



PRIVATE SECTOR INDUSTRY PROGRAM (PSI) – PHASE II

PROGRAM TO SUPPORT PRIVATE SECTOR INDUSTRY AND INDUSTRIAL ENVIRONMENTAL PROTECTION THROUGH COMMERCIAL BANKS

I. Summary:

This Program with a total volume of € 29.3 million provided by the German government intends to promote environment-related investment in the Egyptian private sector industry. The Program consists in a credit line for the provision of medium to long term loans either in LE at fixed interest rate or in foreign currency at fixed or floating interest rates and a line for grants. In addition, medium to long-term loans in local currency at floating rates may be funded out of own resources of Banks participating in the Program and can also be combined with grant elements. The financing is available through three local private banks (CIB, EAB and MIBank). End user-loans out of the Financial Co-operation Loan are limited to a maximum of € 1.5 million per enterprise; grants are limited to € 0.6 million per enterprise. Investments in environmental measures are eligible for a grant from 15% to 30% of their cost.

The credit is not tied to German equipment. Imported non-environmental equipment can be financed only by credit. Imported as well locally produced equipment for environmental protection may be financed with credit and grant components.

All projects have to be reviewed and approved by:

- One of the three Participating Banks
- An environmental consultant who will check the conformity of each project to the Egyptian environmental regulations and standards, and
- Kreditanstalt für Wiederaufbau (KfW) as the German government's implementing agency for this Program.

KREDITANSTALT FÜR WIEDERAUFBAU

KfW OFFICE CAIRO

4 D, El Gezira Street
Zamalek 11 211
Cairo – Arab Republic of Egypt

Tel.: 0020-2-736 74 96 / 736 95 25
Fax: 0020-2-736 37 02 / 738-29 81
e-mail: kfwcairo@tedata.net.eg

II. Objectives of the Program:

To contribute to the protection of the environment and to the improvement of industrial safety.

III. Utilisation:

The Program may be utilised for the financing of investments in new industrial projects as well as modernisation and extension of industrial production lines under the following conditions:

- The company is under private sector ownership, with the majority of the shares held by the private sector.
- The company should be engaged in manufacturing or processing etc., firms active in the tourist sectors are not eligible under the Program.
- At least 25% of the required total financing should serve to improve environmental standards (pollution abatement measures as well as improvement of industrial safety).

IV. Agents:

The Banks participating in the implementation of this Program are:

- Commercial International Bank (CIB)
- Egyptian-American Bank (EAB)
- Misr International Bank (MIBank)

V. Financing Terms:

The conditions of the Program for the end user are as follows:

1. Credit Component - €16.87 million

Credits extended under the German contribution are available to end users of private industrial companies (clients) under **two options**, either as: (a) funds denominated in Egyptian currency (*LE Option*), or (b) as funds extended in Euro (*€ Option*).

a) LE Option:

- credits: settled in Egyptian currency (LE), equivalent to Euro based on the exchange rate prevailing at the time of payment.
- interest rate: market-oriented, as a rate for good customers at the lower end of the market range, fixed or floated over the lifetime of the end user credit "prime-rate".

- term: medium- to long-term (5 - 8 years)
- grace period: 12 months (for repayment only; i.e. the first semi-annual instalment is due after 18 months)
- pre-payment of end user credits: early repayment of principal allowed, at the discretion of the Participating Bank, after a period of three years, at the earliest, against a prepayment fee of 2% flat rate.
- foreign exchange risk: funds available in special accounts with the Participating Banks (buffer funds) will allow partial protection against devaluation. Any additional devaluation will have to be covered by the clients.
- Commitment fee: a commitment fee up to ¼% is paid by the end user.

b) Euro Option:

- credits: denominated in Euro (€) at floating or fixed rate.
- interest rate: calculated on the basis of the current London Interbank Offered Rate (LIBOR 180 days) plus a bank spread. This rate is then fixed for the lifetime of the loan. As of December 2002, the rate was 1.383%. The final rate (including the bank spread) should not be less than 3.25% p.a.
- term: medium- to long-term (5 - 8 years)
- grace period: 12 months (for repayment only); that is, the first semi-annual repayment instalment is to be made 18 months after signature of the individual loan agreement
- foreign exchange risk: fully to be borne by the client
- pre-payment of end user credits: early repayment of principal allowed, at the discretion of the Participating Bank, after a period of three years, at the earliest, against a prepayment fee of 2% flat rate.
- Commitment fee: a commitment fee up to ¼% is paid by the end user.

2. Grant Component - €12.42 million

Funds are extended to the clients as an interest-free, non-repayable grant to cover:

- Up to 15% of the investment cost of "integrated environmental measures" (that is: adapting production processes to improved or up-to-date technology) showing important effects of environmental protection (mainly pollution prevention measures)
- Environmental measures having a pay-back period of less than two years do not qualify for a grant
- Up to 30 % of investment cost (including local cost) of distinct environmental measures (such as air filters, wastewater treatment plants etc.) or industrial safety measures.

It is to be noted that the grant facility can only be utilised in conjunction with a loan (KfW or Participating Banks funds). For example, a wastewater treatment plant as a purely environmental measure with a cost of LE 400,000 would qualify for a grant of LE 120,000 plus a loan of LE 280,000. However, the Participating Bank may ask the client to inject equity to cover a part of the financing of investment costs.

In case of misuse of funds, the grant component will be returned by the end user. The participating bank guarantees this against at 2% p.a., payable by the end user, until KfW confirms correct use of funds.

3. General Conditions

- Financial Co-operation Loans for individual enterprises can not exceed the maximum limit of € 1.5 million, while the maximum grant component can not exceed € 0.6 million. Funding in excess of these ceilings would either have to be financed by the Participating Banks or the company's own resources.
- Environmental criteria:
 - i) The environmental audit/impact assessment of the existing production facilities of the client and of the investment envisaged to be financed should prove satisfactory (that is, in line with the relevant Egyptian regulations and standards). The relevant criterion is whether the production process is environmentally acceptable, not whether the product is environmentally friendly.
 - ii) The eligibility of parts of the total investment for grant financing is determined by an environmental consultant specifically selected for this Program.
 - iii) The environmental assessments will be executed, upon request of one of the three Participating Banks, by the local consultant. These assessments are free of charge for the client and the Banks.
- If the environmental assessment shows parameters that are not in compliance with local regulatory requirements, the local consultant will propose remedies with the end user and assist him in elaborating proposals for mitigation measures.
- In case that the implementation of the financed project (i.e., opening of L/C and submittal of original invoices) has not been started within 6 months after KfW's approval, the amounts of loan and grant allocated will automatically expire.
- If the financed project is not completed, or if within 12 months from completion is not properly operated to any substantial extent, the end user shall partly or completely repay the grant extended. The repayment request shall be issued by KfW based on the mandatory post-completion audit performed by the Environmental Consultant.

VI. Status of the Program

The contractual framework between the Egyptian parties concerned and KfW was signed on 29.8.2001. The Program is operative since that date. The Participating Banks are prepared to inform interested industrial enterprises on the details of the Program and to handle applications.

VII. Further information can be obtained from:

- KfW Office Cairo: Mr. Jan Blum or Eng. Walid Abdel-Rehim, phone: 7369525, or 7367496, fax: 7363702, e-mail: kfwcairo@tedata.net.eg
- The environmental consultant appointed specifically for this Programme: United Engineers (UNE), 5, Mubarak Street, Nasr City, Cairo, Dr. Youssef Sharnoubi or Dr. Adel Badreldin, phone: 4183780, fax: 4183781, e-mail: une@starnet.com.eg
- Commercial International Bank (CIB), Nile Tower Building, 21/23 Giza Street, Giza, Mr. Mounir Yassin, Manager Correspondent Banking Dept., or Mr. Tamer El-Zant, phone: 5714705, fax: 5731541
- Misr International Bank, 54, El Batal Ahmed Abdel Aziz Street, Mohandessin, Mr. Mohsen M. Rashad, Senior Manager Correspondent Banking, phone: 7498061, or Mr. Khaled Hendy, Phone: 3367546, fax: 7606323
- Egyptian American Bank, 6, Hassan Sabri Street, Zamalek, Mr. Emad Helmy, Manager Trade Finance Dept., phone: 7391757, or Miss Soha Ali, phone: 7391595, fax: 7382988