

A.I.D. PROJECT EVALUATION SUMMARY: PART 1

A. REPORTING A.I.D. UNIT: TI/FI
USAID/EGYPT
ES.#

B. WAS EVALUATION SCHEDULED
CURRENT FY EVALUATION
Yes X Delayed ___
Ad Hoc ___

C. EVALUATION
TIMING
Interim X Final ___
Ex Post ___ Other ___

D. ACTIVITY EVALUATED:
Partnership in Development Project Activity (263-0102.01)

E. ACTION DECISIONS APPROVED BY THE MISSION	ACTION TAKEN	RESPONSIBLE PARTY	COMPLETION DATE
1- Initiate and implement a follow-on project with focus on: a. Public Awareness and Program Promotion; b. Emphasis an Sales Transactions; c. Mobilization of Financial Resources; d. Strengthening Institutional Capability, and e. Strengthening Decision Making.	Focused issues have been addressed in PP	TI/FI	PP approved late FY 1993
2- Prioritize technical assistance with greater emphasis on implementing sales.	Strongly addressed in the PP and in the Bechtel Contract	TI/FI	July 93, and continuing
3- Ensure quality of deliverables to the beneficiaries. Strengthen internal control for overseeing the work of the contractor	Close monitoring of the Bechtel contract is being undertaken	TI/FI	May 93, and continuing
4- Identify for/with the PEO one or two HCs receptive to undertaking privatization and assist them in developing concrete active plans for the privatization.	Assistance is being offered to HCs	TI/FI	May 93, and continuing
5- Sponsor a series of workshops in collaboration with the PEO for the HCs and ACs, Conduct briefing sessions.	Is being organized; plan included in PP	TI/FI	July 93, and continuing
6- Expand on privatization-specific training	Training plan is included in the PP	TI/FI	July 93, and continuing

F. CLEARANCE/APPROVAL OF EVALUATION SUMMARY AND ACTION DECISIONS:

LBrown, OD/TI/FI Draft RHandler, PDS/P Draft
 PDBosque, AD/TI Draft RParks, PDS/P Draft
 JMalick, OD/PDS/P Draft

Approved Robert Jordan, AD/PDS 1/5/94

A.I.D. EVALUATION SUMMARY: PART II

Project Description

In its efforts to promote the development of the private sector in Egypt and in order to expand productive output and increase the standard of living, the USAID mission has been actively promoting privatization since the latter half of the 1980s. Initial efforts started when the government introduced its "popularization" program to initiate the transfer of governorate-owned projects to the people.

In their efforts to lend direction to the Government's privatization program, USAID officials moved on to design a project that would effectively assist in the development of procedures for and implementation of privatization activities for governorate and national state-owned enterprises. A Steering Committee was formed in February 1990 with the Ministry of Agriculture and Land Reclamation (MOA) as the primary implementing agency for the project. Approval was granted for the use of up to US\$1.8 million from the Technical Cooperation and Feasibility Studies Project and up to LE9.5 million from the USAID Trust Account to finance privatization activities under Partnership in Development (PID) project over a 3-year period, with a scheduled completion date of December 31, 1993. The GOE agreed to supplement this assistance by budgeting an LE equivalent of US\$ 161,000 to fund partial salaries for members of the technical advisory services team and their assistants, office space, and vehicle use. Funding required to undertake the expanding privatization activities has been increased from US\$1.8 million to US\$4.5 million, the maximum ceiling for the project approved by the Mission.

To provide the required technical expertise, USAID in conjunction with the Steering Committee, undertook a prequalification and competitive bidding process to select a major U.S.-based consulting firm on an USAID direct contract as prime contractor for the provision of a diverse set of technical services.

A major restructuring effort undertaken by the government in 1991, in response to the conditionalities set forth by the IMF/World Bank as part of the SAL agreement, led to the formation of the Public Enterprise Office (PEO) in December 1991 to facilitate privatization on a national level. Prime Ministerial Decree No. 1741 of 1991 conferred upon the PEO the responsibility of implementing the government's privatization program. The government transferred all the activities of the Steering Committee to the PEO, which would pick up from where the committee had left off in its efforts towards facilitating the privatization process. In order to comply with the government's wishes, USAID issued a Project Implementation Letter (PIL) amendment in March 1992 to change the implementing agency from the MOA to the PEO.

Since 1992 when the PEO took over from the Steering Committee, USAID has been working with the PEO to coordinate the provision of the USAID-financed technical services.

The prime contractor originally was Coopers & Lybrand (U.S.). Overseas Bechtel, Inc.

(OBI) was originally chosen as a subcontractor. For reasons of improving overall contractor performance in early 1993, USAID agreed to transfer prime contractor responsibilities to OBI. OBI has since assembled a strong team of expatriate and Egyptian experts.

The core team, resident in country, consists of three merchant bankers and two financial analysts. OBI also has a number of sub-contracts with local firms specialized in law, accounting, finance engineering, business management, and translation, e.g., Egyptian Financial Group (EFG), Farid Mansour, Ahmed Abou Ali, Sabbour, and El Shalakani. OBI is able to draw on its own world-wide staff as well as independent consultants.

Evaluation Purpose

Intrados/International Management Group (IMG) was selected by the USAID to carry out a mid-term evaluation of the Partnership in Development (PID) program and provide recommendations on ways of improving performance and the design of the follow-on project.

Methodology

In December 1992 representatives of the parties involved in the privatization effort were interviewed by the consultant team. These included officials from the Egyptian government, USAID, the Public Enterprise Office (PEO), chairmen and executives from public sector holding companies and their affiliates, and representatives of the new and the outgoing project prime contractors, sub-contractors, and the private sector. The team also reviewed the available data on multilateral and bilateral assistance to Egypt in this context, as well as data supplied by USAID, the PEO and other sources on financial, economic, and social aspects of the privatization process.

Findings

1. The launching of the privatization program in Egypt represents a milestone in an ongoing liberalization process that began in the mid-seventies under the late President Anwar Sadat, and received a boost following the conclusion of agreements in 1990 and 1991 with the World Bank and the International Monetary Fund. A five-year privatization program extending from 1993 to 1997 was agreed with the World Bank and endorsed by other multilateral and bilateral donors including USAID; it is an important component of the current economic reform and structural adjustment program.
2. Although results had been achieved in other privatization efforts prior to the initiation of this program, namely in the fields of local government, tourism and agriculture, the take-off of this program, involving the divestiture of 150 public enterprises, was hampered by a host of obstacles and delays. The apparent lack of a commitment on

the GOE's part delayed its start, while the first steps towards its implementation were affected by decision makers' hesitation, the lack of an organized and consistent approach, and the absence of a coordinated effort to prepare all the parties concerned to play their respective roles at various stages of the process.

3. The project design as originally conceived and formulated in support of the Egyptian Government's privatization goals was adequate and relevant for the needs at the time of the project's inception. The privatization strategy that was followed falls logically within the broader economic liberalization strategy and was developed through close collaboration with the GOE.
4. Despite the limited direct impact in terms of divestiture attributable to this project to date, the project's major achievements are in its efforts in helping in the organization of the PEO, developing a strategy and standard procedures for privatization, working with the Holding Companies to identify candidates for privatization, and promoting and building awareness on the subject of privatization. Legal and financial procedures and techniques for divestiture are in place, significant progress has been made in increasing proponents of privatization within the GOE, a number of enterprises have been readied for privatization, six companies have been brought to the point of sale, and the ground work has been laid for launching a series of transactions to test the procedures for privatization and establish precedents. The Mission has played a critical role in these accomplishments by supporting the GOE in moving towards a more liberalized economy.
5. USAID's efforts to swiftly implement the process were adversely affected not only by the government's lack of commitment but also by the problems arising primarily due to the poor performance of the prime contractor, which hampered the coordination efforts with the PEO and sub-contractors assigned to evaluate the entities to be privatized.
6. Since action was taken to change the prime contractor, working relations between the technical team and the PEO as well as the sub-contractors has improved, and the contractor is moving towards fulfilling its technical assistance role, which allowed the first group of assets to be privatized to be tendered during December 1992 and January and February 1993. Meanwhile, progress was also achieved in setting the parameters, criteria, and timetable for the process through a set of guidelines that was issued by the GOE.
7. While the issuance of the guidelines has reduced the uncertainty about the time frame of the program, and it has also served as an affirmation of the government's adherence to the program that was needed by Egypt's multilateral and bilateral creditors, confusion about the authority and respective roles of the Egyptian institutional parties to the process persists, and can be expected to pose obstacles to the implementation of the process at later stages. Moreover, the GOE has yet to

prove that its commitment to the program is firm, and it has yet to adopt parallel measures to prevent resistance from obstructing the process at later stages, and build support among various interest groups including potential institutional and individual investors in Egypt and overseas.

Conclusions

The project has been successful in helping the PEO advance its privatization program. The beneficiaries have found this project a useful mechanism to work towards privatization of their entities, despite some quality control concerns experienced early on by the PEO.

The success of this project in assisting the various beneficiaries is attributed to particular sets of relationships that have had a significant impact on the project's effectiveness. In the interests of the PEO and the beneficiaries as well as the priorities of the project, project personnel should continue to act as an intermediary to develop and streamline assistance between these players and help the Holding Companies build an association of trust with the PEO. The Mission should remain actively and directly involved in the assistance provided.

In order to ensure the quality of deliverables to the beneficiaries, the internal control mechanism for overseeing the work of the Bechtel team should be enhanced. USAID project personnel should use their excellent relationships with the Holding Companies to receive constructive feedback on the quality of the work performed. Frequent progress meetings with the Bechtel team will be necessary, as they have yet to develop confidence levels with the PEO and with the Holding Companies.

To further improve implementation, it is recommended that project personnel assist the PEO and the Holding Companies to strengthen their organizational capability to carry out privatization and conduct regular briefing sessions to enable them to understand the flexibility of the follow-on project being proposed, particularly in terms of the scope of services and the ability to access a range of foreign and local expertise.

Recommendations

The recommendations (when concluded in April 1993) were classified into Project Implementation (short-term and medium-term) and Project Design (short-term and medium-term).

A. Project Implementation

1. Develop a timetable with the PEO on the types of assistance and work to be carried out as part of this project until its expiration 1994.

2. Prioritize technical assistance to those accounts that can be readily sold in the short run. Focus on the final disposal of the 20 accounts already assisted that can be moved towards the point of sale by the end of the project. Re-assess the state of these accounts with the PEO and the Holding Companies and direct efforts for their speedy disposal.
3. In order to ensure the quality of deliverables to the beneficiaries, strengthen the internal control mechanism for overseeing the work of the Bechtel team. USAID project personnel should use their excellent relationships with the Holding Companies to receive some constructive feedback on the quality of the work performed. Frequent progress meetings with the Bechtel team will be necessary as they have yet to develop confidence levels with the PEO as well as with the Holding Companies.
4. Encourage the PEO to use the remaining grant funds to provide funds to the few vital accounts and not to the trivial many.
5. Identify for/with the PEO one or two Holding Companies receptive to undertaking privatization of their accounts. Second a consultant to help the Holding Companies draft out concrete action plans for the prioritization and speedy disposition of these identified accounts.
6. Assist the PEO in identifying ways to improve relationships with the Holding Companies. In the interests of the PEO, the beneficiaries as well as the priorities of the project, project personnel should act as an intermediary to develop and streamline assistance between these players and to help the Holding Companies build an association of trust with the PEO.
7. Sponsor a series of workshops in collaboration with the PEO for the Holding Companies and A/Cs to discuss privatization issues and a platform for these agencies to voice their concerns.
8. Continue discussions with the PEO and the Holding Companies towards facilitating timely transfer of future USAID assistance to the ultimate beneficiaries, i.e., the Affiliated Holding Companies and the Holding Companies themselves.

B. Project Design

1. Maintain project objectives and scope of technical assistance available, but with greater emphasis on implementing the sales transactions of the accounts assisted to date. Investment banking services should be emphasized.
2. Complete the novation of the contract as quickly as possible. Employ a more forceful

approach towards replacing Coopers & Lybrand as the prime contractor. Bechtel must move quickly to build credibility and confidence with the PEO, Holding Companies & the Affiliated Companies, as well as within its consortium.

3. In order to further increase the impact and effectiveness of the country's privatization program, and also enhance sustainability of institutions undertaking privatization programs, follow-up technical assistance should focus on the following:
 - a. **Public Awareness and Program Promotion:** Further increase AID efforts in helping the government identify and target the various constituencies and interest groups on the merits of the privatization initiative.
 - b. **Emphasis on Sales Transactions:** More focused effort on helping the government acquire the necessary skills to undertake privatization transactions.
 - c. **Mobilization of Financial Resources:** Increased efforts towards introducing new mechanisms and instruments that can facilitate the process of privatization in the country.
 - d. **Strengthening Institutional Capability and Decision Making:** Provide strategic guidance to the PEO, Holding Companies and others as these institutions move to strengthen their decisions making capabilities with regards to orchestrating an effective privatization program.
4. Coordinate efforts with the TSSPR project and other activities of the TI/FI as well as with other offices in the Mission to develop an overall assistance program for private sector development.
5. Review and update the skills and capability levels required of local and foreign IQC firms for inclusion in the new project. The capability to draw from internationally known firms should be a pre-condition for follow-on project contractors.
6. Provide an additional allocation for specially focused training programs, and conduct training programs abroad and in the country to expand coverage for Board members, the General Assembly and the Holding Company personnel. Training programs should cover areas that are privatization—specific only. An annual training plan independent of the plan being put forward by PEO human resource personnel for Holding Companies should be a focus of the new project design.
7. Conduct briefing sessions with the PEO and the Holding Companies to enable them to understand the flexibility of the follow-on project being proposed, particularly in terms of the scope of services and the ability to access a range of foreign and local expertise.

8. Discuss and finalize with PEO the task elements being envisioned as part of the future program components, and move towards finalizing these in preparation of the new project design.
9. The direct contracting mechanism (with one institution as the provider of all services) has not worked well for structuring privatization assistance in Egypt. The needs for privatization assistance are diverse and would require more than one contractor. Therefore, initiate efforts to discuss changes in the contracting mechanism to be deployed for future privatization assistance. The possibility of structuring more than one contract should be explored.
10. Initiate and implement a follow-on project that will, at the end of the country's five year privatization program, have assisted in the privatization of over 50 of the 150 targeted enterprises.

J. Mission Comments

The Mission in large had no services objections to the recommendations. The major recommendation of the evaluation focussed on further increasing USAID's efforts to ensure a positive and effective impact on Egypt's privatization program.

The need for the follow-on technical assistance focussing on public awareness and program promotion, sales transactions, mobilizing financial resources, strengthening institutional capability and decision making, and providing training *has been extensively addressed in the new privatization project paper*. The major future project objectives and scope of technical assistance have been designed with greater emphasis on implementing the sales transactions.

The Mission continues to closely monitor the project activities, act as an intermediary to develop and streamline assistance between the players, and assist the PEO in identifying ways to improve relationships with the Holding Company, and to build an association of trust with the PEO.

The new project also includes an evaluation activity by which an independent firm will be contracted at the outset of the project to provide evaluations throughout the life of the project.

Extensive negotiations, discussions and meetings are being held with the PEO, Holding Companies, and Bechtel to agree on the next list of companies that will be assigned to Bechtel for purpose of their privatization. USAID is already working with Bechtel to develop a specific work plan.