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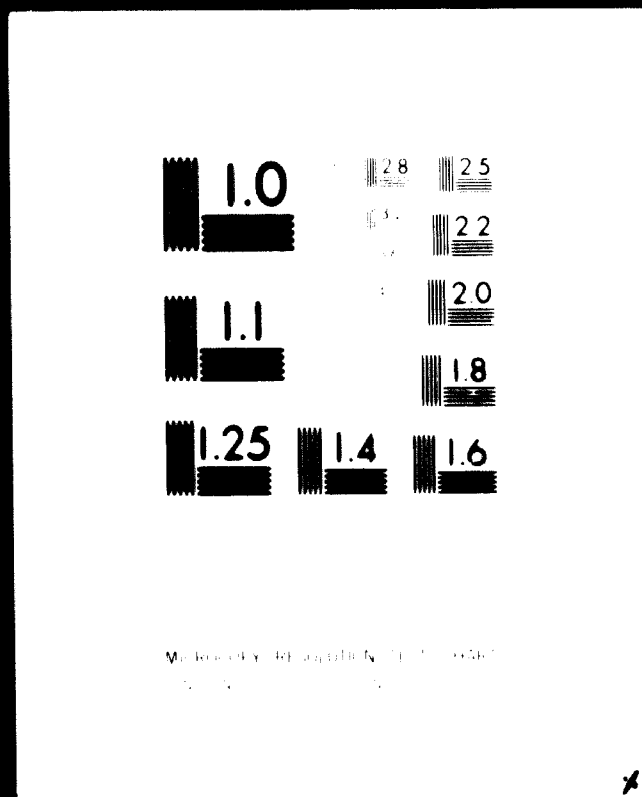
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SIEMENS
DEVELOPMENT

Industrial Free Zones
in the
ARAB REPUBLIC of EGYPT.

FINAL REPORT TO UNIDO

DP/EGY/73/045

00.041

SHANNON FREE AIRPORT DEVELOPMENT COMPANY LIMITED

CONTRACT (NO. 75/19) BETWEEN UNIDO AND SHANNON
DEVELOPMENT FOR THE PROVISION OF ADVISORY SERVICES
TO THE GENERAL AUTHORITY FOR ARAB AND FOREIGN
INVESTMENT AND FREE ZONES IN THE ARAB REPUBLIC OF
EGYPT (PROJECT NO. DP/EGY/73/045)

FINAL REPORT

JUNE, 1977.

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Contract No. 75/19

Project No. DP/EGY/73/045

Final Report

June, 1977

I. INTRODUCTION

- 1.1 This is the final report which we are required to submit to UNIDO, under paragraph 2.09 (d) of our contract.
- 1.2 Attached, in Annex A, is a copy of the terms of reference given in the contract. As recorded in progress reports previously submitted, these terms of reference were varied in one important respect by direction of H.E. the Minister for Economy and Economic Co-operation. We were directed in March, 1976 to concentrate our consultancy efforts towards the development and realisation of the El Nasr City free zone at Cairo, and this we have done.
- 1.3 We were awarded the contract in May, 1975. In accordance with its terms, members of our project team paid their first visit to the project area in June, 1975. Thereafter, regular visits were made by members of the team, as required by the evolving needs of the work to be performed. A statement of the visits made by members of the team is attached in Annex B, Appendix 1.
- 1.4 Appendix 2 of the same Annex contains a listing of visits made to Shannon, for purposes of discussion and familiarisation, by senior Egyptian officials during the period of this contract. Although not required to do so by the terms of the contract, we undertook to contribute towards the cost of the visits. In addition, 18 Egyptian officials were awarded places on two-week and four-week free zone training courses at Shannon; again, participants were financed by us, in whole or in part, outside of the funds made available under the contract.

2. ORGANISATION

2.1 It became apparent to us at an early date that the introduction of organizational changes would help to expedite effective implementation of the Egyptian free zones programme, and we, therefore, devoted considerable time and effort in consultation with H.E. The Deputy Minister for Economy and Economic Co-operation and senior officers of the Authority, to the development of a new organizational structure at and below Board level.

2.2 In our Report No. 1 dated August, 1975 we included a preliminary study of the overall organisation of the Authority and of its relationship to Government, and we recommended a progressive evolution towards a structure and relationship which had proved highly effective in other countries. Pending the achievement of this objective, we suggested that a number of interim measures should be taken :-

- (a) the making of a Governmental decree to give the Authority freedom and flexibility in relation to staffing ;
- (b) the development within the Authority of a new unit to market Egypt, and the free zones in particular, as an investment location (in the remainder of this report we refer to such marketing as "Promotion") ;
- (c) the development, also within the Authority, of a service for the reception and handling of visiting investors based on the most modern practices employed successfully elsewhere ;
- (d) the formation of an Operating Board, under the Main Board of the Authority, to facilitate quick decisions on urgent projects;
- (e) the reduction in the span of control of the Authority's Deputy Chairman ; and

- (f) the full implementation of the Authority's decision to adopt the "project management" approach to the El Nasr City development.

2.3 In our Report No. 2 dated December, 1975 we reported on the results of the efforts towards implementation of the recommendations already made, with particular reference to the recommendations on the structural reorganisation. Those results were discussed with Their Excellencies the Minister and the Deputy Minister for Economy and Economic Co-operation; and with their agreement and, indeed, their encouragement, we prepared and submitted to them in December, 1975 a Special Report on Organisational Arrangements for a Reconstituted General Authority.

2.4 The principal points made in the Special Report of December 1975, may be summarised as follows :

- (a) The open-door policy is imaginative in concept, and potentially of enormous value to Egypt in meeting its grave and pressing needs for employment, expansion of exports and foreign exchange earnings, and economic growth.
- (b) The policy has secured wide recognition and publicity as a result of the forceful global promotion by H.E. President Anwar Sadat. Egypt, because of its location and cost structure, and because of the incentives offered, has the possibility of attracting considerable foreign investment.
- (c) The industrial free zone, as a central feature of the open-door policy, has been adapted and fashioned in a special way by the Egyptian Authorities and has attracted widespread interest around the world.
- (d) But the prospects of early successful implementation of the open-door

policy were poor; no substantial export manufacturer of international standing had yet been brought in to Egypt (filed up to 1975); and there was every reason to believe that the aims of the policy would not be realised without, inter alia, a structural reorganization of the Authority along the lines recommended.

- (e) The most important change recommended was the appointment by H.E. the President of a new, small, part-time Board of Directors of about seven members, such members being carefully chosen from both industrial/commercial public and private enterprise as well as from senior Government Service personnel.
- (f) Within overall policy and objectives as laid down by Government, the new Board should have full freedom to formulate the detailed policies needed for success and to ensure effective implementation through its executive staff. One of the first tasks of the new Board should be to recruit, at market rates, suitably qualified and experienced personnel to fill senior posts in the Authority, as reorganised, and the post of Chief Executive.
- (g) The new Board and its staff should be housed in a modern office in a location and of a type suitable to the prestige and importance of the job to be done, and convenient for, and impressive to top-level foreign investors.
- (h) The new Board should submit to Government an estimate of its forward capital requirements over a five year period, and should actively identify sources of foreign aid available for the provision of the necessary funds.

2.5 The Special Report of December, 1975 was discussed with H.E., Minister Dr. Zakie Shafei, in March, 1976. As we reported in our Report No.3, we were then advised that :-

- (a) the recommendations regarding re-organisation contained in the Special Report could not be implemented immediately ;
- (b) consideration of these recommendations would have to be deferred for (say) one year; and
- (c) in the meantime, it would be necessary to work within the existing legal and procedural framework.

2.6 The deferment mentioned at paragraph 2.5(b) preceding was a matter outside our control; and while, in retrospect, the deferment is understandable in the context of the considerations which gave rise to it, it nevertheless had an adverse impact on the consultancy programme. It is, therefore, reassuring to be able to report that the Egyptian Government has now accepted the need for structural reorganisation and that action, introductory to the necessary changes, has been undertaken. (See paragraph 9.6).

2.7 At the March, 1976 discussion with H.E. Minister Dr. Zukei Shafei, we agreed at his request to concentrate the consultancy effort towards the development and realisation of the El Nasr City free zone. In line with that request, we developed and submitted to the Authority outline proposals for the El Nasr City free zone management organisation. The proposals, which were included in our Report No. 4 and are repeated in Annex C to the present report, contain the following elements :-

- (a) A summary of the principal "key activities" to be performed by the zone management when the zone is fully operational;
- (b) A proposed long-term organisational structure, to come into effect when the zone is fully developed and begins to discharge all of the "key activities" ;

- (c) A proposed interim organisation structure, to be achieved by January, 1977;
- (d) A draft specification of the posts to be filled by immediate recruitment, to provide the initial staffing of the interim organisation; and
- (e) A summary of the main duties of the zone's General Manager.

- 2.8 The outline proposals were accepted in principle by the Authority, who agreed that they would be used as a planning framework in the development of the zone's management team.
- 2.9 The first step taken by the Authority in that direction was the recruitment, as a result of public advertisement, of the prospective operational staff of the management team. The staff in question were in post by October, 1976, and we developed and submitted to the Authority proposals for meeting their training needs. While this subject is more fully described in Section 7 (Training) below, we mention here that we staffed and operated a 10-day intensive induction course for the newly-recruited operational staff in Cairo in December, 1976.
- 2.10 In our Report No. 4 we also urged that the post of General Manager of the El Nasr zone should be filled, as a matter of urgency. We expressed the view that this appointment would have a direct bearing on the pace and quality of the preparatory work needed to get the El Nasr project off the ground. We again urge that this appointment should be made as soon as possible.
- 2.11 Our proposals for the development of a management team for the El Nasr City free zone were made in the context of the organisational relationship between the Authority and local free zone boards which we had earlier recommended to the Authority and which, we understand, has been found

7.

generally acceptable. A statement of the recommended relationship is repeated in Annex C, Appendix VI.

3. CONSTRUCTION AND PHYSICAL DEVELOPMENT

- 3.1 We repeat here that our assistance in the area of construction and physical development has been concentrated on the El Nasr City industrial free zone, in deference to the request of the Egyptian Authorities.
- 3.2 One of the first actions taken by us under our contract was to endorse and support the decision of the Authority to appoint a Project Manager for the physical development of the El Nasr City free zone. At all stages we urged, and endeavoured ourselves to give, full support to him in his admittedly difficult task.
- 3.3 The El Nasr zone site was selected by the Authority some time before the commencement of this consultancy. Initially, protracted difficulty was experienced in gaining access to the site from the military. The access gained was limited and it became necessary to plan development work in phases.
- 3.4 Nevertheless, the site selected has much to recommend it as a long-term development location. We are advised by the Authority's Consulting Engineer that its cost of development should not be significantly higher than the cost of developing comparable locations elsewhere in Egypt.
- 3.5 The requirement to work with the Architect and Engineer of the Authority to develop the industrial estates was fulfilled principally through an intensive in situ demonstration of the practical aspects of industrial estate design and physical development. For that purpose we brought the Project Manager (the Authority's Architect) and the

Authority's Consulting Engineering representative to Shannon in June 1975. In the course of the demonstration, the Egyptian team was provided, inter alia, with :-

- (i) Typical working drawings of the site works for industrial estates,
- (ii) A complete set of working drawings for a typical advance factory together with an outline specification,
- (iii) Technical guidance material for roof construction for industrial buildings,
- (iv) A copy of the Shannon effluent regulations, together with details of the method of derivation of the relevant standards and the method of their application in an industrial estate,
- (v) Specimen questionnaire forms designed to yield a complete brief on an industrialist's building requirements; these questionnaires, when completed in the manner recommended, give a clear understanding of the factory accommodation required whether for a standard factory with or without modification or for a new, custom-built factory,
- (vi) Guidance on the various types of fire hazard likely to arise in industrial buildings ,
- (vii) Guidance on Contract Management under headings -
 - (a) Site meetings between the Project Manager, Consulting Engineer, Main Contractor and Sub-Contractors.
 - (b) Design team meetings between the Project Manager and the Consulting Engineer, and
 - (c) Infrastructure meetings between the Project Manager and the various relevant local authorities.

We were advised by the General Authority that the input received in the course of the visit to Ireland (which covered three industrial estates) was fully adequate to enable the Authority's technical experts to draw up their plans and specifications for the initial development of the El Nasr site, including the first four advance factories.

- 3.6 We participated with the Authority's technical experts in several successive attempts to complete an agreed action timetable for the execution of the works, but on each occasion it quickly became evident that the rate of progress being achieved by the contractor made the timetable meaningless. Consequently, we urged upon the Authority the necessity of ensuring that the contractor would attach a sufficiently high priority to this particular project and would allocate resources of men, equipment and materials accordingly. We are glad to report, that, following the introduction by the Authority of a new system of monthly progress reports to the Prime Minister's Office, progress in the current year, 1977, appears to have been stepped up somewhat, and that the contractor now has a substantially increased work-force on site.
- 3.7 One of the proposals made by us to introduce a measure of planning and control into the scheduling of the construction contract deserves special mention. In March, 1976, after we had been requested to concentrate on the El Nasr City project, our engineering expert visited Egypt for the purpose of assisting in the preparation of a critical path analysis of the construction programme. In preparation for the use of the critical path method, our training expert carried out a critical path workshop in Cairo in May, 1976 for the technical staff and consultants of the Authority and for representatives of the contractor.

- 3.8 A copy of the resulting critical path analysis, relating to the advance factory buildings, is attached at Annex D. It shows a completion time for the first building of approximately 22 months from start-up date. On this basis the first building would not be available for investors until late 1978 or early 1979.
- 3.9 While it should be possible in practice to secure substantial reductions in this time schedule, the prospect that the first advance factories would not become available until 1978 or 1979 made it necessary to place new emphasis on the preparation of fully serviced sites at El Nasr City at the earliest possible date. In line with this new emphasis, we prepared in conjunction with the Authority's technical experts a revised draft construction programme geared to the making available of prepared, or partly prepared, sites during 1977.
- 3.10 The current position, therefore, is that the development of the El Nasr City free zone is proceeding towards :
- (a) the completion of the first advance factory buildings during 1978, or early 1979, and
 - (b) the making available of factory sites during 1977.

The overall rate of progress in construction does not represent an adequate response to the needs of the Egyptian free zone programme. We understand that the slow progress had been due primarily to inadequate funding of the project but that this has now (1977) been corrected. It is fundamental to the implementation of the open door economic policy that serviced sites and/or advance factories should be available to investors; and we, therefore, urge that the pressure placed on the contractor in recent months to give the contract a high priority should be maintained.

3.11 The advice and guidance we have provided in the area of construction and physical development, while given more specifically in relation to the El Nasr City free zone, has general application to other free zones; and this has been acknowledged to us by the Authority. Indeed, it has relevance to industrialisation generally in Egypt; and in this wider context, we would like, in particular, to make brief mention of a number of important points which we have adverted to in the course of our consultancy :

- (a) The need for forward planning in the identification and selection of locations for industrial development, and in the design and installation of adequate infrastructural services.
- (b) The need to develop national policies, including standards, for pollution control and environmental preservation.
- (c) The need to develop and implement systems for competitive tendering for large construction projects.

4. INCENTIVES

4.1. During the period of our consultancy to date we developed, and conveyed to the Authority, views and recommendations on incentives, under a number of headings :-

- (a) the taxation and other provisions of Law 43 of 1974 ;
- (b) the provision of advance factory buildings, and serviced factory sites, for leasing to investors ;
- (c) the question of the level of rentals for factory buildings, and the use of subsidised rentals as an incentive ;
- (d) the importance of ensuring freedom from undue restrictions on the movement and control of goods ; and
- (e) the use of the private free zone concept as a means of facilitating initial investment.

4.2. In our Report No. 1 we included, at Appendix 4, a preliminary assessment of the incentives provided by Law 43 of 1974. As the views contained in that assessment are still valid and important, we repeat the Appendix in full in Annex E to the present report.

4.3. Following a meeting with senior officials of the Taxation Department and the Finance Ministry in Cairo in October, 1975, our taxation expert was invited to re-state our recommendations in summary form. The summary which was provided was as follows :-

- (a) Regarding the requirement in Article 16 of Law 43 to charge profits to Egyptian taxes where such profits become subject to taxes in the investor's home country, our recommendations were firstly that with reference particularly to the United States and United Kingdom the requirement to charge Egyptian taxes be limited to such taxes only on the amount of profit actually remitted to the home country and not charged on the profit retained in Egypt, and,

secondly, that the Egyptian taxation authorities proceed speedily to negotiate double taxation agreements providing exemptions or matching credits with all countries from which foreign investment in Egypt is anticipated, thus eliminating the need to charge Egyptian taxes.

- (b) In regard to the 1% (1 per cent) levy (Article 46 of Law 43), to eliminate the excessive and discriminatory aspects of the levy we recommended that instead of a levy related to total values a levy of (say) 5% (5 per cent) of annual profits be applied.
- (c) Regarding the complete exemption from taxes in the free zones we recommended that the concept be changed to one in which a temporary relief from Egyptian taxes be given and a terminal date for the incentive be applied. We recommended a tax relief period of 20 consecutive years and a terminal date in the year 2000.
- (d) Regarding the tax relief for 5 years outside the free zones we recommended that the concept of this incentive be changed to one giving a period of 15 years relief. We also recommended that profits earned in the tax free period should not be charged to Egyptian taxes when they are later distributed.

These recommendations are now being considered actively in the context of the present proposals of the Authority to introduce amendments to Law 43 of 1974.

- 4.4. At the commencement of our consultancy we developed, in conjunction with the Authority's technical experts and in agreement with the Authority itself, the concept of providing a number of advance (i.e. pre-built) factory buildings at the El Nasr City free zone. This form of development has proved to be attractive to investors in free zones and industrial estates in many parts of the world, providing as it does a means of hastening and facilitating industrial start-ups, and we believe

that it will be equally valuable in Egypt.

- 4.5. Due to delays in the construction of the advance factories at El Nasr City free zone, it has been necessary to introduce, as a parallel strategy, the development of serviced sites (partly or fully finished) on which investors can be allowed to construct factories themselves (or have them constructed by the Authority acting in the capacity of a building agent) to their own design and specification. It is hoped that the first serviced sites can be made available to investors during the current year, 1977.
- 4.6. With regard to the level of rentals for factory buildings, we submitted to the Authority (and included in our Report No. 4) a discussion paper dealing with the method of determining rentals. This paper, which is repeated at Annex F to this Report, describes the system of rental calculation used at Shannon and raises the possibility that the Authority may need to consider the use of subsidised rentals as an additional incentive in favour of the Egyptian free zones.
- 4.7. In line with the request made to us to concentrate our consultancy efforts towards the early realization of the El Nasr City free zone, we proposed, and the Authority agreed, that it would be highly desirable to undertake a special study of the measures needed to ensure maximum facilitation in the movement and control of goods at inland free zones such as El Nasr City. We arranged for the Surveyor, Customs and Excise, Shannon, to carry out the study in June, 1976. His findings and recommendations, which we endorsed, were given in the Special Report on the Movement and Control of Goods. A summary is contained in Annex G to this Report. We understand that about 80% of the recommendations are acceptable to the Authority and can be implemented right away, while the remaining 20% are acceptable in principle.

4.8 In the course of our consultancy we were struck by the valuable degree of flexibility allowed by Law 43 of 1974 in relation to the establishment of private free zones. To date this provision has not been fully utilised, its use so far being limited to the facilitating of warehousing and servicing operations. But it could be used more purposefully to encourage industrial investment in advance of the availability of fully serviced Public Free Zones. In fact, the Private Free Zone concept opens up a number of possibilities; and because of the delay in bringing the El Nasr Zone into operation and in the light of the need to implement quickly the urgently needed industrial expansion, we have proposed that the Private Free Zone concept should be more fully exploited. (Annex 1). The Private Free Zone concept can be said to combine the advantages of the temporary importation procedure with the incentive packages available to internal or free zone industrial projects under Law 43/1974. It can, therefore, be utilized to attract industrial investment to areas already provided with necessary services and infrastructures; and it can be utilized to attract new or enlarged business opportunities, by way of joint ventures, to existing industries with excess productive capacity. This offers scope not alone for faster growth in investment and employment but also for more effective use of existing capital investment. It also enhances the prospect of profitable investment for Egyptian public and private capital as well as for foreign capital. Moreover it carries the potential for the introduction of new technology and for achieving improved standards of quality and output in existing production lines.

5. PROMOTION

5.1 From the beginning of our work we have maintained that the key to success in securing industrial investment in Egypt lies in promotion. Consequently, one of our first tasks on taking up the consultancy was to prepare and submit to the Authority an outline plan for an on-going promotional programme. This plan, which was given in our Report No. 1 and is repeated in Annex H to the present Report, described the steps which were needed to lay the foundations for a full-scale programme; and also, recognising that some of these steps would require time to implement, it listed a number of measures which could be put in hands immediately. They included:-

- (a) Production of high-quality coloured brochures.
- (b) Production of a layman's guide to tax incentives and legislation.
- (c) Preparation of coloured slide presentations.
- (d) Preparation of an itinerary of visits by the Authority's senior executives to leading international firms, and the planning of subsequent follow-up arrangements.
- (e) Development of services within the Authority for
 - (i) providing investors with required information and
 - (ii) receiving and arranging visits by investors.

Guidance was provided on the action needed to give effect to these measures.

5.2 We also emphasised the very considerable importance of developing an effective promotions function within the Authority. In particular we recommended as a priority item that

a top-level promotions manager should be appointed and given the resources and authority to build up a team to carry out the promotions campaign. We urged that the man to be appointed should be the best Egyptian available in this field, and that he should be seen as strengthening the management and marketing functions of the Authority. To assist the Authority in what we believed to be one of its most critical staffing appointments we :

- (i) prepared and submitted a draft advertisement and position description for the post ;
- (ii) offered to assist in the interviewing of candidates; and
- (iii) offered to advise the successful candidate, when appointed, on the setting up of his function and the organization of his programme.

5.3 Recommendations were also made by us in relation to the information requirements of an effective promotions campaign :

- (a) We urged the preparation of detailed information reports outlining matters of interest to selected international firms. The reports would be geared to a target audience of selected firms who would be visited by senior personnel from the Authority. The thinking behind this recommendation was that Egypt needs leading international firms to establish factories for export manufacturing; that the first free zone enterprises should be undertaken by firms with a proven record of success and so give promise of the establishment of viable operations; and that the most effective means of obtaining such results lies in a carefully planned and well-executed programme of direct selling to selected firms.

- (b) We stressed the extreme importance of having, within the Authority, a well organised and efficient service for the reception and handling of visiting investors and of that service having readily available all the information needed by investors for the purpose of reaching investment decisions.
- (c) We also recommended that the Authority should gear itself to being a "one stop shop", where a prospective investor would clear all necessary establishment formalities through contact with a single agency. For this purpose the Authority would need to be in a position, through active liaison with other agencies, to deal quickly and on-the-spot with all investment formalities.

5.4 Action taken to implement the foregoing recommendations on promotion includes the following : -

- (a) The Authority commissioned us to produce 10,000 copies of a colour brochure. The brochure is being prepared for printing.
- (b) The proposal for a layman's guide was, in fact, anticipated by the publication "Egypt - An Investment Guide", produced for the Authority by the Ford Foundation.
- (c) The Authority has set up the nucleus of an Information Unit.
- (d) The Authority has effected a significant improvement in liaison between itself and some of the other relevant agencies of Government.

- 5.5 Action is still outstanding on (i) the setting up of an effective promotions department under a top-level promotions manager, (ii) the establishment of systems to cope properly with the needs of visiting investors, and (iii) the initiation of a vigorous promotional campaign.
- 5.6 We have been advised that absence of follow-up action may be ascribed in part to the following :-
- (a) There have been serious budgetary difficulties; finances for a sophisticated promotional campaign have not been available.
 - (b) The salary needed to attract a top-level promotions man could not be accommodated within the Authority's salary structure.
 - (c) Egypt is, in any case, already receiving numerous industrial enquiries, and has processed many of them, including proposals for large scale industries, to the point where decisions whether to establish operations could be taken.
 - (d) It is not, primarily, lack of promotional effort that is preventing the establishment of enterprises, but other factors such as the exchange rate problem, the absence of infrastructures and serviced sites, and the general uncertainty felt by investors arising out of the still-unresolved political situation in the Middle-East.
- 5.7 Undoubtedly, the Egyptian Authorities have been faced with great obstacles in their efforts to implement the new economic policy. This became apparent to us as the consultancy proceeded and it is a situation which we came to recognise with all due sympathy. We sought, however,

to avoid being deflected thereby from the giving of what we saw as factual, objective comment; and it is in that sense that we re-state here a number of considerations which we see as having overriding importance at the present time :-

- (a) Egypt has a critical need at present for export-orientated, employment-generating, manufacturing enterprises of international standing and repute, which will introduce much - needed technological know-how to the country.
- (b) The approach to the satisfying of that need, i.e., the open-door economic policy, is basically sound and imaginative; and the personal promotional efforts of H.E. the President of the Republic have helped to secure for it world-wide attention and publicity.
- (c) Nevertheless, we are not aware that any worthwhile enterprise has yet been established under the open-door policy.
- (d) Egypt has many advantages and incentives to offer to the investor, and it should be possible to attract a reasonable flow of investment in spite of the difficulties and uncertainties which are known to exist.
- (e) But while, initially, some important foreign investors may be attracted, it would be fatal to the success of the new economic policy to assume that foreign industrial investment of the type and quality desired can be attracted to Egypt, to the extent necessary to make a reality of the open-door policy, without a concentrated, sophisticated and sustained effort on the part of the national promotional agency.

(f) **The hard facts are that Egypt is competing for international investment against countries which have developed very strong and sustained promotional programmes over a period of years, and in face of that competition, Egypt must mount a fully matching promotional effort if it is to have any prospect of securing continuing investment.**

5.8 Given determination to succeed on the part of the Authority, we are convinced that a strong and effective promotional campaign can be developed and mounted. No further time should, however, be lost in undertaking the necessary preparation and planning for a long-term sustained campaign, as recommended by us in our Reports No's 1 and 2; and the currently proceeding re-organisation of the Authority offers renewed hope for the early development of an effective promotional programme.

5.9 While this long-term approach is being developed, we recommend that an interim programme, on the lines already advocated in our reports, should be put in operation without further delay. Such a programme could usefully be linked with the distribution of the first colour brochure which is now available. We have developed firm proposals for an interim promotional programme, and have secured a measure of acceptance for them within the Authority. A summary of these proposals is given in Annex 1 to this report.

5.10 The Authority has recently indicated to us its plans to proceed with the development of an audio-visual presentation for use in promotion, and we are pleased to learn of these plans. We had previously given advice to the Authority on the preparation of a conventional slide presentation, and we have now supplemented this with a more detailed,

technical description of the steps involved in the production of an audio-visual presentation. This is given in Annex J hereto. We cannot emphasise too strongly the importance of using only transparencies and other material of the very highest quality for such presentations.

5.11 We are required by our terms of reference "to review the plans to open special promotion offices abroad, and assess their cost and structure; and to review the ancillary methods of promotion through Embassies, Consulates and other Egyptian offices overseas". We give the following general comments on this topic :-

- (a) At the commencement of our consultancy, the Authority had under consideration the opening of further overseas promotion offices. No specific areas were mentioned and we were asked for our comments.
- (b) We advised that the locations which should be considered should include the Federal German Republic, France, the UK, Holland, Japan, USA (Mid-West), Saudi Arabia, Kuwait, and the United Arab Emirates. We emphasised that this was very provisional advice, and that we would not be prepared to recommend the opening of further promotional offices until the Authority had itself established a proper promotions function and adopted a coherent policy on promotion. However, in general principle, we favoured the overseas offices being under the direct control of the national industrial promotion body. We also felt that the existing New York office should be allowed more time to prove itself, and that if we were to offer meaningful advice on its operation we would need to have an opportunity to study its cost and effectiveness. We also indicated that we would need details of the origin of foreign investment projects received to date.

- (c) Our view in this matter, which we understand accords with the thinking of the Authority, is that, while overseas offices are an essential component of an adequate promotional programme, it would be premature to develop plans for them before the Authority's policy on promotion, and the structure to implement it, have been formalised.
- (d) With regard to the use of existing Embassies, etc., for promotion purposes, we recommend that the Embassies in the more important investment markets (e.g. USA, UK, Federal German Republic, France, Japan) should be utilised to the maximum extent possible. We have already proposed, and have agreed with the Authority, plans to use those Embassies in the mounting of the interim promotional programme already referred to.

5.12 We make here a brief reference to training for promotion. While the main thrust of our efforts in the promotional field has been directed towards the development of a structure and an ongoing programme in this field, we have not neglected to give assistance by way of advice, coaching and formal training to existing members of the Authority's staff whose functions included some promotional elements. Details of the formal training courses are described in Section 7 of this Report.

6. IDENTIFICATION OF INDUSTRIES

6.1 To provide the Authority with general guidance in its initial planning, we drew up and submitted a list of target industrial products suitable for the El Nasr City free zone. The list was given in our Report No. 4, and is repeated in Annex K to this report.

6.2 In drawing up the list, we had regard to

- (i) the experience of other countries at Egypt's stage of economic and industrial development, and of countries establishing free zones ;
- (ii) the categories of industries that have been established at free zones ; and
- (iii) the suitability of products for transportation by air.

We concentrated on manufacturing industries as being the ones that can introduce new technologies and tend to give higher and more remunerative employment. We did not, however, intend the list to be exclusive, and, in particular, we did not rule out worthwhile warehousing and service industries. On this basis, the Authority accepted the list of target industrial products, as submitted. We subsequently supplemented that list with a further list of products which takes account in particular of demand in the Arab Middle East and applies to industries appropriate to both free zone and non-free zone sectors. The further list is as shown in Annex K.

6.3 It will be realised that, in respect of the industries listed, there are apparent limits to demand for additional products in many markets. It is important, therefore, in relation to any proposed project that there should be a realistic appraisal of market potential. The

making of such an appraisal is, of course, the responsibility of the investor, who is concerned primarily with the viability of his project, but, nevertheless, on onus rests on the project appraisal executives of the Authority to examine critically the investor's market appraisal. We have included project appraisal in the general training course given to the Authority's staff.

- 6.4 We recognise the desirability of developing a more specific list of target industrial sectors or groups. This is a task which requires access to detailed basic information, e.g. classified import/export, industrial production and consumption statistics; and a manpower data bank with associated industrial training facilities. We found that such information is not readily available. Additionally, the task should be keyed-in with national planning in the zoning of areas as locations suitable for industrial projects generally or for specific industries; and it must have regard to infrastructural availabilities, existing and projected. The task is, therefore, one to be undertaken by the industrial promotion unit which we have recommended should be developed within the Authority - see Chapter 5 preceding. We realise that this task is for the longer term; and recognising the urgent need to bring the industrial free zone programme into effective operation, we have proposed, in detail, an interim promotional programme which could be undertaken by the Authority concurrently with its re-organisation; that programme is set out in Annex 1 attached.

7. TRAINING

- 7.1 Our effort in the area of training have been directed both at the needs of the Authority's own staff and at the requirements of the industrial labour force.
- 7.2 Our first action in regard to Authority staff training was to submit a statement (copy attached at Annex L) indicating in general terms the approach that we proposed to adopt. This statement outlined the basic constituents which should be provided in the Authority's training programmes, including:
- (i) Induction training for new entrants;
 - (ii) Supervisory development;
 - (iii) Management development;
 - (iv) Management techniques - appreciation and application;
 - (v) Specialist techniques; and
 - (vi) Personal skills.
- 7.3 It also made two specific suggestions, related to groups of staff whom we felt were particularly in need of training assistance:
- (a) Members of the project team for the El Nasr City free zone should be given specific training in project planning, project management, team building, network and critical path analysis.
- We ourselves were able to make a partial contribution to these needs in the training course in network and critical path analysis which our training expert conducted in Cairo in May, 1976.
- (b) Appropriate training should be given to Department and Section Heads of the Authority's Free Zones Division, to facilitate the development of a management team concept and approach.

While our suggestion for a workshop type training course in these techniques was not taken up, we were, nevertheless, able to

provide a very large measure of direct training assistance to the senior officials and others concerned in the Free Zones Division. This we did by reserving places for the Authority's staff on the programmes of four-week and two-week training courses in free zones held by us at Shannon. In all some 18 Authority staff members were accommodated on these courses.

7.4 A very important recommendation in our initial general proposals was that which urged the appointment by the Authority of a suitably experienced training executive. We argued strongly that the Authority should build up its own strength in the planning and provision of training, and that its own training experts should be involved, to the greatest possible extent, in the development of comprehensive general programmes. As a first and urgent step we proposed that the Authority should recruit a Training Manager who would be a person of high calibre and would be given a senior grading within the organization, with direct access to top management. We attached a high priority to this recommendation, and we provided, or offered to provide, considerable help in its implementation. Thus,

- (a) we drafted and submitted a position description and job advertisement for the post;
- (b) we offered to assist in the interviewing of candidates, and members of our team did, in fact, participate in a number of interviews; and
- (c) we offered to give the successful candidate, when selected, every assistance in the establishment and development of his function.

It has not yet been possible for the Authority to implement our recommendation in this area. We understand that, as in the case of the Promotions Manager, the difficulty has been that the Authority did not have the power to offer a rate of remuneration which would bring in and hold the right man for the job. We now know that steps are being taken to overcome this difficulty, and consequently we are hopeful that the Authority will soon be in a position to fill these key posts.

- 7.5 Because of the importance attached by us to promotion, we felt it necessary to make special efforts to assist, by way of training, those members of the Authority's staff whose functions included a promotional element. We arranged for selected staff members to attend special promotion courses at Shannon. And we also arranged for members of our team to conduct a general promotions workshop for some fifteen members of the Authority's staff, over a one-week period in Cairo in November, 1975.
- 7.6 Following the request to us to concentrate our consultancy on the realisation of the El Nasr City free zone, and following the recruitment by the Authority of the operational staff for the initial management organization of this zone, we developed and submitted proposals for an induction and orientation training course for the newly recruited staff. Our proposals were accepted by the Authority, which arranged special funding for the programme from UNDP and from its own sources, and the training was conducted by members of the Shannon Company over a 10 day period in December, 1976. Some 21 members of the Authority's staff attended.
- 7.7 On the subject of industrial labour force training, we strongly advised that it would be necessary for the Authority to have available for industrialists a virtual data bank on available skilled manpower for different sectors and types of industries, and also on the relevant training facilities and resources in Egypt to remedy skill deficiencies. We accepted that it might be difficult to compile such information in the absence of central recording of manpower data, but nevertheless we felt that the Training Manager, when recruited, should be directed to collect such information as is available and also to identify the deficiencies. Pending his appointment, we suggested that preparatory work should be undertaken by an existing section in the Authority.
- 7.8 We proposed also that an inventory be made of existing training facilities and resources in Egypt, and their capabilities for meeting newly identified needs. We listed some of the many agencies involved in this field, all or

many of which might have an actual or potential contribution to make to meeting the needs of free zone industries.

7.9 As a practical step towards developing contacts with and between these agencies, and securing their support for the free zones programme, we suggested that the Authority might take an initiative on the lines of the following :

- (a) To convene a conference of representatives of the agencies and institutes, to apprise them of the special problems and tasks which the Authority will encounter in assisting industrial investors to meet their manpower needs ; and to gather relevant information about their activities, facilities and resources.
- (b) To set up a standing committee of representatives of the agencies and institutes for information, liaison and co-ordination purposes. Alternatively a broader based approach might be to set up a Task Force under the aegis of the Ministry for Economy and Economic Co-operation (or perhaps under the Prime Minister's Office) to solve the manpower and training problems faced by foreign investors.

We wish now to urge, as persuasively as possible, that steps be taken by the Ministry to convene a conference for the purposes indicated at sub paragraph (a) above, and to give urgent consideration to the suggestions at sub paragraph (b).

7.10 We have established Liaison with a study programme recently inaugurated in Egypt by the International Labour Office. This programme will, inter alia, identify and catalogue all of the training opportunities available in Egypt for the imparting of skills that may be useful in industry. The results of the study, when completed, should go some way towards meeting the information needs which we have indicated in the area of labour force training.

FINANCE

- 8.1** We have been conscious of the requirements in our terms of reference to provide the authority with assistance in relation to (i) cash flow and (ii) financial planning of both construction and operation stages, and we have endeavoured to obtain from the Authority the necessary financial data on which to base this assistance, with particular reference to the El Nasr City free zone.
- 8.2** The Authority's financial and technical staff have been most co-operative in providing all the information at their disposal, but both they and we have repeatedly come up against the same fundamental problem in relation to long-term or even medium-term financial planning. This refers to the absence of any assured or even probable source of funding of the very large capital and operational monies required by the Authority to implement its free zones development programme.
- 8.3** It appeared, initially, that there were good prospects that the programme would be funded in the main from the Egyptian national budget, and indeed early allocations were large and encouraging. When, later, it became apparent that funding from this source was by no means assured, we recommended to the Authority that it should endeavour to secure definite financial support for the El Nasr City project, if necessary by seeking external funding for part or all of the development cost.
- 8.4** To assist the Authority to seek such support, we offered to carry out, in conjunction with the officers of the Authority, a detailed cost/benefit study of the project. Our offer was accepted, the analysis was carried out by our expert in November, 1976 and a special report giving the results of the study was submitted to the Authority in January, 1977. The results, which are considered satisfactory by the Authority, are summarised in Annex L attached. The study should prove useful to the Authority as

supporting material in seeking foreign investment in free zone construction.

8.5 We were informed in April, 1977 that the 1977 budget capital allocation for the El Nasr zone will be fully adequate.

9. OVERALL CONCLUSIONS AND POINTERS FOR FUTURE ACTION

- 9.1 The contract required us to give advice, guidance and support to assist the Authority to plan the establishment of the first two industrial free zones at El Nasr City and at Alexandria. As already indicated, our work was concentrated on the El Nasr City zone.
- 9.2 We do not see industrial free zones as being an end in themselves; we view them as a technique of development which can have a valuable catalytic or trigger action in an overall industrialization programme. In Egypt, manufacturing industry, and in particular industry which will produce exports and foreign earnings, must be expanded very rapidly to become a major force in the country's economic development. The existing industrial base is relatively small, and has inadequate technology for competition in international markets. The situation calls for substantial foreign investment and technology. To attract these, Egypt must compete successfully against many other countries with the same aim. Industrial free zones, providing excellent industrial sites and supported by favourable legislation, are (as has been widely demonstrated) potentially one of the best means of enabling Egypt to succeed in its programme of industrialisation.
- 9.3. It was our aim that, in fulfilling our contract, we should participate actively with the Authority in the establishment of a fully functioning free zone, including the necessary support services in the Authority itself for attracting, convincing, installing and caring for the right kind of foreign industrial investor.

Consequently, we sought from the outset to ensure that practical implementation of Egypt's free zones programme would proceed, *pari passu*, with the rendering of our services under the contract. As will be seen from the preceding chapters and earlier Reports, we have, in accordance with the requirements of the contract, given comprehensive advice, guidance and support to the Egyptian Authorities. The lines of action for development of industrial free zones and for building up an effective organization to implement them have been defined and demonstrated; and practical training and familiarisation over a wide spectrum of free zone establishment, operation and marketing procedures and practice have been provided for the staff of the Authority. We have, in fact, expanded the scope of our assistance in a number of respects beyond the requirements of the contract.

- 9.4 We did not, however, fully achieve the objective we set ourselves, as indicated in the preceding paragraph. We did not appreciate at the commencement the magnitude of the burdens imposed on the Egyptian economy by security considerations. We did not realise, and we doubt if any of the parties concerned realised fully, the extent of the inadequacy of infrastructural facilities for new industry in Egypt, the extreme scarcity of finance for capital and operational purposes, or the magnitude of the obstacles facing the Authority in building up an effective industrial development organization geared to modern promotional requirements. It should be noted also that the work of the consultancy had to be conducted against a background of changing circumstances (e.g. turnover in top personnel in the Authority, loss of trained personnel, dislocation of physical construction plans, etc.), and that the Authority's scope for positive action was seriously handicapped by the uncertainty attaching to its overall position and,

specifically, by its inability to recruit key personnel due to restrictions on levels of remuneration.

- 9.5. The result is that we are now bringing our work under the consultancy to a conclusion in advance of the effective implementation of the industrial free zones programme. Clearly, the assistance given under the contract would have had a more beneficial impact if it could have proceeded fully in phase with the implementation of the free zones.
- 9.6. Nevertheless, the consultancy has made a comprehensive and valuable input to the Egyptian industrial promotion scene; and it has undoubtedly acted as a pace setter in the lead-up to a number of positive and highly important measures to facilitate the investment programme, recently adopted. We refer to the following measures :-
- (i) The Government has established a Supreme Council for Investment (reporting through H.E. the Deputy Prime Minister for Finance and Economy to H.E. the Prime Minister) which is already acting (a) to implement the total industrial investment plan for Egypt including industrial free zones and (b) to find solutions for the problems which face foreign industrial investors. (This Council is empowered to adopt definitive policy decisions and to give overriding project approvals).
 - (ii) The Board of the Authority is being re-organised as a more effective instrument.
 - (iii) A Directive has been issued to amend law 43/1974 so as to introduce necessary clarifications and modify provisions repugnant to prospective investors. A copy of the draft amending law is given in Annex N.

- (iv) Action is being taken to remove restrictions on levels of remuneration in the Authority, and
- (v) Action to fund adequately the physical construction works at El Nasr City has been initiated.

9.7 In summary, we feel justified in reporting that the way now appears to be open for the second or final phase of the effort to bring the free zones project into operation. The momentum which has lately been generated, the sense of new confidence created, the skills imparted - all are valuable but they must be nurtured and strengthened. This calls for effective action now to ensure realisation and exploitation of the measures listed at sub paragraphs (i) to (v) of Paragraph 9.6 preceding. This is a task to be undertaken by the reorganised Authority with its new powers and structures and supported by the overriding authority and decisions of the Supreme Council for Investment. In carrying out its task, the Authority should pursue, inter alia, the matters listed in Annex O; and, in so doing, it is probable that the Authority would find that advisory assistance on some or all of the matters would be of value.

9.8 In putting forward this, our final report, we wish to record our deep sense of gratitude to those officers of the Authority, including those who have now left it, with whom we have worked over the past two years. We acknowledge the dedication they have shown in the face of daunting difficulties. It has been an honour for us to have been associated with them in their work for Egypt. We acknowledge also, with grateful appreciation, the assistance and co-operation we have received at all times from the officers of the United Nations Industrial Development Organisation and the United Nations Development Programme.

Shannon Free Airport,
Ireland.

June, 1977

CONTRACTOR'S TERMS OF REFERENCE

1.00 AIM OF THE PROJECT

- 1.01 The aim of the Project is to assist the General Authority for Investments and Free Zones, in Cairo, to plan the establishment of the first two industrial free zones at El Nasr City near Cairo Airport, and at Alexandria.

2.00 RESPONSIBILITIES OF THE CONTRACTOR

2.01 Statement of Work

The Contractor shall render on the terms and conditions hereinafter set forth; the services and facilities necessary to provide assistance in the form of advice, guidance and support to the Egyptian Authorities in the development phase of the Project. In this connexion the Contractor's work shall include, but shall not be limited to, the following :

(a) Incentives

- (i) To review the plans of the Egyptian Authorities for the provision of suitable physical and other incentives and to advise on their exact type and feasibility. Particular attention should be paid to the question of tax exemptions and whether these are necessary in view of the obligation of most investors to pay tax in one country or another and also in view of the fact that some zones offer only very short-term tax exemption.
- (ii) To give full policy advice on the exact form of other incentives and their comparative effectiveness.

(b) Public Relations

- (i) To design a public relations programme to be operated by the General Authority to promote the above incentives efficiently and economically.
- (ii) To review the plans to open special promotion offices abroad, and assess their cost and structure.
- (iii) To review the ancillary methods of promotion through Embassies, Consulates and other Egyptian offices overseas.
- (iv) To design and draft a suitable publicity brochure high-lighting the incentives.
- (v) To design a system of audio-visual and other aids to inform potential investors of the Free Zones advantages on their visits to Egypt.

(c) Identification of Industries

- (i) To assist the General Authority in identifying types of industries suitable for establishment in the free zones, methods of evaluating them, and of contracting those considered desirable.
- (ii) To identify those industries most suitable in view of their use of local raw materials, of their utility in linking with the present export programme of Egypt. Pay particular attention to those labour intensive industries attracted to similar zones and to those whose production may benefit by such concessions as the General Scheme of Preferences, US Tariff items 806 and 807 and similar opportunities.

(d) Civil Engineering - Infrastructure Development

- (i) To work closely with the architect and engineers of the General Authority to develop the industrial estates at El Nasr City and at Alexandria as soon as possible.
- (ii) To assist in and supervise the preparation by the General Authority of detailed plans for the infrastructure and other civil engineering items required.
- (iii) To oversee the work itself in the field, advising on the construction of standard factory bays, their equipment and ancillary requirements.
- (iv) To advise on the procurement of the necessary equipment and its installation.

(e) Finance

To provide a suitable cash flow analysis in conjunction with accountants from the General Authority. To provide guidance on the financial planning of the construction stages and of the subsequent financing requirements for the operating stage.

(f) Administration and Management

To provide advice and support, including any necessary organisation charts, etc., and including follow-up advisory assistance to the General Authority on the staffing, administration and management of the free zones.

(g) In-Service Training

To analyse the training needs of the General Authority's staff, prepare comprehensive training programme in-service and other, to meet these needs. To advise on the implementation of the

programmes and to monitor progress. To ensure effective co-ordination of all training activities.

(h) Labour Force Training

To investigate the training needs of the labour force in conjunction with the General Authority and to make proposals and plans for meeting these needs.

(i) Co-ordination, Consultation Liaison

- (i) To advise the General Authority on the co-ordination of the overall Project.
- (ii) To be available for consultation on the general supervision of the project when required, and to provide a plan to cover the two years from the start of the project.
- (iii) To provide a schedule of visits and the requirements in terms of staffing by the Contractor and the General Authority.

ANNEX B

Appendix 1

SCHEDULE OF VISITS TO EGYPT BY MEMBERS OF PROJECT TEAM

Mr. B. O'Regan, (Project Manager)	June 16th to 30th, 1975 November 11th to 25th, 1975 February 29th to March 10th, 1976 January 24th to February 1st, 1977
Mr. N. A. O'Brien (Deputy Project Manager)	June 16th to 30th, 1975 October 13th to 27th, 1975 November 11th to 25th, 1975 February 29th to March 10th, 1976 June 1st to 14th, 1976 October 28th to November 4th, 1976 January 24th to February 1st, 1977 February 15th to 28th, 1977 April 25th to May 2nd, 1977
Mr. P. Lalor (Taxation)	June 16th to 30th, 1975 October 13th to 27th, 1975
Dr. W. Brosnan (Promotion)	June 16th to 30th, 1975 November 17th to December 1st, 1975 May 17th to 27th, 1976 January 24th to February 1st, 1977
Mr. J.B. Mackenzie (deceased) (Organisation)	June 23rd to 30th, 1975
Mr. M. Ledwidge (Engineering)	March 28th to April 3rd, 1976 March 27th to April 2nd, 1977
Mr. C. O'Nuallain (Training)	June 16th to 23rd, 1975 November 17th to December 1st, 1975 May 17th to 27th, 1976

Mr. T. A. Dunne (Organisation)	October 13th to 27th, 1975 March 28th to April 3rd, 1976 June 1st to 14th, 1976 October 28th to November 4th, 1976 December 5th to 15th, 1976 January 24th to February 1st, 1977 April 25th to May 2nd, 1977
Mr. M. Murray (Customs)	June 1st to 14th, 1976
Mr. T. Kelleher (Cost/Benefit Analysis)	November 4th to 18th, 1976

NOTES:

1. Under the terms of our contract, members of the project team are expected to pay a minimum of 19 visits to, and spend a minimum of 12 man-months in the project area during the period of the contract.
2. The contract defines a man-month as a period of time equivalent to a calendar month consisting of five working days per week, eight working hours per day.
3. From the Schedule above we have calculated that a total of 34 visits to the project area, involving a total of about 14 man-months in the area, have been completed.
4. The Schedule does not include a number of visits by persons who were not considered members of the project team. They were :
 - Mr. A. Quin, Administrator to the Team - June, 1975 ;
 - Messrs. S. Barron, C. O'Carroll, J.G. Ryan, Members of Training Group - October & December, 1976 ;
 - Mr. P. Quigley, General Manager - February, 1977.

ANNEX B

Appendix 11

SCHEDULE OF VISITS TO SHANNON BY SENIOR EGYPTIAN OFFICIALS

Mr. G. Fuad, Architect, General Authority.	June, 1975
Mr. M. Bakhoum, Consulting Engineer.	June, 1975
Mr. A. A. Meguid, First Under Secretary of State, Ministry of Economy and Economic Co-operation.	July, 1975
Mr. R. El Sahn, Under Secretary for Free Zones, General Authority.	July, 1975
Mr. M. Attalla, Under Secretary for Internal Investment, General Authority.	September, 1975
Dr. G. El Sahrawi, Under Secretary for Free Zones, General Authority.	September, 1975
Mr. E. Shalaby, Under Secretary for Administration, General Authority.	January, 1976.
Mr. I. Abu Zaid, Department Manager, General Authority.	August, 1976
Mr. A. M. Roushdy, Deputy Chairman and Managing Director, General Authority.	September, 1976

EL NASR CITY FREE ZONE MANAGEMENT ORGANISATION

OUTLINE PROPOSALS AND NOTES ON MATERIAL
SUBMITTED

APPENDIX I :

Contains a summary of the principal "key activities" to be performed by the zone management when the zone is fully operational in (say) three years time.

Takes into account the requirements of present Egyptian law, and is based upon the relationship between the General Authority and local free zones recommended in Appendix II of Shannon's Special Report on Organisation.

Assumes that the General Authority will itself retain permanently the responsibility for (a) overseas promotion and (b) research; these functions are not, therefore, provided for in the "key activities" statement.

APPENDIX II :

Is a suggested organigram of a long-term organisational structure, i.e. to come into effect when the zone becomes fully operational and begins to discharge all of the functions in the "key activities" statement.

APPENDIX III :

Is a suggested interim organisational structure, to be achieved by January, 1977.

Assumes that the General Authority will, pending the achievement of the full organisation in (say) three years, provide services to El Nasr in the areas of engineering, finance, personnel, administration and legal affairs.

APPENDIX IV :

Provides a draft specification of the 8 management level posts and 5 support posts which, it is recommended, should be filled by immediate recruitment to provide the initial staffing of the interim organisation.

APPENDIX V :

Contains a summary of the main duties of the key post of General Manager of EI Near free zone.

EL NASR CITY FREE ZONE MANAGEMENT ORGANISATION

**SUMMARY OF PRINCIPAL KEY ACTIVITIES TO BE
PERFORMED**

1. PROJECT NEGOTIATION

Operating within the general policy and guidelines laid down for the free zone by the General Authority :

- 1.1 Receive completed project proposals from investors, and ensure that all required information is obtained from them.
- 1.2 Deal finally with proposals when they fall within the category of industrial and other projects which may be accepted by El Nasr in its own right.
- 1.3 In cases other than those covered by 1.2, transmit copies of proposals for comment to relevant agencies of Government, and follow up to ensure prompt replies.
- 1.4 When all necessary data is available, prepare and submit to the Zone Board an evaluation report and recommendation on each project proposal, the recommendation (if positive) to include an indication of the facilities to be given to the investor.
- 1.5 When decision of Zone Board is given, take all consequential action, including the following :-
 - 1.5.1 Notify terms of decision to investor ;
 - 1.5.2 Draft all documentation needed for establishment of project (including licence, contract, decree, if required), liaising as necessary with the Legal Department; securing acceptance and execution by investor within stipulated time period ;
 - 1.5.3 Advise Facilitation Department of terms of decision and acceptance thereof by investor.

- 1.6 Maintain and operate suitable records and procedures to ensure that project proposals are dealt with expeditiously and efficiently.
- 1.7 Conduct all negotiations in a manner that will secure and hold desirable projects, on terms acceptable to Egypt and consistent with the objectives of the economic "open door" policy.

2. PROJECT FACILITATION (i.e. Follow-up)

On notification by Project Negotiation Department of the offer and acceptance of project terms, and of the completion of the necessary legal documents, operate procedures to ensure the facilitation of the project in accordance with the law. In particular :-

- 2.1 Deal with all requests from the project management to facilitate the entry of necessary materials, equipment and supplies to the free zone, the storage and circulation of goods within the free zone, and the exit of goods from the free zone.
- 2.2 Develop close and effective liaison with the zone customs to ensure the prompt clearance of goods into and from the free zone.
- 2.3 Develop sound systems and procedures to ensure that the legitimate requirements of projects are dealt with, under the law, in the most expeditious and sympathetic manner.
- 2.4 Maintain suitable records of transactions handled.
- 2.5 Furnish to the Project Supervision Department such information as it may need to discharge its functions.
- 2.6 Receive, and deal with in a prompt and sympathetic manner, applications for the grant of work permits for workers and employees of approved projects in the free zone.

2.7 Maintain effective liaison with the Engineering and Services Department, to ensure that the needs of investors, as dealt with by that Department, are dealt with in an efficient and expeditious manner.

3. PROJECT SUPERVISION (i. e. Inspection/Audit)

Maintain and operate suitable procedures and systems which will ensure compliance with the law by all projects licensed to operate in the free zone, while at the same time assisting and facilitating projects to establish successful enterprises. In particular :-

3.1 Check implementation of the currency requirements set forth in the Executive Regulations.

3.2 Assess and collect the 1% levy, and any other rents, charges and levies, payable by licensed projects.

3.3 Check compliance with the requirement as to the insurance of buildings, machinery and equipment in the free zone.

3.4 Receive and inspect employment contracts between employers and Egyptian workers and employees; monitor the observance by employers of the Executive Regulations dealing with terms of employment of such personnel; and check compliance with the obligations on employers in the fields of medical care and social services.

3.5 Ensure that employers make suitable arrangements (including, if necessary, the supplementing of centrally operated services) in the areas of security, rescue, fire and first aid.

4. LEGAL

Provide an advisory service to all Departments on legal matters affecting the free zone and, in particular, on the terms of Licences and Leases, and their enforcement.

5. ENGINEERING AND SERVICES

In engineering the following activities will be performed :-

- 5.1 Maintain, and up-date at regular intervals, the physical plan of the free zone (including up-dated maps showing the location of all underground services; i.e. water, sewerage, gas, electricity, telephone and telex lines).
- 5.2 Should the Zone Board decide to provide any buildings within the free zone, participate in the planning phase to ensure that they are in conformity with the overall plan, and if requested by the Architects, supervise construction of the buildings.
- 5.3 In the case of buildings to be erected by investors, receive, advise on, and approve the plans for such buildings, in advance of commencement of construction.
- 5.4 Develop and install programmes and policies to maintain the overall appearance and physical quality of the free zone to the highest possible standards; the programmes to cover the questions of landscaping, external factory maintenance, road maintenance and cleaning, refuse disposal, emission of smoke and fumes, overhead cables, etc.
- 5.5 Monitor the adequacy of services (electricity, water, etc.) in relation to zone development, and initiate action as necessary to expand services.
- 5.6 Ensure that all of the free zone's own property is properly maintained.

Under services, the following activities will be performed -

- 5.7 Implement any decision of the Zone Board to establish and operate stores, warehouses, loading/unloading facilities, and equipment/machinery for the use of zone projects.

- 5.8 Ensure the availability to zone projects of adequate postal, telex and other communications facilities, including (if necessary) by the provision of central services for the zone as a whole.
- 5.9 Ensure that Banking and Security services are available to meet the needs of free zone projects.
- 5.10 Provide directly, or through the operation of other agencies, central canteen, first-aid, medical and fire-fighting services, to the extent that these services are already adequately provided for by free zone projects.
- 5.11 Ensure that appropriate charges are made and collected for all services provided by the free zone.

6. PUBLIC RELATIONS

On the basis that national and overseas promotion and marketing are centrally handled by the General Authority, establish and operate a P.R. office (department) with the following local functions : -

- 6.1 Secure good coverage of free zone developments in the local press, through the maintenance of good editorial contacts, the regular issue of press releases, the use of photographs, advertising, etc.
- 6.2 Advise the General Authority on the promotional needs of the free zone, and supply the General Authority with material for inclusion in guides, brochures, etc.
- 6.3 Make arrangements to receive visits by prospective investors; arrange accommodation, travel, meetings and the supply of all required information; assist the investor in the preparation of his project proposal.
- 6.4 Operate a central exhibition area for the display of free zone products and services, and assist free zone projects in relation to their own P.R. needs.

7. FINANCE AND ACCOUNTING

Operate a suitable financial and accountancy service covering all of the free zone's financial transactions, and provide the free zone's management with a sound and relevant Management Accounting service. In particular :-

- 7.1 Maintain proper systems and books of account.
- 7.2 Prepare periodic financial statements, and provide all financial information necessary for the annual budget.
- 7.3 Operate an overall system of control of income and expenditure.
- 7.4 Prepare annual accounts for audit.
- 7.5 Ensure the prompt receipt of all income due to the free zone.

8. PERSONNEL MANAGEMENT

Perform all the normal functions of Personnel Management in respect of the free zone's own staff. In particular :

- 8.1 Through an effective system of recruitment and by means of adequate levels of remuneration and employee benefits, secure and maintain a high calibre of free zone employees.
- 8.2 Instal and operate a sound training programme for all levels of employees.
- 8.3 Ensure a high level of employee morale and motivation by attention to training and development needs, promotion prospects, job satisfaction and enrichment, employee grievances, etc.
- 8.4 Operate suitable systems in the fields of salary/wage administration, employee discipline, personnel records, etc.

9. ADMINISTRATION

Attend to all normal administrative matters, including :-

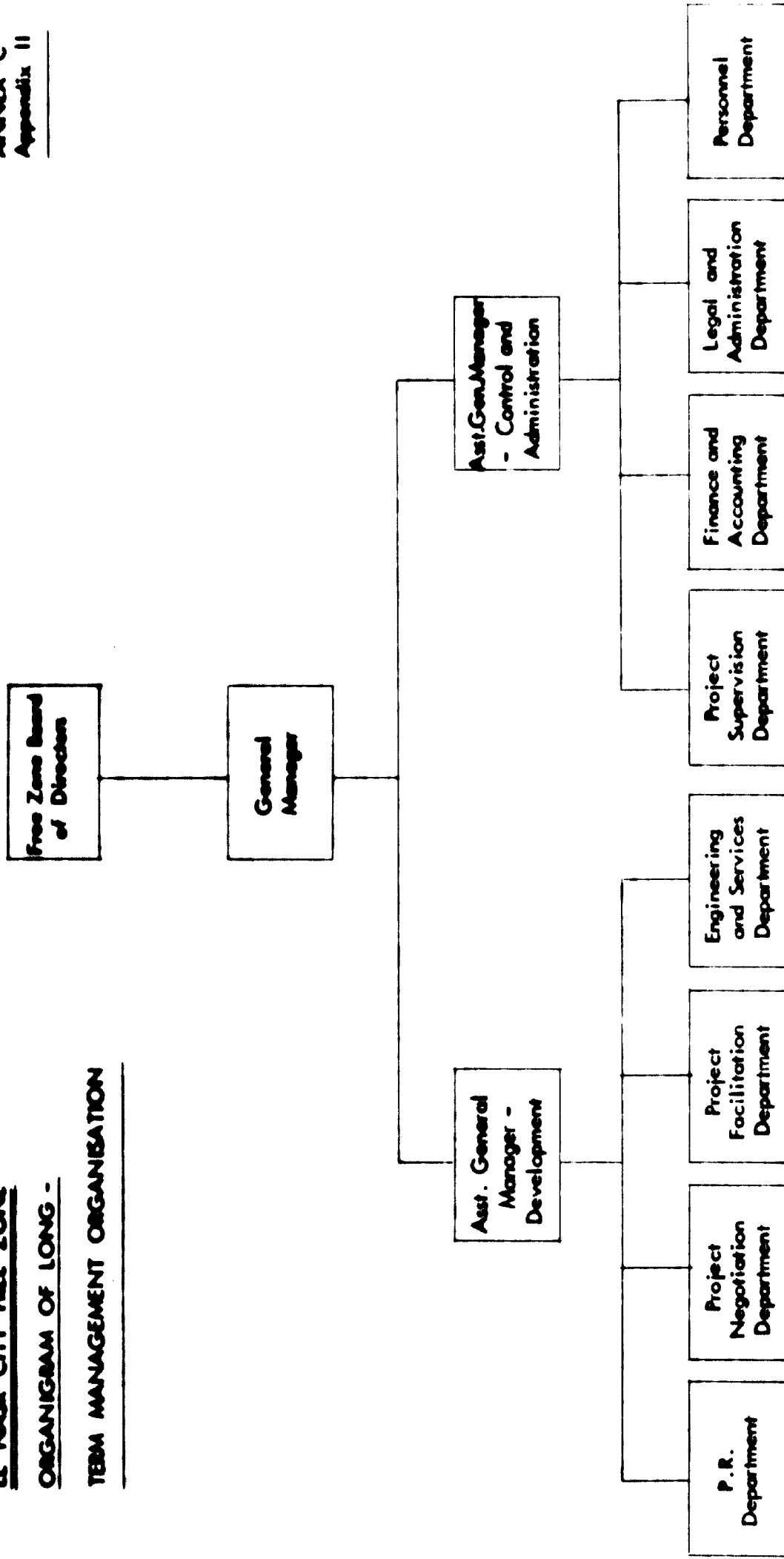
- 9.1 Discharging the statutory obligations falling on the free zone.
- 9.2 Arranging and servicing of meetings of the Zone's Board.
- 9.3 Handling all liaison with the General Authority and with other agencies of Government.
- 9.4 Participation in the periodic meetings of Zone Board Managers.
- 9.5 Preparation of the Annual Report for the zone covering performance of existing projects, programmes for new projects, plans for zone expansion, zone finances, statistics, etc.

EL NASR CITY FREE ZONE

ORGANIGRAM OF LONG -

TERM MANAGEMENT ORGANISATION

ANNEX C
Appendix II



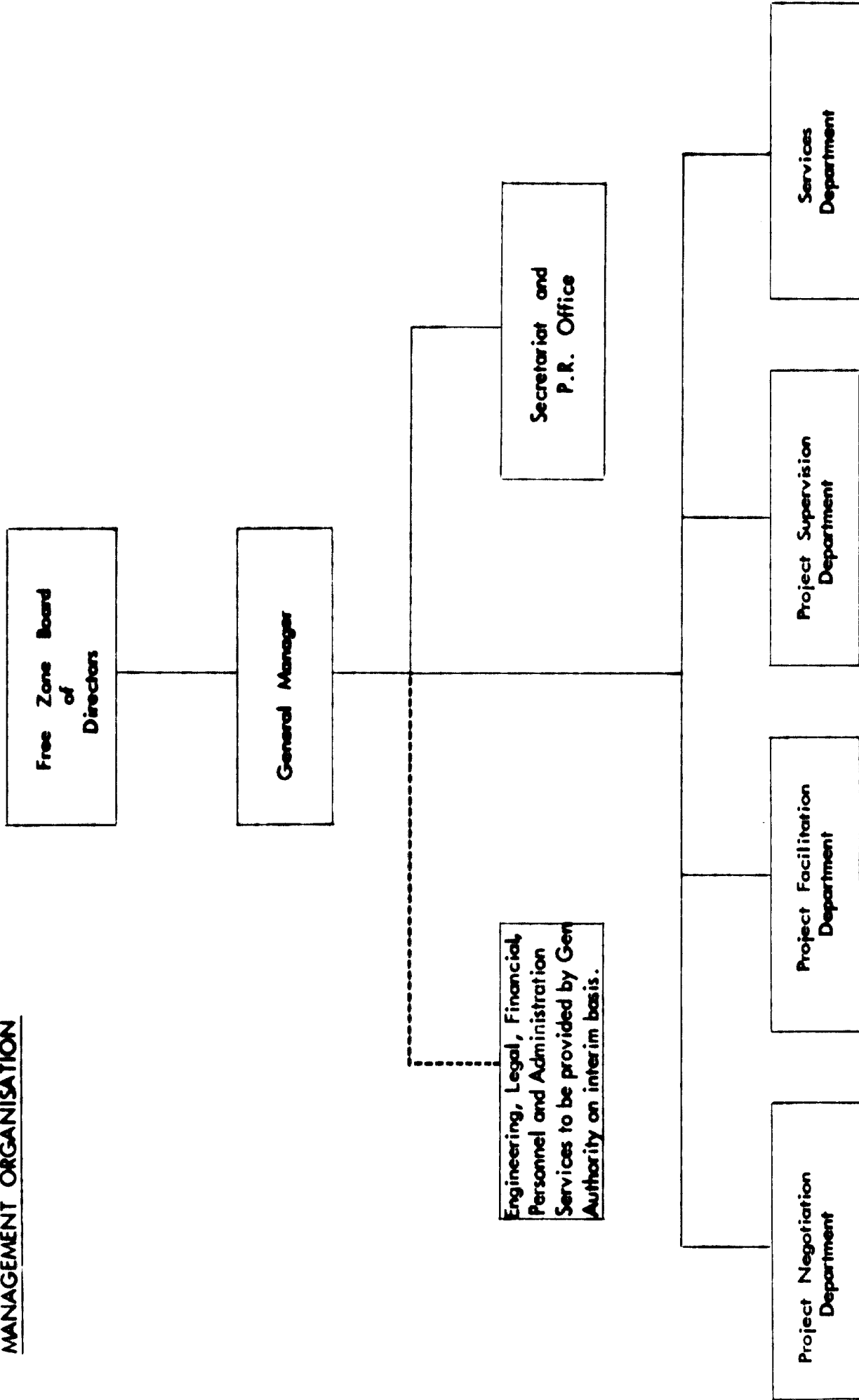
EL NASR CITY FREE ZONE

ORGANIGRAM OF INTERIM

MANAGEMENT ORGANISATION

ANNEX C

Appendix III



EL NASR CITY FREE ZONE MANAGEMENT ORGANISATION

DRAFT SPECIFICATION FOR INITIAL PERSONNEL

1. NUMBER

Initially 8 management level personnel, with appropriate support personnel (2 secretaries ; 3 drivers/messengers), will be recruited.

2. CATEGORIES

- A. General Manager (1 post)
- B. Department Head (4 posts)
- C. Executive/Administrative Officer (3 posts)

It is envisaged that the Department Heads, all reporting to the General Manager, will head up the 4 main functional areas to be created in the initial organisation :-

- (i) Project Negotiation
- (ii) Project Facilitation
- (iii) Project Supervision
- (iv) Services

In each of Departments (i) and (ii) there will be assigned initially one Executive/Administrative Officer. The third Officer will assist the General Manager on P.R. work (See Organigram of Interim Organisation).

3. SPECIFICATION

A. General Manager

Sex : Preferably Male

Age : Preferred age group 35 - 50 years.

Qualifications : Essential :- A good or very good primary degree in a relevant discipline (Commerce, Business Studies, Economics, Accountancy, Law).

Desirable :- A post-graduate diploma or degree.
Fluency (verbal and written) in two foreign languages (one of them English) is essential.

Experience : At least 10 years of relevant experience at a senior level in industry or commerce (public or private sectors) or in Government Ministry.

A demonstrable record of achievement, especially in the past 5 years, at senior level, in one or more of the fields indicated in the preceding paragraph.

Proven ability in one of more fields of activity relevant to the work of the free zone, such as PR/marketing/customer satisfaction/project development/systems management/financial control.

Contact with foreign business operations is very desirable, preferably by having spent some years overseas in a business or official capacity.

Personal Qualities : Planning ability to prepare forward plans and set objectives, and to appraise results achieved.

Management ability to work effectively towards set goals through the use of a management team.

Leadership ability to inspire and motivate subordinates.

Working with others - ability to relate easily and effectively with persons/groups outside the management team, including high officials, international executives, etc.

**Personal
Qualities :**
(cont.)

Personable, outgoing, diplomatic, but with drive, energy and a high sense of patriotic motivation. Ability to see clearly and to pursue actively the overriding objectives of government economic policy, as reflected in the free zone.

B. Department Head

Sex : Male or female

Age : Preferred age group 25 - 40 years.

Qualifications : Essential :- A good or very good primary degree in a relevant discipline (Commerce, Business Studies, Economics, Accountancy, Law).

Desirable :- Some post graduate study in a related field.

Fluency (verbal and written) in English is essential.

Fluency in a second foreign language is desirable.

Experience : A proven record of business achievement over not less than 5 years, preferably in an area of activity of relevance to the free zone, (for example, project evaluation; project development; installation of systems or services; financial or customs control).

Previous experience in a supervisory/management post is essential.

Experience : (cont.) Contact with foreign business conditions is very desirable, preferably through having worked or studied overseas for at least 6 months.

Personal Qualities : Integrity, dedication, and ability to work under pressure and over long periods without supervision.

Ability to lead, guide and motivate subordinates.

Organising ability, particularly in the development and installation of procedures and systems.

Planning ability, particularly in the allocation and control of tasks, and in the scheduling of work.

Concern for overall national development goals, and an ability to see and appreciate the needs of investors as main contributors to these goals.

Ability to represent the free zone effectively in dealings with investors, publicists, other public servants, etc.

C. Executive/Administrative Officer

Sex : Male or female

Age : Preferred age group 23 - 35 years.

Qualifications : Essential :- A good or very good primary degree in a relevant discipline (Commerce, Business Studies, Economics, Accountancy, Law).

Fluency (verbal and written) in English is essential.
Fluency in a second foreign language is desirable.

Experience : At least two years of relevant business experience in a field of activity related to the work of the free zone (project work, PR, financial or customs control, provision of services).

Personal Qualities : Hard working, energetic, dedicated, loyal, capable of a high level of motivation.

Flexible, adaptable, capable of working effectively as a member of a team.

Sound judgement.

GENERAL MANAGER OF EL NASR CITY FREE ZONE

SUMMARY OF MAIN DUTIES

1. POLICY, OBJECTIVES, PERFORMANCE

- 1.1. Within the framework of the overall national policies and guidelines laid down by the General Authority, he will assist the Board to define the specific policies to be pursued. He will interpret defined policies for his management team.
- 1.2. He will develop targets and strategies designed to achieve the aims of defined policies, will have them considered and approved by the Board, and will then pursue their achievement through his management team.
- 1.3. He will report periodically to the Board on the progress being achieved in the implementation of defined policies, and will provide the Board with control information to enable it to measure the effectiveness of management performance.

2. FREE ZONE PROJECTS/SERVICES

- 2.1. He will supervise the preparation of recommendations to the Board on project proposals, and transmit Board decisions for implementation by his management team. He will develop control procedures to ensure that projects fulfill all the requirements laid down by the Board and specified by Law.
- 2.2. He will monitor the rate of receipt of suitable project proposals, and will report to the Board any significant changes in this rate against pre-determined targets.
- 2.3. He will monitor the progress of development of free zone projects, and report thereon to the Board.

- 2.4. He will cause submissions to be prepared for the Board on the development of free zone services, and will transmit Board decisions for implementation by his management team.

3. MANAGEMENT AND LEADERSHIP

- 3.1. He will integrate, co-ordinate and direct the activities of his subordinates to ensure effective executive management of the free zone organisation.
- 3.2. He will provide leadership, develop a high staff morale, and ensure effective training and development of subordinates.
- 3.3. He will ensure effective communications up and down, so that policies, targets and strategies will be clearly understood at all levels, and constructive contributions by subordinates welcomed and stimulated.

4. FINANCE

- 4.1. He will ensure continuous and effective control over all the financial affairs of the free zone, and will take all reasonable executive action necessary to improve control, eliminate waste and increase revenue.
- 4.2. He will supervise the preparation of annual budgets of income and expenditure, and will submit them to the Board for approval. He will also supervise the preparation of annual accounts for audit.

5. PUBLIC RELATIONS

- 5.1. He will carry out public relations activities appropriate to the position of chief executive of the free zone.
- 5.2. He will ensure effective coverage of free zone developments in the appropriate media.

6. LIAISON

- 6.1. He will meet regularly with the Chairman of the Board, will keep him informed of management progress and problems, and will secure the benefit of the Chairman's advice and experience.

- 6.2. He will supervise the preparation of any reports or submissions the Board may make to the Minister or the General Authority.
- 6.3. He will maintain effective contact with the General Authority.
- 6.4. He will participate in the periodic meetings of Zone Managers.

RELATIONSHIP BETWEEN
THE BOARD OF THE GENERAL AUTHORITY
(referred to as the Cairo Board)
AND
THE BOARDS OF PUBLIC FREE ZONES
(referred to as Zone Boards).

1. The position of the Zone Board in relation to the Cairo Board is established under Law 43 of 1974.
2. Article 30 empowers the Cairo Board to "establish public free zones for the creation of projects authorized under the provisions of this law."
3. Article 31 says that the Cairo Board "is the supreme authority controlling the affairs of the free zones and laying down the general policy to be pursued". Specifically, article 43 provides that the Cairo Board is responsible for coordinating policies and formulating the general planning of the free zone; it acquires the land for free zones and approves the budgets and the accounts of the free zones. Additionally, the Cairo Board assumes all the responsibilities of a public zone board until the Directors of the Zone Board are appointed; and it supervises private free zones until such zones are affiliated to a public free zone.
4. The Cairo Board may delegate its responsibilities.
5. Under article 25, a Deputy Chairman shall, by Decree of the President of the Republic, be appointed Chairman of the Cairo Board and the Deputy Chairman shall act as General Manager of the Authority and shall preside over its executive machinery "consisting of technical and administrative employees appointed pursuant to the organizational structure adopted by the Board of Directors". The power vested in the Cairo Board to approve the staffing structure for the Organization will include the

organigrams for the Zone Board staffs as well as for the Cairo Board staff.

6. Under article 33, the Cairo Board by resolution constitutes the Zone Boards and in each case appoints the Chairman.

7. It will now be seen that the Zone Boards are in general terms subject to the Cairo Board and that the executive machinery of the Zone Boards is determined by the Cairo Board. Article 33, however, provides that the Zone Board shall be competent to implement the provisions of Law 43 and its executive regulations in all matters pertaining to the public zones. Specifically, article 33 says that a Zone Board can do the following :

- (i) It shall authorize occupation of lands and real property or rental of real property owned by a third party in the free zone .
- (ii) It shall decide on offers submitted by Arab and foreign investors according to the rules laid down by the Authority's Board of Directors .
- (iii) It shall establish, operate, and exploit stores, warehouses and areas for shipping, unloading and warehousing operations .
- (iv) It shall provide instruments and equipment necessary for facilitating operations and projects created within the free zone .
- (v) It shall provide such services as may be needed by the projects created in the free zone in return for charges to be fixed by the Board ; and
- (vi) It shall supervise the private free zones affiliated thereto by resolution of the Authority's Board of Directors .

8. Article 35 provides that a Zone Board may licence the performance of operations in zones as follows :

- (i) Storage of transit goods and certain indigenous goods .
- (ii) Sorting, cleaning, mixing, repacking etc. goods warehoused in zones .
- (iii) Manufacturing, assembling, processing etc .
- (iv) Engaging in any trade incidental to activities within the zone .

The exercise by a Zone Board of the powers conferred by articles 33 and 35 aforementioned is, however, subject to the over-riding provision in article 33 which empowers the Cairo Board to lay down the executive regulations governing activities within the free zones and regulations concerning the rules applicable to

- a) companies and projects operating within the zone,
- b) ingress, egress and registration of goods etc. and the policing of the zone and collection of dues . This last mentioned provision is taken to include the fixing of all charges leviable, including rentals for sites.

9. An example of how the law may be applied in practice is as follows :
Cairo desires to establish a free zone at Suez. It selects a site, determines the zone area, acquires the land, draws up the plans for infrastructure, service buildings and facilities, prepares budgets for the capital investments, secures approval for the budgets and arranges for the installation of all works and buildings. In advance of completion of the zone, Cairo will do the following things :

- Appoint the Board of Directors for the zone and the Chairman.
- Determine the staffing organization and recruit and train the staff
(the recruitment of certain staff will be reserved to the Manager acting under the authority of the Zone Board.)
- Prepare lists covering types of activities and projects which may be accepted in the zone.
- Prepare lists defining projects which may be accepted in the zone by the Zone Board without reference to Cairo (e.g. warehousing projects and manufacturing or assembling or processing projects within certain limits of size.)
- Arrange that the list defining the projects which the zone board may authorize without reference to Cairo, shall be cleared with all government or local Agencies concerned as "approved classes of projects" in respect of which further reference to the said Agencies will not be required in individual cases.
- Establish rules which will govern the acceptance of offers by the Zone Board.

The nature of these rules is not specified in this law. The rules might for example say that in order to be accepted, the project offered must :

- (i) be of the type included in the approved list.
- (ii) not unduly compete with a similar export industry already established in the zone.
- (iii) not draw off staff from an existing similar industry in the zone by offers of higher pay.
- (iv) comply with local environmental requirements.
- (v) if connected to the electricity grid, not have load characteristics (e.g. heavy spot-welding operations) which would interfere with the quality of electricity supply locally - etc.

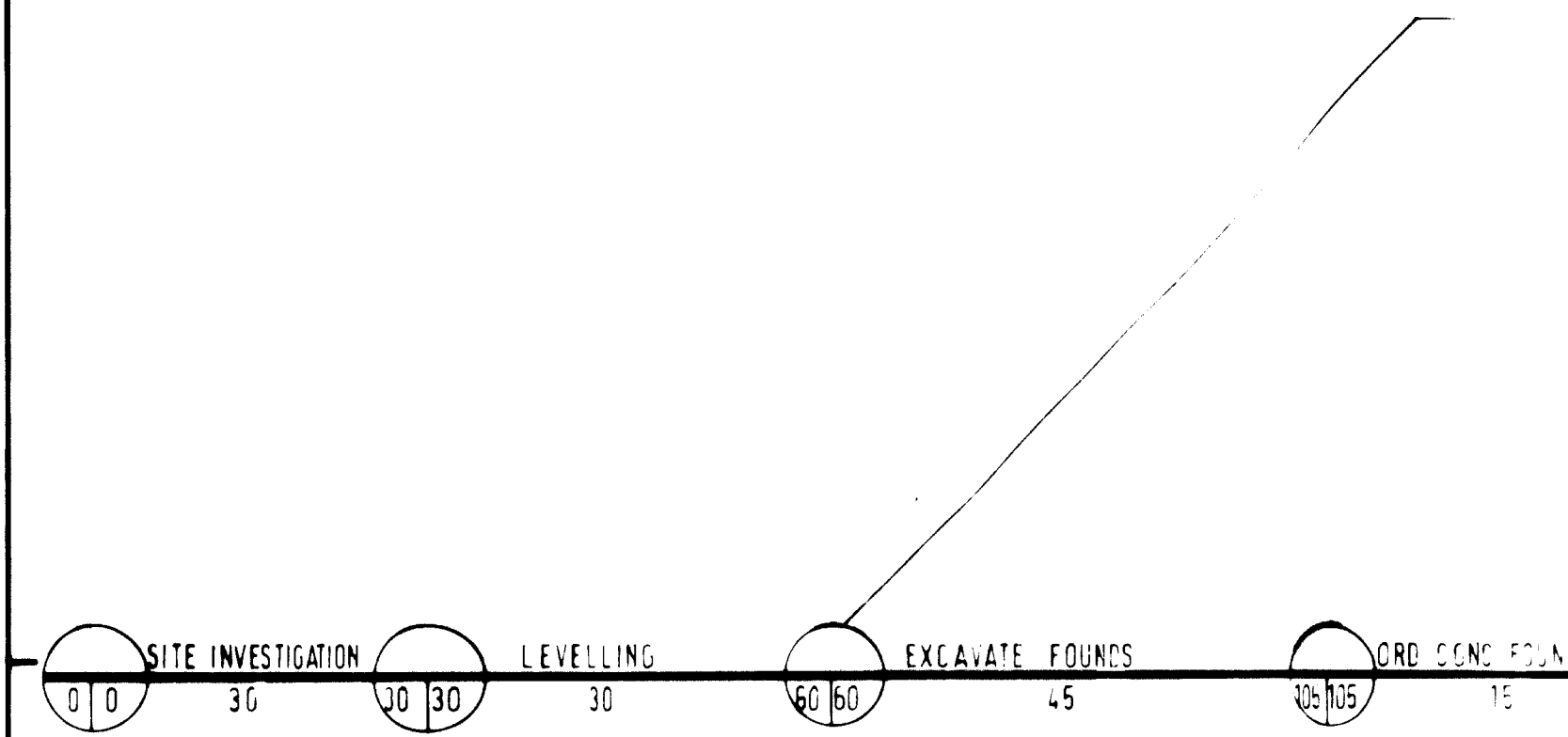
10. In operation, a zone will be managed entirely by the Zone Manager and his staff working under the authority of the Zone Board. Specifically, the Zone Manager will have responsibility for the following :

- (i) Control of the staff, including payment of salaries and expenses, maintenance of all financial records and the recruitment of the staff in certain specified grades. (e.g. tradesmen and subordinate grades and temporary clerical staff.)
- (ii) Reception of prospective investors and processing of their applications to a conclusion and the issue of the necessary licences (cases not coming within the approved lists will have to be referred to Cairo); undertake promotional work locally in accordance with a program agreed with Cairo. In processing of proposals from investors, evaluation work need not include the financial viability of the projected activity because all investments will be made by the investor and it is a matter for him to ensure that the project will succeed. Evaluation can therefore be confined to ensuring that the project falls within or conforms to certain specific criteria.

11. The Zone Board and the Zone Manager will operate independently of Cairo except in the following respects :

- (i) All operations will be conducted and the zone will be managed in accordance with the procedures laid down by Cairo. The initiative for amendments to these procedures will rest with the Zone Manager and he may put his proposals directly to Cairo or, if the matter is of interest to zones generally, he may have it discussed at the periodic meetings of Zone Managers which will be arranged by Cairo on a regular basis.
- (ii) Staff, to a specified grade, will be provided by Cairo and, below that grade, it will be recruited locally and be appointed by the Managers on Conditions of Service including pay, agreed by Cairo. However, by agreement with Cairo any staff below manager level may be recruited locally through competitions, the rules for which have been approved by Cairo.
- (iii) The Manager must keep Cairo informed of the operation of the zone including such information as projects already in operation, projects under examination divided into predetermined categories e.g. warehousing, assembly, manufacture etc. ; and in each case specific information will be furnished, such as capital investment, number of staff employed in projects, quantity and value of annual production and imports/exports. The information furnished to Cairo will include also appropriate information about the operation of the Manager's own office e.g. copies of the minutes of the Zone Board's meetings, the financial results monthly of the operations in the zone, number of staff employed etc. The Manager acting under the authority of the Zone Board will be responsible for the timely preparation of proposals to Cairo for expansion of the zone.

12. The Cairo General Manager will nominate an officer at Cairo to act as liaison between Zone Manager and Cairo.



SECTION 1

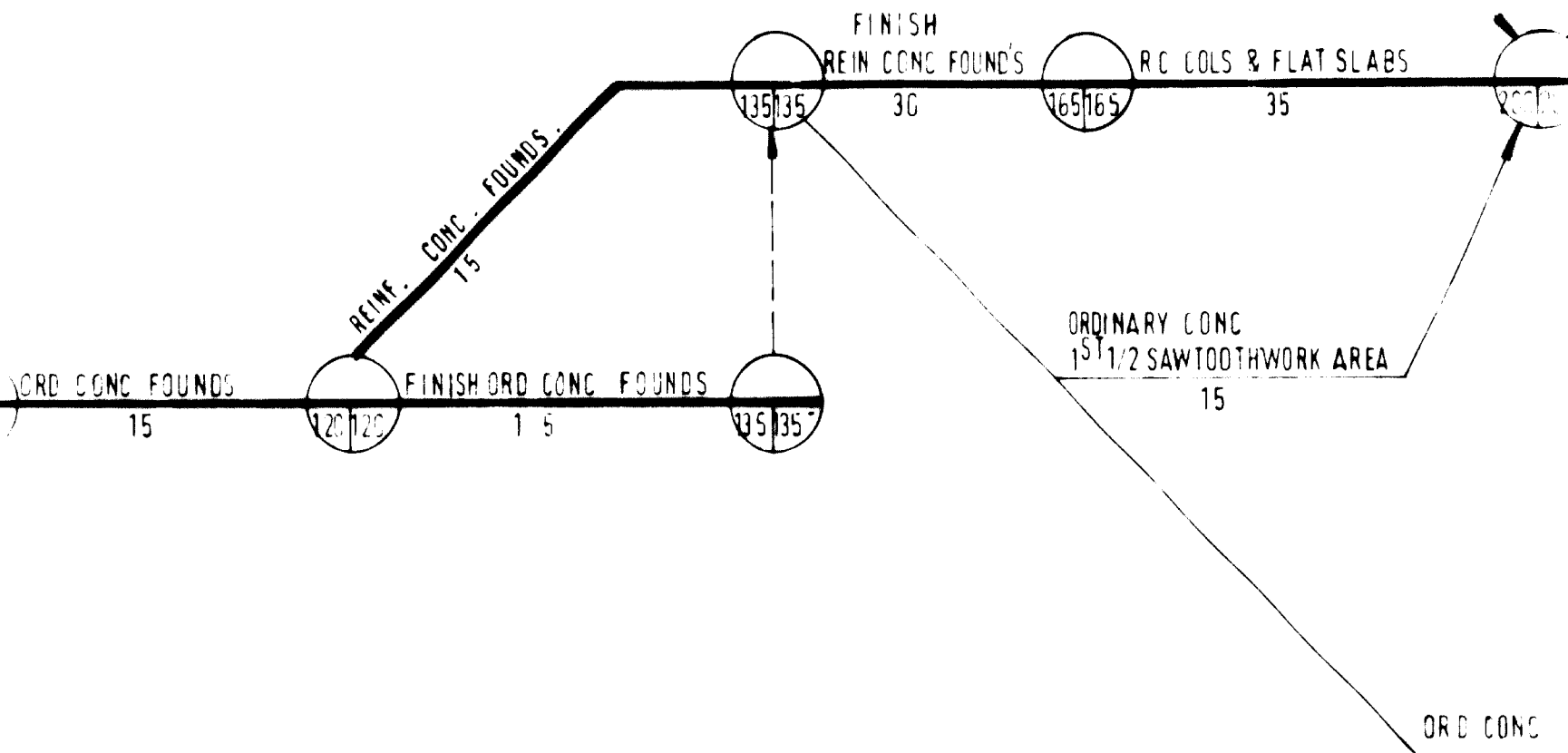
THOMAS CARLAND AND PARTNERS CONSULTING ENGINEERS

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PHONE 60808
 PHONE 48708

JOB	EGYPTIAN CONSULTANCY (U.N.I.D.O.)	DRN C.A.g	DRAWING NUMBER 9403/2
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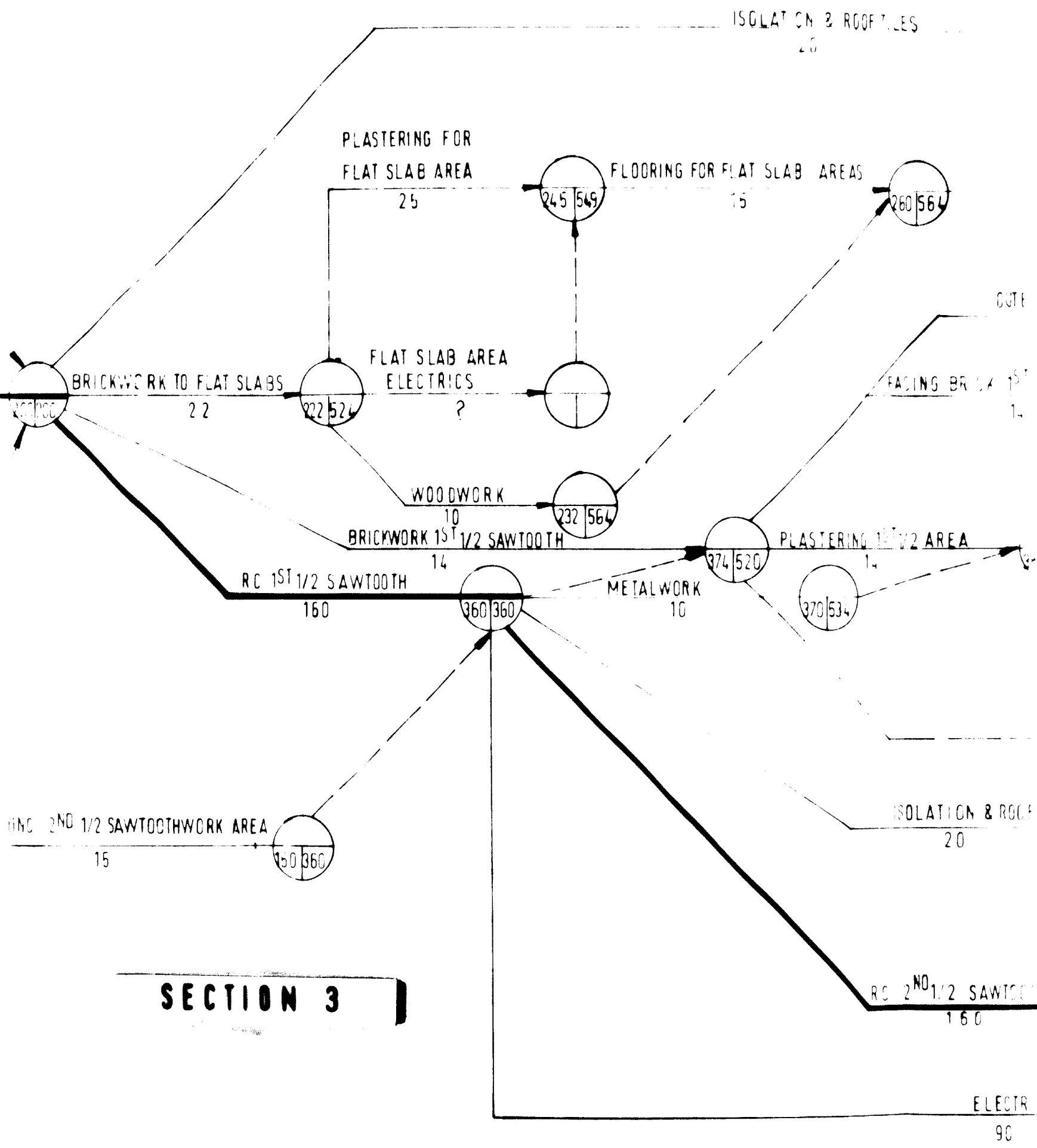
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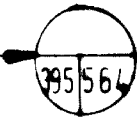
SECTION 2



OF TILES



OUTER PLASTER
21



FACING BRICK 1ST 1/2 AREA
14



1ST 1/2 AREA
14



PAINTING 1ST 1/2 AREA
30



OUTER PLASTER
21
FACING BRICKS
14



BRICKWORK 2ND 1/2 AREA
14



PLASTERING 2ND 1/2 AREA
14



ISOLATION & ROOF TILES
20



R.C. 2ND 1/2 SAWTOOTH
160



METAL 2ND 1/2 AREA
10

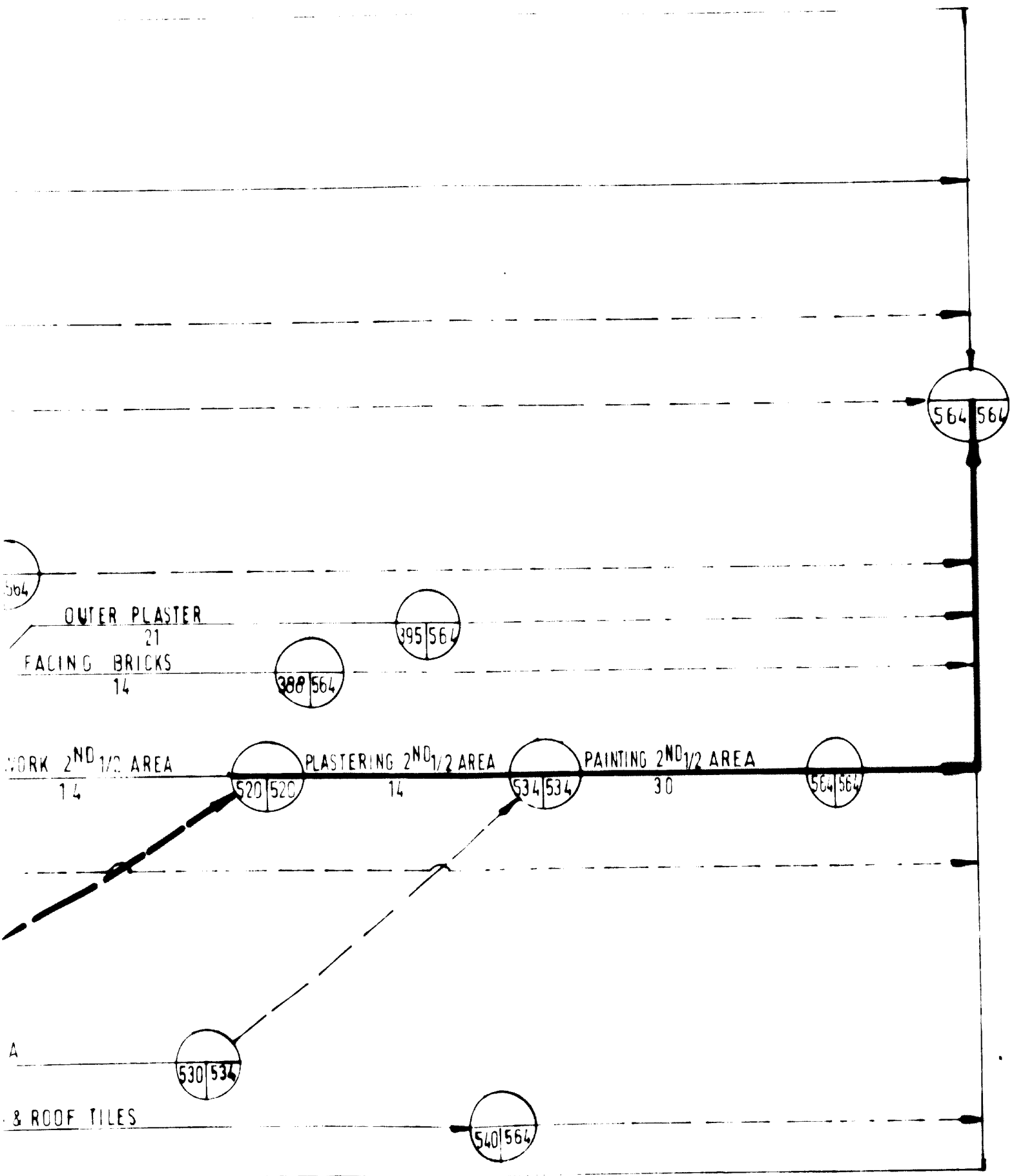


ISOLATION & ROOF TILES
20



ELECTRICS
90

SECTION 4



564

OUTER PLASTER

21

FACING BRICKS

14

388|564

395|564

WORK 2ND 1/2 AREA

14

PLASTERING 2ND 1/2 AREA

14

PAINTING 2ND 1/2 AREA

30

520|520

534|534

564|564

530|534

& ROOF TILES

540|564

A

SECTION 5

Incentives provided by Law 43 of 1974 - Preliminary Review

1 Introduction

In addition to the natural attractions such as its geographical situation and its large pool of readily available labour at relatively low wages cost, Egypt has provided by Law No. 43 of 1974 significant fiscal incentives aimed at the attraction of foreign investment, technology and skills to participate in the expansion and development of manufacturing activity in the country.

Highlights of these incentives are as follows :

Enterprises established in the Free Zones.

In modern ready-built factories to be provided in the Free Zones where manufacture mainly for export to world markets, including other Arab countries is envisaged, foreign industrialists will enjoy not only freedom from customs duties but almost total relief from Egyptian corporate taxes on profits for an unlimited period of years (Art. 46 of Law 43/1974). A charge of 1% on the value of goods exported will however be applied.

Enterprises established outside the Free Zones.

Here Law 43 of 1974 provides full relief from Corporate taxes on profits for the relatively short period of 5 years which may be extended up to 8 years in the case of certain kinds of industry.

2 Evaluation of the Tax Incentives

In assessing the industrial and commercial profits to the Corporate Taxes a slight distinction is made in the rates of tax charged on profits distributed and profits retained. The taxes are as follows :

	<u>On Profits Distributed</u>	<u>On Profits Retained</u>
Basic Tax on Profits	17.00%	17.00%
Local Tax	2.55%	1.70%
Defence Tax	10.50%	10.50%
Security Tax	8.00%	8.00%
War Tax	2.50%	2.50%
	<u>40.55%</u>	<u>39.7%</u>

The tax incentives are worth, therefore, approximately 40% of the annual profits of the projects for an unlimited number of years in the Free Zones and for 5 years with possible extension for certain kinds of industry for projects outside the Free Zones.

3 General Comment on these Incentives

- a) In general we believe these reliefs from Egyptian corporate taxes to be a valuable incentive to foreign industrialists to establish manufacturing enterprises in Egypt. We do, however, have a number of serious reservations.
- b) We noted various expressions of scepticism about their value during our visit to Cairo in June 1975 and subsequently in discussion with industrialists in Ireland. This scepticism is engendered partly by a provision in Art. 16 of Law 43 of 1974 which says, (in regard to approved projects outside the Free Zones)

"These exemptions" (tax exemptions) "shall remain applicable only as long as the profits of the projects are not, as a consequence, subject to taxation in the investor's home country or in any other country."

In regard to the tax reliefs both within and without the Free Zone we would make the following points :

- i) Throughout the world in general, profits earned on foreign investments are not taxable in the home country until they are remitted to the shareholders in their home country in the form of dividends.
- ii) Consequently the foreign investor regards his investment in countries which give tax reliefs or exemptions for the profits, as opportunities to retain the profits in the host country and to use the funds thus available (and augmented by the tax relief) for further investment either in the "host" country (Egypt in this case) or in some other foreign country. It is our experience that a large amount of the profits earned by foreign investors in Ireland is retained for further investment in the expansion of their manufacturing activities in Ireland giving increased employment and other benefits.
- iii) Furthermore, dividends paid back to shareholders in the home country do not necessarily become liable to taxes in the home country. It is the general rule throughout the taxation systems of the industrially developed countries of the world that commercial and industrial profits are taxable in the country in which the profits arise (Egypt in this case) and not in the home country of the investor. Home country taxes are applied only to dividends, paid back to the home country in accordance with the Double Taxation Conventions negotiated bilaterally between the individual countries one with another. Very many countries, particularly many OECD countries, are prepared to negotiate conventions which provide for countries giving tax incentives exemptions or "matching credits" in respect of dividends remitted to the home country with the effect that taxes are not paid either in the host country or the home

country even in respect of dividends remitted. We intend to send copies of the OECD Model Double Taxation Convention, recommended for use in OECD countries, to the Authority so that this matter may be explained to them in greater detail.

- iv) It is clearly important that Egypt should negotiate, as rapidly as possible, favourable Double Taxation Conventions with the countries from which industrial or commercial investments are anticipated. It is possible that the USA and the UK may not be prepared to negotiate the most favourable type of convention described at (iii) above. However, the reluctance of these two countries to negotiate conventions of this type does not deter American or British foreign investment and the important points described at (i) and (ii) above would still apply.
- c) The 1% Levy on Free Zone Imports/Exports is a cause of serious concern.

"Projects shall be subject to an annual duty of one per cent of the value of goods entering the free zone or leaving therefrom ..." (Art. 46 Law No. 43 of 1974 (English translation))

Readers of the English translation of the law as quoted above have reacted unfavourably, partly because they are confused as to whether or not the levy would be imposed on both the import and the export values but, more importantly, also because they regard the levy as excessive, discriminatory and consequently unfair.

With regard to the first of these points, it is our understanding that the proposed levy would be imposed as in the following examples :

Example (1) A Warehousing Project

Goods entering the Free Zone for such warehousing or storage projects would be charged at 1% on the CIF value. There would be no charge on the same goods leaving the Free Zone.

Example (2) A Manufacturing Project

No charge on goods (or services) entering the Free Zone.
On exports :

- a) to a foreign country
the goods would be charged at 1% on the FOB price.

- b) to Egypt
the goods would be charged to 1% on the ex-factory price and they would be also charged to customs duty (if any) on leaving the free zone, subject to deduction from the factory price of the value of any local materials (materials of Egyptian origin previously brought into the free zone) included in the finished product - for instance :

Ex-factory price of goods sold into Egypt - say £5,000

	1% Levy	£50
Plus Customs duty on	£5,000	
less value of local materials content, say	<u>£1,500</u>	
	£3,500	
at, say, 20%		<u>£700</u>
	Total	<u>£750</u>

It is our understanding, therefore, that the 1% levy is in no case chargeable twice. It is unfortunate however that whereas the booklet "How to invest in Egypt", published by the General Authority for Arab and Foreign Investment and Free Zones, says the levy will be imposed on "the value of exports or imports", the booklet "Principal points of the new foreign investment law No. 43, 1974" also published by the Authority says "In most cases the levy is limited to one per cent of the value of exports and imports".

The basic complaint that the 1% levy is harsh and inequitable is a much more serious matter. The industrialists whose views have been reported to us have pointed out that 1% on the total value of sales can absorb a large percentage of the net profits of an individual enterprise. For example, where net profits expressed as a percentage of sales value are 5%, a 1% levy on sales will absorb 20% of the net profits; if net profits are less than 5% on the sales the 1% levy represents a greater diminution of net profits. Net profits are the industrialists' *raison d'etre*. We consider that, based on our experience, net profits of 5% on sales and even lower profits are not uncommon in relation to certain kinds of industrial products, notably those found in many consumer goods industries. On the other hand, much larger profit rates, in relation to sales value, are earned by some industries - notably the more technological, capital intensive industries where high profits on sales are made following the recovery of the high initial research and development costs. For example, if net profits of say, 15% on sales, are made in such cases the 1% levy would result in a reduction of 6.67% in net profits as compared with 20% or more in the case of highly competitive consumer goods industries. It is also necessary to recognise at this point that a relatively high rate of return on the sales value of the products is frequently a feature of highly capital intensive industries. The basic investment criterion for all industrialists is the return on

capital employed whether the industry is labour intensive or capital intensive. In both types of industry a satisfactory return on capital investment can be made by efficient producers but it is clear that investment in capital intensive industry will not be feasible where the return on selling prices is low.

The contrasting financial effects of the 1% levy on different types of industry demonstrate the inequitable nature of a levy which is based upon sales value. It would be all the more unfortunate if it were to discriminate against the more competitive industries, frequently in the labour intensive category, which would provide a large measure of the employment so urgently required to improve the standard of living.

A further unfortunate feature which is inherent in a levy which is related to annual sales turnover is that it would be payable even where no profits were made. The initial years of most new ventures are years in which losses are incurred or very small profits made. In such cases the levy would simply add to the losses and difficulties of these years.

In general, it is to be feared that the levy will not be viewed by industrialists as a tax which is "only a small levy" as described in the booklet "Principle points of the new foreign investment law", but rather as a disincentive. We consider that, particularly at this early stage in the Authority's efforts to establish Egypt as an attractive location for investment in manufacturing industry, the levy could well inhibit investment in a substantial number of worthwhile industrial projects. Accordingly, we consider that serious consideration should be given to the views already expressed by some industrialists, and that the proposed levy should be re-examined with a view to its modification by amendment of the law. As a much less desirable solution, it might be possible to secure an executive interpretation of the Act which would give adequate assurances to desirable potential investors against adverse consequences.

- d) Art. 46 of the law also refers to a 3% levy on added value. Our understanding of this is that it refers not to manufacturing projects but to service industry such as banks, professional service offices, insurance companies and the like which would set up business in the free zones. We recommend that the concept of added value which will be used should be clearly defined and explained. We consider that the expenses incurred in operating such businesses should be recognised and that "added value" should approximate closely to net profits.
- e) The concept of total exclusion from Egyptian tax laws of corporate profits of enterprises in the free zones is open to question as to its appropriateness in the overall programme for industrial development.

Reference has been made above to the urgent need to negotiate suitable double taxation agreements with the countries from which investment in Egypt is expected so that the value of the tax holiday offered in the free zones may be fully realised. It is considered that the form of the incentive envisaged in Law 43 (English translation) may well inhibit the negotiation of favourable exemptions or matching credits in respect of such countries taxes on dividends received by parent companies from their subsidiary companies in the Egyptian free zones. Failure to negotiate such favourable double taxation conventions could result, where dividends are paid to parent companies, in the collection in the foreign country of taxes which would rightfully belong to Egypt if Egypt had not provided a tax holiday, thus reducing the full value of the tax incentives to the investor. This is a subject which may well require further elaboration, and discussion with the Authority and possibly also with the Taxation Department.

We consider that the dangers referred to in the previous paragraph could be avoided if there were a change in the basic concept which would recognise that all businesses in Egypt, including those in the free zones are subject to the country's tax laws, but that a 100% relief is provided for approved projects in the free zones for a temporary period of years (say 20 years) as an incentive to promote industrial development.

While we consider that the business community in Egypt will accept a temporary form of tax relief in the free zones even for a fairly long period, ultimately they may well protest that the relief discriminates against Egyptian industrialists and traders outside the zones.

We are strongly of the opinion that tax incentives are matters which it is necessary to spell out in detail in tax legislation rather than in enactments such as Law 43 of 1974. Possibly, this need not require amendment of Law 43, if the short announcement in Art. 46 is regarded as a statement of Government intention which will be put into operation by much more detailed statements in tax legislation or, perhaps, in executive regulations.

- f) We regard the period of five years relief from taxes for enterprises located outside the free zones as too short for the purpose of providing an effective incentive. Even if the period were extended to a maximum of eight years in certain cases we consider that it would still be too short, apart from the considerable doubt which must be present in the mind of the entrepreneur as to whether in his case it would in fact be extended or not.

Possibly the short period was chosen by the legislators for the reasons :

- a) that a longer period for approved new projects might be open to the criticism, on the part of existing enterprises, that the relief discriminated unfairly against them, and
- b) that to extend the relief to other than new approved projects would cause a serious fall in the annual tax revenue needed by the government.

Our experience is that the tax relief given in Ireland, which is a relief restricted to profits from increased exports of Irish manufactured goods, has been an effective, indeed a very successful, incentive with the advantages that it has

- a) stimulated a significant increase in production for export markets by existing industry as well as attracting very substantial foreign investment also to manufacture goods for foreign markets, and
- b) by the restriction of the relief to increased exports it does not take away from the existing level of tax revenue.

We would urge strongly that serious consideration should be given to a restructuring of the tax incentive for projects outside the free zones, placing a particular emphasis on relief for profit on exports of Egyptian manufactured goods but perhaps including also an incentive to production for import substitution.

4 Exchange Control

There is a rather restrictive system of exchange control in Egypt, where foreign currencies are in short supply. However no problems should arise for manufacturing projects locating in the Free Zones. The new Law 43 of 1974 permits the foreign investor to retain all foreign currency brought in the Zone for investment needs (e.g. purchase of machinery and equipment abroad) and all incoming currency from export sales and services. In short, foreign currencies in the Free Zones are not subject to control, i.e. they are not required to be converted into Egyptian Pounds in the banking system.

This is an important concession and a valuable incentive to foreign investors.

For approved projects outside the Free Zones, a commitment will be given by the Authority well in advance of the project's needs for currency to import the capital requirements for the equipment, etc. It is advisable that this commitment should be sought when the application for approval of the project is submitted to the Authority. Currency will also be made available for the later ongoing needs of the project, special priorities being given for import of raw materials and other current needs.

5 Availability of Finance for Projects

It is our experience that foreign investors usually seek information regarding the availability of loan capital within the host country.

Projects setting up in the Free Zones will be required to bring in all their investment requirements, including working capital, from abroad in foreign currencies. They will not be able to raise funds in Egypt in Egyptian currency. However, it is intended that a number of banks will open within the Free Zones and these will be free to lend to projects within the Zones.

For projects setting up outside the Free Zones funds should be available in Egyptian currency for local working capital needs (e.g. wages - purchases of local raw materials). The local commercial banks cannot normally give loans in foreign currency. However, approval has already been given for the operation of some Investment Banks which will engage in lending to industrial projects. In addition provision is made for the establishment of Investment Companies (outside the banking system) which also will assist the financing of projects with loans in foreign currencies.

Discussion Paper on Factory Rentals at the El Nasr City Free Zone, prepared for
the General Authority for Investment and Free Zones

1. Under Article 77 of the Executive Regulations, responsibility for determining the rent of free zone factory buildings rests with the Board of Directors of the General Authority.
2. The fixing of factory rentals will be an important policy decision for the Board. In making its decision on the level of rents it will actually charge to investors, it will have to take into account considerations such as :
 - (i) the level of rents charged for comparable factory space in competing locations in other countries, and the relative significance of such rents in investors' cost evaluations ;
 - (ii) the desirability, and practicability, of using subsidised rentals as an additional incentive in favour of the Egyptian free zones ; and
 - (iii) the importance attached by the Egyptian authorities to rental income as a source of revenue to the Egyptian free zones.
3. Whatever decision finally emerges, an essential ingredient in the decision-making will be a realistic and accurate estimation of the economic rental of the factory space in question. The purpose of this paper is to suggest to the General Authority a method of making such an estimation. This method of calculating economic rentals has been used effectively at Shannon since the commencement of the Shannon free zone.
4. The first step is to obtain from the Authority's technical experts the best estimate they can make of the likely final construction cost of each factory. This should include a suitable apportionment of the cost of general infrastructural works for the zone as a whole (roads, water and sewage services, electricity, etc), and to it should also be added a suitable provision for the cost of land acquisition.

5. The capital cost of the factory having been thus estimated, the next step is to amortise this capital cost :

- (i) over the anticipated life of the building, and
- (ii) at the current rate of interest applicable in Egypt (this should certainly not be less than the rate of interest presently paid by the Egyptian Government for borrowed capital).

The annual amortisation figure so obtained provides for the recovery, with interest, of the capital cost of the factory over its anticipated life.

6. To this annual amortisation figure is added a provision for administration and overheads, calculated at 1% p.a. of the capital cost. The resulting sum is the annual economic rental for the factory. It would be customary to express this rental in £E per square metre of covered factory space.

7. It would be imperative to re-work this calculation annually in order to take into consideration any variations in the costs of construction or changes in the rate of interest. Revised rentals based upon this re-calculation would apply to new lettings and to renewals of previous lettings. They would not, of course, apply to "sitting" tenants, except in circumstances where the leases provided for periodic rent revision.

8. An example of the foregoing method of calculating economic rentals is now given (the example is purely hypothetical) :-

Capital Cost :-	£E
Superstructure (i.e. factory building)	80,000
Infrastructure and Land Purchase	20,000
Total Capital Cost	<u>100,000</u>
Amortised over 50 years @ 12% of Capital Cost	12,041.67
1% provision for Administration and Overheads	<u>1,000.00</u>
Total Economic Rental per annum of Factory (2,000 sq. metres)	<u>13,041.67</u>
Economic Rental per annum per sq. metre	<u>6.52</u>

SUMMARY OF SPECIAL REPORT ON THE MOVEMENT

AND CONTROL OF GOODS

1. THE TASK was to examine the Executive Regulations made under law 43 / 74 in relation to the movement and control of goods for free zones located within the country (i.e. inland free zones).

2. LIAISON between the Authority and Customs was not found to be fully effective. It was recommended that a special liaison section be set up in each organization to deal with policy questions and with any practical difficulties that might arise. Temporary instructions should be issued immediately to Customs staff, to ensure uniformity in the interpretation and enforcement of regulations.

3. PROCEDURES for import and export of goods to and from free zones appeared to involve duplication of work by the Authority and Customs. The method of collection of the 1% levy was considered cumbersome. It was recommended that procedures be simplified by (i) the relaxation of certain import and export requirements and (ii) the collection of the 1% levy on a monthly basis, and that free zone liaison officers be located at the major Ports and Airport to assist investors in relation to goods.

It was felt that Customs should be encouraged to give certain guarantees in relation to the time required to clear goods.

4. TIR CONVENTION Due to the difficulties encountered in moving goods through ports, it was urged that Egypt should consider joining the Customs Convention on Containers (1972) and the Customs Convention on the International Transport of Goods (TIR Carnet), which provide a valuable measure of facilitation in the movement of goods.

5. PREFERENCE It was felt that availability of preference for free zone goods on entry to other countries could be a matter of considerable importance to investors. Entitlement to preference should be established without delay, and staff should be instructed and trained in the application of the rules of preference.
6. INFORMATION It was felt that investors should be well informed on import / export procedures. A guide book for investors should be prepared and issued by the Authority.
7. AUDIT/INSPECTION staff should keep themselves well informed on investors' operations, and should adopt a flexible approach to control. It was recommended that an instruction book be prepared and issued to Audit/inspection staff for their guidance.
8. STAFFING It was recommended that some of the control staff required by the Authority be recruited from Customs, and that all control staff be given the benefit of attendance at regular training courses.
9. PRIVATE FREE ZONES should be used as a means of facilitating investors, pending the availability of public free zones. However, the operation of private free zones should be carefully re-examined in the light of the anxiety over them felt by Customs.
10. Flow charts relating to free zone imports/exports, and a brief for the preparation of an investors' guide were included in the report.

PROMOTION - AN OUTLINE PLAN

1. In 2.01 of the Contract Document, paragraph (b) refers to "Public Relations" as follows:-

- (i) To design a public relations programme to be operated by the General Authority to promote the above incentives (referred to in paragraph (a) of the document) efficiently and economically.
- (ii) To review the plans to open special promotions offices abroad and assess their cost and structure.
- (iii) To review the ancillary methods of promotion through Embassies, Consulates and other Egyptian Offices overseas.
- (iv) To design and draft a suitable publicity brochure high-lighting the incentives.
- (v) To design and draft a system of audio - visual and other aids to inform potential investors of the Free Zone advantages on their visits to Egypt.

The notes that follow touch on these matters as a preliminary to more detailed treatment later and also in order to identify some steps which should be taken immediately. The term "public relations" has been broadened to "promotion" in the notes as this seems to be more in line with the Authority's requirements.

2. From our discussions with the Authority, its plans for the opening of the first factories at El Nasr City call for the mounting of a promotional programme now. As it is desirable that the first factories are taken by successful companies with every promise of establishing viable operations, the initial promotion drive should preferably be geared to a target audience of selected overseas firms. Ideally, an important element of this part of the programme would be the preparation of detailed reports outlining information of specific interest to each of the selected firms and tailor-made for their requirements. These reports would have the names of the firm being visited by the Authority personnel on the cover and be geared to the specific information requirements

of the Company. However, allowing for the time involved in research, typing, checking, correcting, etc. and recognising that individual reports will have a large common content of literature and information, we recommend as immediate steps:-

- 2.1. Preparation of a quality summary brochure for home and abroad - headings as in Attachment 1.
- 2.2. Preparation of a quality coloured more detailed brochure for home and abroad - headings as in Attachment 2.
- 2.3. Preparation of a layman's guide to tax incentives and legislation.
- 2.4. Preparation of coloured slide presentations for use at presentations at home and abroad - headings to be outlined later.
- 2.5. Preparation of itinerary of visits by Authority's top personnel to leading overseas firms with the purpose of making presentations to their senior executives and inviting them to visit Egypt.
- 2.6. Presentations should also be made, as decided by the Authority's chief promotions executive, to others in a position to influence industrial investment, e.g. business journalists, international banks, and tax advisers.
- 2.7. Planning of the follow-up arrangements to develop contacts with interested parties established under 2.5 and 2.6 above.
- 2.8. Arrange that the Head Office Staff responsible for receiving potential investors will be suitably briefed on (i) the information which investors are likely to require and (ii) how to plan and conduct itineraries likely to impress on these investors, Egypt's goodwill and suitability as a location for investment.

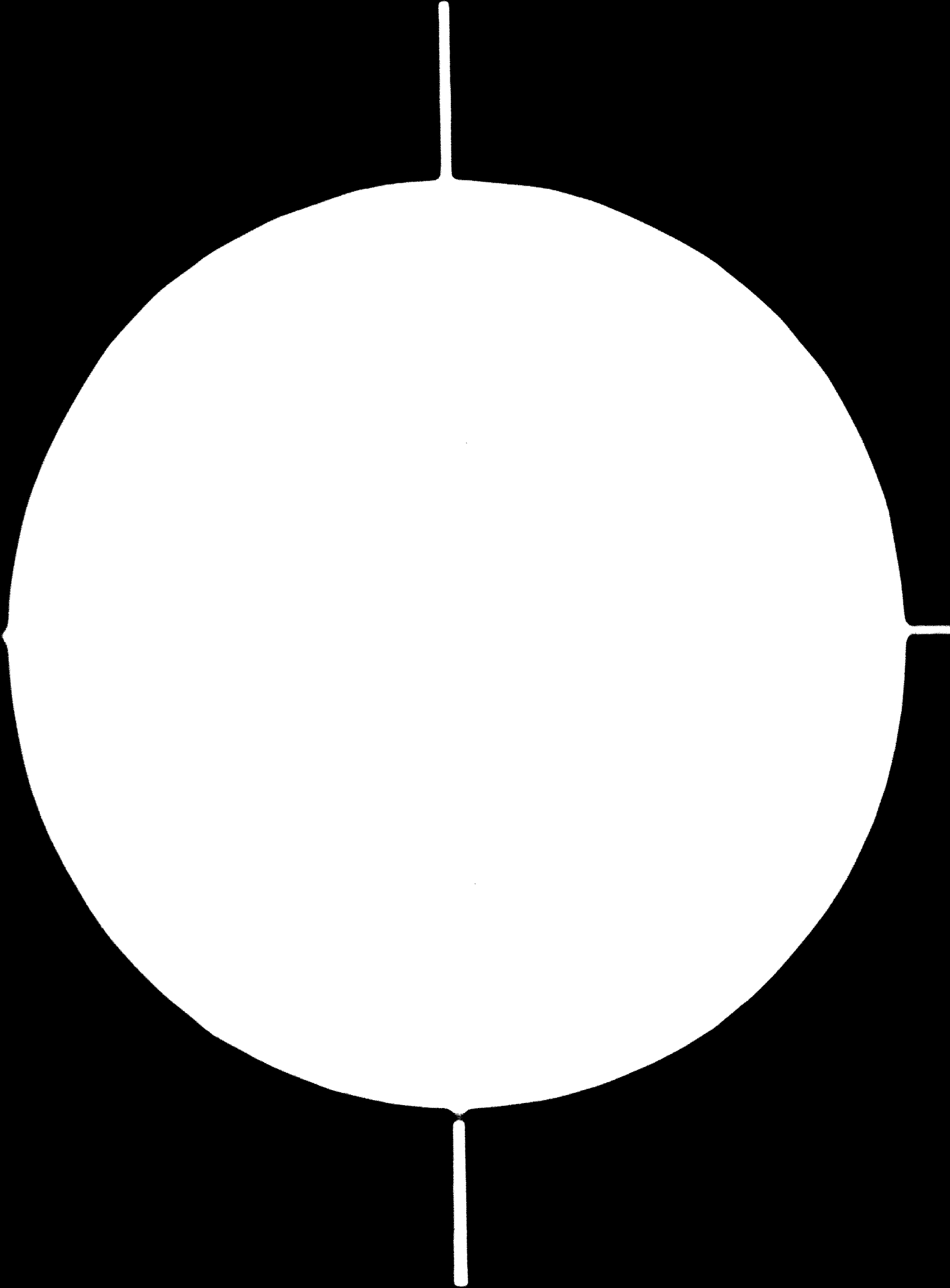
Items 2.1 to 2.3 above can be used on the presentations mentioned in 2.5 and 2.6, and the visits proposed could be introduced by a well worded letter to the firms concerned and preferably, at least in the initial stage, signed by a Minister. In determining the programme of visits regard would be had to the export potential of selected industries - see Attachment 3.

3. In the meantime, immediate steps should be taken to lay the foundations for a full scale promotions programme to meet the more medium term needs of the Authority. Such a programme should include the following :-
- 3.1. Up-dating of quality coloured brochures referred to in 2.1 and 2.2 above on a regular bases for wide distribution at home and abroad.
 - 3.2. Up-dating of slide presentations mentioned in 2.4 above on a regular basis for use at home and abroad. At home the slide presentation would be usefully shown to worthwhile visiting businessmen.
 - 3.3. The preparation of a film on points of information of interest to businessmen. The points on updating and showing at home and abroad referred to in 3.1 and 3.2 above would also apply to this item.
 - 3.4. Advertising in leading business press and specialist journals.
 - 3.5. Specially prepared and placed articles and press releases.
 - 3.6. Publication of a regular newsletter containing items of interest to businessmen and journalists.
 - 3.7. Providing an efficient information service.
 - 3.8. Receptions at home and abroad for selected businessmen, bankers, journalists and professional people such as Accountants and Lawyers. At these receptions guests could be shown the films and slide presentations referred to above and given kits containing the brochures, copies of selected advertisements, newsletters, etc.
 - 3.9. Ongoing programmes of presentations to businessmen at their offices at home and abroad. When available the tailor-made report referred to in 2 above would be an important item for leaving with businessmen at the end of the presentations. The end product of the presentations would hopefully be a visit by the client to Egypt for a fact-finding tour. While in Egypt the visitor should be accompanied and entertained by informed personnel of the Authority.

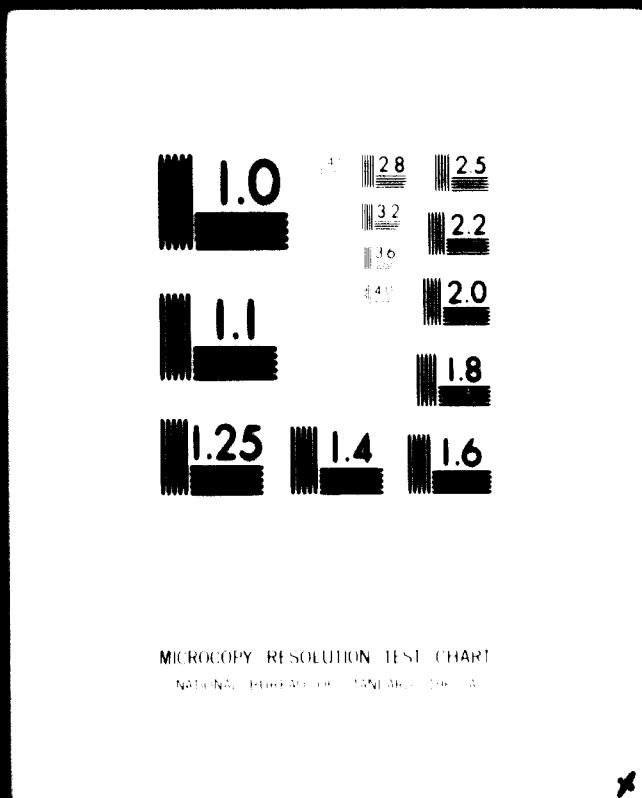
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- 3.10. Ongoing programmes of invitations to journalists from the leading world business press and T.V. networks to visit Egypt as guests of the Authority. While in Egypt they should be accompanied and entertained by well informed and experienced P.R. personnel. Their itineraries should include visits to sites, factories and other places of interest. The P.R. group should have a capability of dealing with English, German and Japanese visitors in their own languages.
- 3.11. Inviting trade missions, Chambers of Commerce, etc., to Egypt as guests of the Authority and on the same basis as 3.10 above.
- 3.12. Opening of overseas offices under the direct control of the promoting organisations - suggested locations will be made later after discussions and consideration. These offices would provide local backup for the work of the Authority and on the spot processing of leads, enquiries, etc.
- 3.13. Devising and publishing in quality brochure form the standard questionnaire to circulate to applicants.
- 3.14. Issuing of business cards to Authority's top personnel.

We propose to defer for the present any detailed consideration of the role and position of overseas promotion offices. We are aware that the offices in Washington and New York are not long established, and we feel that they must be allowed a reasonable period of time in which to prove themselves. In due course, we would like an opportunity to assess the effectiveness, and the cost, of these offices.

We feel we must, however, at this point make it clear that, in general principle, we favour the overseas offices being under the direct control of the promoting authority, rather than under the control of a Ministry, whether it be the Foreign Ministry or one of the Economic Ministries.

Pending the establishment of overseas offices in other countries, we recommend that senior members of the Authority should visit and make presentations to selected leading international manufacturing firms as mentioned in paragraph 2. In the meantime, we shall give consideration to our recommendations on locations

for overseas offices and the timing of their establishment. Our preliminary thinking is that other suitable locations for the initial offices could include Chicago, London, Frankfurt or Cologne, Tokyo and Kuwait. However, deeper investigation will be required before we are in a position to make more definite recommendations.

4. The above promotion programme should be backed by an Authority which projects a good image. This includes:-
 - 4.1. Impressive, well kept, well run and well maintained head and overseas offices, with first class facilities for meetings, presentations, receptions, etc.
 - 4.2. The name of the Authority should be clearly indicated on the outside and reception areas of the head and overseas offices.
 - 4.3. The reception areas should always be manned by a least one Receptionist and she should be in a position to locate personnel without delay or ascertain their whereabouts.
 - 4.4. Quality headed notepaper with a distinctive logo should be used in all correspondence. A possibility for the Authority logo would be the eagle from the Egyptian Flag.
 - 4.5. A well informed and promotionally minded staff at all levels. This is of particular importance in the case of project evaluation staff who come into contact with interested clients. Such personnel should be trained not only in project evaluation but in promoting projects to interested clients and guiding them with their decisions. They should also be involved in presentations and entertaining businessmen.
 - 4.6. A follow-up system within the Promotions Division which would keep in touch with interested worthwhile clients with a view to encouraging their applications.
 - 4.7. A service for maintaining contact with clients whose applications have been approved, to help them with their setting up and teething problems, including factory design and construction.
 - 4.8. An efficient telephone and telex service open 24 hours a day,

even if the telephone has to be restricted to an "answering" basis for part of the day.

4.9. A less unwieldy name should be substituted for the present title of the Authority.

5. The implementation of a promotions programme along the lines of 3 and 4 above calls for a dynamic, commercially-minded and experienced promotions division with an experienced team catering for advertising, press relations, design, exhibitions, films, brochures, promotions and internal communications. We propose elsewhere in this report that as an urgent interim measure, a top-level promotions man be appointed or loaned to the Authority to build up a promotions Division. The man appointed should be fully supported with all the resources necessary to make a success of this vital function.
6. The existing project section appears to be solely evaluation-oriented and the personnel involved do not at present see themselves as having a promotion role. In discussion, those consulted appeared to agree that it would help considerably if they were more involved in promotional work including entertaining and accompanying visiting businessmen. Apart from helping businessmen with their decision-making, such a policy would assist project evaluation staff gain experience of the industries with which they are dealing.
7. An Outline Plan for promotions, developed during the Irish team's visit to Egypt in June, 1975, is in Attachment 4.

SUGGESTED SUMMARY BROCHURE - Small Fold Over.

1. **Possible Title :-**

EGYPT

THE NEW LOCATION FOR YOUR INDUSTRY

2. **Contents :**

Summary Statements on :

- 2.1. Meaning of the "Open Door Policy".
- 2.2. Government Guarantee to show sincerity of intentions.
Perhaps quote official documents.
- 2.3. Tax incentives in layman's language and transfer of capital and profits.
- 2.4. **Labour :**
 - 2.4.1. Increasing surplus of skilled, semi-skilled, unskilled, engineers and business graduates.
 - 2.4.2. Wages and salaries at competitive rates.
 - 2.4.3. Low inflation rate and annual wage increase (if confirmed).
 - 2.4.4. Good industrial relations climate.
 - 2.4.5. English speaking executives.
 - 2.4.6. Good training facilities and plans to expand.
- 2.5. **Factories, sites and houses.**
 - 2.5.1. Provision of advance factories and low rental and provision to purchase (if confirmed).
 - 2.5.2. Wide selection of sites (if confirmed).
 - 2.5.3. Help with own buildings (if confirmed).
 - 2.5.4. Low cost apartments and plans for more.
 - 2.5.5. Information on Free Zones.

2.6. Transport facilities :

- 2.6.1. Cairo Airpot - number of connections and to where - also number of airlines and names serving.
- 2.6.2. Suez Canal, Port Said and Alexandria plus plans.
- 2.6.3. Good internal road transport.
- 2.6.4. Good internal rail transport.

2.7. Other Services :

- 2.7.1. Electricity, oil, gas, water, sewage, effluent.
- 2.7.2. Banking - international if possible.
- 2.7.3. Accountancy, legal, insurance - international if possible.
- 2.7.4. Access to Arab Funds at preferential rates (if confirmed).
- 2.7.5. Back-up services e. g. local engineering component supply etc., (if available).

2.8. Strategic Location for Markets :

- 2.8.1. Description of location - Asia, Africa, Europe.
- 2.8.2. Special agreements with Arab Countries (if confirmed).

2.9. Facilities :

- 2.9.1. Recreational - beaches, Alexandria, Nile, Casinos, sports clubs.
- 2.9.2. Universities and other higher educational facilities, schools, etc.
- 2.9.3. Churches of all demoninations.
- 2.9.4. Low cost housing (if confirmed) although executive type scarce.
- 2.9.5. Hospital facilities.
- 2.9.6. Library facilities.

- 2.10. Demonstrated ability of Egyptians to build and run sophisticated industries, e. g. petroleum oil, steel and car assembly and television.

- 2.11. Climate.
- 2.12. Friendly and hard working people.

3. Photographs.

The text will be illustrated by coloured photographs showing :-

- 3.1. Examples of local petroleum, steel and television industry.
 - 3.2. Examples of local textile and fashion industry.
 - 3.3. Scenes from Cairo and Alexandria Cities.
 - 3.4. Scenes from classrooms in University and Schools - showing students at work.
 - 3.5. Scene of hospital interior with patients.
 - 3.6. Scene of inside of library with borrowers and browsers.
 - 3.7. Free Zone sites - El Nasr city from Research Centres to first bays (if available - promised).
 - 3.8. Scene showing international Hotel, e. g. Hilton, Sheraton or Meridien (if available).
 - 3.9. Historical scene, e. g. Pyramids.
 - 3.10. Scene showing sailing on Nile and/or Alexandria beaches.
 - 3.11. Scene showing power lines from Owan Dam.
 - 3.12. Scene from Suez Canal area, illustrates facilities.
 - 3.13. Small map showing Nile Delta area, roads, etc.
4. The brochure will contain a cross reference to the more detailed brochure.
5. The brochure will finish with an invitation to contact the Authority in Cairo, or its offices in Washington or New York, for further details and application form.

SUGGESTED DETAILED BROCHURE

1. **Possible Title :**

EGYPT

THE NEW LOCATION FOR YOUR INDUSTRY

2. **Contents :**

Same as for summary brochure, but in more detail, particularly for such items as labour availability, wages and salary rates : annual increases in wage and salary rates : examples of apartment rental, factory rental and housing costs : examples of electricity, oil, gas and water rates : income and Company tax rates with examples (all above where available) ; details of variations in climate.

3. **Additional Contents:**

3. 1. Distances from Cairo to other leading centres.
3. 2. Flying time.
3. 3. Details of existing industries (if available).
3. 4. Details of hotels, clubs and other facilities.
3. 5. Information on the economy.
3. 6. Information on the political structure.
3. 7. Map of Egypt in relation to other countries in Africa, Asia and Europe.
3. 8. Details of exports.
3. 9. Details of Free Zone factories - specifications, service etc.

4. Photographs.

Photographs will be as in the summary brochure but in addition :

- 4.1. Examples of craft industries e.g. glass, crystal, ceramics, plastics.
- 4.2. View of television station.
- 4.3. View of Mosques, e.g. Mohamed Ali.
- 4.4. Photo of symphony orchestra.
- 4.5. Additional historical.
- 4.6. Research facilities.
- 4.7. Housing.

5. Suggested (possible) items - List of industries of particular interest to Egypt.

6. The brochure will conclude with an invitation to contact the Authority in Cairo, Washington or New York for further information and an application form.

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IDENTIFICATION OF INDUSTRIES

In the Report to the United Nations Industrial Development Organisation (UNIDO) on the Establishment of Free Trade Zones in the Arab Republic of Egypt by D.J. MacNeill and M. Ledwidge the following industries are listed as being industries with export potential:

Leather Goods
Automobile Components and Accessories
Cosmetics and Toiletries
Pharmaceuticals
Jewellery
Mechanical Handling
Food and Beverage
Furniture
Metal Goods
Office machinery
Medical engineering
Leisure Goods
Domestic Appliances
Construction Equipment
Machine Tools
Electrical Machinery
Plastic Goods
Hydraulics
Process Plant
Pumps and Valves
Instruments
Electrical Components
Electronic Capital Goods
Mechanical Engineering

On the occasion of the first visit of the Irish team to Egypt (June, 1975) copies of approved lists of industries were made available by the General Authority. We have since requested the Authority to let us have classified statistics of imports into Egypt and other Arab countries. All of this material will be used for our identification of the most suitable industries.

In the meantime, and pending submission of our further report, the above list is to be regarded as having provisional status only.

OUTLINE ACTION PLAN : PROMOTIONS

<u>STEP</u>	<u>FIRST PHASE</u>	<u>BY WHOM</u>	<u>TIME COMPLETION</u>
1	Answer to questionnaire - being prepared by Messrs Kader and Hanafi & Stats	Mr. El Sahn	July 1975 July 1975
2	Photographs of El Nasr site - promised by Dr. Adley Hasmaad, Under Secretary, Ministry of Culture and Information	Mr. El Sahn	July 1975
3	Photographs of Suez Facilities - promised by Mr Mohamed Ezzat Adel Director and chief engineer Canal Free Zone	Mr. El Sahn	July 1975
4	Details of Factories, services etc., - promised by Mr Fouad	Mr. El Sahn	July 1975
5	Information on applications approved by Investment section (non free zone) - promised by Mr Kadar	Mr. El Sahn	July 1975
6	Budget approval for leaflet, brochure, slide presentations and "Layman's guide to Law 43"	Mr. El Sahn	August 1975
7	Commissioning of mockups for leaflets and brochure, sample slide presentation and draft "Layman's guide to Law 43"	W. Brosnan	August/ September 1975
8	Preparation of outline promotions training programme	W. Brosnan	August 1975
9	Mockups, samples and slides for approval of Authority	W. Brosnan	October 1975
10	Appointment of promotions manager, and formation of promotions office	Authority, Ministry of Tourism, Arab International Bank	October 1975
11	Briefing and discussions on promotions programme and organising of promotions office	W. Brosnan, Promotions Manager & other interested parties	October 1975

<u>STEP</u>	<u>FIRST PHASE</u>	<u>BY WHOM</u>	<u>TIME FOR COMPLETION</u>
12	Briefing on organising of presentations to selected overseas clients (including preparation of feasibility studies)	W. Brennan, Promotions Manager	October 1975
13	Final approval of leaflet, brochure, slide presentation and "Layman's Guide to Law 43"	Promotions Officer	October 1975
14	Printing of publications and reproduction of slide presentation	W. Brennan	November/ December 1975
15	Consult with promotions manager on timing of promotions programme	W. Brennan	November/ December 1975
15	Consult with promotions manager on staff training requirements	W. Brennan	November/ December 1975

ANNEX I

PROPOSALS FOR AN INTERIM PROMOTIONAL PROGRAMME

1. While emphasising again that the recommendations for an on-going promotional programme which we made in our Report No. 1 are as valid as when we made them nearly two years ago, we would again refer to the interim programme which was also suggested in Report No. 1. We urgently recommend that such an interim programme be put in operation without further delay.
2. This would entail the distribution through Egyptian Embassies in Washington, London, Bonn, Paris, Tokyo and the existing New York promotions office, of the coloured brochure publicising the opportunities offered to industrialists under Law 43 of 1974, to leading companies in the industrial sectors recommended by us. In a covering letter from the Ambassador concerned, or from the director in the case of the New York office, interested industrialists would be invited to apply for the more detailed booklet "EGYPT AN INVESTMENT OPPORTUNITY".
3. As a follow up, interested industrialists would be invited to a function held locally in which the Minister for Economy and Economic Co-Operation and senior officials of the Authority would make a presentation on the investment opportunities in Egypt and hold a question and answer session. For this purpose a draft letter from the Minister for Economy & Economic Co-operation to the Deputy Prime Minister for Foreign Affairs, a draft letter from each Ambassador and director of the New York office to selected industrialists and a draft letter from Shannon Development to the Egyptian Embassies and New York office have been given to the Authority.
4. For the success of this exercise it would, of course, be important to ensure that the firms approached are not on the Arab boycott list. For this purpose a list of leading firms in the countries suggested above has been given to the Authority, from which can be prepared a list of suitable firms.
5. It will also be necessary for the success of this approach that a liaison officer with sufficient knowledge and authority to help serious investors to establish their business be assigned to such projects until they are functional.

6. Furthermore, as it now seems unlikely that El Nasr City will be available for occupation for some time, other suitable sites, which could then be designated as private free zones, should be identified. Full information on available sites should be given to interested firms during the presentation suggested; examples of the information required have been given to the Authority.
7. Also, as part of the presentation, an investment model comparing the benefits of establishing in Egypt as compared with other locations should be included. Examples of such models have been given to the Authority.
8. In view of the importance of this interim approach it is felt that some elaboration should be given of the thinking behind it. The most immediate requirement is some hard evidence that worthwhile foreign investment can be attracted to establish successful industrial projects for export and/or import substitution. Public free zones offer the most attractive incentives to investors. The non-availability of these zones up to the present has inhibited industrial promotion. This difficulty could, however, be countered, at least temporarily, by exploiting the private free zone concept. This can be done if the Board of the Authority is prepared to offer private free zone status and benefits - equivalent to those obtainable in a public free zone - for the full period of an operating licence, e.g. 25 years, to any worthwhile export-based foreign project. The power to do this resides in article 30 of Law 43 of 1974 and that power confers a valuable measure of flexibility which should now be exploited.
9. Initial action should be concentrated on attracting a few prominent foreign companies. These potential investors should be offered, in addition to private free zone status, the maximum facilitation. When agreement to establish such a project has been reached the investor should be given special treatment to ensure quick and smooth establishment and, hence, the valuable publicity which would flow therefrom. For example, a liaison officer should be appointed for the initial phase of each of these projects. The officer would facilitate the investor in all preliminary establishment formalities, (advice on legal, planning, foreign exchange, public health, labour relations, etc., matters) and on staff recruitment and training and the provision of services, such as, water, electricity, gas, telephones, telex, waste disposal, postal, banking and insurance. In addition, this officer would have responsibility for ensuring that customs requirements and procedures would be understood and operated in a trouble-

free manner and that delays or other difficulties in the receipt and dispatch of goods would be avoided or dealt with promptly. The officer would work in concert with customs and so help to allay the fears of the customs authorities as regards danger of revenue losses arising from the operation of private free zones.

10. Apart from the direct benefit of attracting worthwhile firms to Egypt, the experience gained by the liaison officers would be particularly useful to the public free zones, when established, and these officers would assist in the training of newly recruited staff for the public free zones.
11. Consideration should also be given to using private free zones to foster joint venture projects. Here, also, flexibility (within the provisions of Law 43 of 1974) should be the keynote. A scheme of possible options should be developed and presented to a prospective investor as a practical proposition. Typically, such a scheme would envisage :
 - (a) A project producing goods for export and for the home market ;
 - (b) Foreign and Egyptian ownership of the project - with the foreign owner holding a majority (controlling) shareholding ;
 - (c) The proportion of the annual production which could be sold on the home market (taking one year with another) should not exceed the proportion of the Egyptian shareholding to the total share capital ;
 - (d) The Egyptian shareholding could be subscribed in Egyptian currency, in cash or otherwise than in cash, such as land or buildings ;
 - (e) Profits arising from export sales would be granted the same tax exemption concessions as free zone projects (Chapter 4 of Law 43 of 1974) and profits arising from sales to the home market would be granted the same tax exemption concessions as for approved internal investment projects (Chapter 1 of Law 43 of 1974).

12. Implementation action for the above would include the following :
- (a) An initial, high level, highly geared promotional effort as discussed in the above paragraphs.
 - (b) The identification of locations, sites and any existing vacant or under-utilised factories which can be offered to new projects which would have private free zone status ; and the preparation of an information sheet for each location/factory giving all relevant facilities and indicating the industry or industries for which the location/factory would be particularly suitable.
 - (c) The preparation of simple investment comparisons showing the benefits to be obtained in Egypt as compared with an alternative location.
 - (d) The identification of industries in which joint venture projects would be acceptable and would have scope for successful development.
 - (e) A listing of existing Egyptian industrial enterprises which may be considered suitable for participation in joint venture projects and the giving of a mandate to selected enterprises from the list to seek foreign partners within the terms of a framework approved by the General Authority.
 - (f) The drafting, in broad terms, of the conditions applying and the benefits attached to joint venture projects which would have private free zone status.
 - (g) The development of data for investors on the available skilled manpower for different sectors and types of industries, and on the training facilities and resources available to remedy skill deficiencies.
13. It would also be a considerable help if the promotional visits suggested above were run in conjunction with an advertising campaign in the countries concerned. Examples of such advertisements have been shown to the Authority.

ANNEX J

PRODUCTION OF AN AUDIO-VISUAL PRESENTATION

1. The main elements involved in the production of an audio-visual presentation are :
 - (i) The script ;
 - (ii) The script-reader ;
 - (iii) Musical score and other sound effects ;
 - (iv) Colour transparencies ;
 - (v) The equipment.

2. It is strongly recommended, however, that the client organisation (i.e. the organisation commissioning the presentation) should obtain the services of an experienced person to produce the entire presentation and to co-ordinate the different elements listed above. This person should, ideally, come from the television or film industries, and should be given a clear brief as to the objective of the presentation, the audience to be aimed at, and the results which the client organisation hopes to achieve from the presentation.

3. He will take responsibility for commissioning and assembling the various elements, as follows :-
 - (i) Script :

A good script is the first basic requirement for a successful presentation. The client organisation should list the essential points which it wishes to get across in the presentation. These should then be converted into a "selling" commentary by a professional writer, or other person skilled in this work.

 - (ii) Script-reader :

The "producer" will usually be in a position to obtain the services of a good script-reader, probably an actor or news-reader from TV or radio. A voice appropriate to the presentation should be selected. If required, the

presentation can be produced in different languages, but extreme care would need to be exercised to ensure that no errors of translation or other defects were allowed to appear.

(iii) Musical score/sound effects :

Again the "producer" will be in a position to select a suitable musical score. Recording studios normally have banks of music available or will provide a special score, on payment of a fee. Any required sound effects should be recorded for use in the presentation.

(iv) Colour transparencies :

Good quality colour transparencies (35 mm) are the second basic requirement for a successful presentation. They should be taken by a professional photographer who should be instructed (and authorised, if necessary) to take photographs of all the items referred to in the script. The number of photographs taken should be sufficient to enable a selection of about 160 slides to be made for the presentation.

(v) Production :

Good production is the third basic requirement for a successful presentation. It will be the responsibility of the "producer" to ensure effective "pulsing" of the slides, i.e. in putting the presentation together he will decide the sequence and the pace of the slides, and their inter-action with the commentary and the score. This is a job which requires skill and experience, and unless it is properly carried out the presentation will suffer considerably. The "producer" should also arrange for the preparation of titles, and for any other visuals (e.g. statistics, graphs, text, etc.,) which he might decide to use.

(vi) Liaison

The client organisation should maintain close liaison with the "producer", to provide him with any additional guidance or advice he might need for the production of the presentation.

4. As regards equipment, any tried and tested system for audio-visual presentations can be used. In general, however, the equipment selected should be (i) simple to operate, so that a non-technical person would have no difficulty in showing the presentation, and (ii) easily transportable from one location to another. When not in use it should be stored carefully in a secure place, and care should also be exercised in the nomination of persons authorised to use it.

INDUSTRIES SUITABLE FOR EL NASR FREE ZONE

**Electronic Products,
Components,
Spare Parts,
Wool, Cotton and Rayon fabrics,
Handcraft Products,
Semi Conductors,
Laboratory Ware,
Scientific Measuring Instruments,
Process Equipment,
Printing and Publishing,
Knitted Jersey fabrics,
Spinning worsted yarn and dyeing,
Accessory equipment for oil well drilling rigs,
Medical and Biological instruments,
Special cutting tools,
Printing equipment and accessories,
Pharmaceutical and chemical compounding and packaging,
Industrial tools,
Radio and radio equipment,
Transistors,
Television sets,
Bearings,
Optical instruments,
Microscopic instruments,
Computer parts and related equipment,
Hydraulic and pneumatic equipment,
Cameras,
Binoculars,
Photographic equipment,
Shoes,
Aircraft Instruments,
Controls for Heating, Airconditioning and Refrigerating.**

SUPPLEMENTARY LIST OF INDUSTRIAL PRODUCTS WHICH
TAKES ACCOUNT IN PARTICULAR OF DEMAND IN THE
ARAB MIDDLE EAST.

Food Processing,
Furniture and Fittings,
Paper Products and Printing Material,
Chemical Products,
Rubber and Plastic Products,
Transport Equipment and Parts,
Building Materials,
Household Equipment,
Products for the Expansion of Infrastructure,
Products for the Improvement of the Social Framework
such as those relating to Schools, Hospitals, Clinics,
Playgrounds, Youth Movement and Health Centres.

**MANAGEMENT DEVELOPMENT AND TRAINING FOR THE
STAFF OF THE GENERAL AUTHORITY**

1. **Before analysing the training needs of the General Authority's staff, it is necessary to know, in detail the aims and objectives of the General Authority, its organisation structure and the duties and responsibilities assigned to the posts in the structure. It is also necessary to identify the knowledge, skills and attitudes needed to enable those occupying the posts to discharge these duties and responsibilities. It is then a matter of ascertaining the actual knowledge, skills and attitudes of staff and identifying any gap that may exist between them and those needed to carry out the various jobs. The gap, in effect, represents the training needs and determines the scope and content of the comprehensive staff development and training programme that should be introduced. It will be noted that there is a direct relationship between the development and training programme and the policies and practices governing staff recruitment and promotion.**

2. **On the basis of general organisational experience, however, it can be stated that there are certain basic constituents of any comprehensive organisational training programme. These should be considered and, almost certainly, provided for in the programme to be developed for the staff of the General Authority. They would include :**
 - (i) **Induction training for new entrants**
 - (ii) **Supervisory development**
 - (iii) **Management development**
 - (iv) **Management techniques - application and appreciation**
 - (v) **Specialist techniques**
 - (vi) **Personal skills**

3. **Information has been obtained on the aims and objectives of the General Authority, although the priorities in relation to certain objectives require some clarification. Information has also been obtained about the existing**

and proposed organisation structure of the General Authority; the allocation of functions between the various divisions and units of the organisation; and the assignment of duties to staff at the middle and senior levels. It is known that the Deputy Chairman and General Manager (Free Zones) and perhaps one or two other senior members of the staff are very, or relatively, close to retirement. The filling of the resultant vacancies may affect the present work allocations but should not significantly alter the general pattern of training needs, except perhaps for a few individuals.

4. One factor, which would significantly affect training needs in the short term, is the decision to set up a project team to complete the planning for and to set up the first Free Zone at El Nasr City.

It is very desirable to make provision for specific training for the members of the team. Such training would include project planning and project management, team building and - at least for some - network analysis and critical path method.

5. It would, whatever changes in organisation may ensue, be very desirable to provide an appropriate training experience for the present Division Head and Section Heads of the Free Zone Division to facilitate the development of a management team concept and approach. This might take the form of a Workshop related to project planning and execution.

6. So far as the comprehensive general programme of training is concerned it is very desirable that appropriate staff of the General Authority be involved in its development. There is provision in the Organisational Structure of the Finance and Administration Department of the General Authority for a Personnel Unit in which it is understood that a Training Officer is envisaged. Ministerial Decree 188 of May 1974 requires that in each governmental department or authority or company there should be a unit for training, staffed with personnel with University qualifications who have themselves undergone a special course of training. It was intended that the Decree should be implemented within three or four months. For valid reasons, it was not possible to implement the Decree in the

General Authority before now. It is clear, however, that there is a desire to do so as soon as possible.

7. We are agreed with the Deputy of the General Director for Financial and Administration Affairs that it is essential to recruit a suitable person for appointment as Training Manager for the General Authority. The person appointed would be assigned to work under the Deputy of the General Director and - at least in the early stages - directly to him. He would be responsible, with the advisory assistance of our Training Expert, for the initial determination of staff training needs; for the development of a comprehensive training programme for General Authority personnel; for the introduction of suitable individual training records; for the staffing and conduct of training courses and for arranging, where necessary, for suitable outside organisations to organise or contribute to training courses. He would also be responsible for ensuring an appropriate and effective response to requests for investors locating in the Free Zones for suitable training facilities for their labour force. He would need to receive special training in training techniques and methodology - probably abroad - and to become familiar with training resources, organisations, etc., both within the Arab Republic of Egypt and elsewhere which might be helpful in meeting the training needs of the staff of the General Authority and of the labour force.
8. The person selected for this post should, in our view, be selected as a result of a competition advertised both within and outside the General Authority. It is imperative, because of the importance of the post for the development of any effective training function, that a person of high calibre be secured to fill it. He should be given as senior a grade as possible within the existing structure, (Grade 3 or 4). This is important both to ensure that he will have the maximum direct access to and influence with Senior Management inside the General Authority, public bodies and institutes in the Arab Republic of Egypt and the managements of firms locating in the Free Zones, and to ensure that he will have the necessary very high degree of competence in this specialised field.

9. We suggested that a draft position description and draft man specification be prepared for the Training Manager post in consultation and agreement with the General Authority. We have submitted such drafts for consideration. The main specification would provide a basis for the advertisement and a profile with which candidates for the post could be compared.

10. We have also suggested that the applicants might be short-listed if they are numerous and that the application forms might be furnished to us for observations. We have offered to arrange that our Training Expert would act as an independent assessor or adviser with the General Authority's representative or representatives in the final stage of the selection process which it is hoped could be held early in October, 1975. If this were done, our Training Expert could then spend some time with the new appointee and the head of the Finance and Administration Department in helping the new man to draw up a work programme and to determine priorities. Depending on the qualifications and experience of the person appointed, it might be very desirable that he should attend a special training course or courses abroad within 6 months from the date of his appointment.

11. We see the selection and appointment of the Training Manager as a high priority need. We would be reluctant to go ahead in the field of training, without him. It is important that he should be involved from the outset, and be seen to be involved. It is important, too, that as much as possible of the training needed should be provided by existing training organisations within the Arab Republic of Egypt. So far as the staff of the General Authority are concerned we are aware that a number of bodies may be in a position to help, including,

for example, the National Institute of Management Development and the Arab Research and Administration Centre (ARAC). We would, of course, be willing to supplement, or suggest suitable organisations which could supplement, the contributions of Egyptian training organisations.

12. If the development of the Free Zones is to go ahead as envisaged, we believe it to be imperative that the Training Manager should be in post well before the end of 1975. When this is done, we would be able to proceed with his help in meeting the remainder of our terms of reference in relation to training for the General Authority and the labour force.

EL NASR CITY FREE ZONE
SUMMARY OF RESULTS OF COST / BENEFIT STUDY

1. This study attempts to quantify the costs and benefits likely to arise from the El Nasr free zone project on the basis of certain reasonable assumptions.
2. The study is not, however, a complete project evaluation. It is assumed that the management organisation, marketing effort, finance and general environment within the country are suitable for the development of a free zone.
3. The methodology used in the study follows closely on that set out in the "Guidelines for project evaluation" published by UNIDO in 1972.
4. The project is evaluated in terms of the overall economic consumption benefits accruing to Egypt, expressed in US dollars converted to Egyptian pounds at the rate of 40 PT per dollar. In calculating the economic benefits and costs all items except foreign exchange and unemployed and underemployed labour are measured at the market price. The shadow price of foreign exchange is 70% above the official rate and the shadow price of unskilled labour is 90% of the market rate. The social rate of discount is 10%. All financial calculations in the study are in constant 1977 prices.
5. The principal quantifiable benefit of the El Nasr zone is the net export earnings, excluding profits. These export earnings are equivalent to the expenditures in Egypt of zone firms on goods, services and labour. Another possible benefit is the net inflow of foreign capital into Egypt. Non-quantifiable benefits include improvement in skills, new technology, improvement in international trading services, demonstration effect, etc.

6. The main cost items are the development cost of the zone, the operating cost of the zone authority, including promotion and maintenance, and the operating costs of firms within the zone. It is assumed that there is no significant indirect capital expenditure associated with the zone and no serious non-measurable costs.
7. In order to complete the calculations on costs and benefits it is necessary to make a wide range of assumptions on costs and output. The two most critical assumptions are that gross exports will be \$700 per M^2 at full production and that expenditure by zone firms in Egypt will be 30% of gross exports.
8. On the basis of these and other assumptions, the zone would need to produce \$250m. of gross exports in the period 1977-1986 for the project to show a positive net benefit for the Egyptian economy. The project is not unduly sensitive to a change in the shadow price of foreign exchange. If the shadow price of foreign exchange reduced to 20% above the official rate gross exports from the zone in the period to 1986 would need to exceed \$1,000m. for the project to show a net benefit to the Egyptian economy. Substantial export earnings in the early years of the project would help to reduce the break-even point.
9. If the full area of the zone were leased by 1984 to good quality manufacturing industries the zone authority would be in a position to repay, with interest, all the finance necessary to construct and operate the zone by the early 1990's.

ANNEX N.

Draft

Decree of the President of the Arab Republic of Egypt
Bill to amend several provisions of the Law concerning Arab and
Foreign Capital Investment and Free Zones enacted by Law No. 43
of 1974

The President of the Republic,

Having reviewed the constitution, and

Law No. 14 of 1939 levying a Tax on Revenue from Moveable
Capital Assets, Industrial and Commercial Profits and Employ-
ment Earnings, and

Law No. 142 of 1944, levying Death Duties on Estates, and

Law No. 99 of 1949 levying a General Income Tax, and

Law No. 244 of 1951 establishing Stamp Duty, and

Law No. 159 of 1952 on Inheritance Tax, and

Law No. 26 of 1954 on several provisions relating to
Shareholding Companies, Joint Stock Companies and Companies with
Limited Liability, and

Law No. 113 of 1958 concerning employment Joint Stock Companies
and public sector companies, and

The Labor Law enacted by Law No. 91 of 1959, and

Law No. 113 of 1961, limiting the remuneration of chairman
and members of boards of directors or seconded members to a
maximum of LE5000, and

Law No. 137 of 1961 relating to the formation of boards of
directors of Joint Stock Companies, and

Law No. 15 of 1963 forbidding the ownership of agricultural and desert land to non-Egyptians, and

Law No. 66 of 1963 enacting the Law on Customs, and
Of 1974

Law No. 43 concerning the Investment of Arab and Foreign Capital and Free Zones, and

Law No. 86 of 1974, according certain tax exemptions to Egyptian projects established within the development plan, and

Law No. 81 of 1976 regulating the ownership of buildings and vacant lands by non-Egyptians, and

Law No. 97 of 1976 regulating transactions in foreign exchange.

With the approval of the Council of Ministers, and

The opinion formulated by the Council of State,

Hereby decrees:

The following Bill shall be submitted to the People's Assembly:

ARTICLE ONE:

Law No. 43 of 1974 concerning the investment of Arab and Foreign Funds and the Free Zones shall be retitled: Law No. 43 of 1974 concerning Investment and the Free Zones.

Article 3 of the Decree of the President of the Arab Republic of Egypt enacting the said Law No. 43 of 1974 shall be replaced by the following:

"The Minister of the Economy and Economic Cooperation shall issue, upon recommendation of the Board of Directors of the General Authority for Investment and the Free Zones, the executive regulations implementing this Law."

ARTICLE TWO:

Provisions of Articles 6, 11 paragraph 2, 12 paragraphs 2 and 3, Articles 14, 16, 17, 18, 21, 22, 25, 27, 36 paragraph 1, Article 37 paragraph 1, Article 46, Article 57 paragraph 1, are repealed and substituted by the following provisions:

Article 6:

Projects in the Arab Republic of Egypt approved under the provisions of this Law irrespective of the nationality or domicile of their owners, shall enjoy the guarantees and privileges set forth in this Law.

This provision shall also apply, in accordance with the regulations and procedures set forth in this Law, to projects

established entirely with Egyptian capital and owned by Egyptian nationals.

Article 11, paragraph 2:

Projects shall be exempted from the provisions of Law No. 113 of 1958, and Articles 21 and 114 of the Labor Law enacted by Law No. 91 of 1959. Employees and members of Boards of Directors of projects shall also be exempted from the provisions of Law No. 113 of 1961 limiting the remuneration of the chairman and members of Boards of Directors or seconded members to a maximum of LE5000 (per annum).

Article 12, paragraph 2:

These projects shall also be exempted from the provisions of Article 2, paragraph (1) and Articles 11, 15 paragraph (1), Article 21 paragraphs (1) and (4), Article 24 paragraph (2), Articles 28, 29, 30, 31, 33 and 33 (bis), Article 41 paragraph (4) and Article 66 paragraph (1) of Law No. 26 of 1954 referred to above. Shares, including founders' shares may be transferred within the first two years of the project only with the approval of the Board of Directors of the Authority. These companies shall also be exempted from the provisions of Law No. 137 of 1961 concerning the formation of Boards of Directors of Joint Stock Companies.

Paragraph 2:

The provisions of Law No. 81 of 1976 regulating the ownership of buildings and vacant lands by non-Egyptians and Law

No. 15 of 1963 forbidding the ownership of agricultural and desert lands by non-Egyptians shall not apply to land and other real property representing an integral part of the capital assets of projects approved by the Authority.

Article 14:

By way of exception from the provisions of Law No. 97 of 1976 regulating transactions in foreign exchange, projects shall have the right to maintain a foreign exchange account or accounts with banks registered at the Central Bank of Egypt in the Arab Republic of Egypt. On the credit side of such account or accounts shall be entered the balance of the capital paid in foreign currencies, loans and any other funds of the project so long as they shall be in free currencies, funds purchased by the project from local banks at the highest rate prevailing and declared for free foreign currency by the competent official authorities, the proceeds of the visible and invisible exports of the enterprise and the proceeds of sales to the local market in foreign currency. The project shall have the right, without special permit or authorization, to utilize the said account in transferring the amounts authorized under the provisions of this Law for payments of commodities and investment goods necessary for the operation of the project, for meeting invisible expenses in connection with such imports, for the payment of interest and principal on foreign loans as they become due from the project, for settling any other expenses

necessary for the project, and for purchases of local currency at the highest rate prevailing and declared for free foreign currency by the competent official authorities.

The project shall undertake to submit to the Authority, at the end of each fiscal year, a statement indicating the movement in this account, together with such documents and details as the Authority may request to ascertain that the utilization has been in compliance with the purposes set forth in this Law.

Article 16:

Without prejudice to more favorable tax exemptions provided for in any other law, projects shall be exempted from the tax on commercial and industrial profits and the taxes appendant thereto and, as the case may be, the tax on the profits of non-commercial trades and the taxes appendant thereto; likewise the profits distributed shall be exempted from the tax on the revenues from movable capital as well as the taxes appendant thereto, and the general income tax, such exemption to be for a period of five years from the first fiscal year following commencement of production or engagement in activities, as the case may be. Such exemption shall apply for the same period to the proceeds of the profits which are reinvested in the enterprise, and shall be extended beyond such period to distributions from special reserves and/or undistributed profits earned therein. The shares shall be exempted from the stamp duty for five years following the date duties are legally due for the first time.

On the proposal of the Authority's Board of Directors, with the approval of the Prime Minister, the period of exemption shall be eight years provided such period is required by consideration of public interest in view of the nature of the project, its geographical location, its importance to economic development, the volume of its capital, and the extent to which it participates in exploiting natural resources and increasing exports. Exemptions for projects involving reconstruction, establishment of new cities outside the agricultural area and the perimeters of existing cities, and land reclamation shall be for a ten year period that may be extended to fifteen years with the approval of the Prime Minister upon recommendation of the Authority's Board of Directors.

Also, with the approval of the Prime Minister, upon recommendation of the Authority's Board of Directors, all capital assets and imported construction material and components necessary for founding projects approved under this Law may be exempted from, or granted the privileges of deferred payment or installment payments for, all or part of the customs duties and any other taxes or dues provided that, in the case of exemption, if such items are locally disposed of within five years from the date of import, all such taxes and duties previously exempted shall be paid. In the case of deferred or installment payments, if such items are locally disposed of within five years, or within the deferred or installment payments period if such period exceeds five years, all such taxes and duties shall be paid.

Article 17:

Without prejudice to the provisions of Article 16, the profits distributed by a project shall be exempted from the general tax on income up to a maximum of 10% of the taxpayer's share in the invested capital.

Article 18:

Interest due on loans in foreign currency concluded by the project even if in the form of a deposit shall be exempted from all taxes and dues. Such exemption shall apply as well to the interest on foreign currency loans concluded by the Egyptian participant to finance his share in the project.

Article 21:

The party concerned may request the re-exportation or disposal of the invested capital after obtaining the approval of the Authority's Board of Directors, provided that five years shall have elapsed from the date of importation of the capital fixed in the registration certificate (the Authority's Board of Directors may waive this condition if it is evident that the accepted project, for which funds have been transferred, cannot be implemented or continued for reasons beyond the control of the investor or for other exceptional circumstances to be considered by the Authority's Board of Directors) in accordance with the following:

- 1- Invested capital may be transferred abroad at the highest rate prevailing and declared for free foreign currency by the competent official authorities in five equal annual installments. By way of exception, the invested capital, calculated under the provisions of this article, may be transferred in full if its investors had disposed thereof in exchange for free foreign currency, provided that the Authority is notified of this action.
- 2- If invested capital was brought in kind, it may, with the approval of the Authority's Board of Directors, be re-exported in kind.
- 3- The transfer of invested capital shall be limited to the amount realized by the liquidation or disposal of the investment at the time of such liquidation or disposal as the case may be.

The invested capital registered with the Authority may be disposed of to another party, for free foreign currency, after informing the Authority. The party in favor of which such funds are transferred shall replace the original party in enjoying the provisions of this Law. Nevertheless, the investor may, with the approval of the Authority's Board of Directors, dispose of his funds as registered with the Authority, or dispose of part thereof in favor of another party in local currency. In such event, the

party in favor of which such disposal has taken place shall not enjoy the right to transfer set forth in this Law.

Shares offered in free foreign currency may, in all cases, be sold at the Egyptian Stock Exchange, in which case the proceeds of sales shall be transferable to the seller's account abroad.

Article 22:

The Authority's approval of a project shall include specifying the rules for transferring the return on invested capital abroad, if so requested by the investor, in accordance with the following:

- 1- Projects realizing self sufficiency in their foreign currency needs, whose earnings from visible or invisible exports cover all their requirements of imports of machinery, equipment, production inputs and materials, and pay for all foreign ^{CURRENCY} loans and interest thereon, shall be permitted to transfer their annual net profits determined at the highest rate prevailing and declared for free foreign currency by the competent official authorities within the limits of the credit balance of the foreign currency account authorized by the provisions of Article 14 of this Law.
- 2- Projects that are basically not export oriented, and that limit the country's need for imports, shall be permitted

to transfer, in whole or in part, their net profits at the highest rate prevailing and declared for foreign currency by the competent official authorities within the limits approved by the Authority and subject to the currency regulations in force.

- 3- Net revenue on housing, the rentals of which are paid in free foreign currency, shall be transferable in full.

Net revenue on housing the rentals of which are payable in local currency shall be transferable up to 6% per annum of invested capital at the highest rate prevailing and declared for foreign currency by the competent official authorities.

Popular housing, housing in new cities and outside the agricultural areas and the perimeters of existing cities shall be allowed to transfer net revenues up to 12% of invested capital at the highest rate prevailing and declared for foreign currency by the competent official authorities.

Reinvestment of revenue not transferable shall be permitted within an additional 6% per annum, and the funds reinvested under this provision in approved fields shall be considered as invested capital in the sense of the provisions of this Law.

Article 25:

A General Authority, whose Board of Directors shall be under the Chairmanship of the Minister of Economy and Economic Cooperation

shall be created and with the name "The General Authority for Investment and Free Zones" (hereinafter referred to in this Law as "the Authority"). Its principal offices shall be in the city of Cairo and it may maintain offices outside the Arab Republic of Egypt.

The Authority shall enjoy juridical personality, and shall have a Board of Directors to be constituted by Decree of the President of the Republic.

The Board of Directors shall be the prevailing authority in all matters of the Authority, shall discharge its duties, and lay down the general policy that shall be pursued. It may adopt any resolution deemed to be conducive to the achievement of the objectives for which the Authority was created.

By Decree of the President of the Republic, a Deputy Chairman of the Board of Directors of the Authority shall be appointed, who shall act as its Managing Director, and in the absence of the Chairman, preside over the executive body of the Authority consisting of technical and administrative staff appointed in accordance with the organizational structure approved by the Board of Directors.

The Deputy Chairman of the Board of Directors shall direct the Authority, conduct its business, represent it in litigation and before third parties, and preside over the Board in the Chairman's absence.

The Board of Directors may delegate to the Chairman or to the Deputy Chairman of the Authority part of its duties. The Chairman, Deputy Chairman and principal officers, approved by

the Board, shall have the right of signature on behalf of the Authority.

Article 27:

Applications for investment shall be submitted to the Authority. An application shall specify the amount of capital to be invested, the nature thereof and any other such particulars as shall be required to indicate the structure of the project covered by the application. The Board of Directors of the Authority shall have the authority to approve applications for investment submitted. Such approval shall lapse if the investor shall fail to take serious steps to carry out the project within six months of approval, unless the Board shall grant renewed approval for such further period as it shall deem fit.

Article 36 - para 1

With due regard to provisions in laws and regulations regarding the ban on the circulation of certain goods or materials, goods exported from, or imported into the free zone, shall not be subject to the normal customs procedures applicable to imports and exports nor to customs duties and other taxes and dues, save insofar as is provided for in the Law. Likewise all instruments, machinery, equipment and transportation equipment necessary to establishments authorized within such zone shall be exempted from customs duties and other taxes and dues.

Article 37 - para 1

Customs duties and taxes shall be payable in respect of goods withdrawn from the free zone for local consumption, as though such were imported from abroad and in accordance with their condition after manufacturing, with due regard to rules and procedures governing imports. Such customs duties and taxes shall be payable on goods containing local materials, in proportion to the ad valorem value of foreign materials contained in the manufactured products. Notwithstanding any of the foregoing, in the event that local components constitute 40% or more of the manufactured product, such dues as shall be payable in accordance with the provisions of this Article, shall be reduced by 50%.

Article 46:

Without prejudice to the provisions of this Law, projects established in the free zone, and dividends thereof, shall be exempted from the provisions of tax and duty laws in the Arab Republic of Egypt. Arab and foreign funds invested in the free zones shall likewise be exempted from inheritance taxes and death duties.

Nevertheless such projects shall be subject to dues payable for services and to an annual duty not exceeding one percent (1%) of the value of goods entering or leaving the free zone for the account of the project. Such annual duty shall be determined by resolution of the Authority's Board of Directors.

Likewise, projects, the main activities of which do not require ingress or egress of commodities shall be subject to an annual duty determined by the Board of Directors of the Authority with due consideration for the nature and volume of activities and not exceeding three percent (3%) of the annual value added of the project.

ARTICLE 57 para 1 -

Without prejudice to any more severe penalty provided in any other Law, violation of Article 42 and 52 of the provisions of this Law shall be punishable by imprisonment for a term not exceeding six months or a fine not less than five pounds and not exceeding two hundred pounds or both penalties.

ARTICLE THREE

The following provisions shall be added to Law No. 43 of 1974 above referred to :

(New Article 2 - bis) :

Invested capital shall be transferred to, and exported from, the Arab Republic of Egypt, and profits generated therefrom shall be transferred in foreign currency abroad in accordance with the provisions of this Law, at the highest rate prevailing and declared for free foreign currency by the competent official authorities.

The provisions of the preceding paragraphs shall apply to land and property that represent an integral part of the capital assets of the projects approved by the General Authority for Investment and the Free Zones, and shall also apply to Popular Housing Projects lying within the perimeters of existing cities. In all other cases free foreign currency required to purchase lands and property shall be transferred at the official rate.

Article 3:

- (vii) Construction activities in regions outside the agricultural area and the perimeters of existing cities.
- (viii) Consultant activities and offices if these relate to any of the areas mentioned herein and are approved by the Board of Directors of the Authority.
- (ix) Regional representation offices that represent one or more companies in more than one country, including the Arab Republic of Egypt.
- (x) Construction contracting activities.

(Article 15 - New paragraph 2):

Projects shall be authorized to export their products whether by themselves or through an intermediary without a license, and without such projects having to be registered in the List of Exports.

(Article 20 - New second paragraph):

All wages, salaries, bonuses or other similar payments subject to the Employment Earnings tax and made to foreign employees or experts by projects established according to the provisions of this Law shall be exempt from the General Tax on Income.

(Article 23 - fourth paragraph):

The signatures of all partners or shareholders on contracts relating to all projects whatever their legal status shall be endorsed against an Endorsement Fee of one quarter of one percent

of the capital of the project to a maximum not exceeding one thousand Egyptian pounds (LE 1000) or its equivalent in foreign currency, as the case may be, whether such endorsement be carried out in Egypt or at an Egyptian representational office abroad. Contracts establishing a project and all contracts relating to a project including loan agreements, mortgages, purchases of real estate and machinery, construction contracting and other contracts shall be exempt from stamp duty, and publication fees until one year following the commencement of operations.

This provision shall also apply to projects established in the Free Zone.

ARTICLE FOUR:

The phrase "at the official rate" shall be deleted from Article 2 of the said Law No. 43 of 1974.

ARTICLE FIVE:

In the event that invested capital has already been transferred in part or in full to the Arab Republic of Egypt at the official rate according to the provisions of Law No. 43 of 1974, such capital may, upon the agreement of all the shareholders or partners of a project, be revalued, in which case non voting bonus shares shall be issued in an amount equivalent to the difference resulting from the revaluation. Any such revaluation and issuance of shares shall be accomplished free of any taxes or fees. In the event the shareholders or partners do not so agree, insofar as concerns distribution

of dividends of such projects, such distributions shall be based on unification of the dividend rate due on invested capital in proportion to the value of such capital as registered with the Authority, while dividends on local capital shall be in proportion to the value of such capital.

ARTICLE SIX:

The Minister of Economy and Economic Cooperation shall issue, upon proposal of the Board of Directors of the Authority, the Executive Regulations for Law No. 43 of 1974 and Model Articles of Incorporation for Joint Stock Companies and Limited Liability Companies for joint ventures established according to the provisions of this Law. Project owners are not obligated to follow such Model Articles, insofar as their provisions do not relate to Egyptian public policy. Also, the principal By-laws of Joint Stock Companies established, whether in-land or in Free Zones, under the provisions of this Law, shall be issued by decree of the Minister of Economy and Economic Cooperation.

ARTICLE SEVEN:

Law No. 86 of 1974 granting certain tax exemptions to Egyptian projects established within the Development Plan, and all other provisions of any other law conflicting with the provision of the said Law No. 43 of 1974 shall be repealed.

ARTICLE EIGHT:

This Law shall be published in the Official Gazette and shall come into force from the date of its publication.

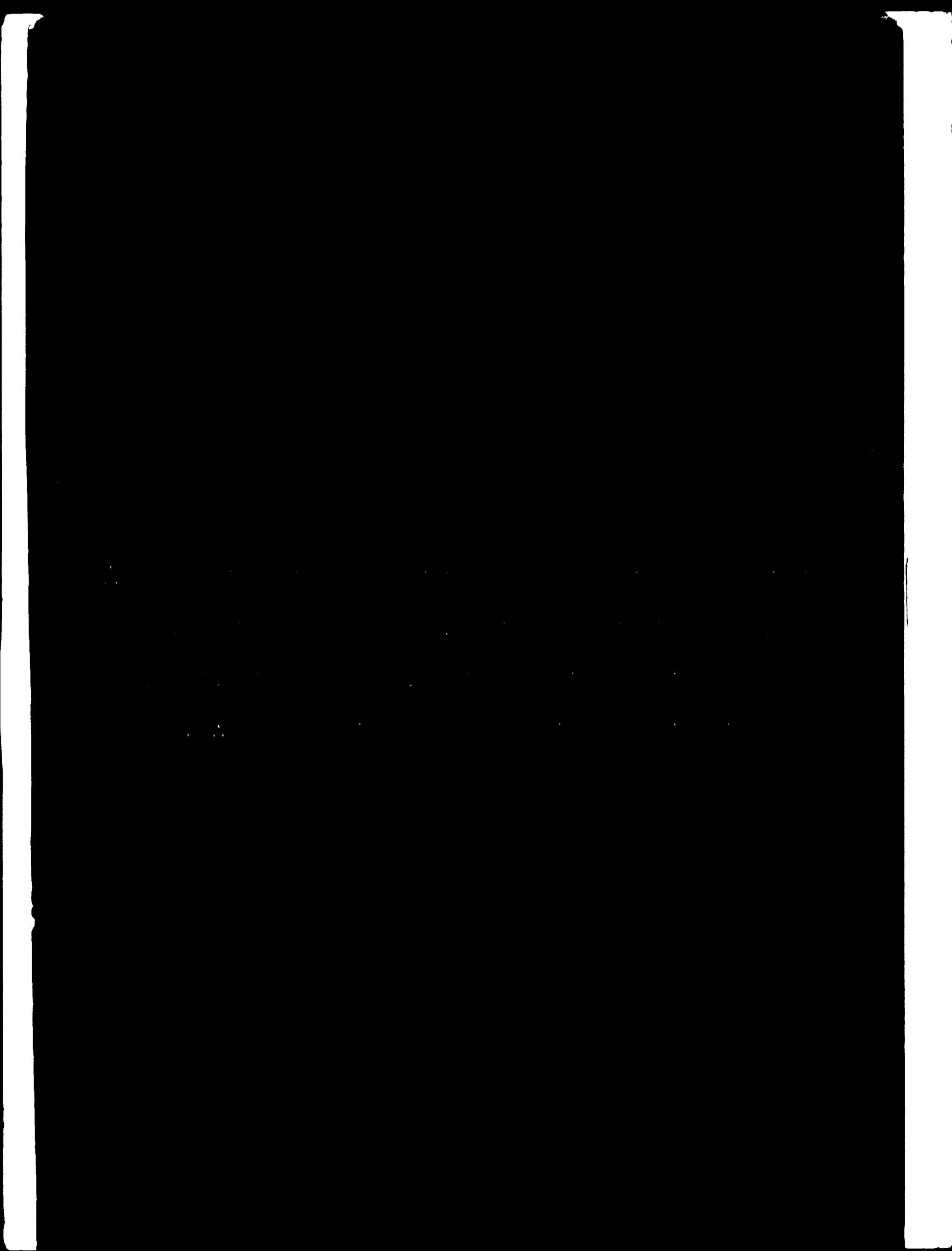
VARIOUS MATTERS TO BE PURSUED BY THE GENERAL AUTHORITY

- (a) Detailing the organization structure, job descriptions and personnel qualifications for all key posts in the Authority.
- (b) Selection and terms of appointment of key personnel.
- (c) Training and experience-exchange programme for key personnel.
- (d) Specification of suitable organizations for, and delegation of appropriate decision-making power to, individual Public Free Zones.
- (e) Development of a scheme of "Co-ordinating Committees" at each Public Free Zone, representing Zone Boards, Investors and Government agencies involved, towards promoting maximum facilitation for all agencies operating in the zones.
- (f) Development of the Private Free Zones concept as an intermediate measure of facilitation for investment projects pending availability of advance factories and serviced sites in the Public Free Zones, with special reference to the promotion of joint ventures.
- (g) Monitoring the effectiveness of Law 43/1974, as up-dated, in attracting suitable investors.
- (h) Identification of information needs for planning the industrial programme, monitoring its progress, and dealing with potential investors; and establishing the systems necessary to produce the information regularly and reliably.
- (i) Establishment of effective links with all agencies :
 - (I) which must be involved (e.g. Customs and Power Supply) and
 - (II) which should be involved (e.g. Export Promotion and Regional Planning)

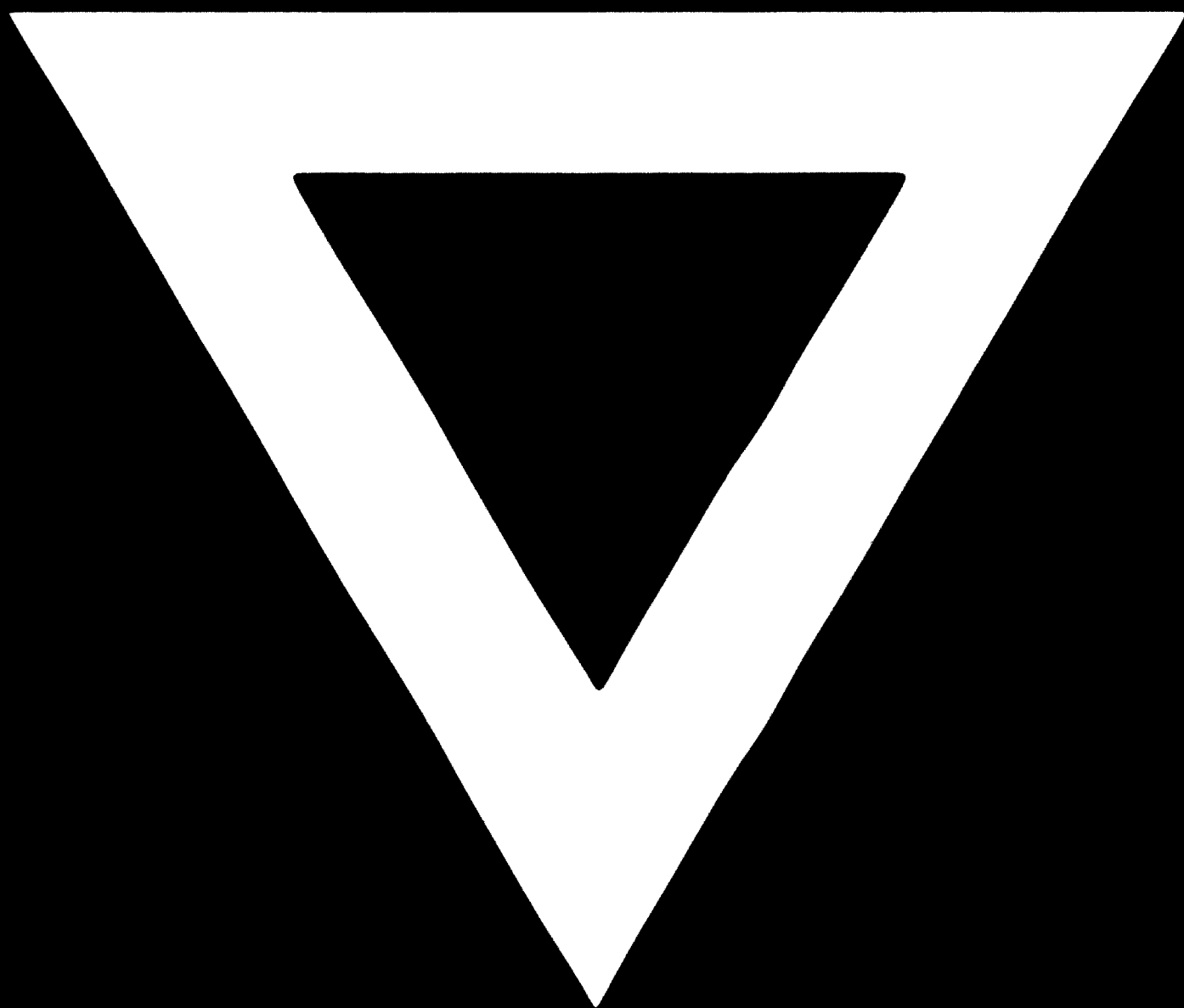
in the realization of the project and in securing maximum benefit from it.

- (i) Specification, and securing implementation of, the measures necessary to ensure availability to industry of efficient and economical transport for goods and equipment, and fast-flow traffic. This comprehends systems and procedures including participation in relevant international transport conventions.
- (ii) The successful pursuit of the various on-going functions of the Authority. These will include all aspects of marketing, from the selection of suitable industrial subsectors to arrangements for overseas promotion; physical infrastructure, buildings, and their financing; management and maintenance of property; project evaluation; adjustment of its organization and incentives in the light of experience; and advising on arrangements with other countries, and particularly the Arab countries, in relation to the operation of free zones.

The matters listed are those specific to the Authority and do not attempt to encompass all subjects appropriate to vigorous and healthy industrial development. They were suggested in a memorandum submitted in February, 1977.



C-772



82.05.04