

To Sign Jointly

توقيع مشترك



MIDB

السيد / ميشيل مينا رزق

مدير الادارة المالية والحسابات

Mr. MICHEL MINA RIZK

Manager, Financial & Accounts Dept.



Confirmed

Samer Koraïem

December 1980

To Sign Jointly

توقيع مشترك

OFFICE MEMORANDUM

Michael Port

TO: Mr. E. Stern, VPO

DATE: April 17, 1980

FROM: Roger Chaufourier, Vice President, EMENA Region

SUBJECT: EGYPT : Misr Iran Development Bank Project

1. Attached for your approval is a copy of the draft gray cover Report and Recommendations of the President on a proposed loan of \$30 Million to the Arab Republic of Egypt for a Misr Iran Development Bank (MIDB) project. The draft Staff Appraisal Report, Loan and Project Agreements and two Supplemental Letters are also attached. The reports and agreements are scheduled to be distributed to the Executive Directors on or before April 24, 1980 for consideration on May 13, 1980. Approval of the agreements by the Government and MIDB has been received.

2. Negotiations with MIDB and the Government were held from March 24 to March 28, 1980 on the basis of draft documents submitted to the Loan Committee under Mr. Benjenk's memorandum of March 9, 1980. Satisfactory understandings were reached on the principal terms and conditions of the project. The attached documents incorporate amendments resulting from understandings reached during negotiations as explained below.

Interest Rate

3. As proposed in Mr. Karaosmanoglu's memorandum of March 6, 1980 the negotiated legal documents provide MIDB with a satisfactory spread between the interest rate at which the Government onlends the Bank loan to MIDB and the rate MIDB charges its sub-borrowers. It was agreed that the latter would be not less than 11 percent, unless otherwise agreed with the Bank, and that the Government's interest rate to MIDB would be 0.5 percent higher than the Bank's 8.25 percent interest rate to the Government, or 8.75 percent. This would ensure MIDB a spread of at least 2.25 percent. As suggested by the Loan Committee, provision was made for an annual review of MIDB's interest rate policy (Section 2.05(b) of the Project Agreement).

Counter Guarantee for MIDB's Exposure in MIRATEX Project

4. Confirmation of arrangements for a counter guarantee of \$12 Million for MIDB's exposure in the Misr Iran Textile Company (MIRATEX) was a condition of negotiations. As explained in the attached Minutes, MIDB had received two commitments for such a counter guarantee. On April 10, 1980 MIDB telexed the Bank to confirm that it had taken the counter guarantee from the National Bank of Egypt and that the National Bank had waived all prerequisites for the effectiveness of this counter guarantee thus allowing its finalization which, as agreed in the Minutes, is expected to take place by April 24, 1980.

Confirmation of Government Support for MIDB

5. As foreseen in the draft legal documents submitted to the Loan Committee, the Government representative explained that since MIDB was

considered a private institution, the Government could not commit itself in the legal documents to mobilizing long-term resources for MIDB. He explained, however, that the Government being the borrower of the Bank loan on behalf of MIDB, is in itself an indication of its positive attitude in this regard; in any case, MIDB would not have any difficulty in raising the necessary funds on its own. In the Agreed Minutes, the Government reaffirmed its support for MIDB and that it would consider favourably any assistance to MIDB in augmenting its long-term capital requirements should this be necessary.

6. This memorandum and the attached documents have been cleared by the Departments concerned.

7. Mr. Vijay Chaudhry, the leader of the appraisal team, will present the project to the Executive Directors. We will notify you later of the theme of this presentation.

8. Please address your comments on these documents to Mr. Zaborski (extension 74787).

Attachment

Distribution: Messrs. Stern (VPO) - 3
Qureshi (VPF) - 2
Nurick (VPG) - 2

cc: Mr. McNamara (memo and President's Report)

Mr. Choi (memo only)

cc: Messrs. Rajagopalan (PAS), Hattori (CTR), Knox (EMP), Karaosmanoglu (EM1), El Darwish (EMP), Richardson (EMNVP), Köpp, Dervis (EM1), Zaidan (EMP), Maiss (EM1), V. Chaudhry (IFC), El Daher, Deshpande (EMP), Abu Akeel (LEG), Hakim (CTR), Finzi (EMNVP), Ms. Schaeffer (EM1)

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Report No. P-2780-EGT

REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE
ARAB REPUBLIC OF EGYPT
FOR A
MISR IRAN DEVELOPMENT BANK PROJECT

April 18, 1980

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ARAB REPUBLIC OF EGYPT

CURRENCY EQUIVALENTS

1 Egyptian Pound (LE)	=	US\$1.43
1 US Dollar (\$)	=	LE 0.70

FISCAL YEAR

January 1 to December 31

List of Abbreviations

BOA	Bank of Alexandria
CBE	Central Bank of Egypt
DIB	Development Industrial Bank
IMDBI	Industrial and Mining Development Bank of Iran
MIDB	Misr Iran Development Bank

were eased, specific import allocations were replaced by general import quotas, and more foreign exchange was made available to both the public and private sector. A new investment law (1974, amended in 1977) offers attractive incentives to foreign firms. Trade agreements, especially with the EEC, opened new markets for export products; at the same time, bilateral trade with COMECON countries was much reduced. A debt management unit was established in the Central Bank and became operative in mid-1978.

5. A Five-Year Plan was adopted in 1978 and is currently under revision, in accordance with the Government's desire to periodically reassess development perspectives and respond to changing economic conditions and investment options. In support of the overall plan, a number of sector and subsector programs are currently under preparation with the assistance of the Bank and other donors. These include a Water Master Plan, various industrial subsector studies, a review of the transport sector, and an electrification program.

6. In accordance with the objective of greater decentralization, the autonomy of public enterprises has been somewhat strengthened, especially by a new law issued in 1978 which grants greater flexibility to individual enterprises in (i) setting up organizational structures, (ii) introducing material incentives, (iii) establishing productivity related wage scales, (iv) adjusting the work force to production requirements by not having to hire additional people, and (v) undertaking some investments from their own resources. Provincial authority to undertake regional development programs has also been expanded. Central bureaucratic control remains strong, however, over most investment decisions.

7. A start has been made in rationalizing the price structure and increasing price flexibility. The share of industrial output subject to centralized price control has decreased, and prices for a number of controlled products (including agricultural crops and some public service tariffs) were substantially increased. Interest rates have been raised several times and now stand at 10 to 12 percent for lending (to non-government sector) and 6 to 8.5 percent for term deposits. Private sector activity is being encouraged and has been freed from many previous restrictions. Moreover, a growing number of foreign investment contracts are being signed, especially in the important oil and tourism sectors.

Impact of the "Open-Door" Strategy

8. The open-door strategy and subsequent policy actions have yielded impressive results. Above all, they have led to a rapid increase in Egypt's foreign exchange earnings which rose from \$1.4 billion in 1973 to \$5.5 billion in 1978. During this period, oil exports, workers' remittances, tourism and the Suez Canal emerged as major new sources of foreign exchange. This was accompanied by a major shift of agricultural and industrial exports from COMECON countries to the hard currency area. In addition, the Government managed to attract large amounts of foreign assistance. Gross inflows of medium- and long-term capital averaged \$3.4 billion per annum during 1975-78, compared with an average of only \$0.6 billion during 1967-72. The bulk of these aid flows came from Arab and western donors and were provided at highly concessional terms.

ARAB REPUBLIC OF EGYPTMISR IRAN DEVELOPMENT BANK (MIDB) PROJECTLoan and Project Summary

Borrower: Arab Republic of Egypt

Beneficiary: Misr Iran Development Bank (MIDB)

Amount: \$30 million

Terms: The loan to the Government would bear interest at 8.25 percent per annum and would be onlent from the Government to MIDB at 8.75 percent per annum. Amortization of the Bank loan would be the aggregate of the amortization of individual subloans, debt service of the loan by the Government coinciding with that by MIDB to the Government. The maximum repayment period would be 17 years.

On-lending Terms: The proceeds of the loan would be on-lent by MIDB at an interest rate of not less than 11 percent per annum. The subborrowers would assume the foreign exchange risk and commitment charge for Bank funds. For subloans approved for MIDB's equity investments (estimated to total less than 20 percent of the loan) the repayment obligation, including the the foreign exchange risk would rest with MIDB.

Project
Description: The project is designed to provide a part of MIDB's foreign exchange requirements over about two years. Besides supporting MIDB in promoting and financing medium and larger industries in the private sector in Egypt, which has received renewed Government support recently, it will support in particular industries in three sectors which have been identified as priorities for growth in the Egyptian economy: a minimum of 25 percent of loan proceeds would be allocated each for building materials and construction/contracting industries; capital goods industries; and export oriented industries. During the commitment period, MIDB's institutional framework would be further strengthened to provide assistance to industrial enterprises in the private sector. The risks are associated with the possible failure of MIDB to fully utilize the funds allocated for capital goods and export oriented projects, although diligent promotion should enable MIDB to meet the target allocation.

Free Limit: Individual subprojects whose total costs do not exceed \$8 million, and for which subloans do not exceed \$1.0 million.

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ARAB REPUBLIC OF EGYPT

MIDDLE EAST DEVELOPMENT BANK (MIDB) PROJECT

Final Date of
Project
Submissions:

December 31, 1982

Procurement:

International competitive bidding for larger projects where single procurement packages exceed \$5 million, otherwise through international shopping with comparison of offers from more than one supplier.

Estimated Bank
Loan Disburse-
ment:

	US\$ Millions				
	FY81	FY82	FY83	FY84	FY85
Annual	2.3	11.0	12.2	4.0	0.5
Cumulative	2.3	13.3	25.5	29.5	30.0

Staff Appraisal
Report:

No: 2753-EGT, dated April 9, 1980
IDF Division
Europe, Middle East and North Africa Region

The project is designed to provide a part of MIDB's foreign exchange requirements over about two years. Besides supporting MIDB in promoting and financing medium and larger industries in the private sector in Egypt, which has received renewed Government support recently, it will support in particular industries in three sectors which have been identified as priorities for growth in the Egyptian economy: a minimum of 15 percent of loan proceeds would be allocated each for building materials and construction/contracting industries; capital goods industries; and export oriented industries. During the commitment period, MIDB's institutional framework would be further strengthened to provide assistance to industrial enterprises in the private sector. The risks are associated with the possible failure of MIDB to fully utilize the funds allocated for capital goods and export oriented projects, although diligent promotion should enable MIDB to meet the target allocation.

Individual subprojects whose total costs do not exceed \$5 million, and for which subunits do not exceed \$1.0 million.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD TO THE EXECUTIVE DIRECTORS..... ON THE PROPOSED LOAN TO THE ARAB REPUBLIC OF EGYPT FOR A MISR IRAN DEVELOPMENT BANK PROJECT

1. I submit the following report and recommendation on a proposed loan to the Arab Republic of Egypt for the equivalent of US\$30.0 million to help finance part of the foreign exchange requirements of the Misr Iran Development Bank (MIDB) for its development finance operations over about a two year period. The loan would bear interest at 8.25 percent per annum. The proceeds of the loan would be relent to MIDB with interest at 8.75 percent per annum. Amortization of the Bank loan would be the aggregate of the amortization of individual subloans, debt service of the loan by the Government coinciding with that by MIDB to the Government. The maximum repayment period would be 17 years.

PART I - THE ECONOMY 1/

2. The latest economic mission visited Egypt during September-October 1979. Subsequent to that a report on "Recent Economic Development and External Capital Requirements" (SecM 79-839) was distributed to the Executive Directors on November 28, 1979. The findings of this report are incorporated in the following. Country data sheets are attached.

The Open-Door Strategy

3. Economic trends in Egypt have been strongly influenced by the "open-door" strategy enunciated by President Sadat in October 1973 and approved in a national referendum in May 1974. This strategy aims at accelerating economic development through modernization and making Egypt's largely publicly-owned and centrally-controlled economy more market-oriented. Specifically, the strategy envisages (i) a gradual dismantling of government regulations, many of which are to be replaced by the price mechanism; (ii) the decentralization of decision-making in state-owned enterprises; (iii) a more active role for the private sector, including private foreign investors; and (iv) expanded economic cooperation with other countries. Substantial inflows of external assistance are considered essential to support the strategy.

4. To implement the open-door strategy the Government has taken a number of specific policy actions. Among the more important ones were the gradual devaluation of the Egyptian pound, and the concurrent liberalization of foreign exchange regulations. Starting in 1973 when the parallel market rate was introduced, Egypt's currency has been effectively devalued by 44 percent from \$2.56 to \$1.43 per pound at present. Exchange restrictions

1/ Part I of this report is identical to Part I of the President's Report for the Textile II Project (P-2764-EGT) which was distributed to the Board on April 10, 1980.

were eased, specific import allocations were replaced by general import quotas, and more foreign exchange was made available to both the public and private sector. A new investment law (1974, amended in 1977) offers attractive incentives to foreign firms. Trade agreements, especially with the EEC, opened new markets for export products; at the same time, bilateral trade with COMECON countries was much reduced. A debt management unit was established in the Central Bank and became operative in mid-1978.

5. A Five-Year Plan was adopted in 1978 and is currently under revision, in accordance with the Government's desire to periodically reassess development perspectives and respond to changing economic conditions and investment options. In support of the overall plan, a number of sector and subsector programs are currently under preparation with the assistance of the Bank and other donors. These include a Water Master Plan, various industrial subsector studies, a review of the transport sector, and an electrification program.

6. In accordance with the objective of greater decentralization, the autonomy of public enterprises has been somewhat strengthened, especially by a new law issued in 1978 which grants greater flexibility to individual enterprises in (i) setting up organizational structures, (ii) introducing material incentives, (iii) establishing productivity related wage scales, (iv) adjusting the work force to production requirements by not having to hire additional people, and (v) undertaking some investments from their own resources. Provincial authority to undertake regional development programs has also been expanded. Central bureaucratic control remains strong, however, over most investment decisions.

7. A start has been made in rationalizing the price structure and increasing price flexibility. The share of industrial output subject to centralized price control has decreased, and prices for a number of controlled products (including agricultural crops and some public service tariffs) were substantially increased. Interest rates have been raised several times and now stand at 10 to 12 percent for lending (to non-government sector) and 6 to 8.5 percent for term deposits. Private sector activity is being encouraged and has been freed from many previous restrictions. Moreover, a growing number of foreign investment contracts are being signed, especially in the important oil and tourism sectors.

Impact of the "Open-Door" Strategy

8. The open-door strategy and subsequent policy actions have yielded impressive results. Above all, they have led to a rapid increase in Egypt's foreign exchange earnings which rose from \$1.4 billion in 1973 to \$5.5 billion in 1978. During this period, oil exports, workers' remittances, tourism and the Suez Canal emerged as major new sources of foreign exchange. This was accompanied by a major shift of agricultural and industrial exports from COMECON countries to the hard currency area. In addition, the Government managed to attract large amounts of foreign assistance. Gross inflows of medium- and long-term capital averaged \$3.4 billion per annum during 1975-78, compared with an average of only \$0.6 billion during 1967-72. The bulk of these aid flows came from Arab and western donors and were provided at highly concessional terms.

9. Increased exchange earnings and foreign aid inflows have resulted in a consolidation of Egypt's external debt and have strengthened the country's creditworthiness. Short-term credits owed by the Government to commercial banks were reduced from \$1.4 billion at the end of 1976 to \$443 million at end-1978, largely with the help of loans granted by the Gulf Organization for the Development of Egypt (GODE). During the same period substantial arrears in debt payments, which had built up in previous years, were cleared. These changes have solved the pressing liquidity problems that threatened Egypt's financial position in 1975 and 1976. Favorable terms on new borrowings have also eased the burden on the country's medium- and long-term debt. Although Egypt's total medium- and long-term public debt increased sharply during recent years--from \$2.1 billion at the end 1973 to an estimated \$10.0 billion at the end-1978--the debt service ratio declined from 33 percent to 24 percent, during the same period. This reflects not only more favorable credit terms -- i.e., lower interest rates and longer maturities--but also the rapid increase in foreign exchange earnings.

10. The increased availability of foreign exchange from Egypt's own exports of goods and services and from external assistance has allowed much higher levels of imports. This in turn paved the way for a rapid increase of investment, larger domestic consumption, and a better utilization of existing production capacities. Imports of goods and services (excluding interest payments) rose from about \$2.0 billion in 1973 to an estimated \$6.5 billion in 1978; imports of capital goods increased at an even faster rate. Increased availability of foreign exchange to industrial producers and farmers enabled them to import more raw materials, intermediate goods--including fertilizer and pesticides--and spare parts, thus breaking crucial bottlenecks that had constrained local production. Together with investments in new capacities and a vigorous expansion of services such as trade, tourism and shipping, these developments sharply accelerated the rate of economic growth.

11. The Ministry of Planning estimates that GDP at constant prices rose at an average rate of close to 9 percent per annum during 1974-78. Much of the growth was concentrated in petroleum, construction, manufacturing, transport and public utilities. Agricultural production, on the other hand, increased very slowly (about 1 percent per annum). The growth rate of GNP was very high, about 13 percent per annum, because of the massive growth in workers' remittances from \$189 million in 1974 to \$1,760 million in 1978. The higher level of economic activity together with large-scale labor migration to neighboring oil exporting countries has absorbed much of the excess labor force that existed in the early 1970s. In fact, serious labor shortages have begun to emerge in a number of occupations, especially in the construction sector.

12. Since 1974 Egypt's investment rate (investment/GNP) increased from about 18 percent to about 25 percent on average in the 1976-78 period. This increase was made possible by the substantial contribution of foreign savings including the massive growth in workers' remittances. National savings increased from 2.3 percent of GNP in 1974 to more than 12 percent in 1978, reflecting the rise in remittance income. The domestic savings rate, however, while showing some growth since 1974, financed less than a quarter of investment in the 1974-78 period. A major cause for this inadequate level of domestic savings was the

continuously low and sometimes even negative savings generated by the government budget. During 1974-78 current budget surpluses averaged less than one percent of GNP, and their contribution to the financing of public investment averaged less than 10 percent. This was the result of high defense and security expenditures, large consumer subsidies and fast growing interest payments which, taken together, claimed 79 percent of the government's tax revenues in 1978. At the same time, savings generated by public enterprises remained constrained by price regulations. The result has been a continuous shortage of domestic funds, which in many instances has slowed down the implementation of investment projects.

Recent Economic Developments

13. Preliminary estimates indicate that GDP growth in 1979 was about 8.6 percent, close to the average achieved during 1975-78. The increase of agricultural value added (2.6 percent) was significantly above the long-term trend because of favourable climatic conditions and improved distribution of inputs. Growth in industry and mining accelerated in 1979 to 11.5 percent, compared with the 1975-78 average of 7.6 percent. There was, however, a marked slowdown in the growth of the petroleum sector, 20 percent in 1979 compared to 34 percent in 1978, reflecting the lack of major discoveries in recent years and the approaching "peak" in production from existing fields. Overall, the growth rate in the commodity sectors realized in 1979 (6.9 percent) was close to the 1975-78 average (7.6 percent). Growth in the distributive and service sectors, about 12 percent and 9 percent respectively, continued to be significantly higher than in the commodity sectors.

14. Egypt's foreign exchange earnings continued to grow rapidly in 1979. Based on preliminary estimates, merchandise exports increased by about 38 percent in value due to a major increase in petroleum revenue made possible by the surge in world prices. Merchandise imports, on the other hand, increased by only 11 percent in current value. With the continued growth in Suez Canal earnings (17 percent) and officially recorded workers' remittances (11 percent), the current account deficit declined by about 15 percent from its 1978 value to about \$1.5 billion. While the current account improved substantially, estimated medium- and long-term capital inflow in 1979 (\$2,410 million) was about 29 percent below its 1978 value (\$3,373 million) reflecting the cessation of cash inflows from GODE (\$500 million in 1978), and a drastic decline in bilateral disbursements from Arab sources (about \$70 million in 1979 compared to about \$300 million in 1978). As a result, the overall balance (current account plus net MLT capital flows) showed a small deficit (\$18 million), and there was some net short-term borrowing (about \$150 million). Prospects for 1980 are reasonably good, with petroleum revenue expected to exceed \$2 billion and Suez Canal earnings increasing as a result of recent increases in the Canal's capacity as well as higher tariffs. In addition net MLT capital flows are projected to grow significantly. Growth in these sources of foreign exchange, and continued growth in workers' remittances and tourism receipts, would permit the resumption of rapid growth in imports of producer goods essential for sustaining high rates of investment and GDP growth.

15. Reforms in trade, exchange rate and incentive policies have contributed significantly to the recent improvements in the balance of payments. Continued care must be taken, however, that incentives remain appropriate and are adapted to changing circumstances. The gap between interest rates on foreign and domestic deposits will have to be closed to channel more workers' remittances and tourism receipts into official channels and prevent the re-emergence of a large dual foreign exchange market. Periodic adjustments in the exchange rate may also become necessary if the unofficial "free market" rate were to start deviating substantially from the "unified" official rate. In 1979 the free market premium fluctuated around 8 percent and significant downward pressure on the exchange rate did not develop.

16. The domestic fiscal situation remains an area of major concern. The overall budget deficit increased to reach about 22 percent of GNP in 1979. Domestic financing of this deficit has gone up from 5.9 percent of GNP in 1977 to about 13.2 percent in 1979, increasing the pressure on money supply and prices. While public revenue increased by 21 percent, current expenditure alone increased by about 37 percent, principally because of a doubling of subsidy payments linked to the exchange rate adjustment. Furthermore, in spite of increasing revenue from petroleum and the Suez Canal, the public enterprise sector still generated only half of the surplus that would be required to finance its investment program.

17. There are indications of a growing Government effort to contain widening budgetary deficits. Already in 1979 two major agricultural input prices (e.g., fertilizers and pesticides) and a wide range of other prices (e.g., cement, gasoline, railway freights, etc.,) have been substantially raised. The 1980 budget contains similar provisions and net domestic borrowing is projected to decline. This is expected to be achieved through a variety of measures: a new sales tax and elimination of tax loopholes, increases of 20 to 30 percent in consumer prices of mass consumption articles such as cloth, cigarettes, soft drinks, sugar, petrol, kerosene, as well as limiting the ration card system to the lowest income groups and eliminating subsidies on flour for uses other than the production of traditional bread. The net revenues derived from these measures will be complemented by a large increase in revenue from the petroleum sector. The overall fiscal situation is, therefore, likely to improve in 1980, unless massive increases in public investment expenditures are allowed to outweigh the increase in revenues.

Development Potential and Constraints

18. Egypt has considerable potential for further development. The reasons for this are, in brief: a large domestic market, a relatively skilled and literate population, an agricultural resource base not yet fully developed, varied raw materials (including oil and gas), and a key geographical location. In addition, there are good prospects for continued growth of foreign exchange earnings from tourism, workers' remittances and the Suez Canal which is undergoing a major expansion. While oil exports are likely to decline in volume in the long-run--in the light of increasing domestic consumption and less optimistic assumptions on new discoveries--the outlook for exports of new industrial and agricultural products is promising.

19. Future economic growth may come less easily, however, than during the past years. The need to gradually substitute domestic for foreign savings will become more pressing as foreign contributions decline in relation to GNP. Capacities are now strained in a number of sectors, including infrastructure. Investment in new capacities has been slowed down by administrative inefficiency, inadequate fiscal resources and weakness in national coordination and sector programming. Managerial effectiveness in public enterprises and financial incentives for production are inadequate in many instances. Higher levels of economic activity together with labor emigration have led to shortages in critical professional and technical skills. Educational facilities in Egypt still reflect a non-technical bias and their quality needs to be upgraded.

20. Another key issue is population. Already very large for Egypt's limited living space--about 39 million in 1978 with an average density exceeding 1,300 per square kilometer of agricultural land--the population was growing at a rate of about 2.2 percent per annum in the mid-1970's, adding almost one million people every year. This continues to create great pressures on resources for consumption and investment and aggravates the employment problem in the longer run. In the past years the Government has made a new commitment to direct action on population matters. While it has already initiated such action (e.g., an intensified home visiting program under the second IDA financed population project), it will take time for measurable results in fertility reduction to be achieved.

21. A serious side-effect of the open-door strategy has been a growing disparity in consumption levels. Currently the lower 40 percent of the rural population receive about 25 percent of the rural incomes while in the urban areas the proportion is about 21 percent. About 30 percent of the rural and 22 percent of the urban population live in absolute poverty. Although this pattern of inequality and incidence of absolute poverty is no worse than in most economies at similar income levels, it is nevertheless a serious problem, which could become more severe if no effective policy action is taken.

22. To maintain the momentum of development, major efforts are required to overcome present structural constraints. Specifically, action is needed to (i) increase the efficiency of government administration through organizational and procedural modifications and selective changes in salary structures; (ii) strengthen the capacity for development programming and project preparation/implementation; (iii) pursue a vigorous and balanced program to upgrade the country's physical infrastructure; (iv) substantially expand the program to curb population growth; (v) articulate urban and rural strategies aimed at decentralizing urban agglomeration and economic opportunities; (vi) further increase the use of prices as indicators of relative scarcities; (vii) strengthen the management of public enterprises; (viii) improve professional and technical education; (ix) increase domestic savings; and (x) develop a coordinated export promotion policy. There is an ongoing dialogue on all these issues between the Egyptian authorities and the Bank; they have also been the focus of the discussion among the members of the Consultative Group for Egypt.

External Debt and Creditworthiness

23. Egypt's non-military medium- and long-term public debt outstanding and disbursed as of July 31, 1979 was estimated at about \$10.6 billion. Bilateral loans comprised about \$6.5 billion or about 62 percent of the debt outstanding while the shares of multilateral credit and suppliers' credit were about 24 percent (\$2.5 billion) and 8 percent (\$0.8 billion) respectively, with the remainder being held by financial institutions. Major creditors were the GODE and USA, followed by Saudi Arabia, Kuwait, and the Federal Republic of Germany. IBRD/IDA debt comprised about 4 percent of the total disbursed debt. The estimated end-December 1979 total disbursed debt was about \$11.0 billion. Debt service on medium- and long-term debt was estimated at \$1.4 billion in 1979 giving a debt service ratio of about 20 percent. No reliable estimates of military debt are available.

24. The Government's recent policy actions have initiated structural adjustments called for by Egypt's economic situation and international environment. If progress towards overcoming present constraints is maintained and the country's foreign exchange earning potential realized, the average deficit on current account is estimated to be about \$2.5 billion per annum for the coming five years. The required capital inflows are large--but if they are available on concessional terms, Egypt would have the debt servicing capacity to borrow the amounts envisaged, including a limited amount on harder terms. The burden of servicing medium- and long-term debt as a percentage of total foreign exchange earnings is estimated to fluctuate around 20 percent during 1980-84, and to decline gradually thereafter.

PART II - BANK GROUP OPERATIONS IN EGYPT 1/

25. The proposed loan would be the World Bank's forty-seventh lending operation in Egypt. It would bring Bank and IDA commitments made since 1970 to \$1624.5 million. Annex II contains a Summary of Bank loans and IDA credits as of March 31, 1980 and notes on the execution of ongoing projects.

26. Egypt faces a host of basic structural problems: pressure of population on resources; inadequate economic infrastructure; a large but inefficient public sector constrained by out of date equipment, overstaffing, weak management and a network of controls over investment, production, distribution and prices; significant balance of payments deficits and shortages of domestic resources. The Bank's response has been tailored to address these long-term developmental issues in a very broad fashion and in close cooperation with other donors. Its strategy involves entry into the spectrum

1/ Paragraphs 26-30 are identical to those in Part II of the President's Report for the Textile II Project (P-2764-EGT), which was distributed to the Executive Directors on April 10, 1980.

of sectors in order to provide not only direct finance with its relatively limited resources but, equally, to act as a catalyst for other agencies, bilateral and multilateral, and as a spur for initiating discussion and, hopefully, positive action on a coherent framework of policies and investment proposals which can tackle the substantive issues. The approach also includes delivery of technical assistance not only for adequate implementation of specific investment programs but for developing the domestic institutional capability to devise and implement future policies and investment programs. The Bank's deliberately broad multisectoral intervention has been differentiated by sectors and tailored to the pace at which the Egyptian authorities can reasonably be expected to address these issues and implement the programs.

27. Industry, which has received the largest portion of Bank resources and significant attention over the past five years, illustrates the nature and scope of the Bank's intervention. The Government looks to industry to create productive employment, cater to basic consumer needs, generate an "export surplus", and stimulate growth of the economy. However, this sector is beset by a complex set of problems which stem largely from the rigidity of centralized control and lack of management autonomy, distorted pricing, and the lack of incentives for better use of productive capacity. Efforts under Bank financed projects have gone beyond the immediate objective of improving capacity utilization (imports loans and credits Nos: Cr. 524, Ln. 1062 and Ln. 1456) and increasing production capacity and supply of essential commodities in resource-based industries (cotton ginning, textiles, cement and fertilizer projects). The more fundamental effort is directed at introducing policy and structural improvements. Towards this end the Bank is assisting the Government in reviewing the planning apparatus and strengthening sectoral planning and project preparation and implementation capabilities with the objective of formulating an industrial strategy and plan for the 1980s. It has also financed six subsector studies in textiles, building materials, pulp and paper, food processing, metallurgy, and engineering industries, in order to assist the Government in formulating a package of policy and investment proposals, which would be embodied in future projects. Two subsectors, textiles and steel, are planned for study in greater detail with a view to developing specific recommendations concerning the major issues facing public enterprises in Egypt, such as those relating to employment, wages, prices, profit retention and the relationship between the public and private sectors. To complement these efforts the Bank has also carried out a study on small-scale industries which is laying the basis for joint Egyptian/Bank efforts in this area. In addition, the Bank is assisting the Government in undertaking a major study of the construction/contracting industry, which is one of the most critical bottlenecks facing Egyptian industry today, as well as in initiating studies to develop a brick master plan and cement distribution master plan.

28. The above sketch illustrating the scope and breadth of the Bank's intervention in one sector is representative of the multifaceted approach that it has adopted in varying degrees in the other sectors of the Egyptian economy. It is a role that is in harmony not only with the Egyptian Government's wishes but is welcomed by the various bilateral and multilateral donors as an appropriate function for the Bank as the Chairman of the Consultative Group for

Egypt. Preparation of projects for future lending follows this strategy, and the pipeline includes projects in education, power, gas distribution, rural and urban development, transportation, rural water supply, agriculture (including drainage), development finance and industry.

29. Bank Group disbursements in 1978 represent 2.8 percent of Egypt's medium- and long-term capital inflow. The Bank and IDA shares of total external debt outstanding and disbursed were about 1.8 percent and 2.4 percent, respectively, as of July 31, 1979. For the future, the Bank and IDA shares of total external debt outstanding and disbursed (excluding military debts) are estimated to reach about 5.0 and 3.5 percent respectively in 1981. It is estimated that in 1981, debt service payments due to the Bank and IDA will represent about 2.3 percent and 0.2 percent, respectively of service payments due on Egypt's external debt.

30. IFC participation and lending for projects in Egypt now total about \$37 million and include: a ceramics project (approved in 1976); a ready-made garment project (1977); a project for an agricultural complex primarily for sugar beet (May 1978); a poultry project (July, 1979); and a fish farming project (December 1979). IFC is discussing several other private sector and joint venture projects.

PART III - INDUSTRY AND INDUSTRIAL FINANCE SECTOR

Background and Structure

31. Industry ^{1/} has become a significant sector of the Egyptian economy with its share in GDP rising from 8 percent in 1946 to 17 percent in 1979. In 1979, industry employed about 1.3 million persons, or nearly 13 percent of the civilian labor force. Industrial exports provided about 30 percent of commodity exports and amounted to about LE 550 million (14 percent of the gross value of industrial output). The industrial structure is weighted heavily in favor of industries producing consumer goods which account for about 58 percent of industrial gross value added; intermediate products (building materials, fertilizers, chemicals, and metals) account for about 34 percent; and capital goods, for only 8 percent.

32. As a result of the nationalizations of the early 1960s, the public sector, comprising some 200 enterprises, accounts for almost all large and medium scale industrial enterprises. It generates some two-thirds of the value added in industry and mining and provides slightly more than half of the total industrial employment, mainly in four subsectors: textiles, food products, metal and engineering, and chemicals. Egypt's basic industries are all in the public sector and include iron and steel, aluminum and fertilizer. The private sector accounts for about one-third of total value-added in industry and about half the sector's labor force. Textiles, food products, leather, woodworking and furniture, and engineering are the important industries of private activity.

^{1/} Manufacturing and mining excluding petroleum.

33. The performance of the industrial sector which was characterized in 1973-74 by important idle productive capacities rapidly improved during 1975-77 following the announcement of the "open door" policy in 1973 which resulted in the relaxation of controls and greater availability of foreign exchange. This period was followed by a temporary slowdown in the growth of industrial output in 1978 (5.7 percent), followed by a recovery in 1979 (11.5 percent), which points to the increasing impact on production of investment efforts during the last few years. While the growth of industrial output in the public sector in 1973 and 1974 was low (2.1 and 2.6 percent), it jumped to about 8-9 percent per annum during 1975-79. The private sector has performed somewhat better than the public sector during the past few years. Its output, which stagnated during 1972-74, increased by 10 percent annually during 1974-79. The private sector's share in total industrial investment averaged only about 4 percent during 1969-74. Following the adoption of the "open door" policy, it increased to about 10-12 percent during 1975-78, reflecting a favorable response to the Government's initiatives.

34. Egyptian industry has significant long-term prospects to grow and broaden its base deriving primarily from the large and growing domestic market and a strategic location with access to markets in Europe. An industrial structure and tradition already exist, as well as a large relatively low-cost labor force. Since development of agriculture is proceeding slowly and the service sector (mainly Government) is overstaffed, it is to industry that the Government looks to provide stimulus to growth through continued expansion, efficient import substitution emphasizing intermediate and capital goods, expanded exports, as well as to absorb the growing labor force. This is reflected in the 1978-82 Industrial Plan ^{1/} which allocates about LE 3 billion or one quarter of total investment to industry. The Plan also recognizes the potential of the private sector for Egypt's industrial development and growth: about 20 percent of total industrial investment was projected to be financed by the private sector during 1978-82 which is almost twice the level attained during 1975-77. The review of the Plan, as well as of sector studies financed under the Bank's First Imports Project (Ln. 1062 and Cr. 524), point to the need to develop exports and the capital goods and construction industries on a priority basis. These three subsectors, described below, will receive special emphasis under the proposed loan to the Misr Iran Development Bank (MIDB).

35. Some of the most important problems inhibiting Egypt's export potential include such factors as inefficient and obsolete machinery and methods which result in low product quality, lack of incentives and trained staff, low labor productivity, and lack of orientation towards export markets. In general, Egypt's export potential depends upon industry's ability to introduce modern technology and efficient management in order to become competitive in international markets. Above all, there is an urgent need for a better policy framework, strategy and program to expand manufactured exports. Egypt has

^{1/} Currently being revised as part of the preparation of the overall 1980-84 plan.

some of the elements of such a program, including Law 43's mandate to attract foreign investors in export-oriented joint ventures, and the Government is discussing a comprehensive export promotion program with the International Trade Center. The capital goods industry in Egypt is underdeveloped which has been due to a variety of factors: lack of contact with new technology, price controls, and easy availability of imports. Prospects for the country's capital goods industry are favorable, and its development points to the possibility for efficient import substitution and development of projects in the private sector, since capital goods are in general labor intensive and can be manufactured efficiently at small and medium production scales using intermediate technology which can be easily absorbed by Egypt. The construction industries sector, including building materials and construction contracting, is a critical bottleneck to the timely and efficient implementation of projects and needs infusions of technology and substantial increases in capacity in order to cope with the rapidly growing demand.

Recent Bank Actions Relating to Industry

36. As part of the industrial policy dialogue, the Bank is assisting the Government in undertaking several studies directed towards policy reform, and in developing an appropriate industrial strategy (para. 27). The Bank's recent loans to industry include: (i) program loans to alleviate foreign exchange constraints and thereby improve capacity utilization; (ii) assistance to individual, large, high priority projects; (iii) attempts to address the principal issues affecting the productivity of major subsectors; and (iv) assistance to financial intermediaries to enable them to provide financial and technical assistance to private sector firms, including small scale industrial enterprises. Lending commitments, including IFC, amount to \$390 million for industry from FY73 to FY79, of which about \$275 million has been disbursed as of March 31, 1980.

37. The performance under the three ongoing DIB operations has been generally satisfactory; the recent DIB IV loan has not yet been made effective. A project completion report for DIB I and DIB II is scheduled for FY81 following completion of disbursements during the current fiscal year. Implementation difficulties have been experienced in a number of Bank financed projects due mainly to long start-up delays, slow construction and cumbersome administrative procedures. Some of the actions which the Government has taken recently to remedy the situation include opening up civil works to international competitive bidding and making it easier to import construction materials.

Financial Institutions and Industrial Finance

38. Industrial investments in the public sector are financed primarily from the national budget and, to a very limited extent, from internally generated funds and bank loans. Long-term financing for private sector industry is provided mainly by DIB and MIDB, the only two active industrial development banks in Egypt. Their roles are complementary in that DIB finances small- and medium-scale enterprises, through loans in both local and foreign currency,

while MIDB promotes and finances the foreign exchange needs of medium and larger private enterprises (para. 42) through loans and equity investments. Other institutions providing finance to industry include four state owned commercial banks (National Bank, Bank Misr, Bank of Alexandria, Banque du Caire), Cairo Barclays (one of the many joint-venture banks) and the two international banks in Cairo - Arab African Bank and Arab International Bank. While the state owned banks in particular might provide substantial long-term financing for large joint venture projects promoted by the public sector and some such financing to the private sector, commercial banking of a short-term nature is likely to remain the main or only interest for most banks other than MIDB and DIB.

39. Continued bilateral and multilateral assistance is needed to supplement the foreign exchange earnings of Egypt to satisfy the foreign exchange requirements of industry. Long-term local currency resource mobilization through private savings has been hampered in the past by low interest rates and the lack of a capital market. However, legislation was enacted in December 1979 for the establishment of a capital markets authority for the development and regulation of capital markets in Egypt. Equity capital of project promoters is expected to continue to provide most of the local cost financing for projects, with long-term loans from DIB and short-term loans from commercial banks providing the remainder.

Cost of Capital in Egypt

40. Interest rates on deposits and loans in local currency for all financial institutions are regulated by the Central Bank (CBE). Over the last four years, lending rates have been increased by 4 percent to a level of 10 to 12 percent; and rates on deposits, by 5 percent to a level of 8.5 percent. Interest rates on foreign exchange loans are not regulated by the CBE. They reflect the international cost of these resources. The main institutional sources of long-term foreign exchange loans for industry in Egypt are MIDB, which lends only in foreign exchange, and DIB which provides financial assistance in both local and foreign exchange. DIB foreign loans are essentially in dollar loans; it is currently charging 11 to 12 percent (except on SSI loans from special funds), and the foreign exchange risk borne by the sub-borrowers is only between the Egyptian Pound and the US Dollar. In addition, the compensatory deposits of around 10 percent of foreign currency loans which DIB requires from borrowers increase the effective cost of these loans to 12 to 13.5 percent. Until 1979, MIDB's loans which have been made in dollars and are repayable in dollars, were made at 11 percent. Last year MIDB discontinued this type of loan since it had exhausted lending its equity resources. Currently, MIDB charges around 2 percent over LIBOR on its long-term dollar loans made out of the proceeds of its short-term deposits (MIDB pays interest at LIBOR rates for these deposits). In the future MIDB's fixed interest long-term loans, such as onlending of proposed Bank funds, would carry interest charges commensurate with the actual cost of the foreign currencies involved, after providing MIDB with a spread of about 2 percent and passing on the full foreign exchange risk to its sub-borrowers (Project Agreement, Section 2.06(c), Loan Agreement, Section 3.01(b)). MIDB's onlending interest rate on Bank funds would thus need to be lower than the interest rate

charged on MIDB's dollar loans to compensate the sub-borrowers for the additional foreign exchange risk on Bank funds (between the dollar and other currencies repayable to the Bank). Accordingly, a minimum onlending rate of 11 percent has been agreed. This onlending rate (with the full foreign exchange risk borne by sub-borrowers) is in line with the cost of long-term foreign exchange resources in Egypt and would be positive in real terms taking into account the blend of currencies used. The sub-borrowers will repay MIDB in foreign exchange which they are able to earn or purchase from the "free market" in Egypt. The free market rate of exchange between the Egyptian pound and foreign currencies can be expected to follow market supply and demand forces, which would normally take into account the difference between the inflation rate in Egypt and that applicable to the blend of currencies repayable to the Bank. Thus the real cost of Bank funds to the sub-borrowers would be positive, accounting also for domestic inflation.

PART IV - THE PROJECT

41. The initial request for a Bank loan in support of MIDB was conveyed to the Bank by the Government in September 1977, and Bank missions visited Egypt in January, March and July, 1978 to prepare and appraise the project and subsequently in 1979 for updating purposes. Negotiations were held in Washington, D.C. from March 24 to 28, 1980. The Egyptian delegation was represented by Mr. Samir Koraïem, Undersecretary, Ministry of Economy and Mr. F. Sultan, Managing Director, MIDB. A separate staff appraisal report, "Egypt: Loan to Misr Iran Development Bank" (No. 2753-EGT), is being circulated separately.

Project Objectives

42. The objectives of the loan are to continue and expand on the support, begun with DIB to build up an adequate institutional capacity in Egypt for the promotion and financing of private industrial enterprises. The loan would support MIDB in promoting and financing medium and larger industries 1/ in the private sector in Egypt, with special emphasis on providing assistance to the construction, capital goods and export oriented industries, three sectors which have been identified as priorities for growth in the Egyptian economy (para. 35). Under the project, the Bank would also continue to contribute to MIDB's institution building and training efforts through the regular Bank missions, which have already made a substantial contribution in helping MIDB develop its policies, operational and lending strategies and plans.

1/ Industry is defined to include mining, manufacturing, processing, construction/contracting and related services (excluding tourism). The total cost of subprojects will generally range between \$5 million and \$25 million, which is the normal target group for MIDB financing.

The Institution: MIDB

43. MIDB, the beneficiary of the proposed loan, was incorporated in 1975 as an Egyptian joint stock company under the provisions of Law 43, as a result of a trade and economic protocol signed between Iran and Egypt. MIDB has four equal shareholders: Bank Melli and Industrial and Mining Development Bank of Iran (IMDBI) from Iran, Bank of Alexandria (BOA) and Misr Insurance Company from Egypt. Both Iranian banks are now Government-owned and represent the Iranian Government's interest in MIDB; the Egyptian shareholders are public sector institutions. MIDB is classified as a private off-shore bank. By virtue of its ownership structure, only 50 percent Egyptian, it is allowed to operate only in foreign currency which frees it of normal Central Bank controls over banks. A shareholders' agreement incorporated in MIDB's Articles of Incorporation (Statutes) would permit a change to majority Egyptian ownership, which would allow MIDB to operate also in local currency, should MIDB find this necessary to enhance the fulfillment of its objectives.

44. In July 1979, MIDB's share capital was increased from \$20 million to \$40 million, and payment of the initial 25 percent of the increase has been completed by all of the shareholders, raising MIDB's paid up share capital to \$25 million. The remaining 75 percent of the increase will be payable on call by the Board prior to September 1984. MIDB has agreed that, apart from such reasons as maintenance of the debt/equity policy limit, MIDB's shareholders will pay in such portion of this capital as is necessary to maintain its liquidity if the amount of short-term resources used by MIDB for long-term loans and investments (para. 52) at any time for more than a month period exceeds 50 percent of its short-term deposits (Project Agreement, Section 3.09). This is necessary because MIDB, having fully committed its long-term resources for long-term investments, is now using part of its short-term resources for this purpose.

45. MIDB is managed by a Board of Directors appointed by the General Meeting of the shareholders, which are represented in proportion to their participation in the capital. The Board has broad powers to manage the bank: it determines and implements the Bank's organizational structure, policies and modus operandi. The Board or its Management Committee approves all long-term loans and equity investments. Senior managers of MIDB are qualified and experienced, and well respected in the Egyptian financial and business community. MIDB is adequately staffed, in quality and number, since it is able to provide salaries and benefits competitive with those in the private sector in Egypt.

46. The objectives of MIDB, according to its Articles of Incorporation, are to "identify, finance, implement and manage development projects" for the benefit of Egypt and Iran. In practice the projects financed are all in Egypt, and the proposed loan would finance projects only in Egypt (Loan Agreement, Section 3.01 (a)). In pursuit of these objectives, MIDB may: mobilize resources from Egypt, Iran or from other external markets; stimulate, create and expand the security markets; promote, assist and participate in the establishment, expansion and modernization of enterprises by providing long or short-term loans or equity funds, sponsoring and underwriting new issues of

shares and securities, guaranteeing loans from other sources, and providing technical assistance. The main objective thus far has been the promotion and financing of new projects, mostly established as joint stock companies, in Egypt's medium- and large-scale industrial sector, that foster modern and appropriate technology, often involving foreign partners who provide the technical know-how and managerial expertise. The management of MIDB has been open to guidance from the Bank in the area of determining sector priorities for its operations; and MIDB's "Strategy Statement", drafted in conjunction with its "Policy Statement", assigns priorities to the construction and capital goods industries and export oriented projects in line with the priorities identified in para. 35. The Policy and Strategy Statements are satisfactory to the Bank, and future amendments to the Policy Statement would be subject to Bank approval (Project Agreement, Section 2.13).

47. In accordance with its Policy Statement, MIDB extends financing only to projects in the private sector. Projects established under Law 43 which have majority public sector ownership are not financed, although by law they are considered to be in the private sector. The main features of MIDB's financial policy are satisfactory: a maximum long-term debt/equity ratio of 4:1; total financial exposure in loans, guarantees and equity investment in a single enterprise not normally exceeding 15 percent of MIDB's subscribed capital; participation in the share capital of any enterprise not normally exceeding 33 percent of the enterprise's share capital; and total equity participations not exceeding MIDB's own equity.

48. The quality of MIDB's project appraisals is generally satisfactory, although economic analysis has not been done systematically in the past. The Bank and MIDB have discussed this, and calculation of the economic rate of return will be mandatory for projects financed under the proposed loan (para. 56). MIDB's supervision work is adequate, although it has commenced only recently and procedures are still evolving. The management information system at MIDB is not yet formalized but is developing satisfactorily.

MIDB's Operations

49. Since May 1975, when it commenced operations, until December 31, 1979, MIDB approved a total amount of \$29 million in long-term loans and \$13.2 million in equity investments to finance 22 projects (all in the private sector under Law 43). The 20 projects approved through September 30, 1979 (with a total cost of \$290 million) and for which detailed information is available are in tourism (20 percent of MIDB's financing), construction (15 percent), textile, engineering and other industries. The majority of projects have foreign participation and are estimated to export 20 percent or more of their respective output. These 20 projects are expected to add about 5,500 jobs in Egypt and their estimated rates of return range from 10 percent to 40 percent, fluctuating mostly around 20 percent. MIDB was responsible for the promotion of most of these, particularly in arranging the financial package -- mobilizing resources (including local currency) from other financial institutions in Egypt -- negotiating financial and technical assistance with foreign partners and assisting the projects in clearing administrative requirements.

50. MIDB's short-term loan portfolio amounted to \$6.2 million as of December 31, 1979. The bulk of the short-term operations, however, consist of investments in the Eurodollar market and deposits with local banks (at floating interest rates) which have provided MIDB with a small spread over the cost of its short-term resources. Outstanding guarantees and letters of credit extended by MIDB to other institutions amounted to \$74.1 million. Of this, long-term guarantees amounted to \$31.2 million, of which \$27.1 million was for a single client, Misr Iran Textile Co. (or MIRATEX), a joint venture between the Iranian and Egyptian Governments; the amount includes a guarantee for an Iranian Government loan of \$23.8 million. MIDB assumed this excessive financial exposure considering the risk of loss to it to be minimal given the Iranian Government's interest in both MIRATEX and MIDB. MIDB has recently reduced its overall financial exposure in the project to around \$6 million in line with its policy to restrict its exposure in any single firm to 15 percent of its subscribed capital.

51. MIDB's pipeline of 40 projects as of September 30, 1979, provides a satisfactory basis for the projected level of MIDB operations for the 1980-84 period. Long-term loan approvals are estimated at \$19.5 million in 1980 and \$21.4 million in 1981 and are projected to grow thereafter at an annual rate of 25 percent through 1984. Annual approvals of equity investments are projected at \$4 million. The short-term loan portfolio is projected to be maintained at about 25 percent of the long-term loan and equity portfolio. In addition to its own financing, MIDB expects to continue its promotional role by mobilizing other resources for its projects (including local currency resources) from Egyptian financial institutions. Special emphasis will be placed by MIDB on its promotion of projects with an export orientation and on capital goods and construction industries.

MIDB's Financial Performance, Resource Position and Needs

52. As of December 31, 1979, MIDB's long-term resources of about \$30.5 million in equity capital, including \$25 million in share capital, were almost fully committed for long-term investments (loans and equity participations). Short-term resources amounted to around \$142 million, mostly in time deposits with terms ranging up to six months. Through mid-1982, the estimated period for commitments under the proposed loan, it would need additional long-term resources of about \$60 million (net of internal cash generation). The proposed Bank loan of \$30 million would cover 50 percent of this requirement, \$15 million will be covered by MIDB's short-term resources backed up by an equivalent amount of share capital increase on call (para. 44), leaving a gap of \$15 million. MIDB has a preliminary commitment from the Arab African Bank to underwrite a \$10 million issue of Certificate of Deposits of 3-5 year maturity at an interest rate to MIDB of 1/4 percent per annum over six month LIBOR. In addition, MIDB can reasonably expect to participate as an intermediary in onlending a proposed \$30 million USAID "Private Investment Encouragement Fund" for financing medium size industries. MIDB will also explore other long-term sources of finance. The Bank feels that MIDB can mobilize the additional resources it needs through mid-1982 and with the expected Government support, also for the longer-term.

53. MIDB's financial performance has been satisfactory and is projected to continue to be so for the 1980-84 period. As a percentage of average total assets, income before interest and taxes is projected to be an estimated 12.5 between 1980 and 1984. Administrative expenses as a percentage of average total assets are projected to be maintained satisfactorily at about 1 percent. As in the past the contribution of MIDB's short-term (commercial banking) operations to gross income will remain substantial over the period projected but decrease from an estimated 90 percent in 1980 to 65 percent in 1984, as the income from its long-term loan portfolio grows and equity investments begin to yield dividends. Total assets as of December 31, 1979 amounted to \$206 million funded by equity and customers' deposits and are expected to increase to \$341 million by 1984. The long-term debt (including guarantees)/equity ratio is projected to increase from 1:1 to 2:1 over the same period, which is well below the limit of 4:1 imposed by MIDB's Policy Statement. MIDB's portfolio seems sound although most of the projects are still in their grace period. There are no arrears in payments of interest or principal, and MIDB is making satisfactory provisions for possible losses. MIDB's accounts are audited by an auditor satisfactory to the Bank.

The Proposed Loan

54. A Bank loan of \$30 million is proposed which would cover about 50 percent of MIDB's requirements of long-term resources over about a two-year period up to mid-1982. In conformity with the above priorities (para. 35) the allocation of the loan would be: (a) a minimum of 25 percent for building materials and construction/contracting industries; (b) a minimum of 25 percent for capital goods manufacturing industries; (c) a minimum of 25 percent for industries estimated to export at least 20 percent of the project's output in value, excluding projects qualifying under (a) and (b) above; and (d) the remainder for other economically viable industrial projects (Project Agreement, Section 2.02 (a)).

55. Because legal restrictions preclude a Government guarantee to a private institution such as MIDB, the loan will be made at an interest rate of 8.25 percent to the Government, which will onlend the funds to MIDB at 8.75 percent, under a subsidiary loan agreement, satisfactory to the Bank (Loan Agreement, Section 3.01(b))^{1/}. Unless otherwise agreed with the Bank, MIDB's onlending interest rate would be not less than 11 percent which is positive in real terms (para. 40). This onlending rate would provide MIDB with a minimum 2.25 percent spread, which is satisfactory. Annually MIDB will review with the Bank its interest rate policy in light of prevailing market conditions (Project Agreement, Section 2.05).

56. Main Features: The size of the subprojects for Bank financing would generally range between \$5 and \$25 million in total cost. The upper limit would not normally be exceeded unless MIDB's promotional role in putting together a project of larger size can clearly be demonstrated, and such projects would be reviewed by the Bank in greater depth than normal sub-projects (Project Agreement, Section 2.03(c)). The size of individual sub-loans would normally be limited to \$3 million. Individual sub-projects whose total cost do not exceed \$8 million and for which the amount of the subloan

^{1/} The execution of the subsidiary loan agreement is a condition of loan effectiveness (Loan Agreement, Section 6.01).

is not more than \$1.0 million would qualify under the "free limit" (Project Agreement, Sections 2.02(a), (b)). However, the first two subprojects would be submitted for Bank review and approval, irrespective of size, since MIDB is a first time borrower (Project Agreement, Section 2.03(a)). These limits provide for a reasonable number of subprojects (about 10-12 out of an estimated total of 20-25) to be submitted for Bank review and approval, allowing input from the Bank in strengthening MIDB's appraisal techniques, particularly in economic analysis. Projects submitted for Bank financing will have to show an economic rate of return of not less than 12 percent (Project Agreement, Section 2.12).

57. Subloans may be made for up to 15 years with grace periods as appropriate for the subprojects; in practice repayments of MIDB's loans rarely exceed 10 years including about two years grace. Subloans for equity investments (estimated to total less than 20 percent of the loan) would have a grace period of up to 5 years, which is about the average period before such investments yield any dividends. ^{1/} Amortization of the Bank loan is proposed to be the aggregate of the amortization of individual subloans, debt service of the loan by Government coinciding with that by MIDB to the Government. Allowing about two years for commitment of individual subloans, the Bank loan will thus be repaid within 17 years. The final date for submission of subprojects is proposed to be December 31, 1982 and the closing date June 30, 1985.

Procurement and Disbursement

58. Through project appraisal and supervision MIDB ensures that procurement for all projects follow international competitive bidding (ICB) or shopping procedures which conform to Bank requirements for DFC projects. For subprojects partially financed by the Bank, individual procurement packages exceeding \$5 million would require international competitive bidding consistent with Bank guidelines; otherwise procurement would be through international shopping with comparison of offers from more than one supplier (Project Agreement, Section 2.08 (a)). The tender documents and evaluation of bids for the contracts requiring ICB will be submitted for the Bank's prior review and comment. MIDB's disbursement procedures are satisfactory and well monitored. Disbursements under the proposed loan would be made against standard documentation and are expected to be completed by FY85 (for details see Loan and Project Summary).

Project Justification and Risk

59. The proposed loan is a continuation of the efforts to develop adequate institutional capacity in Egypt to promote and finance the development of the private industrial sector which has received renewed Government support in recent years after about two decades of neglect. The Bank's association with MIDB through the project will contribute to the strengthening of MIDB as an institution for assisting industrial development in Egypt. The special purpose loan components for export oriented, capital goods and

^{1/} The repayment obligation for these subloans, including the foreign exchange risk, will rest with MIDB.

construction industries should bring significant benefits to the industrial sector as well as the economy. Egyptian industry has long-term potential for increasing exports particularly if current problems can be resolved and appropriate supportive policies adopted. Pending these changes, the Government is using the incentives under Law 43 as a major instrument for promoting export oriented projects which will continue to be promoted by MIDB with the Bank's financial support. Financing of capital goods industries, which are relatively underdeveloped in Egypt but congruent to many of Egypt's comparative advantages, would assist in reorienting the engineering sector to increase the share of value added in output, diversify the domestic product mix, promote manufacture of intermediate components in the small scale sector through subcontracting arrangements and introduce intermediate technology appropriate to the scale of production and factor costs. The construction contracting and building materials industries (cement, steel, bricks, etc.) have not kept pace with demand in recent years and have become a critical bottleneck in the economy. The project will assist in modernizing and increasing the capacity of these industries as well, through MIDB's promotion and financing of sub-projects, particularly joint ventures with foreign partners, that can introduce appropriate technologies and efficient management practices in this sector.

60. The project is not without risks, however. Difficult relations between Egypt and Iran pose a possible problem for the effective long-term development of MIDB given its 50:50 Iranian:Egyptian ownership, although the Iranian shareholders have demonstrated their support by agreeing to the recent capital increase and by paying in their initial 25 percent. The Egyptian Government views MIDB as having an important role to play in the economy and has reaffirmed its support for the institution.

61. There is also the possibility that MIDB may not be able to fully utilize the proposed funds allocated for capital goods and export oriented projects. The domestic capital goods industry has been slow to develop in Egypt and will have to compete with established foreign imports for the domestic market. Also, export prospects for Egyptian industry are uncertain in the near term. Diligent promotion and financing of projects in these areas, however, should enable MIDB to meet the target allocations of the proposed loan.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

62. The draft Loan Agreement between the Arab Republic of Egypt and the Bank, the draft Project Agreement between the Bank and the Misr Iran Development Bank and the Report of the Committee provided for in Article III, Section 4 (iii), of the Articles of Agreement are being distributed to the Executive Directors separately.

63. Features of the project which are of special interest are listed in Section III of Annex III. The special condition of effectiveness of the loan is: execution of the Subsidiary Loan Agreement between the Government and MIDB (Loan Agreement, Section 6.01).

64. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

65. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

By Ernest Stern

Attachments
April 18, 1980
Washington, D.C.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

- 21 -

TABLE 3A
EGYPT - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	EGYPT			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE)		
	TOTAL	1960	1970	GEOGRAPHIC REGION	SAME INCOME GROUP	NEXT HIGHER INCOME GROUP
AGRICULTURAL	29.6	/b	/b	/c	/d	/e
GDP PER CAPITA (US\$)	90.0	150.0	400.0	1532.5	209.6	467.5
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	298.0	275.0	473.0	838.1	83.9	262.1
POPULATION AND VITAL STATISTICS						
POPULATION, MID-YEAR (MILLIONS)	25.9	32.6	37.8	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	38.0	42.3	43.9	49.0	16.2	24.6
POPULATION PROJECTIONS						
POPULATION IN YEAR 2000 (MILLIONS)			58.0	.	.	.
STATIONARY POPULATION (MILLIONS)			90.0	.	.	.
YEAR STATIONARY POPULATION IS REACHED			2105	.	.	.
POPULATION DENSITY						
PER SQ. KM.	26.0	33.0	39.0	19.9	49.4	45.3
PER SQ. KM. AGRICULTURAL LAND	982.0	1125.0	1324.0	99.0	252.0	149.0
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	42.0	42.1	40.0	45.6	43.1	45.2
15-64 YRS.	55.0	54.7	56.0	51.4	53.2	51.9
65 YRS. AND ABOVE	3.0	3.2	4.0	2.8	3.0	2.8
POPULATION GROWTH RATE (PERCENT)						
TOTAL	2.4	2.3	2.1	3.0	2.4	2.7
URBAN	6.0	3.4	2.7	5.2	4.6	4.3
CRUDE BIRTH RATE (PER THOUSAND)	44.0	40.0	36.0	43.7	42.4	39.4
CRUDE DEATH RATE (PER THOUSAND)	19.0	15.0	13.0	13.5	15.9	11.7
GROSS REPRODUCTION RATE	2.8/f	3.0	2.3	3.2	2.9	2.7
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	206.0	187.0	..	..	..
USERS (PERCENT OF MARRIED WOMEN)	..	9.0	21.1	..	12.2	13.2
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	92.6	99.0	95.0	90.8	98.2	99.6
PER CAPITA SUPPLY OF						
CALORIES (PERCENT OF REQUIREMENTS)	95.0	106.0	113.0	99.0	93.3	94.7
PROTEINS (GRAMS PER DAY)	66.0	66.0	70.7	63.6	52.1	54.3
OF WHICH ANIMAL AND PULSE	17.0/g	16.0	16.0	16.0	13.6	17.4
CHILD (AGES 1-4) MORTALITY RATE	31.0	23.0	18.0	15.9	18.5	11.4
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	46.0	51.0	54.0	53.8	49.3	54.7
INFANT MORTALITY RATE (PER THOUSAND)	..	..	108.0	..	105.4	68.1
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	..	66.0	56.4	26.3	34.4
URBAN	..	..	88.0	83.4	58.5	57.9
RURAL	..	..	50.0	34.3	15.8	21.2
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	..	..	59.1	16.0	40.8
URBAN	..	..	..	78.2	65.1	71.3
RURAL	..	..	..	26.4	3.5	27.7
POPULATION PER PHYSICIAN	2600.0	1910.0	1190.0/h	3677.0	11396.4	6799.4
POPULATION PER NURSING PERSON	2730.0/h	1640.0/h	1150.0/h	1730.6	5552.4	1522.1
POPULATION PER HOSPITAL BED						
TOTAL	480.0	460.0	460.0	577.0	1417.1	726.5
URBAN	..	290.0	250.0	..	197.3	272.7
RURAL	..	2110.0	2090.0	..	2445.9	1404.4
ADMISSIONS PER HOSPITAL BED	..	..	..	21.8	24.8	27.5
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.0	..	5.8	5.8	5.3	5.4
URBAN	4.8	..	5.6	5.5	4.9	5.1
RURAL	..	..	6.0	6.0	5.4	5.5
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	1.9	..	1.8	..	..	..
URBAN	1.6	..	..	..	..	..
RURAL	..	..	..	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	38.0	..	45.7	45.1	23.5	28.1
URBAN	37.8	..	77.0	67.9	17.8	45.1
RURAL	..	..	19.6	..	..	9.9

TABLE 3A
EGYPT - SOCIAL INDICATORS DATA SHEET

	EGYPT			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{/a}		
	1960 ^{/b}	1970 ^{/b}	MOST RECENT ESTIMATE ^{/b}	SAME GEOGRAPHIC REGION ^{/c}	SAME INCOME GROUP ^{/d}	NEXT HIGHER INCOME GROUP ^{/e}
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	66.0	69.0	72.0	85.0	63.3	82.7
MALE	80.0	84.0	88.0	103.7	79.1	87.3
FEMALE	52.0	53.0	56.0	66.0	48.4	75.8
SECONDARY: TOTAL	16.0	32.0	42.0	27.6	16.7	21.4
MALE	24.0	44.0	54.0	39.2	22.1	33.0
FEMALE	9.0	21.0	29.0	20.8	10.2	15.5
VOCATIONAL ENROL. (% OF SECONDARY)	22.0	19.0	18.0	4.3	5.6	9.8
PUPIL-TEACHER RATIO						
PRIMARY	39.0	38.0	40.0	32.6	41.0	34.1
SECONDARY	16.0	25.0	29.0	23.4	21.7	23.4
ADULT LITERACY RATE (PERCENT)	26.0	..	44.0	41.4	31.2	54.0
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION	3.0	4.0	6.4	16.7	2.8	9.3
RADIO RECEIVERS PER THOUSAND POPULATION	58.0	132.0	138.0	147.9	27.2	76.9
TV RECEIVERS PER THOUSAND POPULATION	1.9	16.0	17.0	36.0	2.4	13.5
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	..	22.0	21.0	17.9	5.3	18.3
CINEMA ANNUAL ATTENDANCE PER CAPITA	3.0	2.0	..	2.9	1.1	2.5
LABOR FORCE						
TOTAL LABOR FORCE (THOUSANDS)	7482.0	9319.0	9600.0	..	..	..
FEMALE (PERCENT)	7.3	7.2	7.6	8.6	24.8	29.2
AGRICULTURE (PERCENT)	58.4	54.4	51.0	43.0	69.4	62.7
INDUSTRY (PERCENT)	12.2	18.8	26.0	23.7	10.0	11.9
PARTICIPATION RATE (PERCENT)						
TOTAL	28.9	28.0	28.0	26.7	36.9	37.1
MALE	53.2	51.5	51.3	46.4	52.4	48.8
FEMALE	4.2	4.1	4.3	5.1	18.0	20.4
ECONOMIC DEPENDENCY RATIO	1.6	1.6	1.8	1.8	1.2	1.4
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS	17.5/1	17.4/1.1	22.0	21.4	..	15.2
HIGHEST 20 PERCENT OF HOUSEHOLDS	44.4/1	42.8/1.1	49.2	48.6	..	48.2
LOWEST 20 PERCENT OF HOUSEHOLDS	6.6/1	7.0/1.1	5.1	5.3	..	6.3
LOWEST 40 PERCENT OF HOUSEHOLDS	17.5/1	18.7/1.1	14.8	15.0	..	16.3
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	116.0	201.3	99.2	241.3
RURAL	..	..	84.0	134.2	78.9	136.6
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN	..	..	153.0	288.6	91.9	179.7
RURAL	..	..	65.0	107.0	54.8	103.7
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)						
URBAN	..	..	21.0	22.9	44.1	24.8
RURAL	..	..	25.0	31.2	53.9	37.5

.. Not available
.. Not applicable.

NOTES

/a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1977.

/c North Africa & Middle East; /d Low Income (\$280 or less per capita, 1976); /e Lower Middle Income (\$281-550 per capita, 1976); /f 1950-55; /g 1960-62; /h Registered, not all practicing in the country; /i 1964-65; /j rural expenditure only.

Most Recent Estimate of GNP per capita is for 1978.

August, 1979

DEFINITIONS OF SOCIAL INDICATORS

Note: The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to lack of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and poverty are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)

Total - Total surface area comprising land area and inland waters.

Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS

Total population, mid-year (millions) - As of July 1; if not available, average of two end-year estimates; 1960, 1970, and 1977 data.

Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Population density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agriculture land - Computed as above for agricultural land only.

Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.

Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.

Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family planning - users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of food production per capita (1970=100) - Index number of per capita annual production of all food commodities.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH

Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.

Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of household vary.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION**Adjusted enrollment ratios**

Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT

Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.

Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting age-sex structure of the population, and long time trend.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION

Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated absolute poverty income level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated relative poverty income level (US\$ per capita) - urban and rural - Relative poverty income level is that income level less than one-third per capita personal income of the country.

Estimated population below poverty income level (percent) - urban and rural - Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

ECONOMIC INDICATORSGNP PER CAPITA (1978)-US\$400
(World Bank Atlas Methodology)GROSS NATIONAL PRODUCT IN 1978

	US\$ Mln.	%
GNP at Market Prices	13,600	100.0
Gross Domestic Investment	3,590	26.4
Current Account Balance	-1,760	12.9
Export of Goods, NFS	3,530	26.0
Import of Goods, NFS	6,490	47.7

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1978

	Value Added		Labor Force 3/		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US \$	%
Agriculture	3,350	28.7	4.135	41.1	810	15.7
Industry 4/	3,460	29.6	1.902	18.9	1820	35.4
Distributive Sector	2,340	20.0	1.560	15.5	1500	29.1
Services	2,530	21.7	2.472	24.5	1020	19.8
Total/Average	11680/2920	100.0	10,069	100.0	1160	100.0

GOVERNMENT FINANCE

	General Government 5/		
	US\$ Mln.	% of GNP	
	1978	1974	1978
Current Receipts	5,310	33.9	39.1
Current Expenditure	4,640	34.0	34.2
Current Surplus/Deficit	670	-0.1	4.9
Capital Expenditures	3,310	13.8	24.3
External Financing (net)	1,140	3.3	8.4

MONEY, CREDIT and PRICES

	1973	1974	1975	1976	1977	1978
	(Million L.E. outstanding end period)					
Money and Quasi Money	1207	1515	1883	2417	3185	4090
Bank Credit to Public Sector	1852	2338	3527	4123	4775	6035
Bank Credit to Private Sector	102	149	230	251	434	570
	(Percentages or Index Numbers)					
Money and Quasi Money as % of GDP	31.7	36.1	38.5	38.5	43.4	47.5
Wholesale Price Index (1973 = 100)	100.0	112.4	119.1	131.4	145.0	157.7
Annual percentage changes in:						
Wholesale Price Index	10.4	12.4	6.0	10.3	10.3	8.7
Bank Credit to Public Sector	9.6	26.2	50.9	16.9	15.8	26.4
Bank Credit to Private Sector	10.9	46.1	54.4	9.1	72.9	31.3

NOTE: All conversions to dollars in this table are at the 1978 weighted exchange rate of US\$1.496 = 1 LE.

1/ At 1965 Constant Prices.

2/ At 1975 Constant Prices.

3/ Total labor force; unemployed are allocated to sector of their normal occupation.

4/ Manufacturing and Mining, Petroleum, Electricity and Construction.

5/ Local Government comprises a small part of General Government.

. not applicable

BALANCE OF PAYMENTS

	1975	1976 (US\$ million)	1977	1978
Exports of Goods, NFS	2,194	2,759	3,537	3,530
Imports of Goods, NFS	-4,931	-4,910	-5,486	-6,490
Imports of Foreign Oil Companies	-140	-240	-330	-290
Workers' Remittances	366	755	894	1,760
Other Factor Services (Net)	-104	-202	-205	-270
Net Factor Services	262	553	689	1,490
Balance on Current Account	-2,615	-1,838	-1,590	-1,760
Amortization	-600	-734	-812	-900
Total Deficit	-3,215	-2,572	-2,402	-2,660
Direct Foreign Investment	140	300	434	440
Grants	1,076	792	445	345
MLT Borrowing	2,509	1,622	3,027	2,585
	3,725	2,714	3,906	3,370
Other Capital (Net)	-152	236	-961	-495
Residual	-420	-333	-348	-145
Increase in Reserves (+)	-62	45	195	71
Gross Reserves (end year)	294	339	534	605
Fuel and Related Materials				
Imports				
of which: Petroleum	-477	-385	-250	-200
Exports				
of which: Petroleum	164	268	600	730

MERCHANDISE EXPORTS (AVERAGE 1975-78)

	US\$ Mln.	%
Cotton	354	19.8
Yarn and Textiles	364	20.4
Petroleum	442	24.7
Other Agriculture	224	12.5
All other commodities	405	22.6
Total	1,789	100.0

EXTERNAL DEBT (MLT), DECEMBER 31, 1978

	US\$ Mln.
Public debt, incl. guaranteed	9,970 1/
Repayments on public debt	900
Interest on public debt	390

DEBT SERVICE RATIO FOR 1978 2/ 23.7%

1/ \$10,590 million as of July 31, 1979.

2/ Ratio of debt service to exports of goods and services.

February 4, 1980

THE STATUS OF BANK GROUP OPERATIONS IN EGYPT

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(March 31, 1980)

Loan/Credit Numbers	Approved FY	Borrower	Purpose	Amount in million US dollars less cancellations		
				Bank	IDA	Undisbursed
Ln 243-UAR	60	SCA	Suez Canal Expansion	56.5	--	--
Cr 181-UAR	70	UAR	Nile Delta Drainage	--	26.0	1.9
Cr 284-UAR	72	ARE	Railways I	--	30.0	0.8
Cr 393-UAR	73	ARE	Upper Egypt Drainage	--	36.0	4.0
Cr 412-UAR	73	ARE	Development Industrial Bank I/	--	15.0	0.3
Cr 423-UAR	74	ARE	Cotton Ginning Rehabilitation	--	18.5	3.5
Cr 437-UAR	74	ARE	Population	--	5.0	0.1
Cr 484-UAR	74	ARE	Talkha Fertilizer	--	20.0	0.4
Cr 524-EGT	75	ARE	Ag/Ind Imports	--	35.0	0.3
Ln 1062-EGT	75	ARE	Ag/Ind Imports	35.0	--	1.2
Ln 1064-EGT	75	SCA	Suez Canal Rehabilitation	50.0	--	21.7
Ln 1085-EGT	75	ARE	Tourah Cement	40.0	--	4.0
Ln 1098-EGT	75	ER	Railways II	37.0	--	10.4
Cr 548-EGT	75	ARE	Telecommunications	--	30.0	3.1
Cr 576-EGT	76	ARE	Development Industrial Bank II 1/	--	25.0	0.5
Ln 1239-EGT	76	APA	Alexandria Port	45.0	--	32.7
Ln 1276-T-EGT 2/	76	ARE	Fruit and Vegetable Dev.	50.0	--	42.3
Cr 637-EGT	76	ARE	Upper Egypt Drainage II	--	40.0	23.1
Ln 1285-EGT	76	ARE	Upper Egypt Drainage II	10.0	--	10.0
Ln 1292-EGT	76	ARE	Textile Rehabilitation	52.0	--	34.8
Ln 1369-EGT	77	AWA	Alexandria Water Supply	56.0	--	45.2
Cr 681-EGT	77	ARE	Education	--	25.0	5.8
Cr 719-EGT	77	ARE	Nile Delta Drainage II	--	27.0	13.9
Ln 1439-EGT	77	ARE	Nile Delta Drainage II	27.0	--	27.0
Ln 1440-T-EGT 2/	77	ARE	Nile Delta Drainage II	12.0	--	12.0
Ln 1453-EGT	77	EEA	Regional Electrification	48.0	--	28.6
Ln 1456-EGT	77	ARE	Industrial Imports	70.0	--	38.0
Ln S-005-EGT	77	ARE	Iron Ore Beneficiation and Engineering	2.5	--	1.1
Ln 1482-EGT	78	SCA	Suez Canal Expansion	100.0	--	41.4
Cr S-20-EGT	78	ARE	Water Supply Engineering	--	2.0	0.2
Cr 774-EGT	78	ARE	Telecommunications II	--	53.0	53.0
Ln 1533-EGT	78	DIB	Development Industrial Bank III	40.0	--	28.0
Cr 830-EGT	78	ARE	Agricultural Development	--	32.0	32.0
Cr 831-EGT	78	ARE	Urban Development	--	14.0	13.7
Cr 850-EGT	79	ARE	Second Population	--	25.0	24.9
Cr 868-EGT	79	ARE	Second Education	--	40.0	38.7
Ln S-14-EGT	79	ARE	New Valley Phosphate Engineering and Technical Assistance	11.0	--	4.3
Cr 909-EGT	79	ARE	Tourism	--	32.5	32.5
Ln 1732-EGT	79	ARE	Gulf of Suez Gas	75.0	--	75.0
Cr 935-EGT	79	ARE	Shoubrah El Kheima Thermal Power	--	37.0	37.0
Ln 1733-EGT	79	EEA	Shoubrah El Kheima Thermal Power 5/	102.0	--	102.0
	80	ARE	Agroindustries 4/	--	45.0	45.0
	80	DIB	DIB 4/	50.0	--	50.0
	80	ARE	Textiles 4/	69.0	--	69.0
Totals				1038.0	613.0	1013.4
Of which has been repaid				58.5	--	--
Total now outstanding				979.5	--	--
Amount sold			7.5	--	--	--
Of which has been repaid			7.4	--	--	--
Total now held by Bank and IDA				979.4	613.0	--

B. STATEMENT OF IFC INVESTMENTS

Year	Obligor	Type of Business	(Amount in US\$ million)		
			Loan	Equity	Total
1976	Arab Ceramic Company	Ceramic Industry	4.25	.75	5.0
		(Plus .635 contingency commitment)			(5.635)
1977	Nile Clothing Company	Ready-Made Garment Industry	0.40	0.20	0.60
1978	Delta Sugar Company	Agricultural Production, mainly sugar	20.0	2.00	22.00
		(Plus 1.0 standby commitment)			(23.00)
1979	Ismailia Misr Poultry Company	Food and Food Processing	5.97	1.52	7.49
1979	Ismailia Fish Farming Company	Food and Food Processing	1.929	.453	2.382
		(Plus 0.1 contingency commitment)			(2.482)
			32.549	4.923	37.472
		(Plus contingency commitment)			(39.207)

1/ Formerly Bank of Alexandria

2/ Third Window Loan

3/ Not yet effective

4/ Not yet signed

5/ Not included in EEC Sp. Action Credit 20 of \$35.0 million

C. PROJECTS IN EXECUTION 1/

Cr. No. 181-UAR - Nile Delta Drainage I Project; US\$26 million Credit of April 17, 1970; Effective Date: December 22, 1970; Closing Date: December 31, 1980

The only outstanding activity on this project is installation of field drainage, which remains to be accomplished on about 9 percent of the project area of 950,000 feddans. Progress on this activity is slow due mainly to management problems with public sector contracting companies. Work is complete on other major components including some 1,700 km surface drains and eleven pumping stations. The Drainage Authority expects to achieve full completion of the project ending December 1980.

Cr. No. 284-UAR - Egyptian Railway Project; US\$30 million Credit of February 9, 1972; Effective Date: July 17, 1972; Closing Date: June 30, 1980.

The project generally was implemented satisfactorily but progress on the electrical signalling items, which is 95 percent complete, has been at a standstill for the last two years due to difficulties with municipal authorities regarding site occupation. Successive extensions of the loan period have been necessary. ER has been informed that no further extensions will be agreed beyond the present closing date. The disbursement total is likely to be US\$29 million.

Cr. No. 393-UAR - Upper Egypt Drainage I Project; US\$36 million Credit of June 8, 1973; Effective Date: November 28, 1973; Closing Date: July 31, 1981.

Work is almost complete on some 1,640 km surface drains in 300,000 feddan project area. Of the five pumping stations, one is operational and work on the others is about 82 percent complete. Installation of tile drains is about 61 percent complete. Progress on this activity is slow because of inadequate management by contractors and physical difficulties arising from sugarcane which occupies in the cropping pattern some 50 percent of the area. Bilharzia Control Program is proceeding as scheduled. Progress on procurement is satisfactory.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 423-UAR - Cotton Ginning Rehabilitation Project; US\$18.5 million Credit of July 30, 1973; Effective Date: February 15, 1974; Closing Date: December 31, 1980.

The scaled-down project financed by IDA is estimated to be completed in 1982. The remainder of the full project is being financed by a loan from the Saudi Fund for Development. The foreign cost estimates for the project have remained basically unchanged, but the local component continues to escalate mainly due to delays caused by shortage of local funds.

Cr. No. 484-UAR - Talkha II Fertilizer Project; US\$20 million Credit of June 24, 1974; Effective Date: January 22, 1975; Closing Date: April 1, 1980.

Project is nearing mechanical completion; procurement has been completed. According to the latest indication, the project is expected to be commissioned by mid-1980, about two years behind schedule, partly because of delays in civil works and procurement.

Cr. No. 524-EGT and Ln. No. 1062-EGT - Agricultural and Industrial Imports Project; US\$35 million Credit and US\$35 million Loan of December 20, 1974; Effective Date: March 19, 1975; Closing Date: December 31, 1980.

The bulk of the procurement actions has been completed and only about \$0.3 million and \$1.2 million remain to be disbursed under the credit and loan, respectively. Discussions are presently taking place with the Government regarding the utilization of the uncommitted funds prior to the closing date which has been extended by one year.

Ln. No. 1064-EGT - Suez Canal Rehabilitation Project; US\$50 million Loan of December 20, 1974; Effective Date: April 21, 1975; Closing Date: December 31, 1980.

Progress in implementation has improved and about 85 percent of the project funds have been committed. The design of the last major item of equipment to be financed from the loan is now being undertaken. Because of the initial delay in implementation, the project is now expected to be completed only by December 1981; the closing date of the loan will, therefore, have to be extended.

Ln. No. 1085-EGT - Tourah Cement Expansion Project; US\$40 million Loan of February 10, 1975; Effective Date: June 9, 1975; Closing Date: June 30, 1980.

Procurement of machinery and equipment is completed. Most items are already on site being erected. Slow civil works execution has further delayed project execution. Thus start-up of commercial operations is expected to be only towards early 1981.

Ln. No. 1098-EGT - Railways II Project; US\$37 million Loan of April 2, 1975;
Effective Date: August 20, 1975; Closing Date: June 30, 1981.

Investment in mobile assets has been satisfactory but progress on fixed installations is slow. The Egyptian Railways' (ER) operations and maintenance situation remains very poor with low availability of locomotives and rolling stock. The track renewal and repair program is also behind schedule. Efforts are now being made to improve rolling stock maintenance with the help of consultants and ER plans to set up separate companies with overseas technical assistance to upgrade track conditions. The 1980-84 draft investment program contains many large investments including new lines for which no economic justification has been demonstrated. The financial situation is poor and a deficit of LE 38 million was forecast for 1979. After many years without tariff increases, substantial increases in freight tariffs were made in 1979, and passenger fare increases are promised for 1980. A draft decree which would establish a National Railway authority and aims to give the railways inter alia considerably more autonomy in relation to tariffs and staff salaries is under discussion.

Cr. No. 548-EGT - Telecommunications Project; US\$30 million Credit of May 16, 1975; Effective Date: August 14, 1975; Closing Date: December 31, 1980.

Procurement has now been completed and the IDA credit has been fully committed. Procurement of the telex exchanges was transferred to the Telecommunications II project. Physical installations are about two years behind the appraisal schedule mainly because of initial delays in procurement actions and in building construction.

Cr. No. 576-EGT - Second Development Industrial Bank (formerly Bank of Alexandria) Project; US\$25 million Credit of July 30, 1975; Effective Date: February 19, 1976; Closing Date: October 31, 1980.

The credit is now fully committed and \$24.5 million has been disbursed as of April 2, 1980.

Ln. No. 1239-EGT - Alexandria Port Project; US\$45 million Loan of April 19, 1976; Effective Date: August 30, 1976; Closing Date: December 31, 1980.

The contract for the major part of the civil works and dredging was awarded in April 1979 and work is now progressing. Procurement of equipment is also progressing satisfactorily. Because of the delayed start of the main civil works, the project is now expected to be completed only by June 1982; the closing date of the loan will, therefore, have to be extended.

Ln. No. 1276-EGT - Fruit and Vegetable Development Project; US\$50 million Third Window Loan of June 11, 1976; Effective Date: December 20, 1976; Closing Date: December 31, 1982.

The project is now over two years behind schedule. Work on the drainage and irrigation components of the project is proceeding although

behind schedule. The seed component has major problems, which the Bank is now discussing with Egyptian officials. The Agricultural Development Lending Unit in Bank Misr is attempting, with assistance from the World Bank, to ensure that the various sub-borrowers proceed with their respective investments, and to identify additional sub-borrowers. The project scope has been expanded to allow financing of agroindustries subprojects, and terms of financing liberalized.

Ln. No. 1285-EGT and Cr. 637-EGT - Upper Egypt Drainage II Project; US\$10 million Loan and US\$40 million Credit, both of June 11, 1976. Effective Date: January 31, 1977; Closing Date: June 30, 1983.

Work is progressing in accordance with the revised schedule on some 1,602 km of surface drains in 500,000 feddans. Overall progress is about 55 percent. As compared to appraisal target of 240,000 feddans, field drainage is complete on only about 24,000 feddans. This shortfall has resulted from a delay of almost two years with supply and erection of USAID financed equipment for three PVC pipe-making factories. As these factories are now nearing production, the work of installing tile drains will be accelerated. Contracts for the same have already been awarded covering the entire project area.

Ln. No. 1292-EGT - Textile Project; US\$52 million Loan of September 20, 1976. Effective Date: February 16, 1977; Closing Date: June 30, 1980.

The project is proceeding with a year and a half delay caused by a later and slower than anticipated start of the civil works. The project is now estimated to cost about US\$21 million equivalent (all in local currency) more than appraised, due to increased scope of civil works and general price increases of construction materials beyond what was expected at appraisal. No difficulties are foreseen in financing this, although some government equity contribution would be required in the next two years to supplement the companies' internal cash generation in order to adhere to the financial covenants as well as project costs. Early management problems have now been overcome and both companies have developed effective project implementation units. Disbursements are slower than anticipated reflecting initial delays in procurement. However, about 90 percent of the contracts for machinery and equipment have now been awarded and the balance is expected to be awarded in the near future.

Ln. No. 1369-EGT - Alexandria Water Supply Project; US\$56 million Loan of March 7, 1977; Effective Date: July 6, 1977; Closing Date: June 30, 1982.

After a second round of bidding for construction of the pipelines, borrower decided to reject all bids as being out of line with prices obtainable from local contractors for similar work, and informed the Bank that it wished to execute this component with local contractors using Egyptian funds. Accordingly it requested cancellation of that part of the loan. The Bank has thus cancelled US\$2.85 million. The construction contract for the treatment plant extensions is currently out to bid. Proposals for data processing equipment and training have been called for. Meter replacement to improve

AWA's operations continues at a satisfactory pace. An application for a general tariff increase is with the Governor for consideration by the Alexandria Local Council but approval is still pending.

Cr. No. 681-EGT - Education Project; US\$25 million Credit of March 7, 1977; Effective Date: August 19, 1977; Closing Date: December 31, 1980.

Project implementation, since the transfer of two MOHE institutes to Credit 868, is proceeding satisfactorily. Virtually all technical assistance has been completed. About 90 percent of all equipment has been procured and nearly all has been installed. Of the 23 institutions to be constructed 17 are completed and are operational, 5 will be completed by August and the other by December 1980. All of the existing institutions being re-equipped are operational. About 77 percent of Credit amount has been disbursed and nearly all of the remainder has been committed.

Cr. No. 719-EGT, Ln. No. 1439-EGT and Ln. No. 1440T-EGT - Nile Delta Drainage II Project; US\$27 Million Credit, US\$27 Million Loan and US\$12 Million Third Window Loan of July 15, 1977; Effective Date: April 17, 1978; Closing Date: December 31, 1983.

Progress on surface drains is satisfactory with completion achieved in some 230,000 feddans out of total area of 815,000 feddans. For construction of four new and renovation of two existing pumping stations, the contractors have started preliminary works following award of contracts in December 1979. Work has not started on installation of field drainage in 400,000 feddans. Progress on this activity will depend upon KfW financed PVC pipe-making factory (planing is currently in progress). This factory is expected to be commissioned more than one year behind appraisal target of December 1979. It would accordingly delay completion of field drainage, which is critical to full completion of the project.

Ln. No. 1453-EGT - Regional Electrification Project; US\$48 Million Loan of July 15, 1977; Effective Date: February 6, 1978; Closing Date: December 31, 1981.

Physical progress is good. A six month delay in completion of construction is expected, however. Consultants for the extension of the UNDP Power Sector Survey have completed their work. The Tariff Study financed under the Loan has been completed. Consultants for the distribution companies have been engaged. All contracts for equipment, materials and technical assistance have been awarded.

Ln. No. 1456-EGT - Industrial Imports Project; US\$70.0 Million Loan of July 15, 1977; Effective Date: November 7, 1977; Closing Date: December 31, 1980.

As of February 29, 1980, about \$31.4 million had been disbursed and about \$38.3 million committed, representing some 55 percent of the total loan. Utilization of the loan proceeds has been slow mainly because of delays in procurement of equipment for public sector firms.

Ln No. S-5 EGT - Iron Ore Engineering and Beneficiation Project; US\$2.5 Million Loan of July 15, 1977. Effective Date: February 2, 1978; Closing Date: December 31, 1980.

Consultants preparing both iron ore beneficiation and diagnostic studies have submitted the final feasibility studies. The closing date was extended to help finance consulting services to help prepare a rehabilitation and balancing project for Egyptian Iron and Steel Company.

Ln. No. 1482-EGT - Suez Canal Expansion Project; US\$100 Million Loan of September 28, 1977; Effective Date: February 8, 1978; Closing Date: December 31, 1981.

Progress in the execution of the project is close to appraisal estimates although in some areas, such as demolition and procurement of tugs, there is some delay. This, however, is not expected to materially affect the project completion date. The financial situation of the borrower is sound, canal traffic and revenue being higher than appraisal estimates.

Cr. No. S-20-EGT - Water Supply Engineering Project; US\$2.0 Million Engineering Credit of December 29, 1977; Effective Date: April 28, 1978; Closing Date: June 30, 1980.

Formal presentation of final draft report took place in December 1979 and Government comments have been incorporated into the draft report. Project in Beheira Governorate identified in the report.

Ln No. 1533-EGT - Development Industrial Bank III; US\$40.0 Million Loan of April 12, 1978; Effective Date: July 18, 1978; Closing Date: December 31, 1982.

Commitments and disbursements are progressing satisfactorily. As of February 29, 1980, \$10.8 million had been disbursed and \$35.5 million had been committed. The balance of the Loan is expected to be committed by June 1980.

Cr. No. 774-EGT - Second Telecommunications Project; US\$53.0 Million Credit of March 21, 1978; Effective Date: September 19, 1978; Closing Date: December 31, 1981.

Some reallocation of Credit proceeds was agreed to in September 1979. Bid documents for a substantial part of the equipment and materials to be financed under the Credit had been processed by January 1980, and the rest are expected by May 1980.

Cr. No. 830-EGT - Agricultural Development Project; US\$32.0 Million Credit of July 24, 1978; Effective Date: February 20, 1979; Closing Date: December 31, 1983.

Satisfactory progress has been made in procurement of farm machinery. Institutional development is lagging behind appraisal expectations.

Cr. No. 831-EGT - Egypt Urban Development Project; US\$14.0 Million Credit of August 30, 1978; Effective Date: April 30, 1979; Closing Date: December 31, 1982.

Key staff have been appointed; draft terms of reference for some advisors and consultants have been agreed; and contracts are being finalized. Preliminary steps on the design of physical works have been started. Completion of the project is expected to be delayed by at least 18 months.

Cr. No. 850-EGT - Second Population Project; US\$25.0 Million Credit of October 30, 1978; Effective Date: May 1, 1979; Closing Date: December 31, 1983.

Civil works and procurement of furniture, equipment and vehicles are proceeding satisfactorily. Recruitment of project personnel shows progress but is not complete.

Cr. No. 868-EGT - Second Education Project; US\$40.0 Million Credit of January 26, 1979; Effective Date: July 18, 1979; Closing Date: March 31, 1984.

Project implementation is proceeding very well. Of the twenty three institutions to be constructed, two are completed, eight will be completed by mid-1981, 10 will be completed in late 1981 and the three MOHE institutes are expected to be completed on schedule by late 1983. Eighty four percent of all equipment is under procurement with contracts already signed for 23 percent. All technical assistance has been contracted and implementation is underway. Disbursements are well ahead of schedule, a situation which is expected to continue.

Ln. No. 5-14-EGT - New Valley Phosphate Engineering and Technical Assistance Project; US\$11.0 Million Loan of May 25, 1979; Effective Date: October 19, 1979; Closing Date: June 30, 1982.

Procurement and delivery of mining equipment is underway and erection has started at mine site; laboratory tests of phosphate rock are being carried out.

Cr. No. 909-EGT - Tourism Project; US\$32.5 Million of June 13, 1979; Effectiveness Date: March 26, 1980; Closing Date: December 31, 1985.

Project implementation has started.

Ln. No. 1732-EGT - Gulf of Suez Gas Project; US\$75.0 Million of June 29, 1979; Effectiveness Date: January 29, 1980; Closing Date: September 30, 1982.

Project implementation is in progress. The onshore contract was signed on March 23, 1980. Construction completion is scheduled for 19 months after receipt of a 10 percent downpayment due within 30 days after signing.

Ln. No. 1733-EGT, Cr. No. 935-EGT and Special Action Cr. No. 20-EGT - Shoubrah El Kheima Thermal Power Project of September 6, 1979; Effectiveness Date: April 8, 1980; Closing Date: June 30, 1986.

Agreements declared effective on April 8, 1980.

ARAB REPUBLIC OF EGYPTMISR IRAN DEVELOPMENT BANK (MIDB) PROJECTSupplementary Project Data SheetSection I - Timetable of Key Events

- (a) Time taken by MIDB to prepare project: 10 months (September 1977 to July 1978)
- (b) Date of first presentation to Bank: September 1977
- (c) Agency preparing project: Misr Iran Development Bank (MIDB)
- (d) Date of departure of appraisal mission: July 1978
- (e) Updating appraisal mission: October 1979
- (f) Date of completion of negotiations: March 1980
- (g) Planned date of effectiveness: November 1980

Section II - Special Bank Implementation Actions

None

Section III - Special Conditions

1. Condition of loan effectiveness:
Execution of Subsidiary Loan Agreement between the Government and MIDB (para. 55).
2. Other conditions:
 - (i) The Government will onlend the proceeds of the proposed loan to MIDB at an interest rate of 8.75 percent per annum, under a subsidiary loan agreement, satisfactory to the Bank. MIDB will onlend the funds at not less than 11 percent per annum (para. 55).
 - (ii) Bank financing will normally be confined to individual projects of not more than \$25 million in total cost and subloans of not more than \$3 million unless otherwise agreed by the Bank (para. 56).
 - (iii) Individual subprojects whose total cost does not exceed \$8 million and for which the amount of the subloan is not more than \$1 million qualify as free limit subprojects. The first two subprojects, however, irrespective of their size, will be submitted for the Bank's prior review and approval (para. 56).

- (iv) Individual procurement packages exceeding \$5 million will require international competitive bidding (ICB) in accordance with the Bank's guidelines, otherwise, through international shopping. Tender documents and evaluation of bids for contracts requiring ICB will be submitted for the Bank's prior review and comment (para. 58).
- (v) The proceeds of the loan will be allocated as follows: (a) a minimum of 25 percent for building materials and construction/contracting industries; (b) a minimum of 25 percent for capital goods manufacturing industries; (c) a minimum of 25 percent for industries estimated to export at least 20 percent of their output in value, excluding projects qualifying under (a) and (b); and (d) the remainder for other economically viable industrial projects (para. 54).
- (vi) A minimum economic rate of return of 12 percent will be required for all projects financed from the proceeds of the proposed loan (para. 56).

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EGYPT

LOAN TO MISR IRAN DEVELOPMENT BANK

STAFF APPRAISAL REPORT

April 9, 1980

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CURRENCY EQUIVALENT

Unified Market Rate (Current)

1 Egyptian Pound (LE)	=	\$ 1.43
1 US Dollar (\$)	=	LE 0.70

GLOSSARY OF ABBREVIATIONS

GOFI	General Organization for Industrialization
IFZA	General Authority for Investment and Free Zones
MIDB	Misr Iran Development Bank
DIB	Development Industrial Bank
CBE	Central Bank of Egypt
IMDBI	Industrial and Mining Development Bank of Iran
BOA	Bank of Alexandria
The Plan	The National Five Year Development Plan for 1978-1982

FISCAL YEAR

January 1 - December 31

This report was prepared by Messrs. Vijay K. Chaudhry, Samir El Daher and Shyamadas Banerji of the Industrial Development and Finance Division of EMENA Projects Department.

LOAN TO MISR IRAN DEVELOPMENT BANKSTAFF APPRAISAL REPORTTable of Contents

	<u>Page No.</u>
I. THE INDUSTRIAL SECTOR	1
A. Background and Structure	1
B. Recent Performance	1
C. Developments in the Administrative and Policy Framework	2
D. Industrial Potential and Priorities	4
E. Bank Assistance to the Industrial Sector	9
II. FINANCIAL INSTITUTIONS AND INDUSTRIAL FINANCE	10
A. Financial Institutions	10
B. Financing of Industrial Investment	11
C. Cost of Capital in Egypt	13
III. THE MISR IRAN DEVELOPMENT BANK	14
A. Establishment and Ownership	14
B. Board of Directors and Management	15
C. Organization	15
D. Staff	16
E. Functions and Policies	16
F. Procedures	18
G. Operations	20
H. Resource Position	21
I. Quality of Portfolio and Audit	22
J. Financial Performance and Position	23
K. Projections of MIDB's Operations and Finances ..	24
IV. THE PROJECT	28
A. Background	28
B. Objectives	28
C. Scope	28
D. Loan Amount and Allocation	29
E. Main Features	30
F. Project/Loan Benefits and Risks	32
V. AGREEMENTS REACHED AND RECOMMENDATION	33

ANNEX

1. Related Documents and Data Available in the Project File

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I. THE INDUSTRIAL SECTOR

A. Background and Structure

1.01 Industry 1/ has become a significant sector of the Egyptian economy with its share in GDP rising from around 8% in 1946 to about 17% in 1979. In 1979, industry employed about 1.3 million persons, or nearly 13% of the civilian labor force, and was responsible for about 30% of commodity exports. The industrial structure which has emerged as a result of the import substitution patterns of development of the 1960's and early 1970's is weighted heavily in favor of producing consumer goods. These account for about 58% of industrial value added while intermediate products (building materials, fertilizers, chemicals and metals) account for 34% and capital goods (see paras. 1.15, 1.16) for only 8%.

1.02 As a result of the nationalizations of the early 1960s, the public sector, comprising some 200 enterprises, accounts for almost all large and medium scale industrial enterprises. It generates some two-thirds of the value added in industry and mining and provides slightly more than half of the total industrial employment, mainly in four subsectors: textiles, food, metal and engineering. Egypt's basic industries are all in the public sector and include iron and steel, aluminum and fertilizer. Textiles, food products, leather, woodworking and furniture, and engineering (including metallic products) are the important industries of private activity. In 1974, about 4,000 establishments employing 10 or more workers employed 62% of the workforce in the private sector; about 113,000 establishments employing less than 10 (the artisanal sector) which produce mainly household goods, contributed 16% of total manufacturing value added and 38% percent of private employment. The structure has not changed significantly in the last decade or so. About three-quarters of private manufacturing industries are located in Greater Cairo and Alexandria.

B. Recent Performance

1.03 The performance of the industrial sector, which was characterized in 1973-74 by important idle productive capacities, rapidly improved during the period 1975-77 following the announcement of the "open door" policy in 1973 which resulted in relaxation of controls and subsequent greater availability of foreign exchange. This period was followed by a temporary slowdown in the growth of industrial output in 1978 (5.7%), followed by a recovery in 1979 (11.5%). This recovery points to the increasing impact on production of investment efforts made during the last few years. While the growth of industrial output in the public sector in 1973 and 1974 was low (2.1% and 2.6%), during 1975-79 it jumped to about 8-9% per annum. In general, the private industrial sector has performed somewhat better than the public sector during the past few years. Private sector output which stagnated during 1972-74 increased by an annual average of 10% in real terms between 1974-79.

1/ Manufacturing and mining, excluding petroleum.

Leather, building materials, chemicals, woodworking and engineering were the fastest growing private industries in that order. The textile and food processing industries performed modestly.

1.04 Exports of manufactured products are estimated at about LE 550 million in 1979 (14% of the gross value of industrial output). Industrial exports, particularly of the private sector, showed strong growth in 1974 and 1975, but declined sharply in 1976 because of reduction in exports to East European countries under bilateral agreements. Some shift in exports to the western markets has taken place resulting in an improved performance in 1978-1979. The share of private sector in total industrial exports declined from 24% in 1975 to 14% in 1978, primarily due to reduction in exports to East European countries. Major products exported by the private sector include essential oils and chemicals, leather products, textiles and wooden furniture; textiles, metallurgical products (pig-iron, aluminum, cold rolled sheets) and food products are the main exports of the public sector. The potential for exports is discussed in paras. 1.12-1.14.

1.05 The share of the private sector in total industrial investment during 1969-74 had been extremely small, averaging about 4%. Following the adoption of the "open door" policy, the private sector's share of total industrial investment increased to about 10-12% during 1975-78 and 13% in 1979. Investment licenses issued by the General Organization for Industrialization (GOFI) to the private sector increased from LE 67 million in 1975 to LE 167 million in 1978, indicating an upsurge in the investment plans of the private sector. In addition, some 243 manufacturing projects involving an investment of LE 1,339 million by the private sector had been licensed until the end of 1978 by the Investment and Free Zones Authority (IFZA) under Law 43/32. ^{1/} These developments reflect the favorable response of the private sector to the Government's initiatives.

C. Developments in the Administrative and Policy Framework

The Administrative Set-up

1.06 Administrative control of the industrial sector continues to be fragmented, with responsibility shared by several ministries. The Ministry of Industry controls only about 60% of the value of production of Government-owned industrial enterprises, and a number of important sub-sectors (construction materials, parts of the engineering sector) are entirely outside its jurisdiction. Two institutions lodged in separate ministries are involved in approving investment projects in the private sector. GOFI, in the Ministry of Industry, approves most public sector projects and all private investments in excess of LE 8,000 except for projects established under Law 43/32 (which it reviews but cannot veto). The latter projects are approved by IFZA in the Ministry of Economy, Foreign Trade and Economic Cooperation.

^{1/} However, the amount of investments actually realized for these projects is not known.

Evolution of the Policy Framework

1.07 Until recently, the policy framework within which industry operated was unduly restrictive. However, with the opening up of the economy under the "open door" policy, the Government has relaxed controls over both private and public sectors. Law 43 was adopted in 1974 to encourage foreign investment in joint venture projects as a way of promoting technology inflow. It normally provides for five year tax holidays and, in some cases, exemptions from or deferrals of customs duties. Law 43 was amended by Law 32 of 1977, which stipulated that the parallel market rate will be the applicable exchange rate for foreign investments, repatriation of profits and original capital. Earlier, investments had to be converted at the overvalued official rate. ^{1/} Law 32 also extended tax incentives to Egyptian owned projects in which some foreign exchange has been invested as capital. These amendments have a favorable impact on investment. Law 43/32 is also applicable to public sector companies, to the extent that new projects are established as joint ventures under the law, thereby circumventing many of the restrictions imposed upon state-owned firms (such as those relating to wages and salaries).

1.08 The import of raw materials, capital goods and spares has been made easier under the Open General License Scheme administered by the Central Bank. Also, the new foreign exchange law (Law 97/1976) allows transfer of foreign exchange between individuals which facilitates imports under the "own exchange" scheme. The recent revision of the income tax code has reduced the tax rates on personal income which should assist the private sector, particularly owners of small-scale industries (SSI). Tax rates on corporate income (at about 40%) are reasonable.

Policy Issues

1.09 The major policy issues affecting industry are: (a) lack of a fully coherent industrial sector strategy and priorities for individual subsectors--effective mechanisms for planning, coordination and control also need to be developed; (b) anomalies in the granting of incentives to similar private projects depending on whether these are approved by GOFI or IFZA; (c) anomalies in the tariff structure and low levels of protection afforded the capital goods industries; (d) inadequate export incentives and promotion measures to support manufactured good exports and; (e) continuation of price controls over some groups of industrial products. The resolution of these issues is important for rational long-term development of Egyptian industry. ^{2/} The Government is in the process of discussing with the Bank a study to help formulate an industrial strategy and plan for the 1980's, an appropriate incentive framework and an improved system for planning and implementation of planned investments.

^{1/} See para. 2.08, footnote 1.

^{2/} These issues have been discussed in the DIB Staff Appraisal Report, February 28, 1978, #1809A-EGT and the Basic Economic Report, May 8, 1978, #1815-EGT.

D. Industrial Potential and Priorities

1.10 Egyptian industry has significant long-term prospects to grow and to broaden its base, deriving primarily from the large and growing domestic market and a strategic location with access to other markets in Europe. There exists already an industrial structure, some infrastructure, a large, relatively low-cost labor force, and an industrial tradition. Egypt has some petroleum and, though not endowed with a wide range of other raw materials, they are adequate to develop efficient industries in many sub-sectors. Since the development of agriculture is proceeding slowly and the service sector (mainly Government) is over-staffed, it is primarily to industry that the Government looks to provide stimulus to growth through continued expansion, efficient import substitution emphasizing intermediate and capital goods, and through expanded exports, as well as to absorb the growing labor force. Egypt's long-term potential is in products utilizing domestically available raw materials which can be economically exploited (e.g., petroleum and mineral products, cotton and textiles, some food products), or which are relatively labor intensive (e.g., garments, leather and leather products, furniture and engineering products).

1.11 Industry's role as a lead sector is reflected in the 1978-82 National Development Plan (Plan), 1/ which allocates to industry around LE 3.4 billion or 29% of the total investment budget of around LE 11.6 billion. 2/ About 80% of industrial investment is targetted for the public sector and the remaining 20% is notionally earmarked for the private sector. Planned investment by joint ventures (including private and public sector participation) is estimated at about 19% of total. The Plan does not clearly identify priorities within the sector and, thus, an overall strategy for its development. However, a review of the Plan and various industrial sector studies (para. 1.26) point to the need to develop exports and the capital goods and construction and industries on a priority basis. Under the terms of the proposed loan, special emphasis is placed on providing assistance to these industries. The potential for industrial exports and the justification for priority support to capital goods and construction industries is further elaborated below. Other industries such as textiles, basic metals and food also are receiving priority attention from Government, and offer potential for viable import substitution and some export oriented projects.

Industrial Exports

1.12 The export performance of Egyptian industry has been reviewed in para. 1.04. In textiles, the major traditional export, the long-term export

1/ Currently being revised as part of the preparation of the overall 1980-84 plan.

2/ The amounts are in 1977 prices with the foreign exchange component of investments converted at the old official rate of exchange of LE 0.40=\$1.

growth potential is poor. Yarn exports are expected to stabilize at about 45,000 tons per year (attained in 1974) through the 1980s because of increased competition from other yarn producing countries in East European and Western markets as well as substitution of cotton by synthetic fibers. Export potential of fabrics, garments and household goods are somewhat better. Egypt is currently utilizing about half of the European Economic Community (EEC) quota for these items (about 6,000 tons/year) and exports are constrained by lack of competitiveness (quality, design, delivery) and inadequate market knowledge as well as export marketing facilities. Long-term export growth for these items is estimated at 2% p.a. given the above constraints. Total textile exports are forecast to range between 65,000-70,000 tons/year during 1982-87 -- the level achieved in 1973-74. Given the limited potential in textiles, there is a need to diversify and thus increase the volume of industrial exports.

1.13 For Egyptian processed food products -- canned fruits and juices and dehydrated vegetables -- there appear to be good export prospects in neighboring markets, both in the short and longer terms. While the immediate export prospects of the engineering industry are small, the introduction of modern technology for the manufacture of capital goods and intermediate components through joint-venture projects should significantly improve long-term prospects for exports to neighboring African countries. ^{1/} Good export potential exists for traditional products -- leather and furniture -- but these require substantial inputs of technical assistance to improve product design, production efficiency and product quality as well as marketing support. The chemicals sub-sector is a growth sector for exports of SSI products, such as essential oils and perfumes, as well as paint and plastic products of larger firms. Export prospects of other major items where comparative advantage exists in terms of resource availability, such as cement and natural gas based fertilizer, are constrained both by high domestic demand and potential competition from neighboring countries. In the metallurgical industries, prospects for exports of steel in the longer term are not considered good because of the high cost structure of these industries.

1.14 The Plan forecasts industrial exports to grow at almost 25% p.a. over the Plan period which appears overly optimistic in light of the various problems facing industry as well as reduced export growth prospects for cotton textiles. There is great need for a better policy framework, strategy and program to expand manufactured exports. The experience of many countries suggests that programs specifically oriented to export development are needed,

^{1/} Engineering products identified in a sector study (para. 1.26) as having export potential in the medium and longer terms include fabricated metal products, simple machine tools (bench drills, lathes, etc.), material handling equipment, transport equipment and components.

especially where a country's regime has been persistently inward looking. Egypt has some of the elements of such a program already, involving primarily Law 43's mandate to attract foreign investors in export-oriented joint ventures, and the Government is discussing a comprehensive export promotion program with the International Trade Center. The Bank will address export policy measures in the context of its sector dialogue with the Government (para. 1.09).

The Capital Goods Manufacturing Industry

1.15 The contribution of capital goods industries 1/ to total manufacturing value added is about 8%, which is low compared to other (industrializing) countries at a similar level of development. The underdevelopment of the capital goods industry in Egypt has been due to a variety of factors: lack of contact with new technology, price controls, suppressed demand from the private sector, and easy availability of imported capital goods for the public sector under bilateral arrangements. The open door policy, involving relaxation of controls over the economy, has stimulated a large increase in industrial investments and consequently in demand for capital goods, which augurs well for the development of this industry.

1.16 In 1978, domestic output of engineering and metallurgical products was valued at LE 569 million of which the share of capital goods is estimated at about 60%. Capital goods imports totalled LE 1150 million (26% of all registered imports). Thus, it is estimated that imports satisfied about 80% of domestic consumption of capital goods. Data for a recent year indicate that the share of imports was the largest in non-electrical machinery (94%), followed by transport (66%) and electrical machinery (44%). Fabricated metal products are mostly supplied from domestic sources. The Plan forecasts that the cumulative demand for capital goods will total about LE 4 billion (in 1977 prices) during 1978-82 accounting for about one third of the total Plan investment.

1.17 Many capital goods are skilled labor intensive 2/ and can be produced efficiently at small and medium scales of production where skilled labor is available at low cost. Egypt generally has an ample supply of labor with basic industrial skills, although emigration in recent years has created shortage of skilled workers in some areas. Wages for skilled and unskilled

1/ Capital goods are defined as engineering industry products which are utilized for fixed investments in industry and other sectors and generally include heavy electrical and non-electrical machinery, fabricated metal items and some transport equipment. Consumer durables are excluded but intermediate components entering into assembly of capital goods are included in this definition.

2/ E.g. for foundry products, labor costs typically are about 30-40% of total costs in developed countries.

labor are low compared to other industrial countries and labor skills can be easily upgraded to enlarge supply. Domestic demand is sufficiently large and growing to permit the establishment of production units for many products at small and medium scales which would be competitive. Engineering industries in general and capital goods in particular are less capital intensive than other modern industries and require relatively lower capital investment per unit output. Furthermore, capital goods can be produced at varying levels of technology depending on product sophistication, scale production and skill availability. The intermediate technology requirements for the manufacture of many capital goods can be acquired by Egypt under joint-venture or licensing arrangements. Finally, the current low level of protection afforded the capital goods sector would ensure that all financially viable projects would also be economically efficient.

1.18 Egypt, which so far has focused primarily on the development of consumer and intermediate products, is now ready to enter into a higher phase of industrial development by deepening the import substitution process and thereby enlarging the share of the capital goods industry. The value added/output ratio of the industry could be increased through diversification into more complex fabricated products and a greater range of electrical and non-electrical machinery, and by developing production of components and parts previously imported, particularly for transport equipment. Manufacture of intermediate components can be promoted through subcontractors selected from the large number of small engineering firms (numbering over 10,000) in the private sector. This would create employment at low investment cost and facilitate the transfer of technology to smaller firms. With increases in the size of the sector, specialty intermediate components (gear boxes, bearings, etc.) can also be manufactured by larger firms. Other benefits which would result from the growth of a local capital goods industry include greater standardization of products, thereby reducing maintenance and inventory costs, and development of appropriate designs to suit local conditions.

The Construction Industry

1.19 In many instances, costly delays in implementation of projects in Egypt (including Bank financed projects) have been caused due to construction problems and capacity constraints emanating from: obsolete equipment; outmoded construction techniques, code and standards; inadequate regulations and bidding procedures for awarding contracts for public construction works; shortage of skilled manpower due to emigration to neighboring Arab countries; and shortage of building materials. The increased emphasis on housing construction (to alleviate the critical shortage of housing that has developed over the last two decades) and the 1973 post-war reconstruction program, have taxed heavily the capacity of the construction industry. The volume of work carried out by the domestic construction industry approximately doubled from an estimated LE 277 million in 1973 to LE 542 million in 1975, but increased to only about LE 550 million in 1976 and LE 600 million in 1977. An increase in capacity of almost 20% p.a. will be required to meet the Plan target for construction output of about LE 4 billion (or about 34% of the Plan investment) over 1978-1982.

1.20 Recognizing the importance of the construction industry and its problems, the Government has taken several ad hoc remedial measures, notably: removal of restrictions on volume ceiling for private contractors; provision of incentives under Law 43 to foreign contracting companies to form joint ventures in Egypt; introduction of competitive bidding procedure in awarding public sector contracts; introduction of prefabricated houses; freer importation of building materials and implementation of projects (under construction or planned) for increased domestic production of cement and bricks. To help develop and implement a comprehensive strategy for the development of the construction industry, including the requisite policy and institutional framework, the Government is undertaking a thorough sector study, which commenced in January 1980. The Bank has been instrumental in designing the study and is financing its costs (under Loan 1456-EGT).

1.21 While the above study is essential to the long-term rational development of the construction industry, the critical bottlenecks in the industry can be addressed, at least partially, without awaiting the outcome of the study. They relate to increasing the capacity and efficiency of the contracting companies, as well as the supply of building materials. The proposed loan component for assisting the private construction industry will finance projects in this area.

1.22 Construction Contracting Companies. Since the nationalizations in the early 1960's, public contracting firms (mainly 10 firms) have dominated the construction activity. In 1977 they were responsible for about 77% of the total construction output. The private contracting sector consists of some 3,000 small firms operating in all categories of buildings and civil works, often as subcontractors to the larger public sector contracting companies. Private contracting companies in particular are poorly equipped. To modernize them, it was estimated that investment in machinery and equipment of almost \$100 million would be required over the plan period 1978-82. Availability of financing, particularly term financing, would induce contractors to modernize and would ease short-term liquidity constraints sometimes encountered in the course of construction. Since many private contractors are not yet fully prepared to invest in heavy equipment, the establishment of leasing companies for modern building equipment, also providing trained operators, can smooth the transition and be of valuable assistance to the industry. (MIDB is studying the possibility of promoting such a company.)

1.23 Building Materials. The production of building materials in Egypt has not kept pace with the rapid increase in demand in recent years and severe shortages have developed in the supply of cement and steel and increasingly of bricks. The high cost of transportation of imports and the availability of raw materials in Egypt provide the basic framework for the development of economically viable building material industries to meet domestic demand. The scope for exports is negligible. In consultation with the Bank, the Government is preparing master plans for cement and bricks. Except for red bricks, which are produced by the private sector, the production facilities for building materials are almost entirely in the public sector. New facilities for

production of cement and bricks using desert clay ^{1/} are under consideration or planned in both public and private sectors. Investment opportunities exist also in projects to increase the capacity for production of lime bricks, asbestos cement pipes and sheets, concrete pipes and poles, ready-mix concrete, ceramic products, flat glass and various quarry products. Many of these investments could be undertaken in the private sector or jointly by the private and public sectors under Law 43.

E. Bank Assistance to the Industrial Sector

1.24 The Bank's recent industrial lending program has included assistance to the Government in its attempt to: (i) relieve foreign exchange constraints and thus improve capacity utilization (program loans); (ii) rationalize sub-sectors to improve productivity; (iii) assist individual, large, high priority projects; and (iv) develop financial intermediaries (DFCs) to enable financial and technical assistance to be extended to private sector firms. Loans to important government-owned enterprises for which the Bank can induce a dialogue and help resolve serious sector problems will continue to make up a preponderant share of the industrial lending program.

1.25 Bank assistance to private industry is being provided almost entirely through DFCs. The need for modernization of private industry is widespread and the scope for economic development and expansion of the sector is substantial. While the proposed loan is the first to MIDB, it will be the fifth DFC operation in Egypt; the others have been with the Development Industrial Bank (DIB). There is ample room for both DIB and MIDB in contributing to industrial development in Egypt. The scope of loans through DFC operations is being tailored to emphasize special purpose lending which can increasingly supplement the basic long range effort of assisting private small- and medium-scale private industries and institution building. Hence the proposed loan to MIDB has been designed to especially promote and finance export based projects as well as projects in the capital goods and construction industries, all in the private sector. The Bank is assisting small-scale industries with financial assistance through DIB and has initiated a pilot technical assistance program (under Loan 1533-EGT) through the Engineering and Industrial Design Development Center (EIDDC) and the Ministry of Industry.

1.26 The Bank's sector work is directed at introducing policy and structural improvements. Towards this end the Bank is discussing with the Government a study to help formulate an industrial strategy and plan for the 1980's, an appropriate incentive framework and an improved system for planning and implementation of planned investments. (The Bank would assist the Government in undertaking this study). The Bank has also financed six subsector studies in textiles, building materials, pulp and paper, food processing, metallurgy,

^{1/} To stop the erosion of agricultural land and on ecological grounds the Government is prohibiting the use of Nile clay for brick production.

and engineering industries, in order to assist the Government in formulating a package of policy and investment proposals, which would be embodied in future projects. In addition, the Bank is assisting the Government in undertaking a major study of the construction/contracting industry, which is one of the most critical bottlenecks facing Egyptian industry today, as well as in initiating studies to develop a brick master plan and cement distribution master plan.

II. FINANCIAL INSTITUTIONS AND INDUSTRIAL FINANCE

A. Financial Institutions

2.01 Long-term institutional financing for industry in Egypt is provided mainly by DIB and MIDB, the only two industrial development banks in Egypt. The primary function of DIB, a public sector bank, is to promote and finance productive industrial enterprises, mainly in the private sector. DIB is active in the financing of small scale industries and reconstruction and expansion of medium scale industries. The large demand for DIB assistance from such projects is likely to continue to keep DIB's promotional activity for medium and large projects to a negligible or low level in the foreseeable future despite the efforts to strengthen the institution to perform its important role as the primary development bank for industry in Egypt.

2.02 MIDB, in turn, sees its role as that of a promoter and financier of medium and larger industries in the private sector, particularly of joint-ventures that bring in appropriate foreign technology as well as foreign investment. An important part of MIDB's financing is in the form of equity investments in joint stock companies, and MIDB plans to roll over such investments when feasible, thus contributing to the development of the capital market in Egypt. In financing large projects MIDB often plays an important role of mobilizing other institutional resources for the project. The role of MIDB is thus complementary to that of DIB although both may compete in financing some medium size industrial projects.

2.03 Other banks providing significant amounts of financing for industrial investments are the four state owned banks (National Bank, Bank Misr, Bank of Alexandria and Bank of Cairo), Cairo Barclays (one of the many joint-venture banks) and the two international banks located in Cairo--Arab African Bank and Arab International Bank. Of the non-banking financial institutions, only the Misr Insurance Company has been a significant financier of industrial investments. Most of the financing by these institutions, except for Cairo Barclays, has been in the form of equity investments. They often depend on MIDB (or sometimes DIB) for appraising projects for cofinancing but some have financed projects also on their own. In particular, Bank Misr has a strong

interest in establishing large industrial projects while National Bank has shown interest in small scale industry financing.

2.04 The combined portfolio (equity investments and medium and long-term loans) of all the above institutions excluding DIB and MIDB, was estimated at about LE 110 million in mid-1978. Of this about LE 60 million was in industry, almost entirely in the private sector (including joint-ventures). In comparison, as of June 30, 1979, the portfolio of DIB and MIDB amounted to around LE 46 million and LE 12 million (equivalent), respectively, mostly in private sector industry. The portfolios of DIB and MIDB are expected to grow rapidly with annual approvals of term loans and equity investments currently being of the order of LE 30-35 million for DIB and about half of that for MIDB. The state owned banks may also provide substantial sums for large joint-venture projects promoted by the public sector. While the government is keen on increased investment financing from the large number of joint-venture banks and foreign bank branches operating in Egypt, there is little evidence that they (except for a couple) plan to do such financing. Commercial banking, including short-term lending, is likely to remain their main or only interest. They have already taken a good share of the private sector commercial banking business, but the public sector business, which accounts for about 80% of the total, remains with the four state-owned banks.

2.05 There are two stock exchanges in Egypt, one in Cairo and one in Alexandria, but they have not made a significant contribution to the mobilization of industrial finance in the past two decades. The securities listed include only 48 stocks (of which 21 have public sector majority ownership) and eight bond issues (of Government or public sector institutions). Annual trading volume has been about LE 15 million in recent years. A committee consisting of representatives from CBE, IFZA, and the stock exchange has been studying ways and means to revitalize the securities market. With the assistance of IFC and a reputable international investment firm, the committee drafted a law, which was enacted in December 1979, for the establishment of a capital markets authority for the development and regulation of capital markets in Egypt.

B. Financing of Industrial Investment

2.06 For private sector (including joint-venture) investments, the main sources of financing are the financial institutions mentioned above. Public sector industrial investments continue to be financed primarily from the national budget and, to a limited extent, from internally generated funds. The commercial banks generally provide the public sector with only working capital financing, although some investments in fixed assets are also financed with short-term loans that are rolled over.

2.07 DIB, the investment companies and the state owned commercial banks provide both local and foreign currency resources while MIDB, Cairo Barclays and the two international banks provide financing only in foreign currency. Equity financing (mostly for local costs of projects) is estimated to account on an average for about 40% of project costs. Local currency resources (investors equity or short-term loans) are at times used to purchase foreign exchange in the market to supplement or substitute for foreign exchange loans for financing the foreign exchange costs of projects. The substitution or competition for MIDB or DIB's foreign exchange loan financing has been small, however, given the large demand for foreign exchange and the advantage that MIDB and DIB have of providing long-term loans with suitable grace periods.

2.08 Foreign exchange funds can be purchased from the "official market" ^{1/}, which is controlled by CBE, for certain items it specifies ("free import list") or as specifically authorized by a government committee for requirements of projects approved by GOFI (para. 1.06). Projects approved under Law 43 do not have access to the official market but can purchase foreign exchange in the free market or import goods under the "own exchange scheme". Free market transactions between buyers and sellers in Egypt are legal provided they are transacted through authorized banks in Egypt (Foreign Exchange Law 97/1976). The free market rate for foreign currency has been about 5% to 10% higher than the CBE regulated "unified rate."

2.09 Industrial finance--particularly foreign exchange for the private sector--has been in short supply in the past, but the supply has been increasing rapidly in recent years. Inflow of foreign exchange resources from bilateral and multilateral financial institutions (including the Bank Group), workers remittances and tourism earnings have all helped to ease the situation. Given a continuation of this trend in the inflow of resources (including those to DIB and MIDB), the foreign exchange needs of the private industrial sector can be met adequately by the existing financial institutions. There have been very few financial instruments for mobilizing long-term local currency resources, hampered by the low level of interest rates and the lack of Government interest (until recently) in developing the capital market. Domestic resource mobilization should improve with increasing interest rates (para. 2.10) and the development of the capital market, but this process is likely to be a slow one. Equity capital of project promoters is expected to continue to provide most of the local cost financing for projects, with some loans from DIB and the commercial banks providing the remainder.

^{1/} Prior to January 1979 there were two exchange rates in this market: the "official rate" of LE 0.40 = \$1 for a few specific transactions and the parallel market rate of LE 0.70 = \$1 for most transactions. These have been substituted by the "unified rate" of exchange of LE 0.70 = \$1. For details of the foreign exchange regime, see DIB Staff Appraisal Report #2669-EGT.

C. Cost of Capital in Egypt

2.10 Interest rates on deposits and loans in local currency for all financial institutions are regulated by CBE. These are not applicable to MIDB since it does not deal in local currency (para. 3.01). Interest rates on local currency loans were last increased in March 1979 from a range of 9%-11% to 10%-12%, while the maximum rate obtainable on savings (term) deposits was increased from 6% to 8.5%. ^{1/} This brings the total increase in the maximum interest rates on lending and deposits to 4% and 5% respectively over the last 4 years or so. Inflation rates are difficult to measure in Egypt. The wholesale price index shows increases of 10.3% each in 1976 and 1977 and 8.7% in 1978. However, the official index is biased by controlled prices for essential commodities, especially basic foodstuffs, and does not adequately reflect price movements in uncontrolled markets where price levels tend to be significantly higher. It is thus difficult to ascertain whether the current interest rates on local currency loans are adequate in the light of current inflation. Stabilization policies are, nevertheless, currently under review by the Government, which is also considering further adjustments to the interest rates.

2.11 Interest rates on foreign exchange loans are not regulated by CBE and reflect the cost of those resources. Until last year, when MIDB finished lending its equity resources the interest rate on MIDB long-term loans, which so far have been made in dollars and are repayable in dollars, was 11%. Currently, MIDB charges around 2% over LIBOR for long-term loans made out of the proceeds of its short-term deposits (para. 3.35). MIDB also remunerates these deposits at LIBOR rates. In the future, MIDB's fixed interest long-term loans such as onlending of proposed Bank funds, would carry interest charges commensurate with the cost of the foreign currencies involved after providing MIDB with a spread of around 2%. The sub-borrowers will also assume the full foreign exchange risk. The other main source in Egypt of institutional long-term foreign exchange loans is DIB (essentially dollar loans) which is currently charging 11% to 12% (except on SSI loans from special funds). In the case of DIB the foreign exchange risk assumed by the sub-borrowers is only between the Egyptian pound and the dollar. The compensatory deposits of around 10% of foreign currency loans which DIB requires from borrowers increase the effective cost of these loans to 12% to 13.5%. Foreign exchange loans provided by other institutions (mostly short-term and some long-term) generally carry floating interest rates of about 2% over LIBOR.

Cost of Proposed Bank Funds

2.12 MIDB's onlending interest rate on Bank funds would need to be lower than the interest rate charged on MIDB's dollar loans (or on DIB's loans) to compensate the sub-borrowers for the additional foreign exchange risk on Bank funds (between the dollar and other currencies repayable to the Bank) since

^{1/} Also, as of 1977 interest earnings on bank deposits are tax exempt.

the entire foreign exchange risk on Bank funds will be borne by the sub-borrowers. Accordingly, a minimum onlending rate of 11% is proposed. This onlending rate, with the foreign exchange risk borne by sub-borrowers, is in line with the cost of long-term foreign exchange resources in Egypt and in the international capital markets. Although the applicable "international inflation rate" (average rate applicable to the blend of currencies repayable to the Bank) is difficult to ascertain, it is likely to be significantly below 10%. Therefore the onlending rate would also be positive in real terms.

2.13 The sub-borrowers will repay MIDB in foreign exchange which they are able to earn themselves or purchase from the "free market" in Egypt. The free market rate of exchange between the Egyptian pound and foreign currencies can be expected to follow market supply and demand forces, which would normally take into account the difference between the inflation rate in Egypt and the "international inflation rate". Thus the real cost of Bank funds to the sub-borrowers would be positive accounting also for domestic inflation.

III. THE MISR IRAN DEVELOPMENT BANK

A. Establishment and Ownership

3.01 MIDB was incorporated on May 27, 1975 as an Egyptian joint stock company with the authorization of the Government of Egypt under Presidential Decree No. 498/75 and under the provisions of Law No. 43 concerning Arab and foreign investment and free zones. It was established as a result of a trade and economic cooperation protocol signed between Iran and Egypt in May 1974. MIDB's initial authorized and paid-up share capital of \$20 million was shared equally between two Iranian and two Egyptian shareholders: Bank Melli and Industrial and Mining Development Bank of Iran (IMDBI) from Iran, Bank of Alexandria and Misr Insurance Company from Egypt. The Iranian shareholders are state-owned banks and for all practical purposes represent the Iranian Government's interest in MIDB. Both the Egyptian shareholders are public sector institutions. MIDB, however, is established as a private institution under Law 43. It is classified as an off-shore bank. By virtue of its ownership structure--only 50% Egyptian--it is allowed to operate only in foreign currency, which frees it of normal Central Bank controls over banks (on liquidity requirements and foreign exchange dealings). A shareholders' agreement incorporated in MIDB's Articles of Incorporation (Statutes) would permit a change in the ownership structure to majority Egyptian ownership, which would allow MIDB to operate also in local currency, whenever MIDB finds it necessary to handle local currency transactions to enhance the fulfillment of its objectives.

3.02 In July 1979, MIDB's share capital was increased by \$20 million to \$40 million with the four shareholders subscribing equally in the increase, thus maintaining the status quo. Payment of the initial 25% of the increase has been made by all the shareholders, raising MIDB's paid-up share capital

to \$25 million. The remaining 75% of the capital increase (\$15 million) will be payable on call by the Board, as and when needed (see para. 3.35) prior to September 1984.

B. Board of Directors and Management

3.03 In accordance with its Statutes, MIDB is managed by a Board of Directors composed of a minimum of eight (as at present) and a maximum of twelve members appointed by the General Meeting of the shareholders. The shareholders are represented on the Board in proportion to their participation in the capital, i.e. 50% Iranian and 50% Egyptian. The Board has broad powers to manage the bank. It determines and implements the bank's organizational structure, policies and modus operandi. The Board or its Management Committee (composed of the Chairman, the Managing Director, the General Manager and a fourth Board member) approve all long-term loans and equity investments. Board meetings normally are held once every three months while meetings of the Management Committee are held as and when needed. The Board appoints the Chairman, the Vice-Chairman who is also the Managing Director, and the General Manager. For maintaining parity between the Egyptian and the Iranian parties the Statutes require that the party nominating the Chairman shall not nominate the Managing Director.

3.04 Currently the Chairman (who is not an executive officer) is Iranian, while the Managing Director (the chief executive) is Egyptian. The General Manager is a seconded staff member from IMDBI. The senior managers of MIDB are highly qualified and experienced persons. Although some of them lack specific experience in development banking, the management as a whole is capable, dynamic and well respected in the Egyptian financial and business community. The Egyptian shareholders, being large financial institutions, enhance MIDB's financial and business standing.

C. Organization

3.05 MIDB is located in Cairo and has no branch offices. It is organized along functional lines with eight departments, each headed by a Manager. The development banking functions are performed by the Projects Department, the Loans and Investment Supervision Department and the Research and Investment Promotion Department. The latter department is yet to be fully staffed and is temporarily combined with the Projects Department. The Managers of these three operational departments are structured to report to an Assistant General Manager. The common administrative services are performed by four Departments: Financial and Accounts, Administrative, Legal and Computer Services. The Managers of these and the Banking Department are structured to be supervised by a second Assistant General Manager. Presently all the department managers report to the Managing Director as the positions of the two Assistant General Managers are vacant. Filling these positions is not considered urgent at

present, and these are expected to be filled in a year or so. The role of the present (Iranian) General Manager is more that of an advisor and Board member than a supervisor (line function).

D. Staff

3.06 MIDB has been able to attract suitably qualified staff since it is able to provide salaries and benefits reasonably competitive with those in the private sector in Egypt. As of September 30, 1979 MIDB had a total staff of 88 including 52 professionals. The Departments are adequately staffed, in quality and number, to meet the present level of activity. MIDB plans to increase its staff in line with the increase in its activities, particularly in the three development banking departments. The present office space is a serious constraint to the staff development plans of MIDB and it has therefore partly financed the construction of a new building in which it expects to be housed by 1982.

3.07 MIDB has no formal staff training programs of its own. While on-the-job training for its professional staff is considered important by its management, individual staff members are sent out for training to other development banks, private firms and universities. MIDB is hoping, through its association with the World Bank, to develop additional sources of such training facilities at EDI and other DFCs. Training of management and staff in development banking and project appraisal and supervision techniques would be an important contribution by the Bank.

E. Functions and Policies

3.08 The objectives of MIDB, as per its Articles of Incorporation, are "to identify, finance, implement and manage development projects in the agricultural, industrial, mining, trade, transport, construction, services and tourism sectors on economic considerations and commercial basis for the benefit of the economies of the two countries" (Egypt and Iran). In practice the projects financed are all in Egypt. ^{1/} In the pursuit of these objectives, MIDB may: (a) mobilize funds from the two countries or from other external markets through loans, guarantees and the issuance of bonds, or in the form of sight and time deposits, in order to finance its investment activities; (b) stimulate, create and expand the security markets; and (c) promote, assist and participate in the establishment, expansion and modernization of enterprises engaged in the fields outlined above. Its financial assistance may be in the form of loans and equity participations, underwriting of shares and securities, guaranteeing loans from other investment sources and providing necessary commercial banking facilities. It may provide technical and managerial consultant services, and undertake investment surveys and feasibility studies for projects to be established by the bank.

^{1/} The proposed loan will finance projects only in Egypt.

3.09 The main objective of its operations so far has been the promotion of new projects in Egypt's industrial sector (medium- and larger-scale industries) that bring into the country modern and appropriate technology. To this end its projects often involve foreign partners (through equity participations or technical assistance arrangements) who provide the technical know-how and managerial expertise; such projects are formed as joint ventures under Law 43. MIDB's promotional activity until now has not included identification of projects but has involved mainly the mobilization of resources from other financial institutions, negotiations with appropriate foreign partners, and assistance in obtaining government licenses and incentives for projects. Identification of projects for promotion in line with economic priorities is expected to develop as an activity of MIDB. The projects financed are established mostly as joint stock companies, and in many of these, particularly those promoted by MIDB, it takes an equity participation. MIDB's promotion of joint stock companies and the planned rollover of its equity investments in due course should contribute to the development of the capital market.

3.10 As a relatively new bank, MIDB has kept its options open for promoting and financing financially and economically viable projects in all sectors in accordance with its objectives without much regard to specific sector priorities. The management of MIDB has been open to guidance from the Bank in this area and MIDB's "Strategy Statement", drafted in conjunction with its "Policy Statement", assigns priorities to the construction and capital goods industries in line with the priorities under the proposed loan.

3.11 In consultation with the Bank, MIDB has adopted a formal "Policy Statement" for directing its operations. Some of the policies enunciated in the Policy Statement and outlined below were already being followed in practice by MIDB prior to discussions with the Bank. The Policy and Strategy Statements are satisfactory to the Bank, and future amendments to the Policy Statement would be subject to the Bank's prior approval.

3.12 In accordance with its policy MIDB extends financing only to projects in the private sector that are financially and economically viable. The projects should be consistent with country economic objectives and priorities set by the Egyptian Government which is ensured since all projects have to be approved by either GOFI or IFZA (para. 1.06). All MIDB financed projects have so far been established under Law 43. Although projects established under Law 43 with majority public sector ownership are also considered (legally) in the private sector, MIDB normally does not finance such projects. MIDB may extend financing to public sector projects/enterprises, from special government funds it may receive for such purposes, as a managing agent or as a lender against adequate guarantees from the state owned banks.

3.13 MIDB's financial policy is satisfactory. Its main features are as follows:

- (a) The maximum debt to equity ratio of MIDB shall be 4:1 with debt defined to include all borrowings, deposits and guarantees with an original maturity exceeding one year (i.e. long-term) as well as the amount of short-term resources utilized for long-term loans and investments (the use of short-term resources for these purposes being permitted only exceptionally see para. 3.35); 1/
- (b) MIDB's total financial exposure in loans, guarantees and equity investment in a single enterprise shall normally not exceed 15% of MIDB's subscribed capital;
- (c) MIDB's participation in the share capital of any enterprise shall normally not exceed 33% of the enterprise's share capital, and MIDB's total equity participation shall not exceed its own equity;
- (d) MIDB can apply a fixed or floating rate of interest on long-term loans varying according to the cost of its resources (para. 2.11). In addition, a commitment charge of 1% per annum on the undisbursed amount of the loan and a management fee of 1.5% flat (on the loan granted or managed by MIDB) is charged to the borrower.

F. Procedures

Appraisal

3.14 The appraisal functions are performed by the Projects Department (for all loans and investments). On receipt of an application for project financing and after preliminary discussions with the sponsor, a summary report of the project is submitted to the "Project Committee", presided over by the Managing Director, for a decision on whether to carry out a comprehensive appraisal or reject the request. At the end of the appraisal cycle, which on average requires about 3 man-months, projects are submitted for approval to the Board or to the Management Committee (acting on behalf of the Board in between Board meetings).

3.15 In some instances, particularly for large projects where reputable local and/or foreign sponsors are involved, MIDB receives proper feasibility studies of the projects. In other cases MIDB often has to arrange for expert consultants to conduct technical feasibility studies prior to its appraisal,

1/ This ratio is considered conservative but would allow MIDB to borrow all the resources it needs (given its equity base) at least for the next five years.

the costs of which are recovered on the average from the 1.5% (flat) management fee charged to the borrowers on the amount of loans extended or managed by MIDB. MIDB's financial analysis of projects is thorough. The financial projections are developed on computer, which calculates various financial ratios as well as the project's financial rate of return. The technical analysis, assisted by outside experts, is also satisfactory. Marketing analysis needs to be strengthened; the weakness, however, is often due to inadequate data sources in Egypt. Economic analysis of projects in the past has not been done systematically and has been weak. Many of the projects financed have been export oriented and their financial viability has been established assuming export prices for outputs and, generally, market (unsubsidized) prices for inputs, thereby reasonably ensuring economic viability. The staff are familiar with some of the techniques of economic analysis. Calculation of the economic rate of return will be done more systematically in MIDB's appraisals, henceforth, and will be mandatory for projects financed under the proposed loan.

Supervision

3.16 Supervision of all projects and disbursement of funds therefor are entrusted to the Loans and Investments Supervision Department (LISD), once the financing agreement (specifying procedures for mortgage and insurance) is put into effect. The LISD receives and approves applications for disbursements under loans and equity investments and follows up on debt servicing. It also assists many project sponsors in obtaining government licenses and, where applicable, approvals for import duties exemptions for the projects.

3.17 Supervision work of MIDB has commenced only recently and supervision procedures are therefore still evolving. For projects under construction, LISD prepares monthly summary status reports, primarily on their disbursement status, while detailed supervision reports on the implementation status of works and capital investment are prepared quarterly, normally after a field visit. Regular supervision procedures during a project's production phase have been established but not yet tested since most of MIDB's projects are still under construction. The LISD requires the clients to submit quarterly or half-yearly financial statements with supplementary information on the operational expenses, volume of production and sales. It also requires annual financial statements audited by auditors satisfactory to MIDB. The supervision of projects by MIDB is adequate.

Procurement and Disbursements

3.18 International shopping has been the procurement procedure generally followed for MIDB financed projects so far, which is normal for DFCs. However, since MIDB also finances some very large projects, it has agreed with the Bank to introduce international competitive bidding (ICB) procedure where appropriate. General guidelines governing procurement, as enunciated in MIDB's draft Strategy Statement, call for ICB procedure for large projects or single procurement packages exceeding \$5 million. For smaller procurement packages the guidelines require procurement based on bids from several suppliers through international shopping. For projects where technological

considerations may determine the foreign partner and, possibly, the supplier, due attention will be given to cost effectiveness of the proposed technology. Disbursement of MIDB financing in all cases will be subject to procurement procedures being satisfactory to MIDB under its new guidelines.

3.19 MIDB's disbursement procedures are satisfactory and well monitored. Loan disbursements are made mostly through letters of credit on receipt of satisfactory evidence of expenditures. Disbursements under equity participations in companies are made in accordance with a company's articles of incorporation.

Management Information System

3.20 The small sizes of MIDB's staff and portfolio to date have allowed MIDB's management to follow and monitor operations closely, without recourse to a formal management information system. The Managing Director chairs daily meetings of the Department Managers where they report on current operations and issues. Written reports and statements currently prepared by the various departments are: (a) summary reports of projects to the Project Committee as well as appraisal reports to the Board; (b) monthly summary reports and quarterly detailed reports on project supervision; (c) monthly financial statements; and (d) daily computer printouts on customers' accounts and short-term placement of funds. MIDB has agreed with the Bank to prepare on a regular basis additional reports and statements normally useful to management of DFCs, such as statements on resource position, operations (approvals, commitments, disbursements) and loan arrears. It also plans to prepare and update periodically projections of its operations and finances and analyze annually or more frequently its actual operations and finances.

G. Operations

3.21 MIDB's operations consist mainly of long-term loans and equity investments. Since it commenced operations in May 1975 and until December 31, 1979, MIDB approved a total amount of \$42.2 million--\$29.0 million in long-term loans and \$13.2 million in equity investments--to finance 22 projects all in the private sector under Law 43. Commitments under the same projects totalled \$29.9 million (\$19.7 million in loans and \$10.2 million in equity), while disbursements reached \$21 million (\$14.6 million in loans and \$6.4 in equity).

3.22 The analysis of the 20 projects approved by MIDB through September 30, 1979, and for which detailed information is available, shows that about 20% of MIDB's financing has gone for projects in tourism and about 15% to the construction sector, mainly building materials industries, and the remainder to textile, engineering, food and other industries. About half of the projects financed are located in the Greater Cairo area, while the remainder are distributed among other regions. MIDB's financing has averaged 11% of the projects' total cost, and covers part of the projects' foreign exchange requirement for imports of equipment and sometimes working capital. Of the 20

projects of a total cost of \$290 million, 11 have foreign participation in equity and/or technical know-how (against fees or royalties). Eleven projects are estimated to export 20% or more of their respective output. Overall, these 20 projects financed will add about 5,500 jobs. Their estimated financial rates of return range from 10% (hotel co.) to 40% (agro-industries), but fluctuate mostly around 20%.

3.23 MIDB also extends short-term facilities to its clients, and the financing agreements for its long-term loans and equity investments specify that all foreign exchange transactions of the companies shall be undertaken through MIDB. MIDB's short-term loan portfolio amounted to \$6.2 million as of December 31, 1979, which is small in comparison to its total short-term resources (para. 3.26). The remainder of these resources are invested by MIDB at a small spread (at floating interest rates) in the Euro-dollar market. MIDB's operations also include guarantees of loans and credits from other institutions to its clients; the guarantee portfolio is discussed in para. 3.28.

3.24 MIDB cannot lend in local currency, but this has not so far constrained its operations and is unlikely to prove a constraint in the foreseeable future. MIDB has been successful in mobilizing local resources for its projects (clients), when required, primarily from its Egyptian shareholders: Bank of Alexandria and Misr Insurance Company. Mobilization of both local and foreign exchange resources for its projects, in addition to its own financing, is an important objective of MIDB that it has been carrying out successfully.

H. Resource Position

3.25 MIDB's resource position as of December 31, 1979 is summarized below:

	-----in \$'000-----	
	<u>Long-Term</u>	<u>Short-Term</u>
<u>Resources</u>		
Equity, and retained earnings	30,505	-
Deposits and current accounts	-	142,353
Total Resources	<u>30,505</u>	<u>142,353</u>
<u>Applications</u>		
Loans outstanding	13,712	6,217
Equity investments	6,378	-
Less: provisions for investment risks	(325)	-
Net fixed assets	<u>538</u>	<u>-</u>
Total Applications	<u>20,303</u>	<u>6,217</u>
<u>Undisbursed Resources</u>	10,202	136,136
Less: Undisbursed Commitments	8,931	-
<u>Uncommitted Resources</u>	1,271	136,136

3.26 The long-term resources, consisting of around \$30.5 million in equity (including the paid-up share capital of \$25 million of which \$1.25 million due from IMDBI in September 1979, was actually paid in February 1980), were almost fully committed as of December 31, 1979. Additional long-term resources are urgently needed (para. 3.36). Short-term resources include deposits from banks and MIDB's customers amounting to \$142.4 million of which \$131.4 million are in term deposits. These deposits are for terms ranging up to 6 months and carry interest rates marginally below those in the Euro-dollar market. No interest is paid by MIDB on call and current accounts.

I. Quality of Portfolio and Audit

3.27 MIDB's portfolio as of December 31, 1979 consisted of about \$6.4 million in equity investment, \$13.7 million in long-term loans and \$6.2 million in short-term loans. Ten out of the 17 long-term loans in MIDB's portfolio are still in their grace period. There are no arrears on payments of interest or principal and this portfolio seems sound. No provisions had been made through 1977 for possible losses on the portfolio, but as of 1978 MIDB started setting aside annual provisions of 1% of the long-term loans and equity investments outstanding with a target to build up provisions to reach 5% of such portfolio. Additional provisions are made against short-term loans and held at 1% of outstanding short-term loans. This provision policy is satisfactory. MIDB's accounts are audited by an auditor satisfactory to the Bank. (The same auditor is also DIB's current auditor.)

3.28 Outstanding guarantees and letters of credit extended by MIDB to other institutions amounted to \$74.1 million. Of this, long-term guarantees amounted to \$31.2 million, out of which \$27.1 million for a single client, Misr Iran Textile Co. (or MIRATEX), a joint venture between the Iranian and Egyptian Governments; the amount includes a guarantee for an Iranian Government loan of \$23.8 million. MIDB assumed this excessive financial exposure considering the risk of loss to it to be minimal given the Iranian Government's interest in both MIRATEX and MIDB. Nevertheless, MIDB is reducing its overall financial exposure in the project (including a loan of \$0.7 million and the guarantees) to around \$6 million, in line with its policy to restrict its exposure in any single firm to 15% of its subscribed capital. MIDB has already secured a counter guarantee from BOA for \$10 million of the \$23.8 million Iranian loan to the project guaranteed by MIDB, and a counter guarantee for another \$12 million of the loan is being finalized which will achieve the desired reduction.

J. Financial Performance and Position

3.29 MIDB's financial performance, since it started operations in mid-1975, has been satisfactory. Its net income increased from about \$1.8 million in 1976 ^{1/} to \$3.9 million in 1979. Net income as a percentage of average net worth increased from 8.7% in 1976 to 15.5% in 1979. MIDB's income is exempt from taxes until 1980. As a percentage of average total assets, income before interest (and taxes) was 6.5 and 10.9, respectively, and administrative expenses were 1.6 and 1.1, respectively, in 1976 and 1979. The latter ratios indicate increasingly efficient operations. Shareholders were paid a dividend of 5% for 1976 and 6.5% for 1977 and 7.2% for 1978 (about 55%-60% payout ratio), and a dividend of around 8% is proposed for 1979 (about 45% payout ratio).

3.30 MIDB's spread on the placement of its short-term resources and placement of its equity resources (unused for fixed assets, loans and investments) as well as its fees on banking services provided most of MIDB's income through 1979. The interest income on the small long-term loan portfolio accounted for less than 7% of MIDB's total income in 1979, while the equity investments (in projects still under construction) have yet to yield any dividends. Since long-term loans have so far been made out of MIDB's equity resources, the spread realized on such lending has been equal to the interest rate charged by MIDB on these loans.

3.31 Total assets as of December 31, 1979 amounted to \$176.5 million funded by equity and customers' deposits. Apart from the loan and equity portfolio of about \$20 million, its assets were mainly in the form of deposits and securities (redeemable certificates of deposit) with local and foreign banks. Contingent assets and liabilities, mostly in guarantees amounted to

^{1/} This actually covers the first eighteen months of operations through December 31, 1976.

\$74.7 million. The (long-term) debt/equity ratio (debt here defined to include long-term guarantees) was less than 1:1 thus leaving ample room for borrowings before MIDB reaches its 4:1 debt/equity limitation.

K. Projections of MIDB's Operations and Finances

3.32 MIDB's operational and financial projections for 1980-1984 are based on a pipeline of projects and on the expectations for MIDB operations in light of industrial investment prospects. Account is also taken of MIDB's appraisal and supervision capacity and staff development plans. Detailed assumptions for MIDB's operational and financial projections are available in the Project File (see Annex 1). In line with its objectives and strategy MIDB will concentrate on promotion and financing of medium- and larger-scale industrial projects in the private sector. Sectorally, MIDB will give priority to construction and capital goods industries and export oriented projects which are in line with economic priorities and growth potential.

Table 1: LOAN AND EQUITY OPERATIONS: ACTUAL AND PROJECTED
(US\$ '000)

	<u>Actual</u>				<u>Projected</u>				
	1976	1977	1978	1979	1980	1981	1982	1983	1984
<u>Long-Term Loans</u>									
Approvals	5,267	7,774	4,737	11,222	19,538	21,361	26,701	33,376	41,720
Commitments	-	6,517	5,123	8,060	20,707	22,614	25,099	31,373	39,217
Disbursements	-	1,637	5,908	7,078	11,384	17,037	22,638	26,105	32,314
Repayments	-	-	109	801	1,409	6,772	3,498	6,286	9,390
<u>Equity Investments</u>									
Approvals	3,105	2,368	4,238	3,578	4,000	4,000	4,000	4,000	4,000
Commitments	3,105	2,368	4,238	578	7,000	4,000	4,000	4,000	4,000
Disbursements	491	2,094	2,394	1,398	7,304	6,300	4,000	4,000	4,000
<u>Short-Term Loans</u>									
Outstanding at end of Year	-	1,614	1,645	6,217	9,342	13,184	18,969	24,223	29,954

Table 2 - INCOME STATEMENT (US '000)

	Actual				Projected				
	1976	1977	1978	1979	1980	1981	1982	1983	1984
Income									
Interest and Other Charges on:									
Long-Term Loans	-	185	643	1,419	2,787	4,598	7,286	10,754	14,407
Short-Term Loans and Placements	2,866	4,259	8,475	15,017	21,762	22,473	23,488	24,538	26,865
Dividends on Equity Investments	-	-	-	6	27	900	845	903	1,603
Banking Fees and Other	121	553	806	972	1,215	1,519	1,898	2,373	2,966
Other Income	8	483	433	1,263	670	737	810	891	981
Gross Income	<u>2,995</u>	<u>5,380</u>	<u>10,357</u>	<u>18,677</u>	<u>26,461</u>	<u>30,227</u>	<u>34,327</u>	<u>39,459</u>	<u>46,822</u>
Expenses									
Financial Expenses:									
Interest on Deposits and Borrowings	564	2,384	6,055	12,788	20,112	22,482	25,607	28,732	31,857
Other	-	-	183	-	-	-	-	-	-
Administrative Expenses	600	754	1,335	1,722	2,085	2,212	2,875	3,459	4,171
Total Expenses	<u>1,164</u>	<u>3,138</u>	<u>7,573</u>	<u>14,510</u>	<u>22,197</u>	<u>24,694</u>	<u>28,482</u>	<u>32,191</u>	<u>36,028</u>
Operating Income	1,831	2,242	2,967	4,167	4,264	5,533	5,845	7,268	10,794
Less: Provisions on Portfolio	-	-	(141)	(243)	(405)	(566)	(817)	(1,021)	(1,255)
Profit before Taxes	1,772	2,073	2,643	3,924	3,859	4,967	5,028	6,247	9,539
Less: Income Taxes	-	-	-	-	-	1,627	1,674	2,138	3,174
Net Profit after Taxes	<u>1,772</u>	<u>2,073</u>	<u>2,643</u>	<u>3,924</u>	<u>3,859</u>	<u>3,340</u>	<u>3,354</u>	<u>4,109</u>	<u>6,365</u>

Table 3 - BALANCE SHEET (US '000)

	Actual				Projected				
	1976	1977	1978	1979	1980	1981	1982	1983	1984
Assets									
Cash, Banks and Correspondents	50,797	88,264	101,441	130,084	124,460	129,474	128,713	132,619	151,248
Portfolio:									
Investments in Securities	-	-	7,695	15,738	30,000	30,000	30,000	30,000	30,000
Short-Term Loans	-	1,614	1,645	6,217	9,342	13,184	18,969	24,223	29,954
Long-Term Loans	-	1,637	7,435	13,712	23,687	33,952	53,092	72,911	95,835
Equity Investments	491	2,585	4,980	6,378	13,682	18,782	22,782	23,982	23,982
Less: Provisions for Losses	-	-	(141)	(384)	(789)	(1,355)	(2,172)	(3,193)	(4,448)
Net Fixed Assets	440	497	518	538	633	5,563	5,453	5,291	5,063
Other Assets	526	1,129	3,366	4,180	5,197	6,214	7,231	8,248	9,265
Total Assets	<u>52,254</u>	<u>95,726</u>	<u>126,939</u>	<u>176,463</u>	<u>206,212</u>	<u>235,814</u>	<u>264,068</u>	<u>294,081</u>	<u>340,899</u>
Liabilities									
Share Capital	20,000	20,000	20,000	23,750	25,000	25,000	25,000	25,000	40,000
Reserves and Unappropriated									
Earnings	712	1,350	2,493	4,758	6,415	7,606	8,964	11,073	14,937
Total Equity	<u>20,712</u>	<u>21,350</u>	<u>22,493</u>	<u>28,508</u>	<u>31,415</u>	<u>32,606</u>	<u>33,964</u>	<u>36,073</u>	<u>54,937</u>
Short-Term Deposits	30,074	71,443	100,840	142,353	160,509	167,736	171,982	178,651	199,255
Long-Term Borrowings	-	-	-	-	6,843	24,618	45,371	63,702	68,098
Administrative Provisions	60	223	448	977	963	1,056	1,173	1,320	1,504
Dividends and Other Current									
Liabilities	1,408	2,710	3,158	4,625	6,482	9,798	11,578	14,335	17,105
Total Liabilities	<u>52,254</u>	<u>95,726</u>	<u>126,939</u>	<u>176,463</u>	<u>206,212</u>	<u>235,814</u>	<u>264,068</u>	<u>294,081</u>	<u>340,899</u>

Projected Operations

3.33 The project pipeline of MIDB as of September 30, 1979 consisted of 40 projects in different industries including construction and capital goods which are assigned priority under the proposed loan. Of these, 30 projects are estimated to have individual total costs of less than \$25 million which might require some \$30 million in MIDB financing. The estimated project costs of ten exceed \$25 million each; these may require MIDB financing of some \$30-40 million. As is normal, some of these projects may not be financed by MIDB and additional projects would be added to the pipeline. The current pipeline provides a satisfactory basis for the projected level of MIDB operations, for which the constraint, if any, would be the availability of long-term resources to MIDB.

3.34 Approvals of long-term loans and equity investments were slowed down during most of 1978 and 1979 due to resource constraints but have picked up since the increase in share capital in September 1979. MIDB's long-term loan approvals are estimated to reach \$19.5 million in 1980, \$21.4 million in 1981, and grow at an annual rate of 25% thereafter. Annual approvals of equity investments are projected at \$4 million through 1984. The volume of equity investments is constrained by MIDB's policy that its equity portfolio not exceed its own equity, as well as by the adverse effect of equity investments on MIDB's profitability in the initial years, since such investments are not expected to yield dividends for the first five years or so. The short-term loan portfolio is projected to be maintained at about 25% of the long-term loan and equity portfolio. A summary of the projected operations (approvals, commitments, disbursement and repayments) is provided in Table 1. In addition to its own financing, MIDB expects to continue to mobilize resources for its projects from other financial institutions.

Resource Requirements and Mobilization

3.35 As of December 31, 1979 MIDB had fully committed all its long-term resources (para. 3.25). MIDB has been authorized by its Board (in order not to curtail its lending operations) to use its short-term resources for long-term investments (loans and equity participations), until additional long-term resources, including the proposed loan, can be mobilized. MIDB's policy statement states that such use of short-term resources would be permissible only against a commitment from the shareholders to provide an equivalent amount of stand-by long-term resources. Accordingly, the ceiling for such operations is currently \$15 million, which is the amount of MIDB's unpaid share capital payable on call by MIDB's Board (para. 3.02). Even though this additional capital can be paid in by September 1984 according to Egyptian laws, MIDB has agreed that the capital increase would be paid in earlier should MIDB encounter liquidity problems. To this end, MIDB shall adopt, by December 31, 1980, procedures whereby MIDB's shareholders shall be required to pay in such portion of MIDB's authorized share capital as shall be required to ensure that the amount of short-term resources used for long-term loans and investments does not exceed, at any time for more than a one month period, 50% of short-term deposits with MIDB.

3.36 Through mid-1982, the estimated period for commitments under the proposed loan, MIDB needs additional long-term resources of about \$60 million on a commitment basis (net of internal cash generation). The proposed Bank loan of \$30 million would cover 50% of this requirement, \$15 million will be covered by MIDB's short-term resources backed up by an equivalent amount of share capital increase on call, leaving a gap of \$15 million. MIDB has a preliminary commitment from the Arab African Bank to underwrite a \$10 million issue of Certificate of Deposits of 3-5 year maturity at an interest rate to MIDB of 1/4% p.a. over six-month LIBOR. In addition, MIDB can reasonably expect to participate as an intermediary in onlending a proposed \$30 million USAID "Private Investment Encouragement Fund" for financing medium size industries. MIDB will also explore other long-term sources of finance. The Bank feels that MIDB can mobilize the additional resources it needs through mid-1982 and, with the expected continued Government support, also for the longer-term.

Projected Financial Performance and Position

3.37 Projections of MIDB's operations show a satisfactory profitability over the period 1980-1984. Net profit before taxes would increase from an estimated \$3.9 million in 1980 to \$9.5 million in 1984. However, a dip will show in the net profit in 1981 and 1982 when MIDB's five-year tax exemption regime will end, while MIDB's equity participations would not have fully started yielding dividends. Net income as percentage of average net worth would decrease from 12.6 in 1980 to 10 in 1982, to increase to 14 in 1984. Income before interest and taxes as percentage of average total assets is expected to be around 12.5 between 1980 and 1984 while administrative expenses as percentage of average total assets would be around 1.1. Dividends to shareholders are projected to be around 8% during the period.

3.38 MIDB's projections assume an average spread of 2.0% on long-term loans and short-term loans and 0.5% on other short-term placements over the cost of borrowings and short-term deposits (para. 2.11) and this is reasonable. The contribution of short-term (commercial banking) operations to MIDB's gross income is expected to remain substantial over the period projected but it would decrease as a percentage of total gross income from an estimated 90% in 1980 to 65% in 1984.

3.39 Over the 1980-1984 period, MIDB's total assets are expected to increase from \$206 million to \$341 million. The equity portfolio is expected to increase from \$13.7 million to \$24 million and the long-term loan portfolio from \$23.7 million to \$95.8 million, while short-term loans outstanding are expected to increase from \$9.3 million to \$29.9 million over the same period. Provisions would build up by 1983 to a satisfactory level of 4% of the long-term loan and equity portfolio and 1% of the short-term loan portfolio. The debt/equity ratio (assuming that only 25% of the increase in the subscribed share capital from \$20 million to \$40 million is paid in) would reach 2.6:1 in 1983 and around 2:1 after full payment of the share capital increase due in 1984 well below the maximum limit of 4:1 allowed by MIDB's policy and acceptable to the Bank. The above projections show a satisfactory development of MIDB's financial position.

IV. THE PROJECT

A. Background

4.01 Bank lending through DFCs forms an important part of the Bank's strategy of providing assistance to the industrial sector (para. 1.25). The initial request for a Bank loan to MIDB was conveyed to the Bank by the Government in September 1977. Bank missions visited Egypt in January, March and July, 1978 for preparation and appraisal of the project and subsequently for updating purposes. Processing of the project was delayed primarily due to uncertainty about Iranian participation in the capital and future development of MIDB (para. 3.02). The Iranian shareholders have reaffirmed to their Egyptian partners their continued interest in MIDB and their intention to pursue their interests in a business-like manner free of political incumbrances.

B. Objectives

4.02 The objectives of the proposed Bank loan to MIDB would be to continue and expand on the support, begun with DIB, to build up an adequate institutional capacity in Egypt for the promotion, financing and other assistance to the private industrial sector in Egypt. The project would support MIDB in the fulfillment of its role of promoting and financing medium and larger industries in the private sector in Egypt with special emphasis on providing assistance to the construction and capital goods manufacturing industries, as well as export oriented industries. (The priorities for these industries have been established in paras. 1.11-1.23.) Through its association with MIDB, the Bank would also contribute to MIDB's institution building and training efforts. Although MIDB is a well run organization its management is keen on obtaining the Bank's guidance and assistance in strengthening the institution and to establish a good reputation in the international financial markets for future resource mobilization. Bank missions have already made a substantial contribution in helping MIDB develop its policies, operational and lending strategies and plans. Assistance in these and other institutional aspects is expected to continue to be provided by the Bank through supervision missions. The Bank will also assist MIDB in arranging suitable training for its staff at EDI and other institutions.

C. Scope

4.03 The proposed loan will finance industrial projects--defined to include projects in mining, manufacturing, processing and related service activities, as well as projects which add to capacity or improve the quality of the construction contracting industry 1/--in Egypt. The financing in the

1/ This definition includes agro-industries but excludes tourism industries.

form of MIDB loans and/or equity participations will be confined to projects in the private sector in Egypt which includes also companies with public sector shareholding established under Law 43/1974. As a matter of policy, however, MIDB does not finance companies in which public sector shareholding is in the majority. Projects in all of the above categories will have to show economic rates of return in excess of 12%. Only the foreign exchange expenditures of the projects will be financed with the loan proceeds made available by MIDB either in the form of sub-loans or equity investments.

D. Loan Amount and Allocation

4.04 A Bank loan of \$30 million is proposed which would cover about 50% of MIDB's resource requirements through mid-1982 (para. 3.36), the period of commitment of the proposed loan. 1/ The allocation of the loan is proposed as follows:

- (a) a minimum of 25% of the loan amount for building materials and construction contracting industries;
- (b) a minimum of 25% for capital goods manufacturing industries;
- (c) a minimum of 25% for industries that are estimated to export at least 20% of the project's output in value, excluding projects qualifying under (a) or (b) above; and
- (d) the remaining for other economically viable industrial projects.

This allocation is in line with the loan objective of placing special emphasis on financing projects that are export oriented or in construction and capital goods manufacturing industries. The allocation also is practical from the point of view of implementation by MIDB given its project pipeline and the potential for MIDB promotion and financing of financially and economically viable projects in each of these categories.

4.05 The export potential of export-oriented projects will have to be demonstrated in MIDB's appraisal reports on the basis of past export performance, export orders and/or an appropriate market study, as well as steps taken by the project sponsors to develop effective marketing channels. MIDB's appraisal would also give due regard to the domestic value added and the net foreign exchange earnings of such projects. The export target for these projects would be specified in MIDB's sub-loan agreements with the sub-borrowers and the export performance would be closely monitored by MIDB to ensure that the sub-borrowers are making their best effort to export. MIDB's reporting requirements to the Bank will include a semi-annual report on the performance of these projects.

1/ Assuming the Bank loan will become effective around mid-1980.

E. Main Features

4.06 Lending Arrangement and Onlending Terms. Because legal restrictions preclude a Government guarantee to a private institution such as MIDB, the loan will be made to the Government which will onlend the funds to MIDB at an interest rate exceeding that charged by the Bank by 0.5%, under a subsidiary loan agreement satisfactory to the Bank. MIDB's onlending interest rate will be not less than 11% providing it with a minimum 2-1/4% spread, which is satisfactory. The subborrowers will assume the foreign exchange risk and commitment charge for Bank funds. MIDB will review with the Bank at least annually its interest rate policy in light of prevailing market conditions with a view to determining the most appropriate interest rates to be applied by MIDB to its lending operations.

4.07 Size of Sub-Projects: The size of sub-projects for Bank financing would generally range between \$5 million and \$25 million in total cost which is the normal target group for MIDB financing. However, projects of smaller size and, exceptionally, of larger size may also be financed. Bank financing would normally be confined to individual projects not exceeding \$25 million in total cost unless MIDB's promotional role in putting together a project of a larger size can clearly be demonstrated (when financing large projects MIDB often plays an instrumental role in mobilizing resources from other financial institutions). In these exceptional cases--which are not expected to number more than two or three--the Bank would review the project in greater depth than is normal for DFC sub-projects and would reserve the right to participate in the appraisal process when and to the extent deemed appropriate by the Bank (including review of feasibility studies, field appraisal missions, etc.). MIDB, therefore, would advise the Bank of such projects at an early stage of project appraisal.

4.08 Maximum Financing for a Sub-project: To ensure that the Bank loan is used to finance a fair number of sub-projects, and not just a few large sub-projects, the amount of the loan proceeds approved for a sub-project (through a sub-loan and/or equity investment) would normally be limited to a maximum of \$3 million.

4.09 Free Limit: The Bank's normal review of a reasonable number of sub-projects (outside of the special procedure for large sub-projects mentioned above) can assist in strengthening the appraisal capability of MIDB, particularly in economic analysis (para. 3.15). However, a review by the Bank is not considered essential for all of the sub-projects to be financed since the quality of MIDB's project appraisal is generally good. The amount of MIDB financing of projects of a given size can vary substantially from case to case. Therefore, it is appropriate to set the free limit on both the sub-project size and the subloan size. Keeping in mind the above and the size of projects in MIDB's project pipeline, it has been set that individual sub-projects whose total cost do not exceed \$8.0 million and for which the sub-loan size does not exceed \$1.0 million would qualify as free limit sub-projects. However, since MIDB is a first time borrower, it has been agreed

that the first two sub-projects, irrespective of their size, would be submitted for the Bank's review and approval under the procedure normal for projects above the free limit.

4.10 Based on MIDB's project pipeline and its estimated financing of individual projects as well as on the free limit and the maximum Bank financing set above, it is estimated that the Bank loan will finance about 20-25 sub-projects including some 10-12 (accounting for 60% or more of the loan) above the free limit.

4.11 Repayment Period of Sub-Loans: Sub-loans may be made for a maximum period of 15 years including grace periods as deemed appropriate for the sub-projects by MIDB. (In practice the repayment term of MIDB's loans rarely exceeds 10 years including about 2 years grace.) Loan proceeds approved for MIDB's equity investments (estimated to total less than 20% of the loan) may be repaid by MIDB over 15 years including up to 5 years of grace since such investments generally do not yield dividends to MIDB in the first five years; also, it may be noted that in such cases the repayment obligation including the foreign exchange risk rests with MIDB.

4.12 Amortization of the Bank Loan: This would be a composite of the amortization of the individual sub-loans and investments, debt service of the loan by the Government coinciding with that by MIDB to the Government. With the given commitment period for sub-projects of about 2 years after signature of the proposed loan, the final maturity of the loan will thus fall within about 17 years.

4.13 Procurement and Disbursement: For bank financed sub-projects, individual procurement packages exceeding \$5 million would require ICB consistent with the Bank's guidelines, otherwise procurement would be through international shopping with comparison of offers from more than one supplier. This is in accordance with MIDB's procurement policy (para. 3.18). MIDB will submit for the Bank's prior review and comment the tender documents and evaluation of bids for contracts requiring ICB to ensure that ICB procedures are followed in a satisfactory manner. Disbursements under the proposed loan will be made against standard documentation and are estimated as follows:

	-----\$ Million-----					
<u>Bank FY</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>
Annual	-	2.3	11.0	12.2	4.0	0.5
Cumulative	-	2.3	13.3	25.5	29.5	30.0

4.14 Other Features: The final date for submission of sub-projects is set to be December 31, 1982 and the closing date June 30, 1985. Other terms and conditions of the loan would follow those applicable to normal Bank loans to DFC.

F. Project/Loan Benefits and Risks

4.15 The proposed loan is a continuation of the efforts to develop adequate institutional capacity in Egypt to promote and finance the development of the private industrial sector which has received renewed Government support in recent years after almost two decades of neglect. The Bank's association with MIDB through the project will contribute to the strengthening of MIDB as an institution for assisting industrial development. With the Bank's financial support, MIDB will play an important role in promoting export based industries particularly joint ventures with foreign partners established under Law 43. The loan will also focus on the development of capital goods industries which are relatively underdeveloped in Egypt. Sub-projects in these industries, which are congruent to many of Egypt's comparative advantages, would assist in reorienting the engineering sector to increase the share of value added in output, diversify the domestic product mix, promote manufacture of intermediate components in the small scale sector through subcontracting arrangements and introduce intermediate technology appropriate to the scale of production and factor costs. The project will also assist in modernizing and increasing the capacity of the construction contracting industry (a critical bottleneck to economic development in Egypt) through MIDB promotion and financing of subprojects, particularly joint ventures with foreign partners that can introduce appropriate technologies and efficient management practices, in this sector.

4.16 Specific sub-projects to be financed under the Bank loan are not yet known (as is typical of DFC projects) and, therefore, it is not possible to forecast the estimated financial and economic rates of return (FRR and ERR) of the project. Some of the projects in MIDB's current pipeline of projects may be submitted for Bank financing but information on these is insufficient to estimate their FRR and ERR. However, all sub-projects would have to show a minimum ERR of 12%, and it is expected that the FRR would generally be higher.

4.17 Difficult political relations between Egypt and Iran pose a possible problem for the effective long-term development of MIDB given its 50:50 Iranian: Egyptian ownership, although the Iranian shareholders and the Egyptian Government have stated their support for MIDB. Continued support of the Egyptian Government, particularly for future resource mobilization by MIDB, is the more critical and was reaffirmed during negotiations.

4.18 The project risks relate also to the possibility that MIDB may not be able to utilize fully the proposed loan funds allocated for capital goods and export oriented projects. The domestic capital goods industry has been slow to develop in Egypt and is not yet well established. Domestic producers of capital goods will have to compete with established foreign imports (brand names) for the domestic market. Also, export prospects for Egyptian industry are not very favorable in the near term (paras. 1.12-1.13). Diligent promotion and financing of projects in these areas, however, should enable MIDB to meet the target allocation of the proposed loan.

V. AGREEMENTS REACHED AND RECOMMENDATION

5.01 During negotiations agreement was reached with the Government on the terms for onlending the proposed loan by the Government to MIDB, under a subsidiary loan agreement satisfactory to the Bank (para. 4.06), and these terms are incorporated in the draft Loan Agreement. Government support to MIDB in mobilizing long-term resources (para. 3.36) was also reconfirmed during negotiations.

5.02 During negotiations agreement was reached with MIDB on the following items which are incorporated in the draft Project Agreement between the Bank and MIDB:

- (a) allocation of the proposed loan and the criterion for export-oriented sub-projects (para. 4.04);
- (b) size of sub-projects (para. 4.07);
- (c) maximum financing for a sub-project (para. 4.08);
- (d) free limit (para. 4.09);
- (e) onlending terms from MIDB to sub-borrowers (paras. 4.06 and 4.11);
- (f) procurement under the loan (para. 4.13);
- (g) other loan features (para. 4.14);
- (h) MIDB Policy and Strategy Statements--any changes in the former would be subject to prior approval by the Bank (para. 3.11); and
- (i) payment of 75% of MIDB's capital increase (para. 3.35).

5.03 Based on the above agreements reached during negotiations and incorporated in the draft legal documents, a Bank loan of \$30 million is recommended to be made to the Government for onlending to MIDB.

ANNEX 1

SELECTED DOCUMENTS AND DATA AVAILABLE IN

THE PROJECT FILE

- A.1 Arab Republic of Egypt: Survey of Small Scale Industry (grey cover) - (1818-EGT) December 2, 1977.
- A.2 Six sub-sector studies:
 - Textile Industry, by Werner International Consultants (1976).
 - Food Industry (Study of 5 Sub-Sectors) by Arthur D. Little, Inc. (1977).
 - Pulp, Paper and Board Industry, by Stadler Hurter (1977).
 - Building Material and Ceramics, by Booz, Allen and Hamilton (1977).
 - Metallurgical Industry, by Atkins Planning (1978).
 - Engineering Industries, by P.E. International (1978).
- A.3 Ministry of Planning, The Five Year Plan 1978-1982 (in 7 vols.) (1977).
- A.4 Ministry of Housing and Reconstruction and UNDP Suez Canal Regional Plan, by Sores, Inc. (in 8 vols.) (1978).
- A.5 Legal Guide to Investment in Egypt, General Authority for Investment and Free Zones (1977).
- B.1 MIDB: Organization chart as of September 30, 1979
- B.2 MIDB: Policy and Strategy Statements
- B.3 MIDB: Board composition
- B.4 MIDB: Assumptions governing MIDB's Operational and Financial Projections (1980-1984)
- B.5 MIDB: Actual and Projected Operations and Financial Statements (1976-1984):
 - Loans and Equity Operations
 - Income Statements
 - Projected Sources and Applications of Funds
 - Balance Sheets
- B.6 MIDB: Projected Performance Indicators

OFFICE MEMORANDUM

TO: Distribution

FROM: ^{VK}Vijay K. Chaudhry, EMP

SUBJECT: EGYPT - Misr Iran Development Bank (MIDB)
Yellow Cover SAR Review Meeting

DATE: December 4, 1979

A meeting, chaired by Mr. El Darwish, will be held on Friday, December 7 at 3:30 p.m. in Room A-720 to discuss the MIDB Yellow Cover Staff Appraisal Report which was issued with Mr. Zaidan's memorandum of November 29, 1979.

Distribution:

Messrs. Dubey, Finzi (EMNVP)
Karaosmanoglu, Maiss, Ms. Schaeffer, Köpp, Zaborski (EMI)
Knox, El Darwish, Haynes, Hume, Jones, Coudol, Banerji, El Daher (EMP)
Rajagopalan (CPSVP), Tolbert (IDFD), Fuchs (IPD)
Chittleburg (EDC), Hassan (LEG), Hakim (CTR), Frank (CCM)

VKChaudhry:ak

Mr. Kipp

OFFICE MEMORANDUM

TO: Mr. A. Sani El Darwish, Assistant Director, EMP
FROM: George C. Zaidan, Division Chief, EMP
SUBJECT: EGYPT - Proposed Loan to
Misr Iran Development Bank (MIDB)
Draft President's and Yellow Cover
Staff Appraisal Reports

DATE: November 29, 1979

1. The draft President's Report (Parts III and IV) and Yellow Cover Staff Appraisal Report for the above project are attached for your review. Comments on the appraisal report may be passed on to Mr. Vijay Chaudhry (D-737, Ext. 7-6872).
2. The project was appraised in July/August 1978, and the Issues Paper was distributed on August 21, 1978. The essential features of the project outlined in the attached reports are in line with those accepted in the Decision Memorandum of September 7, 1978 as updated in Mr. Chaudhry's Back-to-Office Report of November 2, 1979.
3. MIDB is owned equally by four Egyptian and Iranian public sector institutions, but itself it is a private institution established under Law 43 in Egypt. The difficult political relations between Iran and Egypt pose a possible risk for effective long-term development of MIDB (as a joint Iranian/Egyptian venture) and for implementation of the proposed project, although the Iranian shareholders (who represent their Government) have pledged support for the institution regardless of the political developments. The mixed ownership structure and political developments have caused delays in the resolution of outstanding issues for this project. While solutions to these issues, as discussed below, have now been found and are acceptable, their implementation has to be completed by negotiations.

Lending Arrangement for the Proposed Loan

4. For legal reasons the Government can not guarantee a Bank loan to MIDB (or to other private/joint venture companies established under Law 43). The loan will be made to the Government and onlent to MIDB. We have assumed in the attached reports that these interest rates will be around 8% and 9% respectively. The Government feels that to have parliamentary approval of the loan to MIDB, the Government must be allowed a reasonable spread; but this requirement has not yet been quantified by the Government. While a spread for the Government should be acceptable to the Bank in principle, it should not result in squeezing MIDB's needed 2% spread. We are assuming an onlending rate by MIDB to its sub-borrowers of 11%, which is considered appropriate given current market conditions and would entail

a real positive cost to sub-borrowers. ^{1/} Market conditions should be reviewed again at the time of negotiations and the onlending rate and spread for the Government fixed at that time. The latter would also depend on the Bank's interest rate.

MIDB's Share Capital Increase

5. The existing shareholders of MIDB subscribed equally in the capital increase in July 1979 from \$20 million to \$40 million. Payment of the initial 25% of the increase was due by September 14, 1979 and has been made by all but the Industrial and Mining Development Bank of Iran (IMDBI). The delay in payment by IMDBI (of \$1.25 million) is reportedly due to administrative problems. In the event that IMDBI does not make the payment, the shares can be sold to other parties by a decision of MIDB's Board, which is scheduled to meet on December 14, 1979. At issue here is not so much the additional resources for MIDB but confirmation of a clear ownership structure. Both maintaining the status quo or a reduction of Iranian ownership would be satisfactory to the Bank provided changes, if any, in MIDB's management and policies -- as a result of change in ownership -- are satisfactory to the Bank. Such changes should be assessed by the Bank prior to negotiations of the proposed loan. Hence, payment by IMDBI or by a substitute party of the initial payment of \$1.25 million (against a subscription of \$5 million) is proposed as a condition of negotiations. We would keep this matter under constant surveillance and review the situation in the next two months should developments (that can not now be forecast) suggest a later date for resolution of this issue. As a bottom line, however, the ownership issue must be settled before we present the loan to our Board.

MIDB's Exposure in MIRATEX Project

6. MIDB has already secured a counter guarantee from BOA for \$10 million of the \$23.8 million Iranian loan to the project guaranteed by MIDB. The National Bank has agreed to counter guarantee the remaining part of the loan subject to an increase in the share capital of MIRATEX (to cover cost overruns). Such an increase has been approved by both the Egyptian and Iranian shareholders of MIRATEX and the payment is expected by January 1980. A counter guarantee by National Bank of \$12 million, planned by MIDB, will reduce MIDB's overall financial exposure in the project (including its direct loan of \$0.7 million and around \$3.6 million equivalent in guarantee

^{1/} It should be noted that the 11% onlending rate of MIDB, with the full foreign exchange risk to be borne by the sub-borrowers, is comparable to the effective cost of Bank funds to sub-borrowers under the proposed fourth loan to the Development Industrial Bank (DIB), which is currently being processed. DIB will onlend Bank funds at 11-12%, but its requirement that sub-borrowers deposit with it 10% of the loan amount free of interest raises the effective cost to 12-13.5%. However, DIB clients would take the exchange risk only between the US dollar and the Egyptian pound. The remaining exchange risk on Bank funds will be assumed by the Government. This is justified on grounds that DIB's clients are smaller and less sophisticated than MIDB's clients to assume the full exchange risk. The higher exchange risk for MIDB clients would compensate for the 1-1.5% lower effective interest rate to be charged to them compared to DIB clients.

November 29, 1979

of a Swiss credit) to around \$6 million, as agreed with the Bank. Confirmation of the counter guarantee from the National Bank (for \$12 million) should be obtained prior to negotiations. This issue, however, is not as critical as the ownership issue and some flexibility may be called for if the solution is in hand by the time of negotiations but needs more time to be implemented. This situation may arise, for instance, if the Egyptian shareholders of MIRATEX take up the entire capital increase of MIRATEX, as has been indicated by them to MIDB, in the event the Iranians do not participate in the capital increase. In this case we may suggest that the conclusion of National Bank's counter guarantee to MIDB be made a condition of loan effectiveness.

7. Further processing of documents is scheduled as follows:

- | | |
|--|-------------------|
| a) Project Department Director's review: | December 7, 1979 |
| b) Change List: | December 17, 1979 |
| c) Documents to Program Director: | December 28, 1979 |
| d) Documents to Regional Vice President: | January 9, 1980 |
| e) Documents to Loan Committee: | January 15, 1980 |

Attachments

Cleared with: Mr. Köpp

cc: Messrs. Dubey, Finzi (EMNVP)

Karaosmanoglu, Maiss, Ms. Schaeffer, Köpp (5) (EM1)
Knox, Haynes, Hume, Jones, Coudol, Banerji, El Daher (EMP)
Rajagopalan (8) (CPSVP), Tolbert (5) (IDFD), Fuchs (2) (IPD)
Chittleburg (EDC), Hassan (2) (LEG), Hakim (CTR), Frank (CCM)
Reports Desk (3), EMENA Information Center

VLC
VKChaudhry:ak

MINUTES

ARAB REPUBLIC OF EGYPT

MISR IRAN DEVELOPMENT BANK PROJECT

Agreed Minutes, March 28, 1980

During negotiations for the proposed loan for the above project, held in Washington from March 24 to 28, 1980, between representatives of the Government of the Arab Republic of Egypt, the Misr Iran Development Bank (MIDB) and the Bank, understanding was reached on the following matters:

Counter Guarantee for MIRATEX Project

1. Mr. Fouad Sultan, Managing Director of MIDB, explained that he had brought to Washington two commitments for counter guarantees for \$12 million for MIDB's exposure in the MIRATEX project, one from Bank of Alexandria's (BOA) management and the other from the National Bank of Egypt's management. Both are subject to approval by their respective boards; the latter is also contingent upon payment by MIRATEX's shareholders of the capital increase. (The Iranian shareholders of MIRATEX have completed their payment but the Egyptians so far have paid only 25 percent. The timing of their final payment depends upon budgetary allocations). The Bank explained that a conditional counter guarantee was not satisfactory, and Mr. Sultan said that he would either have the condition attached to the National Bank guarantee deleted or would accept the BOA counter guarantee. Since he has been negotiating with the National Bank for some time, he explained, he would approach them first. In any case, he would telex the Bank by April 10, 1980 as to which counter guarantee has been agreed upon. The finalization of the counter guarantee, whether from National or BOA, would take place by April 24, 1980. The Bank explained that should the counter guarantee not be finalized by this time, it would be forced to postpone presentation of the proposed loan to the Bank's Executive Directors, now scheduled for May 13, 1980, to a date after July 1, 1980.

Prepayment

2. The Bank delegation explained and confirmed that the fact that certain percentages are specified in Schedule 1 to the draft loan agreement for the project as the premiums payable on prepayment pursuant to Section 3.05(b) of the General Conditions, does not change the Bank's intention to consider sympathetically, in the light of all circumstances then existing, any request of the Borrower for a waiver of such premium payments as stated in Section 3.05(c) of the General Conditions. Moreover, in normal practice the Bank does not charge such premiums except in exceptional circumstances when the loan is sold to third parties. This is highly unlikely in the case of DFC loans which have flexible amortization arrangements.

CG JK 207

Definition of Industry and Capital Goods

3. For the purpose of the Loan (Section 3.01 of the Loan Agreement) it was agreed that industry is defined as mining, manufacturing, processing and related service activities, as well as construction contracting. This definition includes agro-industries but excludes tourism projects.

4. With reference to Section 2.02 (a)(ii) of the Project Agreement, capital goods are defined as engineering industry products which are utilized for fixed investments in industry and other sectors and generally include heavy electrical and non-electrical machinery, fabricated metal items and some transport equipment; consumer durables are excluded but intermediate components entering into assembly of capital goods are included in this definition.

Resource Mobilization

5. Mr. Sultan confirmed that over the period of commitment of the Bank loan, MIDB would have a projected resource gap of \$30 million, excluding the proposed Bank loan. \$15 million will be covered by MIDB's short-term resources backed up by an equivalent amount of share capital increase on call, leaving a gap of \$15 million. MIDB has a preliminary commitment from the Arab African Bank to underwrite a \$10 million issue of Certificate of Deposits of 3-5 year maturity at an interest rate to MIDB of $\frac{1}{4}$ percent per annum over six-month LIBOR. In addition, MIDB can reasonably expect to participate as an intermediary in onlending a proposed \$30 million USAID "Private Investment Encouragement Fund" for financing medium size industries. MIDB is also exploring other long-term sources of finance. It is expected that MIDB will be able to mobilize the additional needed resources through mid-1982 and also for the longer term. Taking into consideration the role of MIDB in promoting private sector economic development, Mr. Koraiem, Under-secretary, Ministry of Economy, Foreign Trade and Economic Development, reaffirmed the Government's support to MIDB and said the Government would consider favourably assistance to MIDB in augmenting its long-term resources.

Repayment Period of Subloans and Investments

6. With reference to Section 3.01(b) of the Loan Agreement and Section 2.06(b) of the Project Agreement, the Bank explained that the repayment period for individual subloans and investments including the period of grace, may extend up to 15 years subject, however, to the last maturity of any subloan or investment falling within 17 years from the date of signing of the Bank loan. Grace periods for subloans would be as appropriate for the individual investment projects and would normally be about two years. For Bank funds utilized for MIDB's investments, the grace period for MIDB's repayment may extend up to five years since such investments generally are not expected to yield dividends to MIDB for the first five years.

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MIDB Financing of Individual Investment Projects

7. It was clarified that the ceiling of \$3.0 million on the utilization of Bank funds for an individual investment project (Section 2.02(a(iv)) of the Project Agreement) does not preclude additional MIDB financing for that project from its other resources. The maximum financial exposure by MIDB in an individual investment project is covered by MIDB's Policy Statement.

8. With reference to Section 2.03(c) of the Project Agreement, it was confirmed that Bank financing of individual investment projects should normally be confined to those not exceeding \$25 million in total cost unless MIDB's promotional role in putting together a project of a larger size can clearly be demonstrated to the satisfaction of the Bank.

Use of Short-Term Resources

9. MIDB's Policy Statement specifies: "In principle long term loans and equity participations shall be financed only from long term resources. Exceptionally, however, short term resources may be used for the purpose but only to the extent that the amount of short term resources so utilized is covered by shareholders commitments to provide additional long term resources." In this context, it was agreed that utilization refers to MIDB's commitments. However, with reference to Section 3.09 of the Project Agreement, which is intended to safeguard MIDB's liquidity, the use of short-term resources refers to amounts disbursed and outstanding. With regard to the triggering mechanism for payment of MIDB's share capital to safeguard its liquidity referred to in this Section, Mr. Sultan explained that he would seek approval of MIDB's Board during its end-April meeting. At the same time, he would also seek its approval that the management of MIDB would be authorized by the Board to call for the payment of capital as and when needed without further approval of the Board.

The Bank's Prepayment Penalty Charges

10. The Government and MIDB wished it to be recorded that they consider the Bank's prepayment penalty charges unusually high as compared with those charged by the international banking community.

Reporting Requirements

11. With reference to Section 2.09(a) of the Project Agreement, concerning the reporting requirements, it was agreed that the information and statements listed below would be submitted by MIDB to the Bank at the following intervals:

Handwritten signatures:
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Quarterly (to be submitted within two months of the end of the period)

1. Status of Operations for loans, equity investments and guarantees (approvals, commitments, disbursements, repayments)
2. Updated Project Pipeline

Semi-Annually (to be submitted within two months of the end of the period)

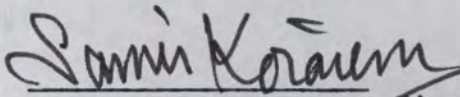
3. Financial Statements (balance sheet, income statement, sources and applications of funds)
4. Resource Position
5. Statement of Arrears over three months (classified by period of delay)

Annually (to be submitted within four months of the end of the period)

6. Yearly Budget and Annual Performance Report
7. Five Year Projections of Operations and Finances
8. Project and Loan Analysis, including sectoral breakdown, project and loan size, maturity period of loan, employment generation, export component, foreign participation, project location and type (new or expansion).

12. The submission to the Bank of Items 1 - 7 above will be in formats currently followed by MIDB which are satisfactory to the Bank. Format for Item 8 will be agreed upon between the Bank and MIDB in the course of project implementation.

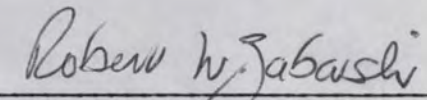
ARAB REPUBLIC OF EGYPT


March 28, 1980
Samir Koraiem
Undersecretary, Ministry of Economy,
Foreign Trade and Economic Cooperation

MISR IRAN DEVELOPMENT BANK


Fouad Sultan
Managing Director

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT


Robert W. Zaborski
Loan Officer

MINUTES

ARAB REPUBLIC OF EGYPT

MISR IRAN DEVELOPMENT BANK PROJECT

Agreed Minutes, March 28, 1980

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Prepayment

2. The Bank delegation explained and confirmed that the fact that certain percentages are specified in Schedule 1 to the draft loan agreement for the project as the premiums payable on prepayment pursuant to Section 3.05(b) of the General Conditions, does not change the Bank's intention to consider sympathetically, in the light of all circumstances then existing, any request of the Borrower for a waiver of such premium payments as stated in Section 3.05(c) of the General Conditions. Moreover, in normal practice the Bank does not charge such premiums except in exceptional circumstances when the loan is sold to third parties. This is highly unlikely in the case of DFC loans which have flexible amortization arrangements.

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Definition of Industry and Capital Goods

3. For the purpose of the Loan (Section 3.01 of the Loan Agreement) it was agreed that industry is defined as mining, manufacturing, processing and related service activities, as well as construction contracting. This definition includes agro-industries but excludes tourism projects.

4. With reference to Section 2.02 (a)(ii) of the Project Agreement, capital goods are defined as engineering industry products which are utilized for fixed investments in industry and other sectors and generally include heavy electrical and non-electrical machinery, fabricated metal items and some transport equipment; consumer durables are excluded but intermediate components entering into assembly of capital goods are included in this definition.

Resource Mobilization

5. Mr. Sultan confirmed that over the period of commitment of the Bank loan, MIDB would have a projected resource gap of \$30 million, excluding the proposed Bank loan. \$15 million will be covered by MIDB's short-term resources backed up by an equivalent amount of share capital increase on call, leaving a gap of \$15 million. MIDB has a preliminary commitment from the Arab African Bank to underwrite a \$10 million issue of Certificate of Deposits of 3-5 year maturity at an interest rate to MIDB of $\frac{1}{4}$ percent per annum over six-month LIBOR. In addition, MIDB can reasonably expect to participate as an intermediary in onlending a proposed \$30 million USAID "Private Investment Encouragement Fund" for financing medium size industries. MIDB is also exploring other long-term sources of finance. It is expected that MIDB will be able to mobilize the additional needed resources through mid-1982 and also for the longer term. Taking into consideration the role of MIDB in promoting private sector economic development, Mr. Koraïem, Under-secretary, Ministry of Economy, Foreign Trade and Economic Development, reaffirmed the Government's support to MIDB and said the Government would consider favourably assistance to MIDB in augmenting its long-term resources.

Repayment Period of Subloans and Investments

6. With reference to Section 3.01(b) of the Loan Agreement and Section 2.06(b) of the Project Agreement, the Bank explained that the repayment period for individual subloans and investments including the period of grace, may extend up to 15 years subject, however, to the last maturity of any subloan or investment falling within 17 years from the date of signing of the Bank loan. Grace periods for subloans would be as appropriate for the individual investment projects and would normally be about two years. For Bank funds utilized for MIDB's investments, the grace period for MIDB's repayment may extend up to five years since such investments generally are not expected to yield dividends to MIDB for the first five years.

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MIDB Financing of Individual Investment Projects

7. It was clarified that the ceiling of \$3.0 million on the utilization of Bank funds for an individual investment project (Section 2.02(a(iv)) of the Project Agreement) does not preclude additional MIDB financing for that project from its other resources. The maximum financial exposure by MIDB in an individual investment project is covered by MIDB's Policy Statement.

8. With reference to Section 2.03(c) of the Project Agreement, it was confirmed that Bank financing of individual investment projects should normally be confined to those not exceeding \$25 million in total cost unless MIDB's promotional role in putting together a project of a larger size can clearly be demonstrated to the satisfaction of the Bank.

Use of Short-Term Resources

9. MIDB's Policy Statement specifies: "In principle long term loans and equity participations shall be financed only from long term resources. Exceptionally, however, short term resources may be used for the purpose but only to the extent that the amount of short term resources so utilized is covered by shareholders commitments to provide additional long term resources." In this context, it was agreed that utilization refers to MIDB's commitments. However, with reference to Section 3.09 of the Project Agreement, which is intended to safeguard MIDB's liquidity, the use of short-term resources refers to amounts disbursed and outstanding. With regard to the triggering mechanism for payment of MIDB's share capital to safeguard its liquidity referred to in this Section, Mr. Sultan explained that he would seek approval of MIDB's Board during its end-April meeting. At the same time, he would also seek its approval that the management of MIDB would be authorized by the Board to call for the payment of capital as and when needed without further approval of the Board.

The Bank's Prepayment Penalty Charges

10. The Government and MIDB wished it to be recorded that they consider the Bank's prepayment penalty charges unusually high as compared with those charged by the international banking community.

Reporting Requirements

11. With reference to Section 2.09(a) of the Project Agreement, concerning the reporting requirements, it was agreed that the information and statements listed below would be submitted by MIDB to the Bank at the following intervals:

GH 36
AWZ

Quarterly (to be submitted within two months of the end of the period)

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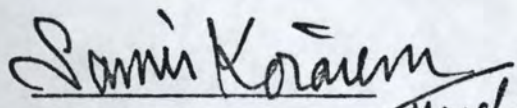
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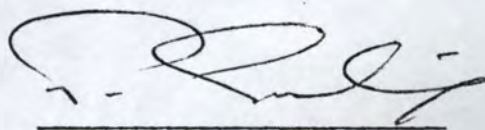
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7. Five Year Projections of Operations and Finances
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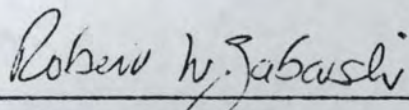
ARAB REPUBLIC OF EGYPT


March 28, 1980
Samir Koraïem
Undersecretary, Ministry of Economy,
Foreign Trade and Economic Cooperation

MISR IRAN DEVELOPMENT BANK


Fouad Sultan
Managing Director

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT


Robert W. Zaborski
Loan Officer

Hw. Köpp

OFFICE MEMORANDUM

TO: Those Listed Below

DATE: March 19, 1980

FROM: Robert W. Zaborski, Loan Officer, EMIDA

SUBJECT: EGYPT : Misr Iran Development Bank Project
Negotiations

Negotiations for the above project are scheduled to begin on Monday, March 24. Mr. Samir Koraiem, Undersecretary, Ministry of Economy, Foreign Trade and Economic Cooperation, will represent the Egyptian Government. Mr. Fouad Sultan will represent the Misr Iran Development Bank. Negotiations will be held in Room C-710 starting Monday, March 24, 1980 at 10:00 a.m.

cc: Messrs. Karaosmanoglu, Knox, El Darwish, Zaidan
Köpp, V.K. Chaudhry, Abu Akeel, Hakim

RWZaborski:cys

INVITATION TO
NEGOTIATE

Class of Service: **TELEX** Date: **March 19, 1980**
Telex No.: _____ Originator's Ext: **74787**

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END
OF
TEXT

BOOK OF TWO (SEE ATTACHED TEXT)

1. **MR. SAMIR KORAIEM**
UNDERSECRETARY, MINISTRY OF ECONOMY, FOREIGN
TRADE AND ECONOMIC COOPERATION
CAIRO, EGYPT

TELEX: 348 GAFEC UN

2. **MR. FOUAD SULTAN**
CHAIRMAN, MISR IRAN DEVELOPMENT BANK (MIDB)
CAIRO, EGYPT

TELEX: 2389 MIDB UN

NOT TO BE TRANSMITTED

SUBJECT:

EGYPT - MIDB

CLARANCES & COPY DISTRIBUTION:

CL. w. & cc: Messrs. Köpp, V. Chaudhry

cc: Messrs. Zaidan, Hakim, Abu Akeel

DRAFTED BY:

RZaborski;mbu

AUTHORIZED BY (Name and Signature):

Attila Karaosmanoglu, Director

DEPARTMENT:

EM1

SECTION BELOW FOR USE OF CABLE SECTION
CHECKED FOR DISPATCH

WORLD BANK OUTGOING MESSAGE FORM (Telegram, Cable, Telex)
IMPORTANT (PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM.)

Service: **TELEX**

Date: **March 19, 1980**

No.:

Originators Ext: **74787**

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MESSAGE NO

ADDRESSED MR. SAMIR KORAIEN, UNDERSECRETARY, MINISTRY OF ECONOMY,
FOREIGN TRADE AND ECONOMIC COOPERATION AND MR. FOUAD SULTAN,
CHAIRMAN, MIDD, CAIRO, EGYPT

PLEASED TO ADVISE YOU THAT BANK INVITES GOVERNMENT AND MIDD
FOR NEGOTIATIONS ON THE PROPOSED MIDD PROJECT STARTING
MARCH 24, 1980 AS PREVIOUSLY AGREED. BEST REGARDS.
KARASMANOGLU, DIRECTOR, COUNTRY PROGRAMS 1, EHENA REGION, WORLD
BANK.

END
OF
TEXT

NOT TO BE TRANSMITTED

SUBJECT:

EGYPT - MIDD

CLEARANCES AND COPY DISTRIBUTION:

CL. W. & cc: Messrs. Köpp, V. Chaudhry

cc: Messrs. Zaidan, Hakim, Abu Akeel

DRAFTED BY:

RZaborski:mbw

AUTHORIZED COPY (Name and Signature)

Attila Karasmanoglu, Director

EN1

SECTION BELOW FOR USE OF CABLE SECTION

CHECKED FOR DISPATCH

International Bank for Reconstruction and Development

SecM80-226

FROM: Vice President and Secretary

March 31, 1980

STATUS OF NEGOTIATIONS

ARAB REPUBLIC OF EGYPT

MISR IRAN DEVELOPMENT BANK PROJECT

Negotiations have been substantially completed, and loan documents will be submitted to the Executive Directors on a date to be determined.

The following is a description of the proposed loan:

<u>Borrower:</u>	Arab Republic of Egypt
<u>Beneficiary:</u>	Misir Iran Development Bank (MIDB)
<u>Amount:</u>	US\$30 Million
<u>Interest Rate:</u>	Standard
<u>Commitment Charge:</u>	Standard
<u>Terms:</u>	Amortization of the loan to conform substantially to the aggregate of the amortization schedules applicable to the specific investment projects financed out of the proceeds of the proposed loan.
<u>Purpose:</u>	The project is part of a long-term effort to build up adequate institutional capacity in Egypt for the promotion and financing of industry in the private sector and would provide a part of MIDB's foreign exchange

requirements through mid-1982 for onlending for private sector industrial projects with an emphasis on three areas (i) building materials and construction contracting industries; (ii) capital goods industries, and (iii) export-oriented industries.

Distribution:

Executive Directors and Alternates
President
Senior Vice President
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

International Bank for Reconstruction and Development

SecM80-182

FROM: Vice President and Secretary

March 14, 1980

NOTICE OF INTENTION TO NEGOTIATE

ARAB REPUBLIC OF EGYPT

MISR-IRAN DEVELOPMENT BANK PROJECT

The Bank is planning to invite the Government of the Arab Republic of Egypt to send representatives to Washington to negotiate a proposed loan of \$30 million for a Misr-Iran Development Bank project.

Distribution:

Executive Directors and Alternates
President
Senior Vice President
President's Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

COMMENTS ON LOAN
COMMITTEE PACKAGE

OFFICE MEMORANDUM

TO: Files *EWZ*

DATE: March 26, 1980

FROM: R.W. Zaborski, Loan Officer, EMIDA

SUBJECT: EGYPT : Proposed Misr Iran Development Bank Project
Comments from the Loan Committee

1. Mr. Horsley called on March 6, 1980 with Mr. Stern's comments on the above project, which concerned the presentation of MIDB's onlending interest rate and of institution building. Mr. Raizen also called on March 6, to pass on the comments of Mr. van der Tak who had reviewed the documents for Mr. Baum. His major question also concerned the presentation of MIDB's onlending rate.
2. I explained that an onlending rate by MIDB to sub-borrowers of at least 11 percent is proposed with the sub-borrowers carrying the full foreign exchange risk. This rate fairly approximates recent costs of fixed interest rate long-term funds in the currencies expected to be disbursed under the proposed loan. We have assumed that the current special currency disbursement scheme for DFC loans will apply to the proposed loan (since the sub-borrowers will assume the entire foreign exchange risk) and hence disbursements will be 50 percent in dollars and 50 percent in DM, SwFr and Yen. The recent high interest rates on long-term borrowings for prime borrowers in the international capital markets have been around 14.5 percent for dollars, 9 percent for DM and Yen and 6 percent for SwFr. Accordingly, for the assumed blend of currencies in the proposed loan a rate of 11 - 11½ percent seems a fair approximation of recent market costs. MIDB's clients cannot be considered prime international borrowers; and one could, therefore, argue in favour of a slightly higher interest rate for them. However, given the uncertainty of the hard blend of DM, SwFr and Yen which would account for fifty percent of the Bank loan disbursements (for some subloans it could well be 50 percent SwFr which cost less than the others) a minimum onlending rate of 11 percent by MIDB seems reasonable in terms of market costs.
3. Mr. Horsley suggested that we reach an agreement with MIDB to review market interest rates annually and adjust the onlending rates accordingly. During negotiations, we will seek agreement that MIDB and the Bank will review market conditions at least annually to determine appropriate adjustments in the onlending rate. Since the covenant in the legal documents would call for a minimum 11 percent onlending interest rate (or such other rate as may be agreed during negotiations based on market rates) MIDB will be free to charge a higher rate if market conditions so permit and justify.
4. With regard to institution building, Mr. Stern had commented that the Bank's operational staff and EDI should not be used in place of technical assistance for strengthening MIDB as an institution. I explained that MIDB was a mature institution and that no technical assistance was needed. What we were proposing was only the assistance which Bank staff would normally

March 26, 1980

provide in the course of regular supervision, and the possible participation of MIDB staff, in competition with other DFC's, in EDI courses.

5. The Notice of Intention to Negotiate was approved.

Cleared with and cc: Mr. Horsley and Mr. Raizen

cc: Messrs. Knox, Karaosmanoglu, El Darwish, Zaidan, Coudol,
El Daher, Despande, Duval, Hakim, Richardson, Köpp

RWZaborski:cys
/VKChaudhry

OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk, Vice President, EMENA Region DATE: March 6, 1980

FROM: Attila Karaosmanoglu, Director, EMI *AK*

SUBJECT: EGYPT - Proposed \$30 Million Loan to Arab Republic
of Egypt for a Fifth Development Finance
Company Project (Misr Iran Development
Bank Project)

1. Please find attached for your approval and transmission to the Loan Committee the draft President's and Staff Appraisal Reports, draft legal documents and a memorandum to the Loan Committee on the above project. The Issues Paper and Decision Memorandum for this project were distributed on August 21, 1978 and September 7, 1978 respectively. Attachment I to this memorandum is a table of actual and proposed lending through FY84.

Project Description and Objectives

2. The proposed loan of \$30 million would be the first operation in support of the Misr Iran Development Bank and would provide about 50 percent of MIDB's requirements for long-term foreign exchange resources through mid-1982. The project is part of a long-term effort to continue and expand on the support, begun with the Development Industrial Bank, to build up an adequate institutional capacity in Egypt for the promotion and financing of industry in the private sector, which has received renewed and strong Government interest recently. It will support, in particular, industries in three key sectors which have been identified as priorities for growth in the Egyptian economy. A minimum of 25 percent of the loan proceeds would be allocated for each of the following: building materials and construction/contracting industries; capital goods industries; and export oriented industries. During the commitment period, MIDB's institutional framework would be further strengthened to provide assistance to industrial enterprises in the private sector.

3. The project complements on-going Bank assistance to DIB since DIB finances small- and medium-scale enterprises, through loans in both local and foreign currency, while MIDB promotes and finances the foreign exchange needs of medium and larger enterprises through loans and equity investments.

Ownership Structure of MIDB

4. MIDB was incorporated in 1975 as an Egyptian joint stock company under Law 43, as a result of a trade and economic protocol between Iran and Egypt and has four equal shareholders: Bank Melli and the Industrial and Mining Development Bank of Iran (IMDBI) from Iran, Bank of Alexandria (BOA) and Misr Insurance Company from Egypt. The Iranian shareholders are now Government owned; and the Egyptian shareholders, public sector institutions. The objectives of MIDB according to its Articles are to identify and finance projects for the benefit of the two countries. In

practice, all projects are financed in Egypt and the proposed loan could be used only for this purpose.

5. The uncertainties surrounding this 50:50 Egyptian:Iranian ownership structure have been the main reason for considerable delays in the processing of this project and this structure poses a risk for the institution's long-term development, given the continuing political difficulties between the two countries. The past difficulties were manifested in the uncertainty as to whether or not the Iranian shareholders would subscribe to their share in MIDB's capital increase from \$20 million to \$40 million in July 1979. Arrangements were made by MIDB's management to bring in third parties should the Iranians not take their share, which in effect, would have given the Egyptians majority control, and the Government supported these arrangements. Contrary to expectations, however, both Bank Melli and IMDBI subscribed to the increase; and payment of the initial 25 percent of the capital increase has now been completed by all shareholders, with IMDBI paying in late on February 14, 1980.

6. Thus, MIDB remains a 50:50 venture, which in order to function effectively, must rely upon continued cooperation and communication among the four shareholders. In this regard, it may be noted that the Iranian shareholders have shown continued support for the future development of MIDB through their participation in the share capital increase and constant assurances at MIDB's board meetings. Also, the day to day operations of MIDB have not been adversely effected. More importantly, the Egyptian Government has reaffirmed its support for MIDB as an institution regardless of its ownership structure because of the special role that such an institution can be expected to play in the Egyptian economy and has agreed to borrow the proposed loan for MIDB. Given the evidence of support from the Iranian shareholders and the Government, we believe that on balance the risks inherent in the ownership structure are acceptable.

Lending Arrangements for the Proposed Loan

7. Because legal restrictions preclude a Government guarantee to a private institution such as MIDB, the loan will be made to the Government and onlent to MIDB. These arrangements are similar to those recently agreed for the Textile II Project. The enclosed documents assume that the Government will onlend the funds at 9 percent, under a subsidiary loan agreement, satisfactory to the Bank. MIDB's onlending interest rate would be at least 11 percent providing it with a satisfactory spread of at least two percent. The Government has indicated that to have parliamentary approval of the proposed loan to MIDB, the Government must have a reasonable spread, although this requirement has not been calculated by them. Assuming the current Bank interest rate of 8.25 percent, the Government's spread would be .75 percent which the Government may not find satisfactory. Market conditions and the expected lending rate of the Bank in the fourth quarter of this fiscal year will be reviewed during negotiations and the appropriate onlending rates and spreads fixed at that time.

MIDB's Exposure in MIRATEX Project

8. MIDB had undertaken an excessive financial risk by long-term guarantees and a loan totalling around \$28 million for the Misr Iran Textile Company (MIRATEX), a joint venture between the Iranian and Egyptian Governments, including a guarantee for an Iranian Government loan of \$23.8 million. This issue has now also been resolved satisfactorily since MIDB has secured a counter guarantee from BOA for \$10 million and arrangements for a counter guarantee by the National Bank for \$12 million are being finalized, thus reducing MIDB's exposure to around \$6 million (or 15 percent of MIDB's subscribed capital). We have indicated to MIDB that confirmation of these arrangements is a condition of negotiations.

9. The attached documents have been cleared by the departments concerned.

10. Please convey any comments to Mr. Zaborski (extension 74787).

Cleared with and cc: Messrs. El Darwish (EMP), KÜpp (EM1)

Attachments

RWZaborski:cys

EGYPT: LENDING PROGRAM FY80-84

Landby

Division 1A
Country Programs Department 1
Europe, Middle East and North Africa Region
February 27, 1980

mk. 576

December 7, 1979

Dr. Hamed Abdel Latif El-Sayeh
Minister of Economy, Foreign Trade & Economic Cooperation
Ministry of Economy, Foreign Trade & Economic Cooperation
8 Adly Street
Cairo, Egypt

Your Excellency:

Re: Proposed Loan to Misr Iran Development
Bank (MIDB)

The Bank is now in the process of completing its appraisal of the proposed project benefitting the Misr Iran Development Bank (MIDB). An updating mission was in Egypt in October for this purpose, and Mr. El Darwish also discussed the project during his recent visit. We hope to be able to invite representatives of the Government and MIDB for negotiations in early February, and I would like to ask your kind support to resolve two important issues before that time.

The first is the completion of the initial payments of MIDB's share capital increase. With one exception, these have now been completed. I would very much appreciate if you could inform us of the status of this outstanding payment, the question of which I understand is going to be addressed during MIDB's December 14 Board meeting.

The second is MIDB's financial exposure in the MIRATEX project. MIDB's management and the Bank have agreed on the necessity of reducing this exposure from \$28 million to \$6 million. We understand that MIDB has already secured a counter guarantee from the Bank of Alexandria for \$10 million of the \$23.8 million loan from the Iranian Government to the project, guaranteed by MIDB. Also, the National Bank of Egypt has agreed to counter guarantee \$12 million, subject to an increase in the share capital of MIRATEX in order to cover cost overruns. We understand that such an increase has been approved by both the Egyptian and Iranian shareholders of MIRATEX and the payment is expected by January 1980, and that the Egyptian shareholders of MIRATEX have agreed to assume the entire increase should this be necessary. Your assistance in helping to expedite whatever the ultimate solution may be would be greatly appreciated.

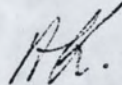
Because of his interest in this matter, I am sending a copy of this letter to Mr. Fouad Sultan, Chairman of MIDB.

OFFICIAL FILE COPY

- 2 -

With very best regards,

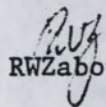
Sincerely yours,



Attila Karaosmanoglu
Director
Country Programs Department 1
Europe, Middle East and North Africa Region

Cleared with & cc: Messrs. El Darwish & Köpp ✓

cc: Messrs. Coudol & Chaudhry, Kaps, Hassan (LEG)



RWZaborski:pb

ROUTING SLIP		DATE: 1/15	
NAME		ROOM NO.	
Mr. E. Köpp			
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Agreed with Rando's decision			
and let him out told him so. All also			
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL agrees		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
✓ COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
I do not know whether David Knox discussed the attached with Attila Karasmanoglou. Can I pls. have your views next steps? Does Attila agree with our proposal to postpone going to the Loan Committee until after Jani Eidnik			
FROM: hooks with W. Search?		ROOM NO.:	EXTENSION:

CR 1/15

Mr. Knox:

Re: Mr. El Darwish's Discussions in Egypt

1. Sani El Darwish called me at home on Saturday from Saudi Arabia and asked that I pass on to you and Attila Karaosmanoglu the following results of his discussions in Egypt:

- a. MIDB. He was able to discuss this with Dr. El Sayeh who said he was willing to let us proceed with the processing of MIDB while he took a passive position. Sani El Darwish then asked "that the tables not be turned on us" -- that is, that if there is to be a change in the ownership structure of MIDB it should be done now. Dr. El Sayeh then said that he would like to check this with the Prime Minister in about ten days time (the latter is presently indisposed). He had no problem of substance but was somewhat concerned with form; he expected questions both from within the Government and Parliament but he felt these questions could be handled.

Sani El Darwish has arranged to see Dr. El Sayeh again on Thursday, January 24, by which time he should have secured the views of the Prime Minister. We will have to decide whether to go to the Loan Committee now or wait until Dr. El Sayeh is able to secure the views of the Prime Minister. My recommendation is that we wait for the outcome of Sani's discussions on January 24; the cost in time is marginal compared to the need to ensure that the Government is prepared to proceed with this loan on the basis of the present ownership structure. In the meantime, we are checking with MIDB to ascertain the status of the capital payment by IMDBI (which Sani did not mention).

- b. On the industrial sector dialogue, things are moving extremely well at the working level. At the ministerial level, Dr. El Sayeh gave Sani the kind of commitment which we were hoping for (the industrial dialogue was the main subject of discussion). Unfortunately, Sani was not able to meet Abdel Meguid to assess the commitment of the Ministry of Planning but he plans to see him on Thursday, January 24. Operationally, there is nothing to do on our part. We will have a fuller report when George Maniatis is back in Washington next Monday.

George C. Zaidan
January 12, 1980

cc: Messrs. El Darwish (o/r), Stewart

GCZaidan:dt

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DJ 1/17
RVP 1/22
RC 1/25

9 agree

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OFFICE MEMORANDUM

TO: Files

FROM: Hans-Eberhard Köpp, Division Chief, Country
Programs Department 1, EMENA Region

SUBJECT: EGYPT: Misr-Iran Development Bank Project

DATE: May 5, 1980

1. A meeting was held in the US Executive Director's office on Monday, April 28 to respond to some questions which the US representatives had raised on the above loan. The meeting was attended by Mr. Colbert King, Executive Director, Mr. David King, Alternate Executive Director, Ms. Bradley, Technical Assistant, Mr. Zaborski and myself.

2. The main question raised was how could one justify a loan to the Misr-Iran Development Bank these days in view of the fact that dividends apparently were being paid to the two Iranian shareholders owning 50 percent of MIDB. In response, we acknowledged that dividends had been paid to the two Iranian shareholders as follows: about \$0.5 million per annum from 1975 to 1978; about \$0.8 million in 1979. In 1980 and until the capital would be called dividends were expected to amount to \$1 million per year, thereafter \$1.6 million. The benefits to the Iranian shareholders amounted thus to 8 percent on paid-in equity.

3. We emphasized, however, that the objective of making a loan to a DFC is not to support it so that it can pay dividends but to use it as a channel for financing economically justified priority projects in the country where the DFC is located. Only to the extent of assuring that one was dealing with an efficient financial intermediary was one interested in indications of financial soundness such as dividends and profits. In addition to the financial soundness, however, a number of other important criteria had to be met to justify the selection of such DFC, e.g. its management capability, its appraisal criteria and experience. Because it met these criteria in a very satisfactory way, MIDB had been chosen as another channel to support private industry in Egypt. We pointed out that judging from past experience one could expect that MIDB would become involved in about 40 to 45 projects through mid-1982 with a total cost of about \$550 million and with an expected annual output of \$870 million per year. In the past, about 65 to 70 percent of total cost of the projects financed by MIDB involved imported goods and services. Thus it was obvious that the profit to Egypt by far outweighed the very minor profit to Iran represented by payment of dividends. We also emphasized that in accordance with the draft Loan Agreement, the Bank funds could only be used for projects in Egypt; moreover, in practice MIDB has financed from all its resources only projects located in Egypt.

May 5, 1980

4. In response to another question and after some further investigation, we explained that of the 88 staff members of MIDB, including 50 professionals, only one was an Iranian national. The most important personality in MIDB was its Managing Director Mr. Fouad Sultan (an Egyptian national), who was very well respected in the Egyptian business community and had also visited the US repeatedly, inter alia attending a US-Egypt business conference last year. The only Iranian staff member mentioned above was the General Manager who was reporting to Mr. Sultan and in practice had more of an advisory role. He has been with MIDB since mid-1977. Both the Managing Director and the General Manager and two members of the board (one Egyptian and one Iranian) formed a management committee, whose main function was to approve projects if necessary on an exceptional basis between two board meetings. As the Egyptian board member in that committee, Engineer Mashhour, the Chairman of the Suez Canal Authority, who holds the rank of a Cabinet Minister was recently appointed. The Iranian board member had represented Iran in this capacity already since 1976. The board was composed of four Egyptian and Iranian members each, including ex-officio both the Managing Director and the General Manager. 1/

5. We also mentioned that the Iranian shareholders had been represented in all recent board meetings, e.g. at the July 1979 board meeting when an increase of the share capital was approved. They had also paid in the 25 percent of the capital increase. Above all, we stressed the fact that we had repeatedly asked the Egyptian Government whether they continued their support for MIDB. The Egyptian Government's support had been reconfirmed inter alia at the level of the Minister of Economy and is illustrated by the fact that the loan would be made to the Egyptian Government and onlent to MIDB since for legal reasons the Egyptian Government cannot guarantee a loan to a joint venture.

6. The US representatives indicated that they were satisfied with our logical arguments for supporting the proposed loan; however, they felt that at this particular time it would be very difficult to argue on a logical basis with certain parts of the Government and Congress when one was dealing with some actions which might be construed as supporting Iran. They promised to check with their authorities and to keep us informed.

1/ MIDB has informed us today that according to the latest official notice, three of four Iranian board members have been replaced recently. The only member remaining from before is the General Manager. The Iranians, with the exception of the General Manager, were not able to attend the latest meeting on April 27 but sent their apologies.

May 5, 1980

7. On Friday, May 2, Ms. Bradley called to enquire whether any dividends allocated to the Iranian shareholders had actually been repatriated to Iran. We reported that we could not ascertain whether or not this had been the case without checking with MIDB directly, which, however, Ms. Bradley suggested not to do at this time. We added, however, that total profits in, for instance, 1979 had amounted to \$4 million and that the board of MIDB including the Iranian representatives had decided to put \$2.4 million of these profits into reserves, provisions, etc. and pay out only \$1.6 million as dividends, i.e. \$0.8 million each to the Egyptian and the Iranian shareholders.

cc: Messrs. Chaufournier (RVP, EMENA Region)
El Darwish, Zaidan, El Daher (Projects, EMENA)
Chaudhry (IFC)
Abu-Akeel (Legal)
Zaborski (Division 1A, CPD 1, EMENA)
Salman (IPA)

HEKöpp:orp

November 14, 1978

MIDB

Suggested "acceptable solutions" to "Guarantee" question
(in order of preference)

- 1) Full government guarantee for direct Bank loan to MIDB without back-up shareholders' guarantee (which according to Mr. Kheradjou, IMDBI, Iran, would be impossible to get from Iranian Government). No "veto power" of the Government on Bank financed sub-projects beyond the obligation of all investors/joint-venture partners to get approval of their projects from the Investment Authority or GOFI. MIDB's Policy Statement (and any revisions thereof) would have to be satisfactory to the Government (and the Bank).
- 2) Same as (1) above but Government would add an observer (with no voting power) to MIDB's board.
- 3) Full government guarantee for direct loan to MIDB but ownership structure of MIDB would be changed to make MIDB be owned by Egyptian majority. This would cause MIDB to come under Central Bank's regulations but also enable MIDB to deal in local currency. As under (1) above, no further conditions (i.e. veto power) should be added except that Policy Statement should be satisfactory to Government. (Please note: The lack of the ability to deal in local currency has not caused any practical problems to MIDB so far. Mr. Fouad Sultan, the Chairman of MIDB, has indicated that he would resign under these circumstances since MIDB would lose its international appeal and autonomy.)
- 4) As requested by Dr. El Sayeh, the Bank would lend to the Government which in turn would onlend the proceeds of the loan to MIDB. Again, as under (1) above, there would be no further conditions attached. The onlending terms and conditions would be the same as the Bank terms and conditions. In order to have some direct link with MIDB, there would be a Project Agreement between MIDB and the Bank which would list all of MIDB's obligations. The Government would undertake in the Loan Agreement to do everything in its (legal) power to cause/help MIDB meet its obligations.

In the President's Report/Appraisal Report we would state that the loan would be made to the Government and onlent to MIDB (rather than directly to MIDB) because "the Government has stated that it is legally not in the position to guarantee a direct Bank loan to a joint-venture company like MIDB." If there were questions on the specifics of this at the Board meeting, we would state that

(i) there was neither a law that authorizes the Government to guarantee such loans nor one that explicitly prohibits such guarantees, (ii) the Government supported the formation of joint-ventures such as MIDB and many others but at this stage wanted to keep a neutral stand as far as financial back-up for such joint-ventures is concerned. (Dr. El Sayeh should be made fully aware of this presentation in the Board documents and in responses to possible questions).

- 5) Same as (4) above but in addition MIDB would come under Central Bank's regulations.

Division 1A
CPD 1, EMENA Region
November 14, 1978

HEKöpp:orp

N O T E

Mr. Knox:

Subject: EGYPT - MIDB: Government Guarantee Issue

1. As you may know, Mr. Paijmans is expected to meet next Saturday, in Cairo, with the Minister of the Economy and asked that an agreed position between Programs and Projects on this issue be worked out and conveyed to him before then.
2. Briefly, the situation is as follows. The Government, during the visit of Messrs. Chaudhry and Kaps last week, took the position that it was not legally possible for it to guarantee a Bank loan to MIDB and proposed instead that the Bank loan be made to the Government for on-lending to MIDB. My reaction to this was that we needed to probe more into the reasons for this new Government position to see whether we could not persuade them to return to their earlier position, conveyed to us in writing in July before we appraised this project, that a guarantee would be possible. Those views are summarized in the copy of the attached note to Mr. Paijmans. His reaction to that note was that he would try to understand the reasons for the latest Government position and see whether some form of guarantee would still not be possible. But he also wanted to have the Projects' Department views as to whether an on-lending arrangement would be acceptable if no better alternative was possible.
3. The position I think we should take, which I discussed with Mr. El Darwish, is first to try and understand much more clearly than we have been able to, the reasons for the latest Government position. The logical implication of this position is that the Government would not want to guarantee a Bank loan to any joint-venture company as defined in Law 43, such as, for example, in the El Dekheila project. Yet some of us have the feeling that the Government would be prepared to provide a guarantee in the latter case. If this is true, why not in the case of MIDB? If not true, would the Bank agree to indirect lending in its industrial projects? The important point for the MIDB loan is to ascertain that the Government's commitment to support MIDB and to safeguard its autonomy remain as strong as when we appraised this project. While we would therefore prefer a direct lending arrangement, we should also be prepared to accept indirect lending provided we were satisfied that the subloan agreement between the Government and MIDB did not in any way dilute MIDB's autonomy. Option (3) in the attached note prepared by Mr. Köpp to be forwarded to Mr. Paijmans emphasises this general point, and I therefore propose that we agree to it. We will, of course, have to work out in detail the implications of this, should we go the on-lending route.
4. May I have your reaction please?

CV
George C. Zaidan
November 15, 1978

cc: Mr. El Darwish (o/r)

Mr. Martin J. Palfmans:

Subject: EGYPT - MIDB: Government Guarantee Issue

1. We received a cable today from our mission in Cairo indicating that the Minister of Economy had informed the mission that it was "legally not feasible" for the Government to provide a guarantee for a private bank such as MIDB. Instead, the Minister proposed that the Bank make the loan to the Government for on-lending to MIDB. In the light of these developments Mr. Köpp and I have discussed how we should proceed and have agreed to recommend the following to you.

2. It is not clear whether there is a law which prohibits the Government from providing guarantees for loans to private institutions or whether the Government does not wish to provide a guarantee for other reasons -- e.g. embarrassing questions in the National Assembly or the desire not to create a precedent. If there is a law that prohibits guarantees to private institutions, it would be important to know how "private" is defined in this context: MIDB is a joint venture bank with Egyptian shareholders owning 50% of the capital and both shareholders -- Misr Insurance and BOA -- are 100% publicly owned. It is more likely, however, that the Government does not wish to provide a guarantee, not because of a legal prohibition, but for other reasons. It would then be important to determine what these reasons really are and see whether we cannot persuade the Government to provide the guarantee.

3. In our view there are compelling reasons for proceeding in this manner rather than making a loan to the Government for on-lending to MIDB. These reasons are:

- (a) Our major objectives in lending to MIDB are to build up that institution's autonomy and to initiate an effective dialogue -- objectives which are much more likely to be achieved through direct lending.
- (b) MIDB's independence from Government (freedom from Central Bank control, not being subject to Civil Service salary scales, etc.) is an important reason for its dynamism. This independence would be much more likely to be safeguarded under a direct lending arrangement.
- (c) A direct association between the Bank and MIDB would enhance that institution's standing in the international financial community and allow it to tap additional resources that it sorely needs.
- (d) The Bank normally makes loans directly to its DFC; we would have to explain to the Board why an exception is proposed for Egypt and such an explanation may be inconsistent with the Government's professed policy of encouraging the private sector.

4. It would therefore be highly desirable if the Government could be persuaded to provide a guarantee. If this does not prove to be possible, I would like to clarify the alternatives and discuss with Mr. Köpp and my Front Office how we should proceed.

George C. Zaidan
November 8, 1978

cc: Messrs. Köpp, El Darwish

November 15, 1978

EGYPT-MIDB

Suggested acceptable solutions to "Guarantee" question
(in order of preference)

- 1) Full government guarantee for direct Bank loan to MIDB without back-up shareholders' guarantee (which according to Mr. Kheradjou, IMDBI, Iran, would be impossible to get from Iranian Government). No "veto power" of the Government on Bank financed sub-projects beyond the obligation of all investors/joint-venture partners to get approval of their projects from the Investment Authority or GOFI. MIDB's Policy Statement (and any revisions thereof) would have to be satisfactory to the Government (and the Bank).
- 2) Same as (1) above but Government would add an observer (with no voting power) to MIDB's board.
- 3) As requested by Dr. El Sayeh, the Bank would lend to the Government which in turn would onlend the proceeds of the loan to MIDB. This would be acceptable provided we were satisfied that these arrangements would in no way dilute MIDB's autonomy. As under (1) above, there would be no further conditions attached. The onlending terms and conditions would be the same as the Bank terms and conditions. In order to have some direct link with MIDB, there would be a Project Agreement between MIDB and the Bank which would list all of MIDB's obligations. The Government would undertake in the Loan Agreement to do everything in its (legal) power to cause/help MIDB meet its obligations.

In the President's Report/Appraisal Report we would state that the loan would be made to the Government and onlent to MIDB (rather than directly to MIDB) because "the Government has stated that it is legally not in the position to guarantee a direct Bank loan to a joint-venture company like MIDB." If there were questions on the specifics of this at the Board meeting, we would state that (i) there was neither a law that authorizes the Government to guarantee such loans nor one that explicitly prohibits such guarantees, (ii) the Government supported the formation of joint-ventures such as MIDB and many others but at this stage wanted to keep a neutral stand as far as financial back-up for such joint-ventures is concerned. (Dr. El Sayeh should be made fully aware of this presentation in the Board documents and in responses to possible questions.)

Division 1A
CPD 1, EMENA Region

HEK:opp:orp:nr

September 22, 1978

His Excellency
Dr. Hamad El Sayeh
Minister of Economy and
Economic Cooperation

Your Excellency:

1. I would like to take the opportunity of your visit to Washington to inform you about, and at your convenience discuss with you, the findings of our recent appraisal mission for the Miar Iran Development Bank (MIDB) project. I understand from the mission that on August 7 and 9 it met with you and Mr. Gamal El-Nazer to present to you its conclusions. An aide memoire of your discussions was prepared which I enclose for your convenience.
2. As the mission reported to you, the project is designed to support MIDB in the fulfillment of its role of promoting and financing medium and large industries in the private sector of Egypt. Special emphasis will be given on providing assistance to the construction and capital goods manufacturing industries and export-oriented projects, as well as efforts towards institution-building of MIDB.
3. In determining the loan amount for the proposed project, we reviewed MIDB's resource position and projected requirements over about a two-year period from mid-1979, at which time the loan and guarantee agreements are hoped to have been declared effective, until mid-1981. We have noted that MIDB's existing long-term resources of about \$21 million (share capital and free reserves) have been fully committed for long-term loans and equity investments. We understand from MIDB that additional commitments for long-term loans and equity investments of about US\$20 million through mid-1979 would be covered by short-term resources but against a commitment of the shareholders to cover this amount by additional long-term resources (envisaged through an increase in share capital; see para. 3 below) to be provided by them should MIDB encounter any liquidity problems. For the period mid-1979 to mid-1981, MIDB's additional commitments for long-term loans and equity investments are projected at about US\$50 million. We will propose to our management and Executive Directors that the Bank provides a loan of \$30 million which would cover 60% of this resource gap. MIDB has indicated to us that it hopes to mobilize the remaining amount from other sources with the support of your and the Iranian Governments.
4. In this connection we are pleased to note that as an expression of your Government's interest in MIDB you have already agreed to guarantee the loan the Bank would make to MIDB. We further noted from the aide memoire of August 9 that you kindly re-emphasized your Government's "willingness to assist MIDB in mobilizing needed resources (from bilateral, multilateral and other sources) to conduct its operations." We would hope that you would assist MIDB

in obtaining similar support from the Iranian Government. The presence in Washington of Iranian Government officials and representatives from Bank Mellat and the Industrial and Mining Development Bank of Iran might allow us to jointly pursue this matter.

5. As to the increase in MIDE's share capital (referred to in para. 3 above), we believe that this is of such crucial importance for MIDE that, as a condition of negotiations of a Bank loan, we would require a formal commitment of MIDE's shareholders to such an increase. Also, a formula will have to have been developed as to the timing of the payments by the shareholders of their increased subscription.

6. Another matter which we would like to bring to your attention relates to the fact that MIDE has guaranteed a loan of \$23.9 million from the Government of Iran for the MIRATEX textile project. We believe that by guaranteeing the loan, MIDE has exposed itself to an excessive financial risk, given that its equity capital at present is only about \$21 million. Also, according to MIDE's own policy statement its total financial exposure in a single company should normally not exceed 15% of its equity. Since this matter is also quite important, we feel that, as a condition of negotiations, MIDE should either receive a written commitment from the Iranian Government releasing it from the guarantee or an assurance that it would be fully compensated for any loss it might incur in connection with the guarantee. We hope that you could discuss this matter further with the Iranian delegations together with us during the Annual Meetings.

7. Regarding the size of projects financed by MIDE and the use of Bank funds therefor, we feel that the use of Bank funds should as a general rule be for projects not exceeding \$25 million in total cost.

8. As to procurement, because of the large size of some of MIDE's projects, we have concluded that whenever Bank funds will finance (in part or in full) procurement packages exceeding a certain amount (to be agreed during negotiations), international competitive bidding (icb) in accordance with the Bank guidelines should be followed unless otherwise agreed by the Bank. (We have reviewed this matter in some detail and our current view is that the amount should not exceed \$5 million.) Smaller packages could be procured through international shopping. Also, since MIDE is a first time Bank borrower and not yet very familiar with the Bank's procurement procedures, we would require MIDE to submit for the Bank's review and comment the tender documents for the first two projects requiring icb to ensure that icb procedures are followed in a satisfactory manner.

9. Finally, regarding the interest rate MIDE would charge borrowers of Bank funds, we have already tentatively agreed with MIDE that it would

September 22, 1978

add at least 2% (spread for MIBB) to the Bank's lending rate, which is currently 7.9%. In any case, MIBB's onlending rate should not fall below 10%, the minimum rate the Development Industrial Bank (DIB) is required to charge its borrowers under the DIB III Project.

10. Because of MIBB's interest in the above matters, I am copying this letter to Mr. Fouad Sultan, MIBB's Managing Director.

With my best regards.

Sincerely yours,

Martijn J. W. M. Pajmans
Director, Country Programs I
Europe, Middle East and North Africa Region

Attachment.

Cleared with & cc: Messrs. El Darwish, Zaidan, Chaudhry, Köpp

cc: Messrs. El Daher, Banerji, Krishna, Hakim

FKaps/nojw

August 9th, 1978

PROPOSED WORLD BANK LOAN TO
MISR IRAN DEVELOPMENT BANK (MIDB)

AIDE MEMOIRE

The World Bank Mission (Messrs Chaudhry, Banerji and El Daher) for an appraisal of a proposed Bank loan to MIDB met with H.E. Dr. Hamed El Sayeh, Minister of Economy and Economic Cooperation , and Mr. Gamal El Nazer, Deputy Chairman of the General Authority for Investment and Free Zones on August 9, 1978 to present the main conclusions of the mission.

The mission said that it would propose to the Bank's management a loan ^{of about \$ 30 million} to MIDB that will be allocated for financing the construction and contracting industries, capital goods manufacturing industries and export oriented industries in line with Egypt's industrial priorities. Some financing would also be proposed for other projects that would substitute for imports in an efficient and economic manner.

In response to a query from the mission the Minister confirmed that projects under Law 43 (the primary target group for MIDB financing) do not presently have access to the "parallel foreign exchange market" for meeting their foreign exchange needs including those for servicing their foreign currency borrowings. However, such projects can legally purchase foreign exchange in the "own exchange market" provided such transactions (transfers of foreign exchange from one party to another) take place through the registered banks (Law 97/1976 and 43/1973 as amended). Furthermore should there be any revision in the foreign exchange regime in Egypt, the borrowers (clients) of MIDB would continue to have access to some legal source of foreign exchange for debt servicing. Also, it is expected that many projects under Law 43 would be self sufficient in respect of their foreign exchange requirements.

The Minister reiterated the Egyptian Government's willingness to assist MIDB in mobilizing needed resources (from bilateral, multilateral and other sources) to conduct its operations. This assistance is likely to be needed by MIDB more over the next couple of years or so than in later years when it should be in a better position (creditworthiness) to mobilize resources on its own standing in the international capital markets. Govt. support in this respect has already been shown by requesting a Bank loan for MIDB. The Minister also expects additional resources to be provided to MIDB by the Iranian Government or its agencies.

El. Nazer

Gamal El Nazer
Deputy Chairman
General Authority for
Investment & Free Zones

OFFICE MEMORANDUM

TO: Files

DATE: June 28, 1979

FROM: Hans-Eberhard Köpp, Division Chief, Country

Programs Department 1, EMENA Region

SUBJECT: EGYPT: Agro-Industries Project Decision

Memorandum of June 5, 1979

Mr. Horsley called on June 19 to convey his comments on the above decision memorandum.

1. He expressed concern that the functions which the project unit had been expected to perform, might not be effectively carried out under the proposed arrangement (which does not include such a project unit). I reiterated the reasons for dropping the unit and our expectation that the essential functions would be performed as described in the decision memorandum.

2. Mr. Horsley enquired about the status of the SSI component under the DIB project. I informed him that a good start had now been made after some delays and that we were confident that the SSI component under the DIB loan would now make good progress.

3. Mr. Horsley expressed doubts as to the wisdom of including Bank Misr as one of the channels for the agricultural credit component in the proposed project. I repeated the reasons for doing so, i.e. improved performance and increased technical assistance, but he felt that the appraisal report would have to make a convincing case for using Bank Misr as a channel, given its less than satisfactory performance under the Fruits and Vegetables Project. He added that this was even more true for the National Bank of Egypt (NBE) which seemed to refuse technical assistance and apparently lacked the will to cooperate with the Bank. I agreed that we would not include NBE as a possible channel unless it clearly indicated that it intended to cooperate with the Bank. Such indication could inter alia be in the form of accepting our proposals for reorganization, staff increases and for some limited technical assistance as discussed in the decision memorandum.

4. Mr. Horsley felt that we should ask for an annual review of the appropriateness of the fee structure for the slaughterhouses with special emphasis on Alexandria. The objective should be to move the fees gradually upwards.

Cl. with and cc: Mr. Horsley

cc: Messrs. Benjenk, Dubey, Richardson;
Karaosmanoglu, Maiss, Swayze, Imam;
Knox, Haynes, Hume, K. Jones, Naylor,
Hing, Bose, Nägele, Sulieman;
van der Tak; Yudelman, Spall;
Chittleburgh; Krishna; Hakim

HEKöpp:orp

f. Kopp.

OFFICE MEMORANDUM

TO: Those Listed Below

DATE: September 7, 1978

FROM: Hans-Eberhard Kopp, Division Chief, Country
Programs Department 1, EMENA RegionSUBJECT: EGYPT: Proposed Loan to Misr Iran Development
Bank (MIDB) --
Decision MeetingD-428
2

1. A Decision Meeting was held on August 28, 1978 to consider the Issues Paper of August 21, 1978. The meeting was chaired by me, and attended by Messrs. Sekse (IDF), Zaidan, Vijay Chaudhry, Banerji, El Daher (EMENA Projects), Krishna (Legal), Hovaguimian (IFC), Kaps, Oubouzar (EMI). The following decisions were reached:

Proposed Bank Loan: Borrower, Size and Scope of Financing (paras. 2-7 and 15 of Issues Paper)

2. The project would be the first loan to the Misr Iran Development Bank (MIDB), an Egyptian/Iranian joint stock company established under Law 43 (on foreign investment) in May 1975. It has a share capital of US\$200 million, fully paid in. The shareholders, each contributing 25% of the capital are: Bank Melli, Iran; Industrial and Mining Development Bank of Iran (IMDBI); Bank of Alexandria (BOA), Egypt; and Misr Insurance Company (MIC), Egypt. As a joint venture bank with only 50% Egyptian ownership, MIDB cannot deal in local currency, but this has not so far constrained its activity and is unlikely to prove a constraint in the foreseeable future. MIDB has been successful in mobilizing local resources for its clients' projects, when required, primarily from its two local shareholders: BOA and MIC.¹ Development Industrial Bank (DIB) is also an important source of local currency financing which is yet to be tapped by MIDB for its projects; and DIB is willing to participate.

3. While the proposed loan would be the first to MIDB, it is the fourth DFC operation in Egypt, two previous credits having been granted to the former term lending department of BOA, which was later converted into DIB (Cr. 412 - UAR of FY73 and Cr. 576 - EGT of FY76) and a loan given to DIB in FY78 (1533 - EGT). The primary function of DIB, a public sector bank, is to promote and finance productive industrial enterprises, mainly in the private sector. DIB is active in the financing of small scale industries and reconstruction and expansion of medium scale industries. The large demand for DIB assistance from such projects is likely to continue to keep DIB's promotional activity for medium and large projects to a negligible or low level in the foreseeable future despite the efforts to strengthen its management and staff. Its financing to date has been almost exclusively through loans; equity

¹/ Mostly in the form of equity investments; BOA has also provided a few medium-term loans.

investments have been negligible.

4. MIDB, in turn, sees its role as that of a promoter and financier of medium and large industry, particularly promoter of joint ventures that bring in appropriate foreign technology as well as foreign investment. MIDB does not finance companies in which public sector shareholding is in the majority even if they are classified as private sector (which is possible for joint venture projects established under Law 43). MIDB's loans are disbursed and have to be repaid in foreign exchange only. An important part of MIDB's financing is expected to continue to be in the form of equity investments in joint stock companies and MIDB plans to roll over such investments when feasible, thus contributing to the development of the capital market in Egypt. In financing large projects MIDB often plays an important role of mobilizing other institutional resources for the project while its own contribution is normally limited to a maximum of 15% of its equity or about \$3 million at present.

5. There is ample room for both DIB and MIDB in contributing to industrial development in Egypt. Their roles are seen essentially as complementary although they may well eventually compete in financing of some medium size projects.

6. The mission pointed out that the proposed loan is designed to support MIDB in the fulfillment of its role of promoting and financing medium and large industries in Egypt's private sector with special emphasis on providing assistance to the construction and capital goods manufacturing industries (the latter providing considerable scope for efficient import substitution projects) as well as export oriented projects. The project would also help meet MIDB's institution building and training efforts but no financing is envisaged for this under the proposed loan. The meeting endorsed the proposed project scope but emphasized that the appraisal report would have to provide sufficient justification for giving special emphasis to the capital goods manufacturing industries and its import substitution contribution. With respect to possible financing for agro-industry projects, the meeting emphasized the need for continued coordination within the Bank and Egypt to ensure that the projects financed through MIDB and those of the proposed agro-industry project complement each other and are related to the priorities of the sector as viewed by the Agriculture Division.

7. As to the proposed loan amount of \$30 million, an amount included in the currently approved lending program, the mission explained that it had arrived at this amount on the basis of MIDB's resource position and projected requirements over about a two-year period through mid-1981. MIDB's existing long-term resources of about \$21 million (share capital and free reserves) have been fully committed for long-term loans and equity investments. Additional commitments for long-term loans and equity investments of about US\$20 million through mid-1979 would be covered by short-term resources but against a commitment of the shareholders to cover this amount by additional long-term resources (envisaged through an increase in share capital; see para. 10) to be provided by them should MIDB encounter any liquidity problems. For the period mid-1979 to mid-1981, MIDB's additional commitments for long-term loans and equity investments are projected at about US\$50 million. The proposed Bank loan would cover 60% of this resource gap, and MIDB hopes to mobilize the remaining amount from other sources with the support of the Egyptian and Iranian Governments.

8. While supporting the proposed Bank exposure under the project, participants in the meeting inquired about the likelihood of the remaining 40% of MIDB's resource gap being filled. The mission explained that while earlier this year the Iranian Government seemed to have been prepared to make a unilateral loan of \$15 million to MIDB, the Iranian Government now seemed to insist that any contribution it would make would have to be matched by a similar contribution from the Egyptian Government. Such Egyptian Government contribution was, however, not yet in sight. On the other hand it should be noted that after initially insisting that it would only jointly with the Iranian Government guarantee the proposed Bank loan, the Egyptian Government had now officially informed the Bank that it would guarantee the loan alone. Also, in the aide memoire attached to the Issues Paper, the Minister of Economy had specifically reiterated his Government's willingness "to assist MIDB in mobilizing needed resources (from bilateral, multilateral and other sources) to conduct its operations." While the Egyptian Government had thus demonstrated its increasingly supportive attitude towards MIDB, no specific commitments had yet been received from the Iranian Government and all references in the Issues Paper to the Iranian Government's position vis a vis MIDB were second hand.

9. The meeting agreed that it was important for MIDB to be assured of a continued resource base over and above what it was to receive from the Bank. Of particular importance was the continued support of the two Governments that stand behind MIDB's shareholders, i.e. Egypt and Iran. While the Egyptian Government had already shown its support, we have not had the opportunity to ascertain the position of the Iranian Government on this matter. The meeting therefore agreed that after consulting with MIDB's managing director, the Bank should touch base with the Iranian Government through MIDB's Iranian shareholders to ascertain the extent of the Iranian Government's support for MIDB. Ideally, a meeting among Egyptian and Iranian representatives attending the forthcoming Annual Meeting together with Bank staff should be arranged to pursue this matter. While it was not necessary to obtain firm commitments at this time --it can reasonably be assumed that the Bank loan will not become effective before mid-1979--, it was important at this time to get a general understanding of the two Governments' support for MIDB and the proposed project.

10. As to the increase in MIDB's share capital, (para. 15 of Issues Paper) the meeting agreed that as a condition of negotiations MIDB's shareholders would formally have to agree to the increase and a formula would have to have been developed as to the timing of the payments.

Government Guarantee of Proposed Loan (para. 9 of Issues Paper)

11. The meeting took note that the issue of obtaining a Government guarantee for the proposed loan had been solved satisfactorily.

MIDB's Financial Exposure in MIRATEX Textile Project (para. 10 of Issues Paper)

12. The meeting agreed with the mission's recommendation that by guaranteeing an Iranian Government loan of \$23.9 million for the MIRATEX project (a joint-venture textile project of the Egyptian and Iranian Governments) MIDB had exposed itself to an excessive financial risk, given that its equity capital at present was only about \$21 million; also, according to MIDB's policy statement its total financial exposure in a single company should

normally not exceed 15% of MIDB's equity. The meeting agreed that as a condition of negotiations MIDB should either receive a written commitment from the Iranian Government releasing it from the guarantee or an assurance that the Iranian Government would fully compensate MIDB for any losses it might incur in connection with this. The Legal Department expressed some reservation about the latter course and suggested that this matter be also discussed with the Egyptian and Iranian officials during the Annual Meeting.

Assumption of Foreign Exchange Risk on the Bank Loan (paras. 11-14 of Issues Paper)

13. The mission informed the meeting that the Government had reconfirmed that it was not prepared to assume any part of the foreign exchange risk on the proposed Bank loan. MIDB had expressed concern about the impact that the assumption of the foreign exchange risk between the US dollar and other currencies disbursed by the Bank might have on its borrowers, since MIDB had so far made loans in dollar denomination only. While in the absence of a suitable alternative it was agreeable to pass on the entire foreign exchange risk to its borrowers, MIDB had requested that it be given a fair idea of the blend of currencies in advance of Bank disbursements and that such blend should fairly approximate the blend of currencies that determined the Bank's lending rate at the time of loan approval for MIDB. The mission explained that it had informed MIDB that it would convey its request to the Bank but that it would be unlikely that Bank's disbursement policies would be changed in the near future. The meeting agreed that irrespective of further developments on this issue within the Bank, MIDB would have to pass on the entire foreign exchange risks to its sub-borrowers.

Financing of Large Sub-Projects (para. 16 of Issues Paper)

14. Some participants in the meeting voiced concern about the size of large sub-projects proposed to be eligible for Bank financing especially those with total costs exceeding \$25 million. In particular, the question was raised whether some of these projects could not be financed by either the Bank and IFC directly. The mission explained and a representative of IFC confirmed that in most cases large projects financed by MIDB were the direct result of MIDB's promotional role. While its financial exposure was generally limited to a maximum of \$3 million, in many projects MIDB had been instrumental in mobilizing additional resources from other financial institutions. The fact that MIDB was located in Egypt and familiar with the local environment gave it a definite comparative advantage over any outside agency in identifying and promoting projects. The IFC representative also pointed out that while it had thus far been associated in only one project with MIDB, i.e. the Nile Clothing project in which MIDB's exposure amounted to only about \$435,000, other projects had not yet materialized because of MIDB's lack of funds. With the help of the proposed Bank loan and therefore the broadening of MIDB's resource base, additional joint projects could be developed which were already under consideration. Direct financing by the Bank of large projects on the other hand is necessarily restricted to a few and those included in the lending program through 1981 have already been identified.

15. The meeting agreed that the use of Bank funds should normally be for projects not exceeding \$25 million in total cost unless MIDB's promotional

role in putting together a project of a larger size could clearly be demonstrated. In the latter case the Bank should review the project in greater depth and could be associated with the appraisal process (unless IFC was participating in such projects).

Procurement under Bank Sub-Loans (paras. 17-18 of Issues Paper)

16. The meeting endorsed the principle that in the case of DFC projects the Bank should satisfy itself that the DFC requires and ensures that procurement procedures followed are appropriate. The meeting also concurred that international shopping was a satisfactory procedure for DFCs which finance small and medium size projects. However, for DFC financing of large projects, as in the case of MIDB, international competitive bidding (ICB) in accordance with the Bank's guidelines was normally considered to be appropriate. MIDB's proposed policy of requiring ICB rather than international shopping for large projects is satisfactory except that this policy calls for ICB only when the procurement package exceeds \$10 million; this limit is considered to be too high. The meeting therefore agreed that for Bank financed sub-projects individual procurement packages exceeding \$5 million should require ICB in accordance with the Bank's guidelines unless otherwise agreed by the Bank;^{1/} while smaller packages could be procured through international shopping. The appropriate size above which the procurement package would normally require ICB would be further reviewed within the Bank and with MIDB. Also, since MIDB was a first time Bank borrower and not yet very familiar with the Bank's procurement procedures, it should submit for the Bank's review and comment the tender documents for the first two projects requiring ICB to ensure that ICB procedures are followed in a satisfactory manner.

MIDB's Interest Rates (paras. 19-22 of Issues Paper)

17. The meeting took note that (i) MIDB intends to charge borrowers of Bank funds an interest rate of up to 1 percent p.a. lower than on its dollar loans, which is expected to be increased from 10-1/2 to 11 percent p.a., and (ii) MIDB would need a spread of at least 2 percent; thus, MIDB's onlending rate -- using the present Bank's lending rate -- would amount to about 10 percent or more. The mission explained that a rate of 10 percent with the foreign exchange risk borne by the sub-borrowers was a fair approximation of the current market cost of long-term foreign exchange in the international capital markets. Although the applicable international inflation rate (rate applicable to the blend of currencies to be disbursed by the Bank) was difficult to ascertain, it would presently be significantly below 10 percent. Therefore the onlending rate would be positive in real terms. The meeting agreed with the mission's recommendation but suggested

^{1/} Since MIDB's financing of large projects under the Bank loan would cover only a part of the procurement package, it is possible that in some cases ICB may not be appropriate because of the financing package put together.

that the onlending rate should not fall below 10 percent, the minimum rate DIB is required to charge its borrowers under the DIB III project.^{1/}

Industrial Sector Development (para. 23 of Issues Paper)

18. The meeting concurred with the mission's assessment that while there were a number of issues critical to the industrial sector, they had no immediate bearing on the proposed project. MIDB's policy to favor industries which are export oriented and efficient import substitution industries as indicated by appropriate economic analysis was a sound one. The meeting took note of the fact that some of the sector issues (such as pricing, employment and salary policies) are already tackled under ongoing projects which provide more appropriate opportunities for pursuing these issues. The meeting agreed that other more general issues related to the industrial sector which are the subject of an Industrial Sector Memorandum presently under preparation should be discussed with the Government after appropriate review within the Bank.

Cleared with and cc: Messrs. Zaidan, Vijay Chaudhry, Sekse,
Krishna, Hovaguimian

Distribution

Messrs. Banerji, El Daher, Kaps

cc: Mr. Stern (3) (through Mr. Sam)

cc: Messrs. Benjenk, Dubey, Finzi, Richardson, Paijmans, Maiss, Kwaku,
Köpp, Ikram, Knox, El Darwish, Pollan (o/r), K. Jones,
van der Tak (2), Gordon, Thadani, Fuchs, Chittleburg,
Chenery, Bahrier, Perera, Jeurling, Naylor, Gowen,
Maniatis, Oubouzar
Ms. Hughes, Boskey

FKaps/Chaudhry:pb

FK

^{1/} They only bear the exchange risk between the dollar and the Egyptian pound.

OFFICE MEMORANDUM

TO: See Below

FROM: Hans-Eberhard Kopp, Division Chief, Country
Programs Department 1, EMENA Region

SUBJECT: EGYPT: Misr Iran Development Bank (MIDB) Project --
Decision Meeting

DATE: August 22, 1978

You are invited to participate in a decision meeting to consider the Issues Paper dated August 21, 1978, on the above project which has been scheduled for Monday, August 28, at 3:00 p.m., in Room C710.

Messrs. Zaidan, Coudol, Vijay Chaudhry, Banerji,
El Daher, Krishna, Perera

cc: Messrs. Benjenk (o/r), Knox, Dubey, El Darwish, Finzi, D. Richardson (EMNVP);
Gordon, Thadani (IDF);
Paijmans (o/r), Kaji, Maiss (o/r), Kopp, Ikram (o/r) (CPD1, EMENA);
Pollan (o/r) (EMP); Fuchs (IPD); van der Tak (2) (PAS);
Oubouzar, Kaps (CPD1, EMENA)

FKaps:pb

MIDB

OFFICE MEMORANDUM

TO: Distribution List

DATE: November 5, 1979

FROM: George C. Zaidan, Chief, EMENA/IDF

SUBJECT: EGYPT-MIDB: Post-Appraisal (Updating) Mission
Back-to-Office Report

The recommendations of the above mentioned report (attached) on the outstanding issues for the project are in line with the Decision Memorandum of September 7, 1978 and subsequent communications by the Bank with the Egyptian Government and MIDB. As such, the Programs Division (CP1A) and this division agree with the recommendations in this report and that no new issues/decision meeting is called for. If you have any comments, please address them to Mr. Vijay Chaudhry (Ext. 7-6872) by November 12, 1979 to enable us to proceed with the preparation of the Yellow Cover SAR, now scheduled to be issued on November 28, 1979.

Cleared with & cc: Mr. Köpp (EML)

Distribution

Messrs. Karaosmanoglu, Ms. Schaeffer (EML),
Knox, El Darwish, Carmignani, K. Jones, Coudol, El Daher, Banerji (EMP)
Rajagopalan (PAS) (3), Tolbert (IDFD), Fuchs (IPD) (2),
Kaps, Zaborski (EML),
Chenery (VPD), Chernick (PPR), Krishna (LEG),
Hakim (CTR), Frank (IFC), Tan (CEM)
EMENA Information Center

VKChaudhry:cc

OFFICE MEMORANDUM

TO: Mr. George C. Zaidan

DATE: November 2, 1979

FROM: Vijay K. Chaudhry *VKC*SUBJECT: EGYPT: MIDB Post-Appraisal (Updating) Mission
Back-to-Office Report

1. In accordance with my TOR dated September 21, 1979 I visited Egypt to update the appraisal of MIDB. Mr. El Darwish participated in discussions on the principle issues with the Government and MIDB.

2. The mission has obtained all necessary data and information for updating the appraisal of MIDB for the SAR. All data except the projections were reviewed with MIDB in the field. The revised projections of MIDB's operations and finances were not ready prior to the mission's departure but have since been received by the mission. Detailed assumptions for these projections were discussed and agreed by the mission with MIDB so that the final projections should raise no issues. Preliminary analysis of the projections confirms this view.

ISSUES

3. The status of the previously identified issues for the proposed loan -- MIDB's share capital increase, its financial exposure in MIRATEX project and the indirect lending arrangement for the proposed loan to MIDB (through the Government) -- is reviewed below. Linked to the third issue is the issue of the onlending interest rate by MIDB, its spread and a proposed spread for the Government. Also reviewed below are MIDB's resource requirements and its plans for mobilizing needed resources. This is followed by the mission's recommendation to continue processing of the proposed Bank loan and a timetable for the same.

MIDB's Share Capital Increase

4. All of the four existing (equal) shareholders of MIDB -- Bank of Alexandria (BOA) and Misr Insurance Co. from Egypt, Bank Melli and Industrial and Mining Development Bank of Iran (IMDBI) from Iran -- subscribed to the increase in share capital from \$20 million to \$40 million in July 1979. Payment of the initial 25% of the increase has been completed by all but IMDBI. The delay in payment by IMDBI (of \$1.25 million) is reportedly due to administrative problems and payment is expected anyday (due date was September 14, 1979). In the unlikely event that IMDBI does not make the payment, the shares can be sold to other parties by a decision of the Board, which is scheduled to meet next on December 14, 1979. At issue here is not so much the additional resources this shareholder(s) will provide to MIDB but confirmation of the ownership structure of MIDB. Maintaining the status quo i.e. 50:50 Egyptian:Iranian ownership would continue to be acceptable even though recent events have shown the difficulties that

such mixed ownership causes. Reduction of the Iranian share by bringing in other foreign shareholder(s) or by a change to majority Egyptian ownership would also be acceptable provided changes in MIDB's management and policies, if any, are satisfactory to the Bank.

5. The remaining 75% of the capital increase will be payable on call by the Board prior to September 1984 (within five years). MIDB's management has agreed that apart from other reasons (such as maintenance of debt/equity policy limit) this capital will become payable if the amount of short-term resources used by MIDB for long-term investments at any time for more than a one month period exceeds 50% of term deposits with MIDB (these generally range up to 6 months maturity). 1/ Confirmation of MIDB's Board to this triggering mechanism will be obtained at their December meeting.

Recommendation

6. Progress toward resolution of the capital increase issue is satisfactory. The delay in payment by IMDBI is not critical for MIDB or for processing of the proposed Bank loan at this stage. Payment by IMDBI or by a substitute party of the initial payment of \$1.25 million (against a subscription of \$5 million) should be completed prior to negotiations for the proposed loan. In the unlikely event of a change in MIDB's ownership structure, changes in MIDB's management and policies, if any, would need to be reassessed by the Bank (also prior to negotiations).

MIDB's Exposure in MIRATEX Project

7. MIDB has already secured a counter guarantee from BOA for \$10 million of the \$23.8 million Iranian loan to the project guaranteed by MIDB. The 1.5% guarantee fee on the loan will be shared equally between BOA and MIDB. The National Bank has agreed to counter guarantee the remaining part of the loan for the full 1.5% fee, subject to an increase in the share capital of MIRATEX (to cover cost overruns). Such an increase has been approved by both the Egyptian and Iranian shareholders of MIRATEX and the payment is expected by January 1979. 2/

8. A counter guarantee by National Bank of \$12 million, planned by MIDB, will reduce MIDB's overall financial exposure in the project (including its direct loan of \$0.7 million -- part of a syndicated loan managed by MIDB -- and around \$3.6 million equivalent in guarantee of a Swiss credit) to around \$6 million, as agreed with the Bank.

Recommendation

9. Arrangements made by MIDB to reduce their financial exposure in the MIRATEX project are satisfactory. Confirmation of the counter guarantee from the National Bank (for \$12 million) should be obtained prior to negotiations.

1/ This is in accordance with the recommendation in the original draft SAR (white cover) of October 30, 1978.

2/ According to Mr. Sultan, the Egyptian shareholders have agreed to take the entire increase in share capital if the Iranians do not take their share.

Lending Arrangement for the Proposed Loan

10. Mr. Samir Koraïem, Undersecretary in the Ministry of Economy, Foreign Trade and Economic Cooperation (MEFTEC), reconfirmed the Government's position that due to legal reasons the Government can not guarantee a Bank loan to MIDB (or to other private/joint venture companies established under Law 43). The Government will be the borrower of the proposed loan and onlend the proceeds to MIDB. Raising a new related issue, Mr. Koraïem said that this onlending will be at an interest rate of around 1 - 1.5% over the Bank's interest rate. The spread for the Government is under discussion between the Government and MIDB.

11. The mission indicated to both parties that the spread for the Government would have to be satisfactory also to the Bank and should depend on an appropriate onlending rate by MIDB to subborrowers, the interest rate on the Bank loan and an appropriate spread for MIDB. Under present market conditions, and given the exchange risk associated with the Bank loan which will be borne entirely by the subborrowers, the maximum interest rate acceptable to subborrowers is judged by MIDB and the mission to be 11%. A spread of 2%, while on the low side, would be satisfactory for MIDB considering its overall profitability. Assuming an interest rate on the Bank loan of 8%, this would leave a spread of at most 1% for the Government. However, the Government feels that to have parliamentary approval of the proposed loan to MIDB, the Government must have a reasonable spread (although this requirement has not yet been quantified by them) and calculation of their spread as above may not prove satisfactory.

12. Mr. Koraïem also confirmed to the mission our previous understanding that the Government will not impose any conditions or restrictions on MIDB's operations other than through MIDB's Policy Statement, which must be satisfactory to both the Government and the Bank. A copy of the Policy Statement has been submitted by MIDB to Mr. Koraïem, and the Government's comments, if any, will be communicated to MIDB and the Bank by end-November. By that time, Mr. Koraïem has also promised to convey to the Bank what amount of spread the Government would want on the Bank loan.

Recommendation

13. While a spread for the Government should be acceptable to the Bank in principle, it should not result in squeezing MIDB's needed 2% spread. The Bank should aim for an onlending rate by MIDB to subborrowers of 11% -- which would entail a real positive cost to subborrowers in line with Bank policy -- and an onlending rate by Government to MIDB of around 9%. The market conditions should be reviewed during negotiations and the onlending rates and spreads should be fixed at that time.

MIDB's Resource Requirements and Mobilization

14. As of September 30, 1979 MIDB's long-term resources (its equity capital of about \$27 million, assuming the initial payment of \$5 million for capital increase as fully paid) were fully committed for long-term

investments (loans and equity participations). Through mid-1982, the estimated period for commitments under the proposed loan, it would need additional long-term resources of about \$60 million (net of internal cash generation). ^{1/} The proposed Bank loan of \$30 million would cover 50% of this requirement, \$15 million will be covered by MIDB's short-term resources backed up by an equivalent amount of share capital increase on call (para. 5), leaving a gap of \$15 million. MIDB has a preliminary commitment from the Arab African Bank to underwrite a \$10 million issue of Certificate of Deposits of 3-5 year maturity at an interest rate to MIDB of 1/4% p.a. over six month LIBOR. In addition, MIDB can reasonably expect to participate as an intermediary in onlending a proposed \$30 million USAID "Private Investment Encourage Fund" for financing medium size industries. MIDB is also exploring other long-term sources of finance.

Recommendation

15. The previous recommendation for a proposed Bank loan of \$30 million to MIDB (as also included in the Lending Program) remains reasonable. The mission feels that MIDB can mobilize the additional resources it needs through mid-1982 and, with the expected continued Government support, also for the longer-term.

Processing of the Proposed Bank Loan: Recommendation

16. Progress on the outstanding issues, as reviewed above, has been satisfactory and the necessary information has been gathered to update the draft SAR. As recommended above, the final resolution of the MIDB capital increase and MIRATEX exposure issues (responsibility of MIDB) should be a condition of negotiations, and the onlending terms for the proposed loan should be agreed during negotiations. There remains a small risk that the issues will not be resolved to the Bank's satisfaction while the Bank expends additional manpower in processing the loan further in readiness for negotiations. In the mission's opinion this risk is worth taking to expedite the loan which is quite critical for MIDB at this stage of its development. The current monthly timetable for processing the proposed loan needs to be revised to incorporate about a one week delay for preparing the Yellow Cover. A revised schedule is proposed as follows:

Yellow Cover SAR	November 28, 1979
Documents to Loan Committee	January 15, 1980
Start of Negotiations	February 4, 1980

^{1/} This amount is about \$25 million lower than the appraisal forecast of last year resulting from a slow down in activities in end 1978/1979 and a lower base for an assumed 25% growth in loan approvals.

Mr. George C. Zaidan

- 5 -

November 2, 1979

Negotiations could be further delayed on account of the above mentioned issues. The Bank's position on processing of the loan, in particular the conditions to be met prior to negotiations, should be formally conveyed to MIDB and the Government.

Hs. Köpp

OFFICE MEMORANDUM

TO: See Below

FROM: Hans-Eberhard Köpp, Division Chief, Country
Programs Department 1, EMENA Region

SUBJECT: EGYPT: Misr Iran Development Bank (MIDB) Project --
Decision Meeting

DATE: August 22, 1978

You are invited to participate in a decision meeting to consider the Issues Paper dated August 21, 1978, on the above project which has been scheduled for Monday, August 28, at 3:00 p.m., in Room C710.

Messrs. Zaidan, Coudol, Vijay Chaudhry, Banerji,
El Daher, Krishna, Perera

cc: Messrs. Benjenk (o/r), Knox, Dubey, El Darwish, Finzi, D. Richardson (EMNVP);
Gordon, Thadani (IDF);
Paijmans (o/r), Kaji, Maiss (o/r), Köpp, Ikram (o/r) (CPD1, EMENA);
Pollan (o/r) (EMP); Fuchs (IPD); van der Tak (2) (PAS);
Oubouzar, Kaps (CPD1, EMENA)

FKaps:pb

Mr. Köpp

OFFICE MEMORANDUM

TO: Mr. George C. Zaidan, Division Chief, EMENA/IDF
 FROM: ^{WIC} Vijay Chaudhry, ^{SD} Shyamadas Banerji, Samir El Daher, EMENA/IDF
 SUBJECT: EGYPT - Proposed Loan to Misr Iran Development Bank (MIDB)
 Appraisal Mission
 Issues Paper

DATE: August 21, 1978

Project Origin and Status

1. The MIDB Reconnaissance Mission Report dated February 15, 1978 and the Pre-Appraisal Mission Back-to-Office Report (and draft Project Brief) dated May 16, 1978 provide the background of the project. In accordance with its terms of reference dated July 10, 1978, the mission consisting of Messrs. Chaudhry, Banerji and El Daher appraised the project in Egypt from July 18 to August 10. The findings of this mission are incorporated in this Issues Paper as well as in the attached (updated) Project Brief. A copy of an Aide-Memoire recording the understandings reached between MIDB management and the mission (but not committing the Bank to any recommendation therein) concerning some of the features of the proposed loan and certain aspects of MIDB's operations is appended to the Project Brief. A separate Aide-Memoire was left with the Ministry of Economy and Economic Cooperation and a copy of that is also appended. 1/

2. Up to the time of appraisal it was anticipated that the proposed loan would finance mainly export oriented industries other than projects in the building materials and construction contracting industry. However, the scope of the project has altered since the appraisal mission. The current proposed allocation of the loan places lesser emphasis on the financing of export oriented industries and introduces a special component for capital goods manufacturing industries. The reasons for these changes are as follows:

- a) Findings of the sectoral studies commissioned by the General Organization for Industrialization (GOFI) and others indicate very limited potential for industrial exports in the near future;
- b) There is considerable scope for efficient import substitution projects, particularly in capital goods manufacturing industries. A priority is now assigned to this sub-sector as explained in paras. 13 and 14 of the Project Brief;
- c) It has now been confirmed that MIDB's clients can legally purchase foreign exchange in Egypt for their requirements (including debt-servicing in foreign exchange) and, therefore, do not have to depend on their own foreign exchange earnings (mainly exports).

? para. 9
 project brief
 call out 1 & 2
 call out 1 & 2

1/ The contents of the two Aide-Memoires are incorporated in the Issues Paper.

3. Tourism projects are not included for financing under the proposed loan as earlier anticipated; MIDB considers itself over-extended in this sector -- particularly in hotel projects, given the large increase in hotel capacity under implementation in the main touristic center: Cairo -- and therefore does not plan new investments in this area over the next couple of years. Financing of agro-industries -- which was left open at the time of pre-appraisal because of possible conflict with the Bank's proposed agro-industry project in Egypt -- is proposed to be permitted since no conflict is anticipated. There is potential for economic investments in the sector, which is given high priority by the Government.

amc
amc
here at
- Egypt

Objectives

4. The objectives of the proposed Bank loan would be to support MIDB in the fulfillment of its role of promoting and financing medium and large industries in the private sector in Egypt with special emphasis on providing assistance to the construction and capital goods manufacturing industries, as well as export oriented projects. The Bank assistance will include provision of finance to cover a part of MIDB's resource requirements as well as efforts towards institution building of MIDB. Although MIDB is a well run organization its management is keen on obtaining the Bank's guidance and assistance in strengthening the institution and to establish a good reputation in the international financial markets for future resource mobilization. Bank missions have already made a substantial contribution in helping MIDB develop its policies, operational and lending strategies and plans, and its management information system. Assistance in these and other institutional aspects is expected to continue to be provided by the Bank through supervision missions. The Bank will also assist MIDB in arranging suitable training for its staff at EDI and other institutions.

Rule 7
IFC?

Scope

5. The proposed loan will finance industrial projects -- defined to include mining, manufacturing, processing and related service activities 1/ -- as well as projects which add to capacity or improve the quality of the construction contracting industry. The financing in the form of loans and/or equity participation will be confined to projects in the private sector in Egypt which includes also companies with public sector shareholding established under Law 43/1974. As a matter of policy, however, MIDB does not finance companies in which public sector shareholding is in the majority. The allocation of the loan is proposed as follows:

- a) a minimum of 25% of the loan amount for building materials and construction contracting industries;

1/ This definition includes agro-industries but excludes tourism industries.

- b) a minimum of 25% for capital goods manufacturing industries;
- c) a minimum of 25% for export oriented industries (projects that are estimated to export at least 20% of their output in value would qualify); and
- d) the remaining for other economically viable industrial projects. Projects in all of the above categories will have to show economic rates of return in excess of the opportunity cost of capital in Egypt which is currently estimated at about 10%.

Only the foreign exchange expenditures of the projects will be financed with the loan proceeds made available by MIDB either in the form of sub-loans or equity investments.

Proposed Loan Amount

6. Based on MIDB's resource position and requirements over about a two year period through mid-1981 1/, a Bank loan of \$30 million (as currently included in the lending program) is recommended.

7. MIDB's existing long-term resources of about \$21 million (share capital and free reserves) have been fully committed for long-term loans and equity investments. Additional commitments for long-term loans and equity investments of about US\$ 20 million through mid-1979 would be covered by short-term resources but against a commitment of the shareholders to cover this amount by additional long-term resources to be provided by them should MIDB encounter any liquidity problems. (see para. 15). For the period mid-1979 to mid-1981, MIDB's additional commitments for long-term loans and equity investments are projected at about US\$ 50 million. The proposed Bank loan will cover 60% of this resource gap, and MIDB hopes to mobilize the remaining amount from other sources with the support of the Egyptian and Iranian Governments. 2/

high?
chances? more
by A.M. for Belg

Project Issues and Recommendations

8. The management's endorsement of the objectives and scope of the project, as defined above, is sought at this stage to facilitate further processing of the proposed loan. Issues identified prior to appraisal have been resolved or are expected to be soon resolved as outlined under Section A below. Other issues and some important features of the proposed loan/project that may be considered as issues are discussed under Section B.

< mm. 4
- personally
mid. 5
DIB -
MIDB !

1/ Assuming the Bank loan will become effective around mid-1979.

2/ An earlier reported proposed loan of \$15 million from the Iranian Government is still a possibility but is not very firm.

August 21, 1978

A. Issues Identified Prior to AppraisalGovernment Guarantee of Proposed Loan and
Future Assistance to MIDB in Mobilizing Resources

9. The Egyptian Government has agreed (by its cable dated July 3, 1978) to provide 100% guarantee for the loan instead of its earlier proposal to share the guarantee with the Iranian Government. The Egyptian Government has also confirmed its intention to assist MIDB in mobilizing additional resources in future until MIDB can mobilize resources on its own standing (See Aide-Memoire, Annex 1 to Project Brief). ✓

Recommendation

The issue has been satisfactorily resolved. ✓ *arranged? how? what is cancelled?*

MIDB's Financial Exposure in Miratex Textile Project

10. MIDB has guaranteed an Iranian Government loan of \$23.9 million for the Miratex project (a joint-venture project of the Egyptian and Iranian governments). The guarantee exposes MIDB to an excessive financial risk given that MIDB's equity capital at present is only about \$21 million (and according to its policy statement its total financial exposure in a single company should normally not exceed 15% of MIDB's equity). The pre-appraisal mission asked MIDB and its Iranian shareholders to explore ways and means to eliminate or reduce MIDB's financial risk associated with this guarantee. The Bank was informed by MIDB prior to appraisal that the issue had been resolved. MIDB management confirmed to the appraisal mission that the Government of Iran (Ministry of Finance) has agreed to provide a letter to MIDB indicating that they will not hold MIDB financially responsible for any losses in connection with the guarantee. The original guarantee would stay, however, since the loan apparently has to be guaranteed for official purposes by a bank and the Iranian Government would rather have MIDB benefit from the associated guarantee fee (1-1/2% p.a. on the loan amount disbursed and outstanding). MIDB has requested the Bank to help draft an appropriate letter for the signature of the Iranian Government. *would to see proper - by agreement by report.*

Recommendation

While the solution to the issue offered by MIDB and, reportedly, by the Iranian Government, seems odd considering that MIDB would get the guarantee fee while not being responsible for any financial losses related to the guarantee, it will take care of the Bank's concern and, therefore, should be acceptable to the Bank. A letter from the Iranian Government to MIDB, satisfactory to the Bank, should be ✓

obtained prior to or during negotiations for the proposed Bank loan. The Bank should provide the assistance requested by MIDB in drafting such a letter.

✓ *task done*
A.M.

Assumption of Foreign Exchange Risk on the Bank Loan

11. MIDB's management had expressed concern to previous Bank missions regarding the assumption of the foreign exchange (f.e.) risk on the proposed Bank loan by the sub-borrowers (the ultimate beneficiaries). This concern, which was reiterated by MIDB to the appraisal mission, relates to the f.e. risk between the dollar and other currencies disbursed by the Bank and not between the dollar and the Egyptian pound, since all MIDB loans so far have been made in dollars anyway.

12. Discussions with the Governor of the Central Bank of Egypt (CBE) and the Ministry of Economy and Economic Cooperation confirmed their position that they are not prepared to assume any part of the f.e. risk, unlike the case of the recent Bank loan to the Development Industrial Bank where the Government agreed to assume the risk between the dollar and other currencies owed to the Bank.

13. Despite its concern MIDB is agreeable to pass on the entire f.e. risk to the sub-borrowers. To compensate the borrowers for the higher risk perceived under the Bank loan compared to its dollar loans, MIDB proposes to charge borrowers an interest rate of up to 1% p.a. lower than on its dollar loans provided it can keep a satisfactory spread for itself -- a minimum of 2%. This spread will ensure an onlending interest rate on Bank funds commensurate with the cost of foreign exchange resources in Egypt and in the international capital markets. (See para. 20).

14. However, MIDB requests that the Bank disburse a fair blend of currencies under the loan to all the sub-borrowers -- a blend that fairly approximates the blend of Bank's borrowings which would determine the Bank's interest rate at the time of loan approval. Ideally, MIDB would like the repayment obligation for each of the sub-borrowers to be in dollars only. The appraisal mission took note of MIDB's request but conveyed that no assurance could be provided to MIDB in this respect.

Recommendation

Since the issue of disbursements of various currencies under Bank loans (and the associated foreign exchange risk involved for borrowers) is already under review in the Bank, the mission recommends that MIDB's concern and consequent request that disbursements be in a fair blend of currencies -- an issue relevant to all Bank loans and particularly to DFC loans, which involve several sub-borrowers -- be given due consideration by

August 21, 1978

the Bank's management. This issue is most significant these days given the wide divergence of interest rates on loans in different currencies in the international capital markets in conjunction with the different exchange risks associated with those currencies (as perceived by the market). The interest rate on Bank loans ought to be closely tied, therefore, to the blend of currencies which form the repayment obligation of the borrowers. Whether or not MIDB's concern is met, however, it has agreed to pass on the foreign exchange risk to the sub-borrowers. 2 11

B. Other Issues

Utilization of Short-Term Resources for Long-Term Investments by MIDB

15. As mentioned in para. 7, MIDB's existing long-term resources are fully committed. Additional commitments for long-term loans and equity investments of about \$20 million through mid-1979 would need to be covered by short-term resources. The shareholders of MIDB, at their Annual General Meeting in April 1978, authorized the utilization of up to 20% of MIDB's short-term deposits (which totalled \$95 million as of June 30, 1978), but not exceeding \$20 million, for long-term investments. In accordance with MIDB's draft Policy Statement, which will be finalized in agreement with the Bank, short-term resources may be utilized for long-term investments only to the extent that they are covered by an equivalent amount of additional long-term resources which will be provided by the shareholders in case MIDB encounters any liquidity problems. In this respect, MIDB's Board in its meeting in July 1978 resolved to recommend to the shareholders an increase in MIDB's share capital from \$20 million to \$40 million -- the increase to be paid in as and when requested by the Board taking into account MIDB's overall liquidity and resource requirements. Though the agreement of the shareholders -- two Iranian and two Egyptian financial institutions who are all represented on the Board -- is considered to be a formality by MIDB management, it needs to be confirmed. tie in with some indication of need (liquidity ratio)

Recommendation

The agreement of MIDB's shareholders to provide \$20 million in additional long-term resources (through an increase in the share capital or some other means) should be confirmed prior to or during negotiations. MIDB's management is agreeable to this requirement, which should be confirmed by the Bank. 11 ✓

August 21, 1978

only 4 million
clearly demonstrates
monthly rateFinancing of Large Sub-Projects

16. The size of sub-projects for Bank financing would generally range between \$5 million and \$25 million in total cost which is the normal target group for MIDB financing. However, projects of smaller or larger size are not proposed to be excluded. MIDB's current project pipeline includes two (out of 34) projects exceeding \$25 million in total cost. Large projects are financed by MIDB where it plays a promotional role in mobilizing additional resources for the project from other financial institutions. Also most such projects have reputable foreign sponsors and expert consultants are involved in project preparation and/or MIDB's appraisal. To further ensure that large projects (total cost exceeding \$25 million) submitted for Bank financing are appraised in a manner satisfactory to the Bank, MIDB is agreeable to Bank participation in the appraisal of such projects. MIDB will advise the Bank of such projects at an early stage of project appraisal.

spread
bank
(140)
(current DFC)
A100 (day)
high use? DFC
IFC
1800, 200 for
ready made
project

limit to \$20

what is break down?

Recommendation

The Bank should reserve the right to participate in the appraisal of a sub-project whose total cost exceeds \$25 million. The Bank should comment on the TOR of the feasibility study and/or on the feasibility study (if MIDB is provided with one by the project's sponsors) as appropriate. Participation of the Bank in the field appraisals of such projects in conjunction with MIDB should also be useful. In any case, all such projects would require the Bank's approval (as "A" sub-projects or sub-projects above the free limit). The actual participation of the Bank in the appraisal of such projects -- which are not expected to number more than two or three -- can be decided on the merit of each case. However, since MIDB's project pipeline -- like that of any DFC -- is constantly evolving, it is not possible to identify such projects at this time.

how (exception)?
only above \$25m
(not lower limit)

not always?

Why line
of credit
for such big
projects and
not shared
financing?
but pipeline
full of
potential
- important
- correct?
- leverage?

To ensure that the Bank loan is used to finance a fair number of sub-projects, and not just a few large sub-projects, it is proposed to limit the maximum size of a sub-loan normally to \$3 million. MIDB's own policy also limits its financial exposure in a single company to about \$3 million at present, but this limit can be waived by its Board.

Procurement under Bank Sub-Loans

17. MIDB's general guidelines governing procurement procedures are enunciated in its draft Strategy Statement, dated August 10, 1978, which will be finalized in agreement with the Bank (See Aide-Memoire, Annex 2 to

who?

August 21, 1978

Project Brief). These guidelines call for limited ICB procedure (bidding limited to prequalified suppliers who are invited to qualify through international tender) for large projects or bid packages exceeding \$10 million. For smaller procurement packages it ensures that procurement is based on bids from several suppliers through international shopping. For projects where technological considerations may determine the foreign partner and, possibly, the supplier, due attention is given to cost effectiveness of the proposed technology. Disbursement of MIDB financing in all cases is subject to procurement procedures being satisfactory to MIDB. *supplies credit*

18. For the Bank sub-loans MIDB proposes to apply the same procurement procedure as above.

Recommendation

MIDB's procurement procedures as stated in the draft Strategy Statement are considered satisfactory and the same should be acceptable for the purposes of the Bank loan. No special procurement procedure is therefore recommended. The task of checking observance of procurement procedures and selection of suppliers is proposed to be left to MIDB, which will report on the same in sub-project appraisal reports submitted to the Bank. Bank supervision missions to MIDB will also follow-up on MIDB procedures and practices. The foregoing are in line with normal procedures under DFC loans. *Full ICB beyond action limit? (Yug. 4m/)*

MIDB's Interest Rates and General Interest Rates in Egypt

19. The interest rate on MIDB loans, which so far have been made in dollars and are repayable in dollars, is currently 10-1/2% p.a. MIDB is considering raising this to 11% p.a. The other main source of long-term foreign exchange loans is DIB (essentially dollar loans) which is currently charging 10-1/2% to 11% p.a. (except on SSI loans from special funds). Foreign exchange loans provided by other institutions (mostly short-term and some long-term) generally carry floating interest rates of about 2% over LIBOR (currently around 9-1/4% p.a. on dollar loans).

20. MIDB's interest rate is in line with the cost of foreign exchange in Egypt and in international capital markets. MIDB's onlending interest rate on Bank funds will be at least 2% p.a. over the cost of Bank funds to MIDB. This onlending rate may be lower than the interest rate charged by MIDB on its dollar loans to compensate the borrowers for the higher foreign exchange risk associated with Bank funds (para. 13), but it would be in line with the cost of similar resources in the international capital markets.

7.9 + 2%

What will the interest rate be (as compared to DIB?)

21. Interest rates on local currency loans are regulated by the Central Bank of Egypt. MIDB's charter does not permit it to deal in local currency. Since late June 1978, interest rates on local currency loans have been increased. They can range between 9% and 11% as compared to 8% - 9% before. A similar increase has also been effected on term and savings deposits. This brings the total increase in lending rates to 4% (in the ceiling) over the last 2-1/2 years or so.

22. Official indices of wholesale and retail prices indicate an inflation rate in the last three years of some 10 - 22% p.a. As the indices give a heavy weight to price controlled products, a more realistic estimate of the inflation rate in the past three years would be 15 - 25% p.a. In the light of understandings recently reached with the IMF, the rate of inflation is expected to decline in the next 2 - 3 years, perhaps to a rate below 10% p.a. by 1981. Interest rates on local currency loans would thus reach positive levels.

Recommendation

MIDB's proposed onlending interest rate on Bank funds (para. 20) should be acceptable to the Bank. Interest rates on local currency loans are currently negative but are moving in the right direction. No Bank action is recommended in this respect.

10/1

Industrial Sector Development - Issues

23. There are several issues pertaining to the Industrial Sector in general but these are not critical to the proposed loan. The major issues relate to anomalies in government policy in the granting of investment incentives, inadequacy of export incentives, continued price control over a variety of products including some with high income elasticity of demand, anomalies in protection and low levels of tariff on capital goods, as well as the lack of a comprehensive development strategy for the industrial sector. These issues are under study in the IDF Division and will be discussed in the staff appraisal report on the proposed loan as well as in the Industrial Sector Memorandum on Egypt currently under preparation. The issues were briefly discussed by the appraisal mission with Mr. Ibrahim Sharkas, Deputy Chairman of GOFI, and with Mr. Gamal El Nazer, Deputy Chairman of the General Authority for Investment and Free Zones. Both expressed an interest in receiving the Bank's recommendations on the issues in writing. Appropriate officials from the Ministry of Industry (other than GOFI) were not available for discussion during the mission.

Would
any of
these
anomalies
make
MIDB fair-
ness
projects un-
viable?
para. 7 project
brief

Recommendation

It is recommended that the sectoral issues be formally discussed with the Government after an

internal review of the Sector Memorandum within the Bank. The appraisal mission believes that the Government will be receptive to specific recommendations from the Bank.

Attachments

cc: Messrs. Benjenk, Dubey, Finzi, Richardson, Paijmans, Maiss, Kwaku, Köpp(3), Kaps, Ikram, Knox, El Darwish, Pollan, K. Jones, Stern(3), van der Tak(8), Gordon(5), Thadani, Fuchs, Chittleburg, Chenery, Bahrier, Krishna(2), Perera, Jeurling, Naylor, Gowen, Maniatis, EMENA Information Center
Ms. Hughes, Boskey

VKChaudhry/SBanerji/SElDaher:ak

PROJECT BRIEF

Sector: Development Finance Company	Date this Brief: August 21, 1978
Project Code: 5EGTDDO 4	Date last Brief: May 16, 1978 <u>1/</u>
Appraisal Date: July 18 - August 10, 1978 (completed)	Project Officers: Vijay Chaudhry Shyamadas Banerji Samir El Daher

EGYPT - MISR IRAN DEVELOPMENT BANK

A. SECTORAL CONTEXT

Industrial Sector

1. For background information on the industrial sector in Egypt, and the Bank's role and sector lending strategy, the reader is referred to the SAR on Development Industrial Bank (No. 1809a-EGT) dated February 28, 1978.
2. The Government's five-year development plan for 1978-82 (the Plan) does not provide any definitive and comprehensive strategy for industrial development (which is also true for many other sectors). The development strategy based on the nationalizations of the early sixties led to haphazard and often inefficient development of the public industrial sector. Over the past few years the Government has been attempting to gradually revert back to a free market system which can generate its own price signals for development. The present situation -- lack of either a centralized planning system or a free market economy (given price controls and other anomalies) -- does not allow proper directioning of industrial growth. While it is unlikely that there will be a clear cut and rational strategy for industrial development in Egypt in the near future, the Bank, through its continued efforts, can help promote greater rationalization in the development of the sector. The subject is discussed further in the context of MIDB's sectoral priorities for lending (paras. 7 - 15).

Financial Institutions Serving the Industrial Sector

3. The survey of financial institutions serving the industrial sector indicates little change from the description in the SAR on the recent loan to DIB. The development finance activities of DIB and MIDB continue to dominate lending to industry. MIDB is carrying out an effective role in getting other financial institutions (primarily the

1/ Draft Project Brief distributed with the Pre-Appraisal Mission's Back-to-Office Report dated May 16, 1978.

Bank of Alexandria, Misr Insurance Co., Arab African Bank, Arab International Bank, Kuwait Egyptian Investment Co. and the Saudi Egyptian Industrial Development Company) to cofinance projects with it. These institutions depend on MIDB (or sometimes DIB) for appraising projects for cofinancing but some have also financed a few projects on their own. In addition, Bank Misr is getting increasingly active in the financing of large industrial projects while the National Bank has shown interest in small scale industry financing. Among the several joint venture banks (other than MIDB) and branches of foreign banks, so far only Cairo Barclays has been active in industrial financing; a few of the others are expected to provide some industrial financing as they get better established. By and large the financial needs of the industrial sector can be expected to be met adequately by the above institutions.

Role of MIDB

4. The management and shareholders of MIDB foresee the role of MIDB as the promotion and financing of medium and large industry, particularly promotion of joint-ventures that bring in appropriate foreign technology as well as foreign investment. This role of MIDB in Egypt would be similar to an extent to the role that the Industrial and Mining Development Bank of Iran (IMDBI) has played in Iran, and IMDBI as a shareholder of MIDB certainly influences such a role. MIDB's loans are disbursed and have to be repaid in foreign exchange. While some of the projects financed by MIDB might generate sufficient foreign exchange (through export or local sales in foreign exchange) others would have to purchase the foreign exchange for servicing their foreign currency loans. Most MIDB financed projects are established under Law 43 and, under the current foreign exchange regime, do not have access to the "parallel foreign exchange market". They can purchase foreign exchange, however, in the "own exchange (or free) market". A confirmation has been obtained from the Government that such purchases in the free market are legal and that MIDB's clients will continue to have access to some legal foreign exchange market (see Aide-Memoire, Annex 1). It may be noted that officials of the Central Bank had created doubts in the mind of the mission on the legality of purchases of foreign exchange in the own exchange market; further exploration proved that purchases and sales of foreign exchange in this market are legal (Law 97/1976) and the Ministry of Economy has confirmed this.

5. As a joint venture bank with equal local and foreign participation in its equity (50:50), MIDB cannot deal in local currency, but this has not so far constrained its activity and is unlikely to prove a constraint in the foreseeable future. MIDB has been successful in mobilizing local resources for its projects (for its clients), when required, primarily from its two local shareholders: the Bank of Alexandria and Misr Insurance Company. A change in MIDB's ownership structure from 50% Egyptian and 50% foreign (Iranian) to majority (51% or more) Egyptian would allow it to operate in local currency. This

change is possible but is not desired by MIDB since it would take away some of its freedom in foreign exchange transactions which is felt to outweigh the advantage of local currency operations at present.

6. MIDB is carrying out its role of promoting and financing Egyptian industry almost exclusively amongst the financial institutions in Egypt. Although the Development Industrial Bank (DIB) -- an existing client of IDA and the Bank -- is more important in terms of total volume of industrial finance provided, so far it has not had the institutional resources to actively promote industry. DIB is active in the financing of small scale industries and reconstruction and expansion of medium scale industries. The large demand for DIB assistance from such projects is likely to continue to keep DIB's promotional activity to a negligible or low level in the foreseeable future. There is ample room for both DIB and MIDB in contributing to industrial development in Egypt. MIDB's business prospects appear bright provided the Egyptian Government continues to support it in mobilizing resources. A measure of support has been shown by the Government in its willingness to seek and guarantee a Bank loan for MIDB, and an assurance of future support has also been provided to the Bank (see Aide-Memoire, Annex 1). The support of the Iranian Government through provision of additional resources or assisting MIDB in mobilizing other resources is also expected by MIDB and the Egyptian Government.

B. SECTORAL PRIORITIES FOR MIDB LENDING

7. MIDB's role as a development finance institution serving primarily the Egyptian economy, requires that its sectoral priorities should be determined by the overall development needs of the economy, the investment opportunities in the sub-sectors of interest and to some extent by its preference for projects of a particular type as indicated by joint ventures, size, ownership and risk. The lack of a comprehensive and adequately spelled out industrial development strategy at present makes the task of establishing sub-sectoral priorities difficult. Nevertheless, on the basis of sector studies undertaken by government agencies and the overall national development plan, priority sectors for focussing the Bank's promotion and financial operations have been identified and agreed with MIDB. //

8. In terms of a general policy giving preference to specified types of projects, MIDB would favor industries which are export oriented and efficient import substitution industries as indicated by appropriate economic analysis. Projects which introduce new technologies into Egypt, particularly where demonstration effects may stimulate other domestic industries would also be given priority. Socioeconomic considerations of employment generation and regional/location effects would also be taken into consideration in project design and implementation. The emphasis on appropriate economic analysis to evaluate the efficiency of investment projects is particularly important at this stage of development of the Egyptian economy. The economy still depends on administered prices as well as high tariffs which often leads to significant diver-

*Does this
not apply
to all
projects?*

gence between economic and financial viability. Industries that would be beneficial in real economic terms may be financially unsound and vice versa. In this context MIDB's emphasis on export orientation and efficient import substitution is vital to sound project choice. In promoting projects which face administered prices, MIDB will seek government approval to import inputs at parallel market rates and sell output domestically at CIF or uncontrolled prices in order to ensure project viability.

9. Six sectors have earlier been identified by the Bank and the Government as priority groups for special study. These include building materials, engineering industry products, textiles, food and agro-processing industry products, metallurgical products and chemicals including pulp and paper. These sector studies have been financed by the Bank under the auspices of the General Organization for Industrialization (GOFI) and have more or less been completed. Each study has identified potential investment opportunities in the related sector on the basis of market studies and assessment of the strength and weaknesses of the sector. Another study of the industrial sector has been undertaken as a part of the Suez Canal Regional Development Plan which also has identified potential projects in several sectors. A small number of these projects have been included in the 1978-82 industrial plan. There is scope for exploitation of the additional investment opportunities by private entrepreneurs either as pure private projects or as joint ventures with public participation. However, all of the industrial sector studies have indicated the very limited scope for export based non-traditional industries in the near future, until the current weaknesses in the technological base, specialized skill shortages and other deficiencies have been rectified. While MIDB will finance projects in all of the above mentioned sectors provided general evaluation criteria are fulfilled, it would give priority to the building materials and construction contracting industry (construction sector) and to capital goods manufacturing industries, particularly non-electrical machinery, electrical machinery and transport industries.

Construction Industry

10. The construction industry has a vital role to play in the realization of the Plan. The construction volume required for the planned public sector investments and expected private investment is LE 775 million in 1978 rising to LE 1259 million in 1982 totalling LE 4874 million over the five year period 1978-82.^{1/} The actual volume of work carried out by the domestic construction contracting industry almost doubled from an estimated LE 277 million in 1973 to LE 541 million in 1975 due largely to the reconstruction program. However, this impressive growth in construction could not be sustained in 1976 and 1977,^{2/} and the industry has been experiencing increasing shortages of building mater-

^{1/} In 1975 constant prices.

^{2/} The volume of construction in 1976 and 1977 is estimated at about LE 550 million and LE 600 million respectively.

ials (particularly cement and steel) as well as of skilled and semi-skilled labour (due to emigration of workers attracted by higher wages in neighbouring Arab countries). The construction capacity, particularly of private sector companies, is further constrained, by outmoded technology (machinery, equipment and methods of construction). Inefficient management practices have also been noted in several cases where projects have encountered extensive delays. The development of the construction industry deserves special attention to ensure that the needed construction capacity is available and construction works can be carried out in a timely and efficient manner.

11. The Government has tentatively agreed with the Bank to conduct a study of the construction sector (likely with Bank financing under some future loan) to formulate and implement a comprehensive strategy for the development of the sector. Draft terms of reference for such a study have been provided by the Bank to the Government. At the same time the Government has requested Bank assistance for the sector through the proposed Bank loan to MIDB although it is recognized by all parties concerned that such assistance can only marginally benefit the sector and will be limited to the private sector.

12. The preappraisal mission's survey of the financing needs of the private contracting industry for purchase of machinery and equipment (for modernization), showed that most individual companies would require at most small loans of about \$200,000 or less. MIDB is not interested in making small loans.^{1/} However, many of the contracting companies would be interested in leasing equipment, and MIDB is exploring the feasibility of setting up one or more leasing companies to promote and finance the same. Additionally, companies for soil testing and drilling, civil construction and erection are expected to be established soon under a MIDB promoted holding company for construction named MIFIC. In the building materials sector, MIDB's project pipeline includes projects for cement bricks, doors and windows, p.v.c. pipes, pre-fabricated (wall) panels and premixed concrete. While it is difficult to pinpoint specific projects that might receive Bank financing through MIDB -- as is typical for most DFC loans -- MIDB is willing to put special emphasis in promoting and financing building materials and contracting industry projects. About one fourth of MIDB's financing to date has gone to such projects establishing MIDB's ability to provide assistance to this sector.

The Capital Goods Manufacturing Industry

13. The demand for capital goods in the Egyptian economy has been accelerating in recent years as a result of both growth in industrial output and need for modernization in various industrial sub-sectors. Agriculture is also undergoing rapid transformation with the greater use of mechanization as well as more intensive use of inputs such as ferti-

^{1/} Such loans are being made by DIB.

lizers both of which in turn generate greater demand for capital goods. Similarly, the construction contracting sector is rapidly expanding and its modernization would generate an increasing demand for construction equipment. For the three major components of the capital goods industry (non-electrical machinery, electrical machinery and transport equipment), the GOFI engineering sector study shows that apparent domestic consumption more than doubled between 1972 and 1975 to about LE 390 million while domestic supply as a percent of consumption was only about 5% for non-electrical machinery, 56% for electrical machinery and 34% for transport equipment. Clearly there is considerable scope to enlarge the share of domestically produced capital goods through import substitution projects. The constraints to the development of the sector are market size limitations for some products, lack of technology and limited entrepreneurial initiatives. Government planned investment in the Plan for engineering industries is around 14% of total industry investment. A fair number of the proposed projects are in the capital equipment area though many involve intermediate component manufacture. There is considerable scope for MIDB to finance identified projects as joint ventures and also to promote joint ventures in collaboration with foreign partners.

14. Prefeasibility studies undertaken on selected projects under the GOFI and Suez sector studies show that many of these projects have adequate domestic markets which would permit economically efficient production to take place as well as provide adequate financial rates of return. Joint venture capital goods projects included in the Plan are for heavy equipment for cement and sugar plants, heavy trucks and buses, agricultural tractors, trailers, railway passenger coaches and intermediate components for the automobile industry. The Suez report identifies potential capital goods projects comprising agricultural threshers and cultivators, pumps, light construction cranes, concrete mixers and related construction equipment, and light earth moving machinery. The GOFI engineering study (whose findings are yet under discussion) has identified additional potentially viable projects involving river barges, overhead cranes, belt conveyors, machine tools, centrifugal pumps, textile dyeing and finishing equipment, electric generators and motors and small (less than 20 horsepower) diesel engines. While this list of potential projects merits further detailed study to clearly establish financial and economic viability, it does point to considerable investment opportunities in the capital goods manufacturing industry. Already MIDB has a number of capital goods manufacturing projects in its pipeline -- switchgear and transformers, steel foundry, heavy machinery for cement plants and intermediate components for passenger cars. However the prospects of exports of capital goods other than some simple items are limited for the near future.

Other Sectors

15. Current supply-demand studies and investment plans indicate limited investment potential in textiles (spinning, weaving and converting) through 1982 particularly if the Al-Mariya project is implemented. However, made-up garments and knitted goods have good export prospects in the EEC and other Arab countries and offer investment opportunities.

Opportunities exist in agro-processing and food industries for both import substitution and for stabilizing domestic supplies but domestic supply of raw materials is a limiting factor. Possible projects include manufacturing yeast, soybean oil, animal feeds, corn syrups and flavorings. The chemical sector, which is possibly the fastest growing has diverse potential in both intermediate and final products. Potential opportunities include wooden furniture, leather products, essential oils, cosmetics and some plastic products for exports and import substitution projects in rubber products (tires, rollers, etc.), plastics, basic chemicals, paints, paper and paper board. Mining and metallurgy offer limited investment opportunities for MIDB but steel castings is an area for special attention given the linkage with capital machinery. Non-industrial sectors would receive lower priority in MIDB's sectoral lending strategy.

C. PROJECT FORMULATION AND PREPARATION

16. This section, including the project issues and recommendations, is contained in the Issues Paper, dated August 18, which is being distributed together with this report.

Critical Path for Project Preparation

17. The field appraisal has been completed (July 17 - August 10). The timetable for subsequent steps (loan processing) is as follows:

Decision Memorandum:	September 1
Yellow Cover SAR:	November 3
Documents to Loan Committee:	November 30
Start of Negotiations:	December 11
Board:	February 13, 1979

August 9th, 1978

PROPOSED WORLD BANK LOAN TO
MISR IRAN DEVELOPMENT BANK (MIDB)

AIDE MEMOIRE

The World Bank Mission (Messrs Chaudhry, Banerji and El Daher) for an appraisal of a proposed Bank loan to MIDB met with H.E. Dr. Hamed El Sayeh, Minister of Economy and Economic Cooperation , and Mr. Gamal El Nazer, Deputy Chairman of the General Authority for Investment and Free Zones on August 9, 1978 to present the main conclusions of the mission.

The mission said that it would propose to the Bank's management a loan ^{of about \$ 30 million} to MIDB that will be allocated for financing the construction and contracting industries, capital goods manufacturing industries and export oriented industries in line with Egypt's industrial priorities. Some financing would also be proposed for other projects that would substitute for imports in an efficient and economic manner.

In response to a query from the mission the Minister confirmed that projects under Law 43 (the primary target group for MIDB financing) do not presently have access to the "parallel foreign exchange market" for meeting their foreign exchange needs including those for servicing their foreign currency borrowings. However, such projects can legally purchase foreign exchange in the "own exchange market" provided such transactions (transfers of foreign exchange from one party to another) take place through the registered banks (Law 97/1976 and 43/1973 as amended). Furthermore should there be any revision in the foreign exchange regime in Egypt, the borrowers (clients) of MIDB would continue to have access to some legal source of foreign exchange for debt servicing. Also, it is expected that many projects under Law 43 would be self sufficient in respect of their foreign exchange requirements.

The Minister reiterated the Egyptian Government's willingness to assist MIDB in mobilizing needed resources (from bilateral, multilateral and other sources) to conduct its operations. This assistance is likely to be needed by MIDB more over the next couple of years or so than in later years when it should be in a better position (credit worthiness) to mobilize resources on its own standing in the international capital markets. Govt. support in this respect has already been shown by requesting a Bank loan for MIDB. The Minister also expects additional resources to be provided to MIDB by the Iranian Government or its agencies.

McChau

(World Bank Mission)

El. Nazer

Gamal El Nazer
Deputy Chairman
General Authority for
Investment & Free Zones

August 10, 1978

PROPOSED WORLD BANK LOAN TO MIDB

AIDE MEMOIRE

This memorandum records the understandings reached between MIDB management and the World Bank Appraisal Mission to MIDB concerning some of the features of a proposed Bank loan to MIDB and certain aspects of MIDB's operations.

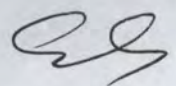
These understandings would form the basis of the Mission's recommendations to the Bank's management concerning the proposed loan but should not be viewed as a commitment on the part of the Bank to agree to any specific recommendation.

MIDB's (Long-term) Resource Position and Requirements

MIDB's existing long-term resources of about 21 million (share capital and free reserves) have been fully committed for long-term loans and equity investments. Additional commitments for long-term loans and equity investments of about US\$ 20 million through mid-1979 would be covered, at least initially, by short-term resources but against a commitment of the shareholders to cover this amount by additional long-term resources to be provided by them should MIDB encounter any liquidity problems.^{1/} For the period mid-1979 to mid-1981, MIDB's additional commitments for long-term loans and equity investments are projected at about US\$ 50 million. A part of this will be covered by the proposed Bank loan, and MIDB hopes to mobilize the remaining amount from other sources with the support of the Egyptian and Iranian Governments.

1/ In this respect, MIDB's Board in its meeting in July 1978 resolved to recommend to the shareholders an increase in MIDB's share capital from \$ 20 million to \$ 40 million. The increase will be paid in as and when requested by the Board taking into account MIDB's overall liquidity and resource requirements.

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Proposed Bank Loan: Purpose and Scope

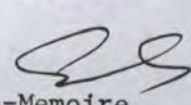
A Bank loan of US\$ 30 million is proposed to cover a part (about 60%) of MIDB's (long-term) resource needs over about two years, mid-1979 to mid-1981. The loan will be restricted to the financing of industrial projects -- defined to include mining, manufacturing, processing and related service activities -- as well as projects which add to capacity or improve the quality of the construction contracting industry. The allocation of the loan is proposed as follows:-

- a) a minimum of 25% of the loan amount for building materials and construction contracting industries;
- b) a minimum of 25% for capital goods manufacturing industries; (*)
- c) a minimum of 25% for export oriented industries (projects that are estimated to export at least 20% of their output in value would qualify), and
- d) the remaining for other projects that would substitute for imports in an efficient and economic manner. (and for projects in service industries related to any of the above four categories)**

(*) The capital goods manufacturing industries essentially consists of engineering industries devoted to the production of capital equipment as well as intermediate components which enter into the manufacture of capital equipment. More specifically these would be capital equipment covered under ISIC 382 (agricultural tools and machinery, metal working machinery, pumps, valves and compressors, industrial engines, mechanical handling equipment, construction equipment, textile machinery, workshop tool and miscellaneous capital products for food processing and other industries), ISIC 383 (switchgear and transformers, industrial batteries, electric motors and generators, machinery systems, industrial refrigeration plant and telecommunication equipment), ISIC 384 (ships, barges and tugs, railway wagons and locomotives trucks, tractors and spares) and ISIC 385 (process control equipment and measuring instruments). Some products under ISIC 381 (fabricated metal products) could also qualify as capital equipment.

vic

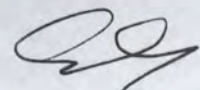
(**) The statement in brackets is not included in the Aide-Memoire left with MIDB. The omission was unintended since the inclusion of service industries for Bank financing was agreed between MIDB and the Appraisal Mission.



The above allocation may be revised with the mutual agreement of MIDB and the Bank during the period of loan commitment for individual projects.

Loan Features and Conditions

- a) A sub-loan (from the proposed loan) for an individual project would normally be limited to a maximum of US\$ 3 million to cover equity and/or loan financing.
- b) The concept and objective of "free limits" under the loan and the related requirements concerning contents of applications for projects within the free limit and above the free limit have been clarified by the mission. A sub-loan for a project whose total cost is less than an amount to be agreed upon (possibly around US\$ 8 million) would fall under the free limit subject to an aggregate free limit for all such sub-loans (possibly around 40% of the total loan). However, the first two sub-loan applications for projects, irrespective of the size of the project, should be submitted to the Bank for its review and approval under the procedure established for projects above the free limit.
- c) The foreign exchange risk on Bank sub-loans shall be borne by the sub-borrowers (MIDB's clients). Since the exchange risk on Bank funds is viewed as greater than ^{on} the usual "dollar loans" made by MIDB, MIDB may charge the borrowers a lower interest rate on Bank sub-loans than on its dollar loans, provided, that MIDB's spread (between lending and borrowing rate) on Bank funds is satisfactory -- at least 2% p.a. unless otherwise agreed between MIDB and the Bank. MIDB ~~reiterated~~ ^{reiterated} its concern to the mission regarding the Bank's policy of disbursing various mix of foreign currencies (and passing on the associated exchange risk) which may not be consistent with the mix of currencies (and their weights) that determine the cost of the Bank loan at the time of approval by the Bank. MIDB hopes, therefore, that its concern will receive due consideration by the Bank. Ideally MIDB would like the repayment obligation for each of the sub-borrowers to be in dollars only. The mission



took note of MIDB's concern and request but clarified that no assurance could be provided to MIDB regarding any change in the Bank's current policy.

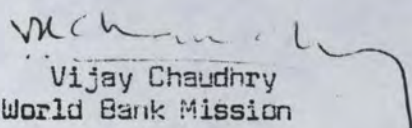
- d) For any project whose estimated total costs exceeds US\$ 25 million and for which financing is likely to be requested under the Bank loan, MIDB will inform the Bank of the project at an early enough stage of its appraisal to allow the Bank to participate in the appraisal if it so wishes.

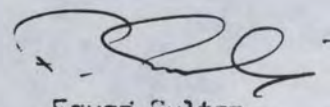
MIDB's "Statement of Policy" and "Strategy Statement":

Draft statements (attached) have been tentatively agreed between MIDB management and the mission. The final statements approved by MIDB's Board of Directors and satisfactory to the Bank will govern MIDB's operations and related organizational and financial aspects in general, as well as aspects under the proposed Bank loan in particular. MIDB will consult with the Bank on subsequent changes in its Policy Statement or Strategy Statement. The Bank may stipulate under its Loan Agreement with MIDB for the proposed loan that changes in certain operational and financial policies would require prior approval of the Bank.

MIDB Guarantee of US\$ 23.9 million Iranian Government Loan to MIRATEX Project:

MIDB management confirmed to the mission that the Government of Iran has agreed to provide a letter to MIDB indicating that they will not hold MIDB financially responsible for any losses in connection with this guarantee. A draft letter to this effect has been submitted to the mission for the Bank's comments.


Vijay Chaudhry
World Bank Mission


Fouad Sultan
Vice Chairman & Managing Director
Mide Iran Development Bank

OFFICE MEMORANDUM

TO: Files
FROM: Samir El Daher, EMP/IDF
SUBJECT: EGYPT: Proposed Bank Loan to Misr Iran Development Bank (MIDB)
Meeting on Issues Outstanding

DATE: October 10, 1978

1. Mr. El Darwish, Assistant Director, EMP, convened a meeting on September 29, 1978 to discuss the outstanding issues of the World Bank proposed loan to MIDB. Attending this meeting were Messrs. Fouad Sultan (MIDB), Kheradjou (Industrial and Mining Development Bank of Iran (IMDBI), shareholder of MIDB), Sella and Krishna (Legal Department), Kopp and Kaps (EMENA Programs), Zaidan, Chaudhry and El Daher (EMENA/IDF).

The following issues were discussed:

- I. Guarantee for the World Bank loan to MIDB
- II. The "Miratex" Guarantee
- III. Share capital increase of MIDB
- IV. Prospects of MIDB

After the meeting Mr. Sultan conferred with Messrs. Zaidan, Chaudhry and El Daher, and agreed on a timetable for Mr. Sultan to explore the feasibility of the solution to the various issues and inform the Bank of the outcome.

I. Government Guarantee of the Proposed Bank Loan to MIDB

2. It became apparent during the Bank Annual Meeting that the Government of Egypt, who had requested the Bank loan for MIDB and agreed to guarantee the same, was no longer prepared to guarantee the loan without certain assurances by MIDB and its shareholders.

3. Mr. El Darwish explained at the meeting the position of the Egyptian Government (conveyed to the Bank earlier during the Annual Meeting). The point was made that in the context of the new economic environment in Egypt where many joint-venture banks are being set up, the Egyptian Government finds it difficult to support an off-shore Bank, private in character, over which it has no control. (Messrs. Kheradjou and Sultan however stressed that among these numerous banks, only MIDB was an investment bank.)

4. Therefore, under the present ownership structure of MIDB, the Egyptian Government officials (i.e. the Minister of Economy) had pointed out that the Government would require against its guarantee, a counter-guarantee from MIDB's shareholders. Furthermore, MIDB's overall operations would have to be governed by a Policy Statement satisfactory to the Government, and

changes in this Policy Statement would require prior approval of the Government. Also, projects financed by MIDB in Egypt should be consistent with the National Development Plan and would need prior approval of the Government. (This last requirement is already met since all MIDB's projects are approved by the General Authority for Investments and Free Zones).

5. Mr. Kheradjou rejected the idea of a counter-guarantee provided by the Iranian shareholders. He said that MIDB is operating for the benefit of the Egyptian economy, and therefore it should be the responsibility of the Egyptian Government to furnish a full guarantee for the Bank loan. Mr. Kheradjou stressed that IMDBI and Bank Melli, while legally MIDB's shareholders, are for all practical purposes only trustees for the Iranian Government in the MIDB enterprise, and all financial obligations thereof are actually met by the Iranian Government (the related funds being simply channelled through and managed by IMDBI and Bank Melli on behalf of the Iranian Government). A counter-guarantee to Egypt from MIDB's Iranian shareholders, therefore, would, essentially mean a 50% guarantee from the Iranian Government, and in the opinion of Mr. Kheradjou this would not be acceptable to the Iranian Government.

6. Another solution which was mentioned and which would meet the Government's wishes and enable it to fully guarantee the Bank loan, would be a change in MIDB's ownership from a 50/50 Egyptian-Iranian joint-venture to a 51% Egyptian owned bank. Whereas Mr. Kheradjou said that Iran would not oppose such a change, Mr. Sultan expressed strong reservations to such solution, which would put MIDB under Government control and constrain MIDB's freedom in operations particularly with regard to foreign exchange transactions. (The advantage accruing from a proposed change of ownership allowing MIDB to deal in local currency is not considered to be of great advantage by MIDB at present since it has always been able to mobilize local currency for its projects from other sources).

7. It was later agreed in the meeting between Messrs. Sultan and Zaidan that Mr. Sultan, on his return to Egypt (in mid-October), will approach the Egyptian Government (the Minister of Economy) to reconsider its position on the guarantee issue, in light of the refusal of the Iranian shareholders to provide the counter-guarantee. Should the Egyptian Government maintain its position, Mr. Sultan will make an ultimate effort with the Iranian shareholders, to convince them -- at the occurrence of MIDB's next Board meeting in Teheran on October 28, 1978 -- of the need for their counter-guarantee.

8. Should either of the above alternatives be unsuccessful, MIDB will have to accept a change in its ownership structure in the sense required by the Egyptian Government, or forego the Bank loan.

9. (A compromise acceptable to MIDB, but which was not explored with the Government, is to grant the Egyptian Government a seat on MIDB's Board with no subsequent change in the ownership structure. This alternative may be explored at a later date if either alternatives fail.)

10. Mr. Sultan will advise the Bank on the outcome of his discussions with the Egyptian Government and the Iranian shareholders on the first two alternatives by end October or early November, 1978.. The third alternative (change in ownership structure), should that become essential, would take longer to resolve.

II. The Misr-Iran Textile Company (MIRATEX) Guarantee

11. MIDB has guaranteed an Iranian Government loan of US\$23.9 million in addition to a Swiss export credit guarantee of US\$3.2 million and it has granted a loan of US\$0.7 million for the MIRATEX project. The Bank representatives explained that in their view this financial exposure is excessive in comparison with MIDB's total equity of US\$21 million. However, MIDB explained that the guarantee of the Iranian loan is a special case, and MIDB has verbal assurances that the Iranian Government (50% shareholder both in MIDB and MIRATEX) would not put MIDB under financial pressure should the borrower (MIRATEX) ever default on the loan. MIDB provided the guarantee on the above understanding. Maintaining the guarantee was of special interest since MIDB benefitted from the associated 1-1/2% guarantee fee. Nevertheless the Bank representatives pointed out that the guarantee was a binding legal obligation for MIDB and it would therefore be important that the exposure risk be reduced to a prudent level. (Mr. Sultan had notified the Bank that the Government of Iran was prepared to provide MIDB with a letter whereby it would not hold MIDB liable in the case of default by MIRATEX. The Legal Department had reservations on such a letter and preferred a straightforward release from the guarantee).

12. The meeting discussed the possible solutions and two alternatives were put forth:

- (a) MIDB will seek to have its role in the \$23.9 million Iranian loan for MIRATEX changed from Guarantor to managing Agent. Under this arrangement MIDB still hopes to retain the 1-1/2% or a smaller fee for its management services. However the mortgage on MIRATEX assets presently held in the name of MIDB would have to be transferred in the name of the Iranian Government to allow it some security. The feasibility of this solution is contingent on the possibility for a foreign Government like Iran to hold a mortgage over property in Egypt, in conjunction with the Iranian Government's agreement to the revised arrangement.
- (b) MIDB will sell to other financial institutions the major part of its participation in the Iranian loan guarantee, and the US\$3.2 million Swiss export credit guarantee, so that MIDB's total exposure in MIRATEX -- including the US\$0.7 million loan extended by MIDB to MIRATEX -- does not exceed US\$6 million,

equivalent to about 30% of MIDB's present equity. Messrs. Kheradjou and Sultan said that MIDB should keep a participation in the Iranian loan guarantee so it can act as trustee for the syndicated group. Hence an overall exposure of less than \$6 million would be impractical. The Iranian Government should then issue a letter a) authorizing MIDB to exercise the Iranian Government's right over MIRATEX in collecting repayments and enforcing the mortgage and b) providing MIDB (with a liquidity facility or) a grace period for the payment of loan installments in the case of shortfall in the collection of installments due from MIRATEX, to allow MIDB time to call on the other institutions participating in the guarantee.

13. It was subsequently agreed in the meeting between Messrs. Sultan and Zaidan, that Mr. Sultan will first explore alternative (a). He will determine on his return to Egypt the legality for a foreign government, such as Iran to have mortgage over the assets of MIRATEX. If that is possible, Mr. Sultan will explore with the Iranian Government in Teheran their agreement to have MIDB managing the MIRATEX loan instead of guaranteeing it. Mr. Sultan expects to advise the Bank on the outcome of his negotiations with regard to this proposed solution, by the end of October.

14. If alternative (a) is not feasible, the alternative (b) requiring MIDB to pass on to other guarantors about 80% of total Iranian Loan and Swiss export credit guarantees, would require a longer time to be achieved and Mr. Sultan would advise the Bank by early December on the feasibility of such a solution and the timing for implementation of the same.

III. Share Capital Increase of MIDB

15. MIDB has committed for projects all its long-term resources (about \$21 million in share capital and reserves) and was authorized by its shareholders general meeting in April 1978 to use up to 20% -- or US\$20 million whichever is less -- of its short-term deposits for long-term investments. (MIDB has since used on a commitment basis some US\$6 million of short-term resources for long-term investments). The Bank had indicated to MIDB that the use of short-term deposits should only be allowed against commitment from the shareholders to provide stand-by long-term resources to cover the short-term resources so utilized and this requirement is now reflected in MIDB's draft Policy Statement. Following the Bank's advice, MIDB's Board approved (in July 1978) a proposal from their Managing Director to propose to the shareholders a doubling of MIDB share capital in 1979, subject to call by the Board. Even though an additional capital subscription must be paid in within five years, according to Egyptian laws, the Bank is seeking a commitment from the shareholders that the capital increase would be paid-in, should MIDB encounter liquidity problems. In this context the Bank is proposing that the increase in share capital be paid in part or in whole,

as necessary, to ensure that the amount of the short-term resources used for long-term investments does not exceed, any time for more than a 1 month period, 50% of term deposits (these are up to six months maturity) with MIDB. Furthermore, the Bank requires that the agreement of the shareholders to the share capital increase and payment thereof be confirmed before or during negotiations.

16. Mr. Kheradjou said that a commitment from the Iranian shareholders to provide additional equity funds in the future, would have to be made by the Iranian Government, the real shareholder in MIDB (para. 5). He added that since Government budget allocations are limited to one year, such a commitment might be difficult to obtain.

17. In his subsequent meeting with Mr. Zaidan, Mr. Sultan said that he will notify the Bank of the outcome of the share capital increase issue by the end of November. It was mentioned that in the absence of a share capital increase (or quick infusion of other long-term resources) MIDB would have to seriously curtail new commitments.

IV. Prospects of MIDB

18. The use of up to US\$20 million of short-term resources would cover MIDB's commitments for long-term investments through mid-1979. MIDB's additional long-term resource requirements up to mid-1981 are projected at about US\$50 million, of which 60% would be covered by the proposed Bank loan. To fill the gap MIDB will still have to mobilize funds from other sources with the support of the two governments. While a general commitment had earlier been obtained from the Egyptian Government to aid in this mobilization effort it will have to be reaffirmed during negotiations. Mr. Kheradjou said that a similar commitment to support MIDB would be possible from the Iranian Government as well.

19. Given MIDB's limited resources and that its total financial exposure in a project is limited by its Policy Statement to about \$3 million (presently) the desirability of MIDB financing of large projects -- such as the \$140 million proposed cement project being promoted by MIDB -- was questioned by Mr. El Darwish. The procurement issue mentioned in Mr. Paijmans' letter to the Minister of Economy, dated September 22, 1978, was also aired and the Bank's position stated therein was accepted by Messrs. Sultan and Kheradjou. Mr. Kheradjou mentioned the positive role played by MIDB in the promotion of projects, but agreed MIDB should be cautious as to the size of projects it finances, and should really focus on medium size projects.

Consequences for the Proposed Bank Loan - Timing

1. The primary issue is the Government's agreement to guarantee the loan. We expect to hear from Mr. Sultan by end-October or early November on this matter. In terms of loan processing, assuming a confirmation of Government willingness to guarantee the loan by early November (which confirmation would have to be obtained from the Government directly) we can have a yellow cover SAR and draft President's Report ready by mid-November (a two week delay from the last timetable). Should the guarantee issue not be solved at that time, we would delay the preparation of the SAR yellow cover until this issue is resolved satisfactorily.
2. Resolution of the other issues (MIRATEX guarantee and share capital increase) is also important for the project to go ahead and the answers to these issues should be known by negotiations, although the actual solution in case the MIRATEX guarantee has to be passed on to other guarantors is likely to take much longer (negotiations also are likely to be delayed by at least two weeks from the mid-December schedule in the last timetable).
3. It is essentially up to MIDB (i.e. Mr. Sultan) and the Government, to satisfactorily resolve the issues. Until we hear from MIDB -- first on the Bank loan guarantee issue -- drafting of the SAR will continue but no other action is called for by the Bank. The above will be confirmed with Mr. Sultan in a meeting scheduled with him in the Bank on October 12 (9:30 a.m.). Also, at that meeting we plan to indicate to him the content of letters that would be required from the Iranian Government for the resolution to the MIRATEX guarantee issue.

SE1Daher/VKChaudhry:ak
SD WC

Cleared with and cc: Messrs. Zaidan(EMP), Küpp/Kaps(EMI), Sella(LEG)
cc: Messrs. El Darwish(EMP), Asser(LEG), Krishna(LEG)(o/r)