FOREIGN ASSISTANCE

Observations on USAID’s Commodity Import Program in Egypt

Statement of David Gootnick, Director
International Affairs and Trade Team
Highlights of GAO-04-846T, testimony before the House Committee on International Relations

Why GAO Did This Study
The Commodity Import Program (CIP), managed by the U.S. Agency for International Development (USAID), is intended to foster a competitive private sector in Egypt, in addition to assisting U.S. exporters. The program also supports the government of Egypt and USAID activities and expenses in Egypt. Since 1992, Congress has appropriated at least $200 million per year for the CIP.

In 1998, the United States negotiated a reduction in its economic assistance to Egypt, including the CIP, through fiscal year 2009. In this context, GAO was asked to discuss its ongoing analysis of (1) program participants’ use of the CIP and the Egyptian government’s and USAID’s use of program funds and (2) factors that have affected the CIP’s ability to foster a competitive private sector in Egypt.

We received comments on a draft of this statement from USAID, which we incorporated where appropriate. In general, USAID agreed with our observations.

What GAO Found
The CIP provides loans to Egyptian importers of U.S. goods and, through loan repayments, supplies funds to the government of Egypt. During fiscal years 1999-2003, about 650 Egyptian firms used the CIP to import $1.1 billion in U.S. products from approximately 670 U.S exporters. In a 2003 USAID survey, about two-thirds of CIP importers said that they would have imported U.S. goods without the program, but half said that it helped increase their firm’s production capacity and one-third said that it helped increase their firm’s employment levels. The Egyptian government and USAID jointly determine the uses of the funds from loan repayments. In fiscal years 1999-2003, about three-quarters of these funds supported Egypt’s general and sector budgets and about 15 percent supported USAID-administered activities and operating expenses in Egypt.

Despite the positive results reported by some CIP users, various factors have limited the program’s ability to foster a competitive private sector in Egypt. According to the State Department, the slow pace of Egypt’s economic reforms has created a climate not conducive to private enterprise. Further, according to several U.S. government studies, the Egyptian government’s inconsistent foreign exchange policies have hampered firms’ ability to do business in Egypt, limiting the extent to which the CIP can relieve the country’s foreign currency needs. In addition, because of experience with bad loans, the recent economic slowdown, and the resulting increased risk of nonrepayment, bank officials told us that they are generally reluctant to provide loans to entrepreneurs. Finally, because the CIP is not designed to reach firms in Egypt’s large informal economy, the program’s ability to foster a competitive private sector is necessarily limited.

Flow of CIP Transactions

Flow of CIP Transactions

Transactions in the United States

<table>
<thead>
<tr>
<th>Dollars</th>
<th>USAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. bank</td>
<td>$200 million CIP funds per year</td>
</tr>
<tr>
<td>U.S. exporter</td>
<td></td>
</tr>
</tbody>
</table>

Transactions in Egypt

<table>
<thead>
<tr>
<th>Egyptian pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egyptian bank</td>
</tr>
<tr>
<td>Special account at the Central Bank of Egypt</td>
</tr>
<tr>
<td>Special account at the Ministry of Foreign Affairs jointly program local currency for a variety of projects:</td>
</tr>
<tr>
<td>General budget support for the Egyptian government</td>
</tr>
<tr>
<td>Support to various Egyptian government ministries</td>
</tr>
<tr>
<td>Other expenditures, such as USAID operating expenses and contributions to ongoing projects</td>
</tr>
</tbody>
</table>

Source: GAO.
Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our ongoing work on the Commodity Import Program (CIP), a component of U.S. economic assistance to the Arab Republic of Egypt. U.S. policy objectives in Egypt include supporting the country’s economic growth and development and strengthening its investment environment. The CIP is intended to further these objectives by fostering a competitive private sector in Egypt, in addition to assisting U.S. exporters. The program, managed by the U.S. Agency for International Development (USAID), enables Egyptian firms to obtain loans with favorable financing terms to import U.S. goods. The Egyptian government and USAID use importers’ loan repayments for budget support and operating expenses, respectively, among other activities. Since 1992, Congress has appropriated at least $200 million per year for the CIP.

In 1998, the United States negotiated a reduction in its economic assistance to Egypt, including the CIP, through fiscal year 2009. In this context, you asked us to examine the extent to which the CIP contributes to the Egyptian private sector’s growth and development. Today, I will discuss (1) program participants’ use of the CIP and the Egyptian government’s and USAID’s use of program funds and (2) factors that have affected the CIP’s ability to foster a competitive private sector in Egypt.

We analyzed data on trends in the use of the CIP during fiscal years 1999-2003, as well as the results of a USAID-sponsored 2003 survey on the CIP’s impact. (We determined that these data were sufficiently reliable for our analysis.) We also collected and analyzed documents describing program operations and outcomes. In addition, we interviewed officials from USAID and other government agencies; Egyptian government officials; representatives of Egyptian companies and banks; and experts on private sector development in Egypt. (See app. I for a more detailed description of our scope and methodology). We performed our work between January 2004 and May 2004 in accordance with generally accepted government auditing standards.

Summary

The CIP provides loans to Egyptian importers of U.S. goods and, through the loan repayments, supplies local currency (Egyptian pounds) to the government of Egypt. During fiscal years 1999-2003, about 650 Egyptian firms used the CIP to import $1.1 billion in U.S. products from approximately 670 U.S exporters. Two-thirds of respondents to a 2003 USAID survey said that they would have imported U.S. goods without the
program, half said that the CIP helped increase their firm’s production capacity, and one-third said that it helped increased their firm’s employment levels. The program gives Egyptian importers access to the foreign currency they need to finance U.S. imports; it also provides them a fixed exchange rate and interest-free loan repayment grace periods. In addition, USAID offers several incentive programs—for example, for importers in Upper Egypt—that extend the loan’s grace period for qualifying Egyptian firms. USAID and the Egyptian government jointly determine the uses of local currency from loan repayments, based on an annual memorandum of understanding. From 1999 through 2003, about three-quarters of CIP-generated local currency supported Egypt’s general budget and the budgets of various government ministries, and about 15 percent supported USAID-administered activities and operating expenses in Egypt.

Despite the positive results reported by some CIP users, various factors appear to have limited the CIP’s ability to foster a competitive private sector in Egypt. First, the slow pace of the Egyptian government’s economic reforms has created a climate not conducive to private enterprise. According to a senior USAID official, there are also concerns that the CIP may have reduced pressure on the Egyptian government to speed economic reforms. Further, the government’s inconsistent foreign exchange policies have hampered firms’ ability to do business in Egypt and limited the extent to which the CIP can relieve the country’s foreign currency needs. For example, a private sector representative estimated that the private sector requires about $15 billion in foreign exchange annually; however, the CIP provides less than 2 percent of this amount. In addition, because of the recent economic slowdown and the increased risk of nonrepayment, Egyptian banks have been reluctant to provide loans to entrepreneurs. Egyptian bank officials stated that they generally provide CIP loans only to well-established customers with proven credit. Finally, because the program is not designed to reach firms in Egypt’s large informal economy, which comprises 80 percent of the country’s businesses, its ability to foster a competitive private sector has necessarily been constrained.

Background

The U.S. government’s economic assistance in Egypt focuses primarily on partnering with the Egyptian government to promote economic growth and development. This support has three core components:
• Traditional project assistance, managed by USAID, focuses on, among other things, private sector development, health and education, and the environment.

• The Development Support Program, or “cash transfer program,” provides assistance funding conditioned on the Egyptian government’s achievement of specific reform goals.

• The CIP supplies financing to Egyptian private sector importers of U.S. goods and funding to the Egyptian government that is not specifically conditioned on any reforms.

Between 1975 and 1986, the CIP funded only public sector imports. In 1986, USAID established a private sector CIP, providing foreign exchange to finance imports of capital and noncapital goods\(^1\) from the United States. Since 1986, the CIP has facilitated more than $3.1 billion in loans to the private sector for the purchase of U.S. exports. In 1991, USAID ended the public sector CIP.

In 1998, the U.S. and Egyptian governments agreed to reduce U.S. economic support from $815 million to $407 million per year in fiscal year 2009.\(^2\) Annual CIP appropriations are projected to remain constant until fiscal year 2007 and decline to $150 million by fiscal year 2009 (see fig. 1).

\(^1\)Capital goods (e.g., construction equipment) are used to produce other goods or services. Noncapital goods include raw materials (e.g., plastics) and intermediate goods (e.g., air conditioner compressors).

\(^2\)The planned changes also include establishing an enterprise fund—an independent corporation authorized by the U.S. Congress that primarily makes loans to, or invests in, businesses in which other financial institutions are reluctant to invest. As of May 2004, the United States had not established a fund in Egypt, although USAID funding was set aside for this purpose.
CIP transactions have two main components (see fig. 2 for a depiction of the CIP transaction flow).

- First, USAID issues letters of commitment to participating U.S. banks (nine as of 2004). These letters authorize the banks to pay U.S. exporters that sell goods through the CIP. After the goods are shipped and the exporter provides the required documentation, the U.S. bank pays the exporter and requests reimbursement from USAID.

- Second, the Egyptian importer seeks a loan, denominated in Egyptian pounds, from 1 of 31 participating local banks (27 private and 4 public), which assumes the credit risk for the loan amount. The importer must
document a reasonable number of bids and certify that the goods are new and unused; made in, and shipped from, the United States; and consistent with the U.S. government's list of eligible commodities. Before the Egyptian bank issues a letter of credit authorizing the transaction, USAID again reviews the application. Regardless of whether the importer repays the loan, the local bank is required to send the net proceeds in Egyptian pounds to a special account at the Central Bank of Egypt.

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3 Eligible commodities include capital and intermediate goods and raw materials. Ineligible commodities include military and surveillance equipment and luxury goods. USAID also generally prohibits the importation of bulk grain commodities, such as wheat and corn. See U.S. Agency for International Development, Commodity Eligibility Listings, rev. ed. (Washington, D.C.: 1988).

4 According to USAID, Egyptian banks have not defaulted on any loan repayments to the Central Bank of Egypt. The net proceeds equal the loan principal plus interest, minus the local bank's administrative costs, which vary between 2 and 4 percent depending on the type of commodity purchased.
Figure 2: Flow of CIP Transactions

1. USAID issues letter of commitment to participating U.S. bank, authorizing it to provide funds to U.S. exporters on behalf of Egyptian banks.
2. Egyptian importer requests loan from participating Egyptian bank.
3. Egyptian bank reviews importer’s application, forwards application to USAID for review, and opens letter of credit with U.S. correspondent bank, indicating that the importer has funds to purchase U.S. goods.
6. U.S. bank requests reimbursement from USAID.
7. USAID reimburses U.S. bank per terms of letter of commitment.
8. Importer pays off loan in local currency.
9. Local participating bank passes principal and interest to the special account at the Central Bank of Egypt.
10. Government of Egypt and USAID jointly determine how funds in the special account can be used.

Source: GAO.
CIP Assists Egypt’s Private Sector and Supplies Funds to the Egyptian Government

The CIP provides favorable financing to importers of U.S. goods and, through the loan repayments, supplies funds to the Egyptian government. From fiscal years 1999-2003, about 650 Egyptian firms used the CIP to import just over $1 billion in U.S. products from approximately 670 U.S. exporters. The program gives Egyptian importers access to foreign currency at fixed exchange rates and offers varying interest-free grace periods and repayment periods, as well as incentive programs that extend the grace periods. To ensure that all transactions comply with CIP rules and regulations, USAID has established several management controls. USAID and the Egyptian government mutually determine the uses of the local currency from CIP loan repayments, which are held in a special account at Egypt’s Central Bank.

CIP Financing Assists Egyptian Importers and U.S. Exporters

In fiscal years 1999-2003, approximately 650 Egyptian firms used the CIP to import $1.1 billion worth of U.S. products. Sixty-four percent of the importers were end-users, 23 percent were traders, and 12 percent were both end-users and traders. The remaining one percent did not identify themselves as belonging to either category. In a 2003 USAID-sponsored survey, 66 percent of Egyptian importers surveyed said that they would have imported U.S. goods without the CIP.

5The exchange rate is fixed at the Egyptian bank’s rate at the close of business the day before the bank issues the letter of credit.

6Sixty-four percent of the importers were end-users, 23 percent were traders, and 12 percent were both end-users and traders. The remaining one percent did not identify themselves as belonging to either category.

7According to the Organization for Economic Cooperation and Development, midsized to large firms as those with 50 or more employees. More than 90 percent of Egyptian companies have fewer than 50 employees, according to Egypt’s Ministry of Foreign Trade.

However, 49 percent of survey respondents said that the CIP helped increase their firm’s production capacity and 32 percent said that the program helped increase their firm’s employment levels. The importers surveyed reported that they used the CIP chiefly because of three program features—the fixed exchange rate, interest-free grace periods, and the ability to repay loans in Egyptian pounds. Although three-quarters of the U.S. exporters surveyed indicated that they would have exported goods to Egypt without the CIP, almost half said that the CIP helped their firm increase its exports to Egypt.

CIP financing helps Egyptian firms obtain from Egyptian banks the foreign currency loans needed to import goods. Representatives of several Egyptian firms told us that the CIP had helped them procure part or, in some cases, all of the foreign currency they needed for U.S. imports. Foreign currency can be difficult to obtain because, according to bank officials we interviewed, Egyptian banks often receive more requests for foreign currency loans than they can accommodate. In addition, Egypt’s Central Bank instructed banks in 2003 not to make foreign currency loans unless their clients are able to repay the loans in foreign currency.

The financing terms that the CIP offers Egyptian importers depend on the type of commodity and how and where it will be used. Under the program’s standard terms, USAID allows participating Egyptian banks to extend the interest-free grace period to traders and end-users for noncapital goods for up to 2 and 4 months, respectively; for capital goods, the grace period may be extended for 9 and 18 months, respectively. Egyptian importers can take 6 months to 8 years to repay their loans after the grace period ends. The terms of CIP loans have been adjusted in response to changes in demand for the CIP. For example, when demand for the program has been high, USAID shortened the duration of the interest-free grace period to reduce distortions of the commercial trade finance market.

USAID also offers three incentive programs extending the interest-free grace period to Egyptian firms that (1) are increasing their exports, (2) increase their firm’s production capacity, and (3) increase their firm’s employment levels. These incentive programs are designed to encourage Egyptian firms to invest in their businesses and create jobs.

9Traders resell the goods to other Egyptian firms. End-users are producers or manufacturers that process or use the imported goods.

10In August 2002, USAID shortened the duration of the interest-free grace period for noncapital goods from 6 months to 2 months for traders and from 9 months to 4 months for end-users.
According to USAID, during calendar years 1999-2003, about 12 percent of CIP’s resources ($133 million) supported imports by firms that qualified for these programs. Over the last 5 years, nearly half of all loans related to the special incentive programs, or $60 million, went to importers who increased their exports, $45 million went to Upper Egyptian importers, and $28 million went to importers of environmentally friendly equipment.

Officials from USAID’s Office of the Inspector General told us that the percentage of fraud in the CIP is relatively low given the high volume of transactions in the program. To ensure that the CIP complies with the agency’s rules and regulations, USAID uses a series of management controls. These include site visits and physical checks to ensure that goods are used for their intended purpose, as well as posttransaction reviews to detect overpayment for imported goods and noncompliance with program requirements. USAID conducts 25 end-use checks in Egypt annually to ensure that commodities purchased through the program meet these requirements—for example, that goods are used promptly for their intended purpose. Importers who have not complied with CIP requirements have been debarred from the program for 3 months to 3 years. According to USAID officials, seven importers have been debarred from the CIP since 1999. In addition, USAID requires that U.S. suppliers refund overcharges for transactions in which goods were not made in and shipped from the United States. From 1999 to 2003, USAID obtained 120 refunds totaling about $4.7 million.

Egyptian Government and USAID Jointly Determine Use of the Special Account

In an annual memorandum of understanding, USAID and Egypt’s Ministry of Foreign Affairs jointly determine how much of the local currency from the repayment of loans in the special account will support Egypt’s general and sector budgets and USAID’s activities. (See fig. 3 for a depiction of the account’s funding flow). The special account comprises multiple discrete accounts for the CIP as well as for the cash transfer program.\footnote{The cash transfer program receives an annual appropriation of $200 million. The government of Egypt may use up to 25 percent of cash transfer appropriations, or about $50 million, to support its budget deficit (this portion does not generate local currency). Egypt must use the remaining 75 percent to import U.S. goods. However, this funding is conditional on Egypt’s completing comprehensive economic reforms agreed to by USAID and the Egyptian government. Once USAID has certified that the government has met these conditions, the agency transfers additional dollar disbursements to the government, which uses the funds to purchase U.S. goods. The Egyptian government must then deposit into the special account Egyptian pounds equivalent to the dollar value of the cash transfer.} For
planning purposes, these are considered one large account, but USAID and the Egyptian Foreign Affairs Ministry can track the funding to a CIP or cash transfer deposit from a prior year. Although the Foreign Assistance Act and the annual memorandum give USAID a role in determining the uses of the funds in the account, the local currency belongs to the Egyptian government.\textsuperscript{12}

\begin{footnote}{12}For example, see P.L. No. 108-199, 118 Stat. 178-79, and USAID implementing guidance, \textit{Automated Directives System}, sections 624.3.2 and 624.3.3. These provide that host country–owned local currency generated through the Foreign Assistance Act (including the CIP) must be deposited into a separate account and not commingled with funds from other sources. As may be agreed by USAID and the foreign government, the local currency may be used only for project or sector assistance activities, debt or deficit financing, or the administrative requirements of the U.S. government.\end{footnote}
For fiscal years 1999-2003, about three-quarters of the CIP-generated funds from the special account were used for general and sector budget support to help reduce Egypt’s budget deficit. In addition, USAID used about 6 percent of CIP-generated funds in the special account for some of its operating expenses. USAID also used about 9 percent of this local currency to finance various projects, technical and feasibility studies.

13In fiscal year 2003, about 80 percent of USAID’s $14.5 million in total operating expenses in Egypt were paid for with CIP-generated funds.
evaluations, and assessments, among other things; the remaining 8 percent covered other disbursements such as refunds for cancelled transactions. Over the years, congressional committee reports have encouraged USAID to use funds from the account to support specific projects, such as the construction of a new campus for the American University in Cairo.\footnote{H.R. Rep. No. 106-254, 106th Cong., 1st Sess. 35-36 (1999).} Table 1 lists examples of activities funded with CIP-generated funds from the special account during fiscal years 1999-2003.

### Table 1: Examples of Projects and Activities Supported by CIP-generated Funds from Egypt’s Special Account, Fiscal Years 1999-2003

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Type of support/recipient</th>
<th>Total funding (nominal dollars in millions)*</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Sector Support/Ministry of Health</td>
<td>10.3</td>
<td>Equip medical centers and public hospitals, as well as the National Center for Liver and Communicative Diseases</td>
</tr>
<tr>
<td>2000</td>
<td>USAID Activity/Egyptian Center for Economic Studies</td>
<td>14.4</td>
<td>Ensure the steady flow of resources to sustain the center’s operations</td>
</tr>
<tr>
<td>2001</td>
<td>Sector Support/Ministry of Communications and Information</td>
<td>10.1</td>
<td>Train new graduates in information technology and programming, purchase equipment and vehicles</td>
</tr>
<tr>
<td>2002</td>
<td>Sector Support/Ministry of Public Enterprise</td>
<td>7.7</td>
<td>Fund (1) studies related to restructuring failing companies, (2) leadership training for these companies, and (3) a technical office in the ministry</td>
</tr>
<tr>
<td>2003</td>
<td>USAID Activity/American University in Cairo</td>
<td>34.2</td>
<td>Construct a new campus</td>
</tr>
</tbody>
</table>

*Conversions from Egyptian pounds to U.S. dollars for fiscal years 1999-2003 were calculated with the annual average exchange rate (see International Monetary Fund, International Financial Statistics, January and May 2004).
Several Factors Limit CIP’s Ability to Strengthen Egypt’s Private Sector

Various factors have limited the CIP’s ability to foster a competitive private sector in Egypt. First, the CIP has been operating in a policy and economic climate not conducive to business activity. Although the government of Egypt took steps, beginning in 1991, to shift from a centrally planned economy to one more hospitable to private enterprise, the pace of reforms slowed in the late 1990s. For example:

- **Subsidies and government spending.** The budget deficit as a percentage of gross domestic product declined from more than 17 percent in the early 1990s to 3 percent at the end of the decade. However, the deficit subsequently increased steadily, reaching 6.3 percent in 2002-2003. The Economist Intelligence Unit forecasts that Egypt’s budget deficit will widen to about 7 percent in fiscal years 2004 and 2005, mainly because of subsidies to protect citizens from price increases and slow private sector economic activity. According to the State Department, Egypt’s real gross domestic product growth slowed from nearly 6 percent in fiscal year 1999 to roughly 3 percent in fiscal year 2003, and the private sector’s share of this growth fell.\(^{15}\)

- **Tariffs and custom duties.** In the early 1990s, Egypt agreed with the World Trade Organization (WTO) that it would abide by multilateral trade rules and liberalize its trade policies. Accordingly, by the end of the 1990s, Egypt reduced the maximum tariffs for most imports from 50 percent to 40 percent\(^ {16}\) and lifted a ban on fabric imports, among other actions. However, many high tariffs persist—for example, on products related to the automobile and poultry industries and on some textiles. The full implementation of the Egyptian government’s WTO commitments is expected to take several more years.

- **State-owned enterprises.** The Egyptian government’s pace in privatizing government-owned enterprises also slowed. According to Egypt’s Ministry of Public Enterprise, 191 of more than 300 state-owned enterprises were privatized between 1993 and 2002. Although the number of entities privatized each year increased from 6 in 1993 to a high of 32 in 1998, it steadily declined to 6 in 2002. According to a September 2003 U.S.

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\(^{15}\)According to Egypt Ministry of Foreign Trade data, the private sector’s share of GDP has remained stable at about 70 percent since 2000.

\(^{16}\)Egypt also reduced its 40- and 35-percent tariff rates to 30 percent.
Embassy report, two privatization transactions took place in the first quarter of 2003.\(^\text{17}\)

Further, according to a senior USAID official, there are concerns that the CIP may have eased pressure on the Egyptian government to speed the pace of economic reforms. Although the $200 million that the CIP brings into the country is relatively small—roughly 0.3 percent of the gross domestic product—the funds generated by the program represent, on average, 4.2 percent of the government’s budget deficit in the last 5 years. Because CIP funding is not tied to specific conditions, the funding may ease the government’s resource constraints without requiring it to reform.

A second factor affecting the CIP’s ability to strengthen the private sector has been the perceived inconsistency in the government’s foreign exchange policy, according to several U.S. government studies and a senior Egyptian economist. For example, between 2000 and 2003, the government devalued the Egyptian pound several times; in 2003, it announced that it was adopting a free market exchange rate but subsequently continued to try to support the value of the pound. These actions have undermined the confidence of foreign and domestic investors and contributed to the persistence of a parallel “black” market for foreign currency and to foreign currency shortages, hampering firms’ ability to do business in Egypt. In this context, the CIP can provide only limited relief to the country’s foreign currency needs. A representative from the Egyptian Chamber of Commerce stated that the private sector requires about $15 billion in foreign exchange annually, but the CIP supplies less than 2 percent of this amount.

A third factor limiting the CIP’s effect on the private sector has been Egyptian banks’ hesitancy to provide financing. Because of experience with bad loans, the recent economic slowdown, and the resulting increased risk of nonpayment, Egyptian banks are reluctant to finance entrepreneurial activity, according to the Economist Intelligence Unit. Egyptian bank officials told us that they generally provide CIP funds to firms they deem creditworthy, usually well-established customers with proven credit records. Further, officials at one bank indicated that the bank is moving away from corporate lending in general, including use of the CIP, to concentrate on “less risky” activities such as consumer lending.

Finally, the CIP’s impact on the private sector has been constrained by Egypt’s large number of informal businesses, which the program is not designed to reach. These businesses, which make up more than 80 percent of the country’s 1.4 million firms, generally have no access to formal sources of credit such as the CIP, because they are unable to use their assets as collateral for loans. Until broader reforms bring the informal sector into the legal and economic mainstream, the CIP’s ability to foster a competitive private sector in Egypt will likely remain limited.

In conclusion, Mr. Chairman, while the CIP provides benefits to program participants and supports the Egyptian government’s budget, several factors have affected its ability to foster a competitive private sector in Egypt. In this context, it is important that policymakers continue to evaluate whether this program offers the most effective means to achieve U.S. policy goals in Egypt. This completes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Contacts and Acknowledgments

For questions regarding this testimony, please contact David Gootnick at (202) 512-3149 or Phillip Herr at (202) 512-8509.

Other key contributors to this statement were Martin De Alteriis, Kathryn Hartsburg, Julie Hirshen, Simin Ho, Reid Lowe, Seyda Wentworth, and Monica Wolford.
Appendix I: Objectives, Scope, and Methodology

At the request of the Chairman of the House International Relations Committee, we examined the Commodity Import Program (CIP) in Egypt. For fiscal years 1999-2003, we analyzed (1) program participants’ use of the CIP and the Egyptian government and USAID’s use of program funds and (2) factors that have affected the CIP’s ability to foster a competitive private sector in Egypt.

To determine the CIP’s goals, we examined the U.S. Agency for International Development’s (USAID) Congressional Budget Justifications for this timeframe. We reviewed various laws and congressional reports that mentioned the CIP as part of the overall mandate for economic support funds to Egypt, and we also reviewed applicable international agreements. We spoke with representatives from the Department of State, the Department of Agriculture’s Foreign Agricultural Service, and the Department of Commerce’s Foreign Commercial Service. We also reviewed and analyzed applicable USAID regulations, program documentation and descriptions, as well as USAID-sponsored reports and analyses. In addition, we interviewed USAID officials in Washington, D.C., and Cairo and Alexandria, Egypt, and officials of the Egyptian ministries of Foreign Affairs and Finance. We obtained from the Egyptian Ministry of Foreign Affairs data on Egyptian government projects and activities supported by CIP-generated local currency. To determine the reliability of the data provided by the Ministry of Foreign Affairs, we questioned officials at USAID in Egypt, who informed us that they had seen bank statements confirming deposits and releases of funds and that they had a sufficient level of confidence in the data. We determined that the data were sufficiently reliable to indicate the general purposes for which special account funds were used and to provide illustrations of the sums allotted to particular types of projects. We also interviewed eight Egyptian companies from various sectors (e.g., industry and agriculture) and 6 of the 31 participating Egyptian banks that used the CIP during fiscal years 1999-2003. Finally, we spoke with industry and bank representatives from the Egyptian Chamber of Commerce in Cairo who are familiar with the program.

Specifically, to determine trends of the program’s users and uses, we analyzed USAID data on CIP transactions during these 5 fiscal years. In addition, to obtain information about participants’ experiences with, and opinions of, the CIP, we analyzed data from surveys, conducted by a USAID contractor, of (1) firms that export to Egypt from the United States and (2) Egyptian firms that import from the United States under the CIP. To calculate the number of firms that used the CIP in fiscal years 1999-2003, the average and median value of the transactions, and the annual
number of first-time CIP users, we analyzed USAID data on individual export and import transactions.

To examine the internal controls that USAID uses to manage the CIP in Egypt, we reviewed reports of USAID's Office of the Inspector General from 1999 through 2003. We also interviewed officials from the Inspector General’s office in Washington, D.C., and the Regional Inspector General’s office in Cairo. In addition, we spoke with officials from USAID’s Office of Management Planning and Innovation in Washington, D.C., regarding the actions that USAID had taken to address recommendations from the Inspector General's office during this time frame.

To assess the reliability of the survey data, we reviewed the contractor’s description of the methodology, queried the contractor and USAID officials in Egypt, and examined the data electronically. We determined that most of the survey responses were sufficiently reliable to report on respondents’ opinions and experiences; however, we noted that we could not generalize from the survey respondents to all CIP participants. Furthermore, because the survey was designed to collect the opinions of firms that participated in fiscal years 1994-2002, we could not focus our analysis exclusively on 1999-2003.

To assess the reliability of the transactions data, we performed basic reasonableness tests and queried USAID officials in Egypt. In the course of our assessment, we found a relatively small number of data entry errors. We were able to correct these errors in the importers’ transaction data, and we were also able to combine data for firms that were clearly linked, such as firms with a parent-subsidiary relationship. However, we were not able to make these corrections for the exporters’ database and, as a result, the figure reported likely includes a small number of duplicate firms. Nevertheless, we determined that the importers’ and exporters’ transactions data were sufficiently reliable for the purposes of this report.

To gain a better understanding of Egypt’s macroeconomic environment during fiscal years 1991-2003, we conducted a literature review and interviewed researchers in Egypt, Egyptian government officials from the Ministry of Finance, and officials from Egypt’s private and public banks. For the statistical analysis, we used data from Egypt’s Central Bank and other official sources, as well as country reports provided by the U.S. Embassy in Cairo and independent economic forecasting agencies.
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