



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/EGYPT'S TRADE FACILITATION PROJECT

AUDIT REPORT NO. 6-263-13-009-P
MARCH 25, 2013

CAIRO, EGYPT



Office of Inspector General

March 25, 2013

MEMORANDUM

TO: USAID/Egypt Mission Director, Dr. Mary C. Ott

FROM: Regional Inspector General, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Egypt's Trade Facilitation Project (Report No. 6-263-13-009-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them, without attachments, in Appendix II.

The report includes nine recommendations to assist the mission in improving its management and oversight of USAID/Egypt's Trade Facilitation Project. Based on management's comments on the draft report and other information provided, we acknowledge that the mission made management decisions on all nine recommendations and completed final action on Recommendations 1, 3, 4, 5, 7, and 8. They are closed upon the issuance of this report.

Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 2, 6, and 9.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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SUMMARY OF RESULTS

According to a 2011 World Bank report, no country in the past 50 years has sustained high levels of growth without greatly expanding trade.¹ Trade is an important economic driver and allows countries to leverage their comparative advantages. Moreover, increasing trade contributes to job creation, household income, and poverty reduction.

On June 1, 2011, nearly 4 months after Egypt's revolution, USAID/Egypt started a 3-year, \$10.9 million contract with Nathan Associates Inc. to implement the Trade Facilitation Project. The contract also included a 1-year option for an additional \$3 million. The project was designed to improve Egypt's trade on a macro level, and it included tasks to reform the country's external trade and internal trade measures.

To ensure proper performance, the contractor was required to provide annual work plans with specific tasks and results to achieve. It also was required to design and maintain a performance monitoring plan for the project's planned objectives, including outputs and expected results. In the first annual work plan, the contractor identified ten key tasks and designed the project around achieving the following goals:

External Trade Facilitation Measures Improved

- (1) Improve export and import regulations
- (2) Establish a coordinated risk management system for imports*
- (3) Streamline Egyptian mandatory standards
- (4) Finalize customs reforms*
- (5) Strengthen the role of public-private dialogue
- (6) Improve enforcement of intellectual property rights at the border

Internal Trade Process Improved and Strengthened

- (1) Promote distribution/retail sectors
- (2) Support the food safety system
- (3) Improve intellectual property rights in the domestic market*
- (4) Improve environmentally sustainable production

* Planned tasks that have made progress

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit as part of its fiscal year 2013 audit plan to determine whether USAID/Egypt made progress toward achieving its overall goal of improving trade in Egypt by focusing on reform measures to enhance external trade and strengthening the internal trade process.

The audit team determined that the project was not on track to accomplishing that goal. The project made progress on only three of the ten tasks it planned to accomplish: establishing a coordinated risk management system, finalizing customs reforms, and improving intellectual property rights in the domestic market. The remaining seven have not reported much progress.

The tasks that made progress have delivered some important results already. The project has made headway in helping the Egyptian Customs Authority develop a comprehensive, integrated

¹ *Leveraging Trade for Development and Inclusive Growth*, World Bank Group, May 31, 2011.

nationwide customs information system designed to modernize and eventually replace the organization's current system. To help train personnel, the project has equipped the National Customs Training Institute with new priority items, including computers and equipment for video conferencing and simultaneous translation.

Despite these successes, the project faced several challenges—some of which were beyond USAID/Egypt's control. One of the most significant was Egypt's political instability. Since the revolution in January 2011, the nation has been plagued by a long period of political uncertainty and social unrest. This has had overarching effects on Egypt's welfare and progress. Operating in such turbulent conditions has hampered the project's ability to have any significant impact on the trade environment.

The World Bank's annual *Doing Business* report captured some of the adverse effects that the revolution had on the country's overall business environment. In 2011, the bank ranked Egypt 64 out of 185 reported countries in terms of ease of trading across borders, and in 2012, the country dropped to 70. During that time, the World Bank recorded no improvements in Egypt's import and export times, which stayed constant at 13 days and 12 days respectively. These times were two trade measures that the project included in its performance plan and hoped to ultimately improve.

The project's primary governmental counterpart, the Ministry of Industry and Foreign Trade, underwent a series of changes that stymied progress. After the revolution, four different ministers were appointed. Moreover, agencies responsible for internal trade, originally housed under the ministry, were moved to the newly created Ministry of Supply and Internal Trade. Similar leadership changes occurred at the Ministry of Finance, which oversees another major partner, the Egyptian Customs Authority. These transitions within the Egyptian Government delayed the project's progress because Nathan Associates' employees had to spend a large portion of the first few months trying to determine whom they should work with.

While many of the factors that contributed to the project's ineffectiveness were due to Egypt's political instability, several were within USAID/Egypt's control.

- The project plan was overly ambitious (page 4). The project elected to tackle 13 different tasks rather than focus on a subset of key activities with the highest potential for impact.
- The project did not update its plans to adjust for changes (page 5). By the end of the audit, the second year annual work plan was 6 months late.
- Project tasks received mixed support from some of its partners (page 6). Some partners did not fully support the tasks identified in the project work plan.
- The project did not update its monitoring plan in a timely manner (page 8). Its monitoring plan remained the same long after new additions were made to the project.
- A critical information technology (IT) system required for the project was not in place (page 8). The system was supposed to be developed and completed during a previous project.

At the conclusion of the audit fieldwork, with approximately 17 months remaining in the base contract, USAID/Egypt should implement changes to improve the overall effectiveness and progress of the Trade Facilitation Project. We recommend that the mission:

1. Review project tasks to determine whether they are achievable and have the potential to have an impact. Prioritize and select the most promising tasks to focus on for the rest of the contract (page 4).
2. Work with the contractor to prepare a work plan around the selected tasks. The plan should include a budget to indicate the level of effort the project intends to spend on each task (page 6).
3. Work with the contractor to perform a documented review of the project personnel, and, if necessary, adjust staff according to the new work plan (page 6).
4. Perform a documented review of the need to increase the frequency of preparing project work plans from once to twice a year, and if changed, formalize it by modifying the contract (page 6).
5. Develop a cost-benefit analysis of increasing the project's form of support beyond technical assistance to better meet partners' needs (page 7).
6. Work with the contractor to get project partners to confirm, in writing, their commitments to the new selected tasks and work plan (page 7).
7. Notify, in writing, the various project partners whose tasks that have been removed from the work plan (page 7).
8. Work with the contractor to design a new monitoring program to track the progress of the new work plan. The program should include a revised performance monitoring plan and a method for collecting and validating performance data (page 8).
9. Perform a documented review of the merits of completing the information technology system at the Egyptian Customs Authority, and decide how the mission plans to support the system's completion and sustainability (page 9).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments, without attachments, are in Appendix II, and our evaluation of them is on page 10.

AUDIT FINDINGS

Project Plan Was Overly Ambitious

USAID's Automated Directives System (ADS) 203.3.9 states that projects must have targets that are ambitious, but realistic enough to be achieved within the stated time frame and with the available resources. When projects are not progressing according to plans, ADS 200.3.5.4 requires missions to assess the implications of any divergence between anticipated and unanticipated outcomes, and consider revising work plans to make sure projects will succeed.

Given the unstable political environment, the audit team believes that the original work plan was overly ambitious and strived to affect trade from too many angles. From the beginning, the project committed itself to tackling ten tasks. According to the work plan, it must engage at least ten different agencies and organizations, and coordinate efforts from five different ministries to accomplish all of its goals. For a project with only five permanent technical experts, this arrangement set up a daunting list of activities.

Moreover, as the project progressed and tried to adapt to the changing landscape, it decided to take on three new tasks that were not originally in the work plan. Those tasks were to support activities dealing with (1) qualified industrial zones,² (2) small and medium-sized enterprises, and (3) domestic street vendors. These tasks were not ancillary; according to Nathan Associates, they have already accounted for 8 percent of the work performed on the entire project. In the case of small and medium-sized enterprises, the project organized and held a two-day tradeshow in Cairo to help companies gain access to export markets.

The contracting officer's representative (COR) and the project's chief of party believed that in Egypt's tumultuous political environment, it was important for the team to respond and pursue new opportunities, even if the tasks were not in the original plan. Additionally, they also chose not to remove tasks from the work plan because they hoped to make progress on some in the future. As a result, the project increased its workload from 10 to 13 tasks.

This practice of keeping options open affected the project's focus and ability to help reform Egypt's trade environment in a sustainable manner. Instead of concentrating on assisting a few key counterparts, the project overextended itself with too many tasks, some of which may not contribute directly to improving trade conditions. For example, it had yet to clearly justify how its activities on assisting street vendors might bring about the macro-level effects that the project originally intended.

Since the project has had 17 months to navigate Egypt's new political landscape and test which tasks hold the most promise, we believe that it is now poised to focus on a few key activities in the time left. To help the project in its efforts, we make the following recommendation.

Recommendation 1. We recommend that USAID/Egypt (1) review project tasks to determine their achievability and potential to have an impact, and (2) prioritize, select, and document the most promising tasks to focus on for the remainder of the contract.

² These are designated geographic areas within Egypt where companies that satisfy specific manufacturing requirements have duty-free status with the United States.

Project Did Not Plan Effectively to Manage Change

The contract required Nathan Associates to submit an annual work plan covering anticipated activities. Work plans were to be submitted to USAID/Egypt a month before the start of each year. In addition to that requirement, ADS 202.3.7.1 describes the importance of financial planning, requiring teams to prudently plan, monitor, and manage the financial aspects because the financial position of a program is critical to achieve desired results.

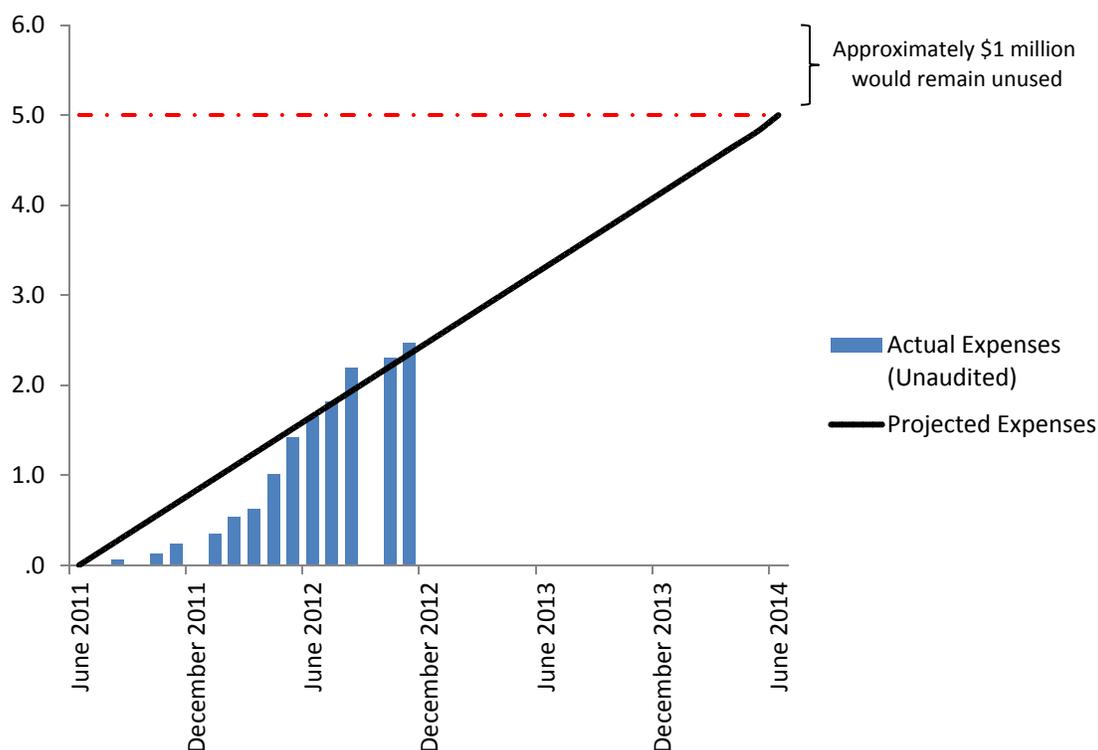
Despite the guidance, Nathan Associates did not develop a work plan to manage the project effectively in the changing environment. At the conclusion of the audit, the project's second annual work plan was 6 months late and still incomplete. Moreover, the project did not have a financial plan with budgets for each task. As a result, by November 2012—midway through the project—it had spent only \$2.5 million, or 23 percent of the \$10.9 million budget.

The contractor and the COR said the many changes in the political landscape made it difficult for the project to draft an accurate plan for the new year. While the audit team understands that predicament, a formal plan is nevertheless important to steer the project in a defined direction. This sentiment was echoed by the Ministry of Industry and Foreign Trade, which confirmed that the absence of a definite work plan was one of the main causes of delays and sources of frustration about the project.

Furthermore, without a well-defined work plan and direction, Nathan Associates may not be able to properly assign staff members to work on the objectives. Some of the new tasks, particularly assisting street vendors and small and medium-sized enterprises, may be outside the original scope of the project and may not fully leverage the expertise of the current staff; the staff has at least one trade policy expert whose skills may be underutilized under the new approach.

The absence of a sound plan also carries financial consequences. At the conclusion of the audit fieldwork, with only 17 months remaining in the contract, the audit team does not believe the project will be able to spend the remaining \$8.4 million. At the current expense rate of approximately \$140,000 per month, by the end of the project, it will be poised to spend a total of almost \$5 million. Even if USAID/Egypt decides not to obligate funds beyond its initial \$6 million, using the project's current spending rate to forecast future expenses, by the end of the project \$1 million will remain unused, a substantial amount that could have been put to better use. The graph on the next page illustrates this calculation of potential funds that may be left unused.

**Trade Facilitation Project
Financial Projection
(Millions of \$)**



Source: RIG/Cairo.

To help improve the management of the project’s activities, finances, and personnel, we make the following recommendations.

Recommendation 2. *We recommend that USAID/Egypt work with the contractor to prepare a work plan around the selected tasks. It should include a budget to indicate the level of effort the project intends to spend on each task.*

Recommendation 3. *We recommend that USAID/Egypt work with the contractor to perform a documented review of the project personnel, and, if necessary, adjust staff according to the new work plan.*

Recommendation 4. *We recommend that USAID/Egypt perform a documented review of the need to increase the frequency of preparing project work plans from once to twice a year, and if changed, formalize it by modifying the contract.*

Project Received Mixed Support From Its Partners

The project suffered delays from the beginning because it got mixed support from partners at various levels of the Egyptian government. ADS 200.3.3 states that achieving project results requires action from many other actors, including host-country governments and their officials. This idea is expanded in Section 102 (b) (2) of the Foreign Assistance Act of 1961, which

outlines the importance of administering assistance in a collaborative style to support the development goals chosen by each country receiving assistance.

The project started implementation without the full support of some of its partners because it was designed and some of its original tasks were tailored to the priorities of the previous government. After the revolution and subsequent personnel changes, the project lost a key sponsor, the former Minister of Foreign Trade, who was instrumental in moving the project forward. As a result, the project's employees have spent much of their time educating new government officials on the priorities outlined by their predecessors.

According to the contractor, with the formation of the new Egyptian Government still in its infancy, some officials did not consider the trade project's tasks to be priorities. USAID/Egypt, Nathan Associates, and a former Egyptian government official all said that after the revolution, some Egyptian officials were afraid and reluctant to cooperate with international partners. In some isolated cases, the project encountered officials who were unresponsive and refused assistance altogether.

USAID/Egypt was aware of the potential challenges associated with beginning a project 4 months after the revolution. Before it started, the COR raised concerns about the timing and the need for support from Egypt's new administration. Nevertheless, USAID/Egypt decided to go ahead to demonstrate the Agency's continued commitment to diplomacy and development.

This strategy has produced mixed results. On one hand, USAID's investment gained some political favor with the new Egyptian government. According to a top economic adviser to the Minister of Industry and Foreign Trade, it was important for USAID to demonstrate sustained commitment to the Egyptian people despite the changes in the country. On the other hand, other government offices have been frustrated by the project primarily providing technical assistance. For example, an official from the General Organization for Export and Import Control and an official from the Food Safety Unit said their organizations would benefit more if USAID assistance could be used to help build much-needed infrastructure.

Because of the mission's strategy, USAID may not be providing assistance in a form that is most beneficial to the host government at this time. To ensure that the project is administered collaboratively and in a form most in line with the current needs of its partners, we make the following recommendations.

Recommendation 5. We recommend that USAID/Egypt develop a documented cost-benefit analysis on increasing the project's form of support beyond technical assistance to better align the project's efforts with the current needs of its partners.

Recommendation 6. We recommend that USAID/Egypt work with the contractor to get project partners to confirm, in writing, their commitments to the new selected tasks and work plan.

Recommendation 7. We recommend that for the tasks that have been removed from the project's work plan, USAID/Egypt notify, in writing, the various project partners about the changes.

Monitoring Plan Was Not Updated in a Timely Manner

ADS 203.3.2 outlines the importance of performance monitoring as the ongoing, routine collection of performance indicator data to show whether desired results are being achieved and whether implementation is on track.

Despite this requirement, the staff was slow to adapt its monitoring and evaluation practices to match the changes in the project. For example, after the project added three new tasks, the staff did not update the monitoring plan with indicators to track the impacts of these activities. In the case of small and medium-sized exporters, the project started work in May 2012 but did not update the performance monitoring plan in time for a trade show in October 2012. By the end of November, the project still had not developed a performance indicator to measure the impact the show may have had on the 42 businesses attending.

These problems occurred for three primary reasons. First, the project did not consider monitoring practices to be a priority. The COR said because the project was in such a transitory state, her primary objective was to ensure its overall progress. Second, Nathan Associates did not have a comprehensive database to track the progress of its various indicators. In addition, for 3 months the contractor did not have a monitoring and evaluations specialist to manage, validate, and update progress. The specialist left the project in August 2012 and was replaced by the conclusion of the audit.

Without strong monitoring and evaluation practices, the project cannot measure progress toward planned results, nor can it identify the cause of any delays or impediments during implementation. Furthermore, without a comprehensive monitoring and evaluation system, the project cannot report any impacts accurately. To confirm that monitoring and evaluation practices contribute to the project's progress and reporting, we make the following recommendation.

***Recommendation 8.** We recommend that USAID/Egypt work with the contractor to design a new monitoring program to track the progress of the new work plan. The monitoring program should include a revised performance monitoring plan and a method for collecting and validating performance data.*

Critical Information Technology System Was Not in Place

For the project to advance customs procedures according to its original designs, it needed to have a working IT system in place at the Egyptian Customs Authority. Therefore, the tasks of coordinating a risk management system for imports and finalizing customs reforms were designed under the critical assumption that the IT system would be developed under USAID/Egypt's previous assistance program, Technical Assistance for Policy Reform II (TAPR II).

Unfortunately, that system, in which USAID invested nearly \$10 million, was never completed or fully tested. According to the contractor, despite a strong effort to complete the system, the program team ran out of time. The main application was not fully customized, tested, or accepted by the conclusion of TAPR II.

Because TAPR II missed its deadline, the current trade project has been using its time and resources to complete an IT system that should have been finished. According to Nathan Associates, the project has already committed nearly 15 percent of its efforts to finish this system, which still cannot be used.

USAID/Egypt estimated that the Trade Facilitation Project would require an additional 6 to 12 months and \$1.5 million. Before investing additional resources in this task, the mission should conduct an assessment to justify the expense. As such, we make the following recommendation.

Recommendation 9. *We recommend that USAID/Egypt perform a documented review of the merits of completing the information technology system at the Egyptian Customs Authority, decide how the mission plans to support the system's completion and sustainability, and document the decision.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Egypt agreed with all the recommendations except 5. We have acknowledged management decisions on all recommendations, and final action was taken on Recommendations 1, 3, 4, 5, 7, and 8. A detailed evaluation of management comments follows.

Recommendation 1. USAID/Egypt approved modifying the contract by selecting project tasks with the highest potential for impact and discarding some original tasks that are no longer feasible politically. Based on the mission's actions and supporting documentation provided, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

Recommendation 2. USAID/Egypt's COR reviewed and approved a new work plan developed around the newly selected tasks. The contractor will prepare a budget for the work plan, and the target completion date for this action is April 2, 2013. Based on the mission's supporting documentation and action plan, we acknowledge that a management decision has been reached. Final action will be taken when the mission approves the second year budget.

Recommendation 3. USAID/Egypt and the contractor performed and documented their review of the project personnel and reached an agreement on staffing adjustments. The mission will incorporate the new staffing plan into the approved contract modification. Based on the mission's actions and supporting documentation provided, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

Recommendation 4. USAID/Egypt completed and documented its review of the need to increase the frequency of preparing project work plans. The mission concluded that the disadvantages of semiannual work plans significantly outweigh the costs and therefore decided not to increase the frequency of the plans. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on this recommendation.

Recommendation 5. USAID/Egypt cannot change the nature of the services procured under the contract because it was designed to provide technical advisory services. Therefore, it is not feasible to modify the contract to include a procurement component as recommended. Based on the mission's comments, we acknowledge that the mission made a management decision and final action has been taken on this recommendation.

Recommendation 6. USAID/Egypt worked with the contractor and designed a new approach to secure commitments from counterparts in writing. The mission sent the new work plan to the Ministry of Industry and Foreign Trade for its review and approval. In addition, the mission sent letters to counterparts requesting written approval and expects to receive their responses by June 30, 2013. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision. Final action will be taken when the mission obtains written confirmations from project counterparts.

Recommendation 7. USAID/Egypt notified the Ministry of Industry and Foreign Trade in writing of the changes and provided the new work plan for its review and approval. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on this recommendation.

Recommendation 8. USAID/Egypt designed a new performance monitoring program to track the progress of the work plan. Based on the mission's comments and supporting documentation provided, we acknowledge that the mission made a management decision and final action has been taken on this recommendation.

Recommendation 9. USAID/Egypt reviewed the merits of completing the IT system at the Egyptian Customs Authority. The mission will analyze the different options and make a final decision of how to best support completing the system by July 31, 2013. Based on the mission's supporting documentation and action plan, we acknowledge that the mission made a management decision. Final action will be taken when the mission reaches that final decision.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides that basis.

The purpose of this audit was to determine whether USAID/Egypt made progress toward achieving its overall goal of improving trade in Egypt by focusing on reform measures to enhance external trade and strengthening the internal trade process. The audit was performed in Egypt from November 19 through January 16, 2013, and covered activities from the beginning of the program (June 1, 2011) through November 30, 2012. As of November 30, 2012, \$6 million had been obligated and \$2.5 million disbursed under the project. The audit tested activities conducted under the \$2.5 million in disbursements.

The team conducted site visits at a number of government offices in Cairo and attended a trade show the project organized.

We assessed mission internal controls related to implementation, reporting, and establishment and review of performance measures and indicators. We also reviewed and assessed the internal controls in place to monitor program activities, including the meeting reports, monitoring and evaluation data system, and data validation procedures.

Methodology

To answer the audit objective, we first gained an understanding of what USAID/Egypt intended to accomplish through its Trade Facilitation Project. We did this by reviewing important project documentation including the contract, annual work plans, and financial data.

To put Egypt's political environment into context, we researched news about the revolution and conducted interviews to learn about the complexities of working in the country. Moreover, the team gained an understanding of the history of the project and the reasons behind initiating it shortly after the revolution.

The audit reviewed the entire set of the project's ten tasks. Through analysis and interviews, the team judgmentally divided the project tasks into two groups: tasks with significant progress, and tasks with limited progress. For those that made progress, the team focused the audit on testing results and deliverables. For tasks that had limited progress, the team concentrated on identifying the cause of the delays.

The audit team analyzed and confirmed Nathan Associates' level of effort on this project by reviewing correspondences between the contractor and Egyptian Government counterparts, including e-mails and meeting minutes. In addition, we reviewed the level of effort expended by the contractor for the various tasks included in its work plan.

We reviewed progress reports and deliverables to understand the project's accomplishments. Next, we tested and validated project results by interviewing individuals from USAID/Egypt,

Nathan Associates, and numerous Egyptian Government offices including the Ministry of Industry and Foreign Trade, Egyptian Customs Authority, General Organization for Export and Import Control, and the Food Safety Management Unit.

Last, the team conducted a financial analysis on the project by reviewing project expenses. We performed financial projections on expense rates to determine the amount of funds that may remain unused should the project continue on its current trajectory.

MANAGEMENT COMMENTS



Memorandum

To: Catherine Trujillo, RIG/Cairo

From: John Beed, Acting Mission Director USAID/Egypt

Date: March 17, 2013

Subject: Management Comments to RIG/Cairo Draft Audit Report Recommendations - Audit of USAID/Egypt's Trade Facilitation Project (Report No. 6-263-13-00X-P)

USAID/Egypt appreciates the time and effort that the Regional Inspector General Cairo (RIG/Cairo) staff devoted to the audit report of "USAID/Trade Facilitation Project (TFP)" AID 263-C-11-000030. We would also like to thank RIG/Cairo for the opportunity to provide Mission comments on the draft audit report.

Given the very tense, fluid, and unstable political environment that characterized Egypt since the January 2011 revolution, the Mission agrees that progress towards meeting the established objectives of the project was severely impacted and delayed during the first 18 months of the contract. The audit took place approximately halfway through the life of the TFP contract, at the time when the project team (USAID and the contractor) were in the process of reorienting the project scope of work to reflect the altered environment and political situation. Since the time of the audit, Egyptian government and private sector demand for TFP's technical assistance services have increased significantly and the project has been re-scoped in order to be responsive to shared US-Egypt trade priorities. TFP is now taking advantage of new opportunities with new partners such as the Qualified Industrial Zones (QIZ) Unit at the Ministry of Industry and Foreign Trade (MOIFT) as well as numerous private business associations eager to support member SMEs to export for the first time or expand their markets.

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Recommendation No. 1.

We recommend that USAID/Egypt (1) review project tasks to determine their achievability and potential to have an impact, and (2) prioritize, select, and document the most promising tasks to focus on for the remainder of the contract.

Management Response

We concur with this recommendation.

USAID started the review process in August 2012, and has made concrete conclusions and decisions about the achievability of the project tasks. Through several meetings with the contractor, the counterparts, and the Minister of Industry and Foreign Trade (MOIFT), USAID has agreed on the priorities for the remainder of the contract, selecting project tasks with the highest potential for impact and discarding some original tasks now determined to be politically infeasible. New priorities necessitate the additions of three tasks to the current SOW of Contract No. AID 263-C-11-000030. These are namely: improve awareness and use of special export opportunities and preference programs available for Egyptian exporters; support efforts to develop successful small and medium enterprise exporters; and improved efficiency within the distribution/retailers sectors. The first two tasks are mainly focused on export promotion, specifically helping small and medium sized businesses, through technical assistance, to increase their capacity and ability to take advantage of export opportunities. The third task is to improve the management of informal markets within the border and to formalize these markets. This task was determined to be very important by Internal Trade Development Authority (ITDA), due to the dispersion of these markets after the January 2011 revolution.

USAID has approved the proposed modification of the contract through an action memo (Attachment 1: Action memo for the Mission Director).

In view of the above, the mission believes that final action has been taken for Recommendation No. 1. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 2.

We recommend that USAID/Egypt work with the contractor to prepare a work plan around the selected tasks. It should include a budget to indicate the level of effort the project intends to spend on each task.

Management Response

We concur with this recommendation.

A comprehensive detailed work plan was developed and finalized. The new work plan

covers the period from January 2013 to December 2013 and includes a table reflecting the estimated level of effort for each task (Attachment 2: Second year work plan). The contractor is in the process of preparing the budget for the second year work plan. The COR has reviewed and concurred to the second year work plan on March 13, 2013. The final approval will be granted upon the contract modification (Attachment 3: Email approval from the COR).

In view of the above, the mission believes that final action has been reached for Recommendation No. 2. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 3.

We recommend that USAID/Egypt work with the contractor to perform a documented review of the project personnel and, if necessary, adjust staff according to the new work plan.

Management Response

We concur with this recommendation.

USAID held several meetings with the contractor to review the needs of the project in light of the new changes in priorities. USAID reached an agreement with the contractor on the staffing adjustment. The change in personnel is reflected in the new staffing plan that was reviewed and concurred with the COR and will be part of the contract modification. The final approval will be granted upon the contract modification (Attachment 4: Proposed staffing plan and email concurrence from the COR).

Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 4.

We recommend that USAID/Egypt perform a documented review of the need to increase the frequency of preparing project work plans from once to twice a year, and if changed, formalize it by modifying the contract.

Management Response

We concur with this recommendation.

The EG office has conducted a documented review (Attachment 5: A review for the need to increase the frequency of preparing work plans). The report concluded that there is no significant benefit from increasing the frequency of preparing work plans for the TFP project and that such an action would likely absorb an inordinate level of project resources.

In view of the above, the mission believes that final action has been taken for Recommendation No. 4. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 5.

We recommend that USAID/Egypt develop a documented cost-benefit analysis on increasing the project's form of support beyond technical assistance, to better align the project's efforts with the current needs of its partners.

Management Response

USAID does not concur with this recommendation. The project is designed to be a technical assistance project with a limited procurement budget that serves the overall objective of the project. From the contractual point of view, it is not permissible to change the nature of the project beyond technical assistance.

Recommendation No. 6.

We recommend that USAID/Egypt work with the contractor to get project partners to confirm, in writing, their commitments to the new selected tasks and work plan.

Management Response

We concur with this recommendation.

We worked with the contractor to design a new approach to secure counterparts commitments in writing.

The whole new draft work plan has been sent to MOIFT's coordinator. Moreover, letters have been sent to the different counterparts in the week of March 3rd, 2013, with a cover letter requesting the written approvals (Attachment 6: Sample letters and sample approval responses). In addition, we developed a model memorandum of understanding 'MOU' which will be used as agreements with other different implementers (export councils, Ministry's different departments...etc). The draft MOU was approved by the Regional Legal Advisor and the project started to use it in its first SME event in March 10th (Attachment 7: Signed MOU with the Export Council for Home Textile).

In view of the above, the mission believes that final action has been reached for Recommendation No. 6. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 7.

We recommend that for the tasks that have been removed from the project's work plan, USAID/Egypt notify, in writing, the various project partners about the change.

Management Response

We concur with this recommendation.

We sent the second year work plan to the Ministry of Industry and Foreign Trade's TFP coordinator, informing her about the changes and the removal of inactive tasks from the work plan (Attachment 6: Letter of March sent by the COP). In addition, the work plan does not include any sub-tasks for those inactive ones.

In view of the above, the mission believes that final action have been reached for Recommendation No. 6. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 8.

We recommend that USAID/Egypt work with the contractor to design a new monitoring program to track the progress of the new work plan. The monitoring program should include a revised performance monitoring plan and a method for collecting and validating performance data.

Management Response

We concur with this recommendation.

USAID worked with the new M&E expert in the TFP project to design the new performance monitoring. On February 20, 2013, USAID held a meeting with the new expert and agreed on the framework of the plan.

The draft plan has been submitted to the mission and has been revised by COR & the mission M&E specialist. The final approval will be granted upon the contract modification (Attachment 8: The draft TFP PMP).

In view of the above, the mission believes that final action has been taken for Recommendation No. 8. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation No. 9.

We recommend that USAID/Egypt perform a documented review of the merits of completing the information technology system at the Egyptian Customs Authority, decide how the mission plans to support the system's completion and sustainability, and document the decision.

Management Response

We concur with this recommendation.

Prior to the Audit finding, TFP has already prepared, in March 2012, a detailed report on the merits of completing the information technology system at the Egyptian Customs Authority (Attachment 9: Evaluation of the National Customs Information System and the letter from Ministry of Finance). The report was the basis for the Minister of Finance approval for resuming the work under the National Customs Information System. USAID will draft an action memo addressed to the mission management and the Procurement Office analyzing the different options for how best to support the system's completion and sustainability, whether under TFP or another procurement mechanism. Once a decision is reached, USAID will take the necessary steps to start and document the implementation.

In view of the above, the mission believes that final action has been reached for Recommendation No. 9. Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

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