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**USAID PRIVATIZATION PROJECT  
EVALUATION SERVICES CONTRACT**

**IBTCI SEMI-ANNUAL  
EVALUATION REPORT**



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*Produced by:*

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## List of Abbreviations

ADRs	American Depository Receipts
AP	Associated Press
Approx.	Approximately
BOD	Board Of Directors.
BODA	British Overseas Development Agency
CBE	Central Bank of Egypt
CDS	Central Depository System
CIB	Commercial International Bank
CIDA	Canadian International Development Agency
CMA	Capital Market Authority
Co.	Company
EAB	Egyptian American Bank
EDRs	European Depository Receipts
EEA	Egyptian Electricity Authority
EFIC	Egyptian Financial & Industrial Co.
EPS	Earning Per Share
ERSAP	Economic Reform and Structural Adjustment Program
ESAs	Employee Shareholder's Association
ESOPs	Employees Stock Ownership Program
EU	European Union
FDIs	Foreign Direct Investments
FPIs	Foreign Portfolio Investments
GA	General Assembly
GAAP	Generally Auditing and Accounting Procedures
GDRs	Global Depository Receipts
GOE	Government of Egypt
GOFI	General Organization For Industrialization
HC	Holding Company
IPO	Initial Public Offering
JVBs	Joint Venture Banks
KFW	Kreditanstalt fur Wiederaufbau
MCSO	Misr Clearance, Settlement and Depository Company
MENA	Middle East North Africa
METAP	Mediterranean Environmental Technical Assistance Program
MIB	Misr International Bank
MPE	Ministry of Public Enterprise
NBE	National Bank of Egypt
NSGB	National Societe Generale Bank
OD	Organization Development
PEO	Public Enterprise Office
PMU	Project Management Unit
PR	Public Relation
SEC	Securities and Exchange Commission
SOEs	State Owned Enterprises
T-Bills	Treasury Bills
TOR	Terms Of Reference
UP	United Press
WB	World Bank

**Semi Annual Evaluation  
Evaluation Services for the Privatization Program in Egypt  
Contract #: 263-0238-C-00-5016-00  
December 1996**

**I. INTRODUCTION:**

International Business Technical Consultants Inc. (IBTCI), has been engaged by the United States Agency for International Development (USAID) in cooperation with the Government of Egypt (GOE) to provide progress reports and evaluation services on the GOE's privatization program and donor provided technical assistance. IBTCI works in cooperation with the Ministry of Public Enterprise (MPE) and the Public Enterprise Office (PEO) to carry out its mandate.

The purpose of IBTCI's contract with USAID is to evaluate the GOE's privatization and divestiture program, report on its progress and problems, make recommendations on appropriate assistance strategy, provide multilateral and bilateral donor coordination, as well as, provide data reporting and evaluation services to USAID on its Privatization In Development Project, (PIDP).

This is IBTCI's second semi-annual evaluation report. It covers the period from April, 1996 through October, 1996 but attempts to more broadly cover the first 9 months of the year and recent privatization activity of importance to the program.

Egypt has made tremendous progress in its privatization and divestiture program during the first 9 months of 1996. The MPE/PEO can take great pride in its accomplishments. Further, the decision by the GOE to float minority share offerings through IPOs in the stock market has helped to create a new financial services industry which is adding much needed employment to the economy. IBTCI has documented these and other successes of the program in its Quarterly Report. In this evaluation, we attempt to set out those recommendations which will allow the program to progress at an even more rapid pace. The 17 recommendations made in this report relate to topics under discussion and are in no particular priority. However, we do have five recommendations which we believe need highlighting in this introduction.

First, as presently structured, the GOE's privatization program related to anchor sales needs to be reorganized to meet its ambitious goals. The current structure spreads responsibility too widely for effective decision making; contains a conflict of interest between selling a company and maximizing the profitability of Holding Companies; is causing concern over the transparency of the process which engenders unnecessary criticism; and, is creating confusion amongst domestic and international investors about the seriousness of the Government's commitment. This is unnecessary given the frequent public support by the President, the Prime Minister, and the Council of Ministers.

We recommend a restructuring of the program through the centralization of authority within a new unit under the MPE. The new unit would be independent of the Holding Companies/Affiliated Companies and would establish the criteria for evaluating bids and have an exclusive mandate and authority to sell public sector companies.

Second, the success of the privatization process has created a whole new financial services industry upon which the future success of the program depends. All of the micro-financial

institutions involved in the process need to be supported and strengthened by the GOE and the donor community. A single scandal within the industry could set the reform program back three to five years. Large budgetary support needs to be provided to the CMA for the effective oversight and prudential regulation of the new financial services industry. Funds for training, personnel, technology, administration, research, and dissemination of information to the public are a necessity. The donor community should focus on the needs of these micro-financial institutions including the stock market, brokerage firms, mutual funds, and the clearance and settlement system.

Third, current policies and procedures for IPO sales through the stock market need reform. Minority share floatations, divided up between three private sector groups (institutions, individuals, and employees) incorrectly establishes a market price and also creates the impression that the public sector may continue their control of management through ownership of a solid block of shares under public sector control. The establishment of these incorrect market prices then affects the evaluation of bids for anchor sales and incorrectly impacts that process as well. If the public sector maintains effective management control then the release of productivity and efficiency enhancing practices, which privatization is suppose to produce, will not occur. Minority share floatations onto the stock exchange is causing an infusion of "hot money" and speculation which is arbitrarily inflating stock prices. Future stock floatations should be majority floatations and the process of dividing ownership between three groups discontinued.

Fourth, the past practice of selling off profitable Law 203 companies has had a positive impact on Egypt especially as that relates to the rapid creation of its new financial industry. It is now time to begin addressing the issue of intra-government debt through the liquidation of some public sector companies which continue to generate losses. All three of the relevant institutions, (Banks, Affiliated Companies, and the Government) have legitimate issues related to debt which a debt workout specialists could assist. The creation of new financial instruments is not the answer. All three institutions cannot be made whole. The experience of Western banks during the international debt crisis of the 1980s could assist in this process. If only one debt workout was successfully concluded during 1997, many more would soon follow from the lessons learned in that one experience.

Finally, the creation of a market economy is by its nature chaotic and cannot be controlled. Nevertheless, certain actions to protect the public are the responsibility of Government. Other actions are the responsibility of individuals. Fundamental to a market based economy is the public's understanding of the term "Buyer Beware". Investing wisely one's own money is primarily an individuals responsibility. However, an individual cannot protect themselves against a bad investment if the information provided is incorrect or not available. The continued use of information provided by public sector companies which do not use internationally accepted auditing standards should be discontinued. The CMA should require the release to the public of quarterly financial reports from publicly traded companies no less than five business days after their submission. This information, along with other economic and business data which is fundamental to a market economy, needs regular and widespread public distribution.

## II. PREFACE:

Privatization cannot be evaluated in a vacuum. It is an integral part of the overall structural adjustment and reform program which Egypt has undertaken to transform itself into a modern market economy. The sale of state owned assets (privatization) occurs either simultaneously or

sequentially with other reforms which are fundamental to its success. The speed and efficiency with which these reforms occur cannot be divorced from the ability of the Government of Egypt to (a) enact politically sensitive laws and regulations, (b) create new capital market institutions, (c) establish new internationally accepted accounting systems, (d) reform the tax system, (e) expand the amount and regularity of important business and trade related information to the public, and (f) provide a stable political and macro-economic environment conducive to investment.

Some public commentary on Egypt's privatization program has largely viewed it in isolation from the political economy within which it operates. As a consequence, both the providers of technical assistance and the GOE were not always recognized for progress in privatization even though progress was being made in areas which were necessary and/or preconditions for a successful privatization program. Further, during periods of inactivity, those providing technical assistance did not always receive the recognition for preparatory work which subsequently had a positive impact on the privatization process.

This report places privatization in its larger context. Thus, the speed with which privatizations are occurring and the effectiveness of donor provided technical assistance are weighted against progress in areas which create an investor friendly environment and/or provide a modicum of safety for the attraction of local and international capital.

In addition, this report also examines those technical aspects of privatization which are integral parts of initial public offerings, sales to anchor investors, the development of micro-financial institutions, prudential regulation of the market, and the work of technical assistance provided by international donors.

### III. GOE's PROGRESS IN PRIVATIZATION AND DIVESTITURE:

The first 9 months of 1996 have been an exciting and memorable period in Egypt's history. The progress made in the privatization and divestiture program has been remarkable. Nothing can or should detract from this record. Of all program privatizations since the beginning of the program, 44% were privatized during 1996.

Nevertheless, as in many other countries attempting to reform their economies, the old adage of two steps forward, one step back, seems appropriate. For example, the cancellation on 11/17 of the sale of Ameriya Cement may have significant and long lasting effects on the privatization program. Of particular importance to the GOE and international donors is the possible damage done to (a) international investor confidence in the procedures being used for anchor sales, (b) the morale of Holding Company Chairmen who favor privatization, (c) the morale of public sector employees within the MPE/PEO who are attempting to meet the objectives set for them by the President and the Prime Minister, (d) the public's confidence in the privatization process, and (e) the morale of donor funded technical assistance providers.

All of the facts are not yet known surrounding the rejection of one particular company's bid for Ameriya Cement. Consequently, any conclusions drawn are by necessity, speculative and based on incomplete information. It is therefore too early to tell whether the result will turn out to be a net positive or negative event. Egypt is not alone in receiving both praise and criticism for the rejection of privatization bids. One week after the rejection of the French company's bid for Ameriya, the French Government canceled the sale of one its largest firms to a joint French/Korean bid which also resulted in a flurry of both praise and criticism.

However, the broad outlines of what is known about the event raise three important issues. On the one hand, it was reported that there was more than one bid for Ameriya but the public announcement indicated only a single bid. Some officials have reported that the reason only one bid was announced was because the other bids were below the price of Ameriya's stock as it was then trading on the stock exchange. This is an important issue because the price of a company's stock may or may not have any relationship to a company's sale value when only a distinct minority of its shares have been floated on the exchange. Further, given the speculative fever impacting Egypt's market and the tendency of equity investors to focus on future earnings rather than present ones, the use of a stock market price to accept or reject anchor sale bids is not the correct methodology. Whatever method is used should be publicly communicated and investors should know what the minimum selling prices will be if they are to be expected to expend large sums of money to conduct due diligence and make a responsive bid.

Secondarily, it was reported that the company making the responsive bid may have reached a tentative agreement for joint participation with an Egyptian firm. The Egyptian firm was intimately involved in the cement industry and was partially owned by some public sector cement companies. If this was the case, the Government may have had legitimate concerns that such a combination might have limited competition in the industry. This transaction may demonstrate that the very difficult issue of what to do with forms of business organizations which may not further competition has yet to be solved.

Finally, the Chairman of one Egyptian company was quoted in the paper as being adamantly against majority ownership by the foreign company. The principal issue which must be decided by the GOE is whether or not more public education on this issue is needed to reduce the fear of majority foreign ownership before more anchor investors are encouraged to bid on public sector companies.

### III. A. Major Developments in the Sale of Law 203 Companies:

IBTCI's first semi-annual evaluation conducted in April 1996 noted that the government was poised to move rapidly on privatization. In January, President Mubarak had given his strong public endorsement of the program. In February, the Cabinet approved a list of 76 companies and 537 assets to be offered for sale. The evaluation ended the period by noting that during March, the MPE and the Holding Companies were actively preparing companies for sale.

The preparation of companies continued during April, the first month of this evaluation period although one minority IPO was offered (Middle Egypt Flour Mills). The previous evaluation, noting this offering, lamented the fact that the first of the new wave of privatizations was a minority divestiture of a company which the government had classified as strategic, i.e. divestiture was not to exceed 40 percent. However, in May, the government made a significant policy shift and sold to a waiting market, a majority of Madinat Nasr for Housing and Development.

The 74.8 percent sale of Madinat Nasr for Housing and Development initiated a welcomed new chapter in the government's privatization program. Finally the government had decided to offer majority stakes in the companies it was privatizing through the IPO method. By the end of this evaluation period (September 30, 1996) a total of 13 Law 203 companies had had a majority of their government owned equity sold to the private sector through IPO's. Thus, the past six months has been a very aggressive period of sales in the capital market. See Annex 1 for a detailed list of the companies and shares offered during the period.

### III. B. Major Developments in the Privatization of Joint Venture Banks:

Early in 1996, Prime Minister, Kamal El Ganzouri, issued instructions to the public sector banks with ownership of Joint Venture Banks of 49% or less to dilute their ownership to no more than 20% by the end of 1996. By using one of the most effective managerial techniques (the setting of time bound, quantifiable objectives), Prime minister Ganzouri greatly speeded up the process of privatization.

In March, 1996, the GOE approved the amendments to the banking and credit law lifting the limitation on foreign ownership. For the first time, foreign companies could own more than 49% of a Joint Venture Bank.

As a direct consequence of this strong Government support, a number of major sale transactions took place. The public banks used various privatization methods in selling their shares including IPOs, Global Depository Receipts, increases in capital, and private placements. Including those Joint Venture Banks which had previously been privatized, by the first week of November, 1996, the number of Joint Venture Banks where public sector banks own less than 51% reached 13 out of a total of 23.

Privatization of Joint Venture Banks is less problematical than other sectors of the privatization program and should remain a priority for the Government. They are not burdened with large amounts of excess labor, they are profitable, and their value is relatively easy to determine. On the other hand, privatization of state owned banks are not under immediate consideration for precisely the opposite of reasons; i.e., they do have excess labor, their profit margins are much lower, and their valuations are more difficult.

During the second and third quarters of 1996, a number of major sale transactions took place. There was heavy demand for shares of JVBS both by local and international investors. Shares of CIB, EAB and MIB banks were oversubscribed. Since the amendment of the banking law, foreign banks that presently have a minority stake have shown keen interest to increase their holdings so as to play a more dominant role in bank management. Other foreign banks that are looking for a presence in the Egyptian market view this as the most expedient channel to enter the market since licensing new banks is currently not allowed. This latter fact also increased the demand for JVB shares on the stock exchange.

Donors are encouraging the Egyptian Government to privatize one of its state owned banks. Before that can occur, a debt workout plan with at least one bank, individual Law 203 companies, and the GOE needs to be developed. The GOE would naturally like to see a return of its investment in these public sector companies. Similarly, the banks would rightly want to see a return of the amounts lent to public sector companies. On the other hand, the public sector companies point out that in some cases they were required to buy from other public sector companies at prices above the market price, were required to sell their products at under market prices, and were not always allowed to investment in plant and machinery which would have improved their efficiency and reduced their losses. All three sides of the debt issue have valid points and only a debt workout specialist, charged by the Government with resolving the issues separating the three sides can produce progress.

### III. C. Major Developments in Organization and Management:

The most significant event during the evaluation period was the creation in August by the Cabinet Subcommittee on Privatization of a special account at the Central Bank to receive the

proceeds from the sale of Holding Company shares in Affiliated Companies. This development potentially has far reaching consequences. Of immediate importance is the fact that it eliminates the ability of a Holding Company to unilaterally decide how it will use the revenues obtained from the sale of the shares of its Affiliated Companies. While the original guidelines on privatization issued by Prime Ministerial Decree in February, 1992 had stated the priority uses for these funds, Law 203 itself charged Holding Companies with the responsibility to both buy and sell equity and to invest and divest as necessary to maximize profit and promote economic efficiency.

Throughout 1995 and into early 1996, there were persistent rumors that the Holding Companies were using the proceeds of sales to invest in new companies organized under Law 159, as well as financing new investments in existing Law 203 companies. Officially, it was the government's position that any new public sector investment by a Holding or Affiliated Company had to be related to the completion of on-going business plans which had been approved prior to the privatization program. This, one would presume, would have restricted the investment to the Law 203 companies. However, IBTCI did become aware of at least one new company established under Law 159 in which a Holding Company was an equity partner along with one or more Affiliated companies. Furthermore, there were persistent rumors that Holding Companies were becoming active in the stock market and one of the losing bids for Al Ahram Beverages included the participation of a Holding Company. Finally, the sale of El Nasr Transformers & Electrical Industries (ELMACO) was primarily to Affiliated Companies.

In forming the special account, the Cabinet Subcommittee stated that the funds would be used for the following purposes: 1) restructuring of public sector companies; 2) payment of public sector company debt; 3) early retirement schemes; and 4) payment of domestic debt. While the first use could permit these funds to finance some new investment in existing Law 203 companies, the list of uses precluded the finance of new companies and may have severely restricted the Holding Companies' ability to purchase shares on the stock exchange. Thus, the Holding Companies, despite Law 203, are now better positioned to phase out of existence as the MPE and the Cabinet Subcommittee identify and approve the privatization of Affiliated Companies in their portfolio. This is a very welcome development among the supporters of privatization.

It should be pointed out, however, that not all privatization sales proceeds go into the special account. Specifically, in cases in which an Affiliated Company is expanding its capital, such as the 1994 sale of shares in Misr Chemical and the 1994 sale of shares in Tourrah Cement, the Affiliated Company retained the funds raised to finance the investment activity called for in the capital expansion plan. Despite the special account, Holding Companies and Affiliated Companies retain some capacity to undertake new investment or purchase shares in the stock market. A number of Holding Companies are still profitable because they have not divested all of the profitable companies in their portfolios.

At the Affiliated Company level, some earn profits from their own activities or from dividends on shares of the profitable joint venture companies which they continue to own. In addition, Affiliated Companies retain the proceeds of the sale of unutilized assets. However, these sources will shrink as the political leadership continues to concentrate on the sale of profitable companies.

If the government is successful in privatizing the 72 companies listed for sale by the end of 1997, the financial condition of the remaining public sector portfolio will be quite bleak. At that point, the government will need to determine which companies it will liquidate and which

companies, for strategic reasons, it will retain with the likelihood that the retained companies will require some form of on-budget subsidy. While not an officially stated policy of the government, the continued retention of some profitable companies or shares of joint ventures in the public sector's portfolio permits a deferral of decisions regarding the disposition of the most troubled elements of the MPE's portfolio.

A second important organizational development is the elimination of one of the Holding Companies (Public Works and Land Reclamation) and the replacement of 15 of the 16 remaining Holding Company Chairmen. The elimination of the Public Works and Land Reclamation Holding Company shows that the government considers the Holding Companies as transitional management structures. When a Holding Company successfully privatizes its portfolio, as in the case of the Public Works and Land Reclamation Holding Company, it will be disbanded.

The replacement of the Holding Company Chairmen brings new and younger management to this level.

### III. D. Progress Against Plans

The plan approved by the Cabinet in February 1996 listed 76 companies and 537 assets for sale. A majority of the government's equity was to be sold in 52 companies. Twenty two companies were designated as strategic with only 40 percent of the equity to be offered to the public. There were 2 companies which were not classified for either majority or 40 percent sale. In addition, the plan offered 37 assets of tourist companies and 500 retail stores. Presumably, these assets would be for majority sale. The plan did not give a timeframe for the offerings but did state the method by which the companies would be offered, i.e., second tranche, IPO or anchor investor.

Within the list of 76 companies, 16 were companies which had already had a minority of their equity offered to the public and mutual funds through IPO's in 1994 and 1995. These were shown in the plan as "second tranche" offerings. Twelve of the 16 were to have a majority of the government's equity divested while 4 companies were categorized as strategic with only a 40 percent stake to be offered. As of the end of September, 1996, only two companies were brought to the market as a second tranche offering. Alexandria Pharmaceutical had 10 percent of its equity sold bringing the total private sector ownership to 31 percent. This company has been designated as strategic and will be sold to only the 40 percent level under the present plan. The second company was Ameriya Cement which had an additional 12.5 percent of its equity offered. This brings the private sector share of this company to 35 percent.

Ameriya Cement is shown in the plan as majority sale through a second tranche offering. However, during the period, the Ministry of Public Enterprise changed its approach and offered this company for an anchor investor. As of the end of the period no sale was concluded and recent information indicates that the Holding Company plans to return to the second tranche offering approach to privatize this company.

The February plan listed 36 IPO's of which 24 companies were to have a majority of their equity sold. This component of the plan has been the most successful during the period. Seven of the companies planned for majority divestiture were actually done during the period. Also, three of the companies characterized as strategic actually had a majority of their equity divested. These were flour mills and their sale appears to represent a change in the government's policy on the strategic importance of this group of industries. In addition, there

were three companies not on the February plan which were offered as IPO's with a majority of their equity sold. Thus, 13 companies were privatized during this evaluation period.

In addition, during the evaluation period 4 strategic companies were brought to the market and up to 40 percent of their equity was sold. Finally, an IPO for the United Housing was offered for 8.8 percent of its equity. However, this company already had 66 percent of its equity in the market before the start of the privatization program.

There were no companies sold during the evaluation period in the category of anchor investor sales. The Al Ahram Beverages Company, which was advertised for anchor investor sale in the latter part of 1995 was first withdrawn as an anchor investor sale in June, 1996 when the government rejected the bids. It was then offered in the market as an IPO, but was not well received. Finally, it was readvertised for anchor investor sale. Just prior to the Middle East and North Africa (MENA) Economic Conference in November, the government announced that it had reached an agreement with an anchor investor consortium for the sale of the company.

No tourist asset was sold during the evaluation period. However, as in the case of the Al Ahram Beverages, the government announced the finalization of the sale of the Sheraton Cairo Hotel just prior to the MENA Economic Conference. This asset had been offered for sale to an anchor investor in 1993, but difficulties in finalizing the sale delayed its completion until November 1996.

There were no sales of the assets of retail stores during the evaluation period.

### III. E. New Plans

In September, 1996, the government released a revised plan for the remainder of calendar year 1996 and for 1997. For the remainder of 1996, the revised plan calls for the sale of majority equity in six companies through the capital market, up to 40 percent of the equity in three strategic companies through the capital market, four anchor investor sales and the preparation of 7 companies for anchor investor sale in 1997. For 1997, the plan calls for 11 companies to be majority privatized through the capital market, 7 strategic companies to be 40 percent divested through the capital market, and 34 companies to be sold to anchor investors. A detailed analysis of the revised plan compared to the plan approved in February 1996 is provided in Annex 1.

### III. F. Corporate Governance

Law 203 governs those companies which were operating under the previous public enterprise law (Law 97) and are still majority owned by the government. (It should be noted that there are a substantial number of publicly owned companies which were originally organized under the private sector company law and continue to operate under it). When a majority of the shares of a Law 203 company are sold to the private sector, the management of the company is required to call a meeting of the general assembly and initiate the process of converting the company from Law 203 status to a private sector company operating under the rules of Law 159. Of the 13 companies which were majority privatized during this evaluation period, two companies (Madinat Nasr for Housing and Development and Egyptian Financial and Industrial Co.) completed the process of shifting to Law 159 and have formed new boards of directors.

It is too early to evaluate the effects of the new private sector management on the efficiency or productivity of privatized firms. Indeed, we do not know if the new private sector owners have

been able to replace public sector management with private sector management. Corporate governance laws and procedures are an area which IBTCI will need to examine closely to determine if the process of privatization in Egypt will allow for the effective release of productivity and efficiency which privatization is suppose to engender.

It is interesting to note that in both cases, the management of the mutual funds which purchased a stake in Madinat Nasr for Housing and Development and the Egyptian Financial and Industrial Co., have played an active role in the new management of the companies. In the United States and other developed markets, mutual funds usually play a passive role in corporate management. However, some developed market mutual funds are formed specially to play an active role in management when the fund believes that corporate governance is not maximizing share holder value, (such as the Gabelli Fund in the United States). In Egypt, however, mutual funds are the only significant investors in the 13 companies which were privatized during the evaluation period. As the program becomes more active in sales to anchor investors and corporate management begins to respond like private sector management, mutual funds may step back from active involvement.

#### IV. ATTRACTING PRIVATE CAPITAL:

In launching its structural adjustment and reform program, Egypt began to replace government financing of the productive sectors of the economy with private capital. According to Minister Atef Ebeid, at the African Stock Market Conference, past GOE investments in public sector companies; financial enterprises such as banks and insurance companies; service and utility sectors of the economy such as roads and ports; as well as, joint public/private companies were returning at best 4% on invested capital. In the past, these financing needs were primarily met by official grants, loans, and commercial borrowing and such banks as the NIB which on lend the public pension funds. The debt crisis of the 1980's reduced these traditional sources of capital and Egypt recognized that future investment needs would require private capital.

In many other developing countries, these traditional financing sources are rapidly being replaced with Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI). Egypt, until 1996, was not attracting what might be considered a normal share of these new capital flows.

FDI is the single largest component of renewed capital flows to developing countries. FDI has increased from approximately \$10 billion in 1986 to \$90 billion in 1995. FPI has increased from \$2 billion 1986 to around \$82 billion in 1995. According to Egypt's Economic Research Forum, despite the magnitude of these flows, until 1996, the middle east had attracted only 1.4% of the total.

#### IV. A. Foreign Direct Investment, Foreign Portfolio Investment, and Regional Capital:

Egypt has to date privatized 52 companies (39 law 203 companies and 13 Joint Venture Banks) realizing sale proceeds of over LE 11 billion. Significant by their absence is the sale of companies to anchor investors. Only 5 anchor investor sales have occurred since the beginning of the program. Egypt greatly needs anchor investors, preferably multinational corporations, who can provide the managerial skills, technology, and international marketing linkages that will enable currently unprofitable and inefficient companies to become viable enterprises. There is serious concern amongst international investors, multilateral donors, Bi-lateral donors, and Egyptian investors as to whether or not all

participants in the privatization program are committed to selling public sectors companies to international investors.

In many countries, fear over foreign domination of the local market is cited as a reason to avoid majority ownership by foreign firms. That fear is without merit. Nevertheless, even in developed countries these charges are made--usually for political purposes. The truth is that any country has the ability to control private sector ownership through a variety of means should they so desire or find a particular need. Given any state's ability to control private business behavior, multinational companies who desire to invest in Egypt through majority ownership should be welcomed if they can create a profitable company whose efficiency allows it compete in the international market place, hire more workers, pay more taxes, and work as a good corporate citizen.

There are additional concerns that the IPO process of privatization will not, in fact, result in private sector control. The prevailing process of selling companies through the stock market and dividing ownership between three very different groups (institutional investors, local individuals, and employees), may not allow effective private sector ownership which can change current public sector management and create viable enterprises. There is concern that this process, combined with corporate governance laws, will not yield the types of increases in efficiency and productivity normally associated with private sector control. If private sector control does not occur, then the current privatization process will have been a means to reduce government debt with private capital but will not have increased the GNP or assist with Egypt's unemployment problem.

#### **RECOMMENDATION #1:**

While the retention of 10% of a company's shares for employee ESOPs is a positive policy, the continued policy of dividing private sector ownership into three broad groups (institutional investors, private citizens, and employees), could be interpreted by investors as an attempt by the public sector to maintain control. By dividing private sector ownership amongst three groups whose interests differ, the ability of that group to affect private sector ownership on the company's management when faced with a solid minority block owned by the public sector is greatly reduced. We recommend this policy be reconsidered in favor of letting the market act freely to decide on share ownership and price.

Future sales of public sector companies will depend on Egypt's ability to attract more foreign direct investment, foreign portfolio investment, and local private capital. To accomplish this goal, Egypt will need to welcome international investments and demonstrate positive developments in 6 key areas:

1. Clarification on the rules of transparency in sales offered to anchor investors.
2. Require certifications by companies on the accuracy of financial data reported to the CMA for Initial Public Offerings (IPOs); and, company certifications that subsequent quarterly reports to the CMA use internal auditing procedures which meet international standards.
3. Demonstrate a dramatic improvement in the release to the public of timely and credible information from Ministries charged with providing business information (inflation, employment, interest rates, economic growth, budget deficits, imports/exports, housing starts,

regulatory and legal changes under review), as well as, important company data for publicly traded companies listed on the stock exchange.

4. Continue to emphasize its strong political support for the sale of state owned enterprises and stress the need for continued progress in the strategic management of the process by the Ministry of Public Enterprise and the Public Enterprise Office.
5. Expand the privatization program into other areas including the offering for sale of public utilities, additional financial institutions, as well as, additional Joint Venture Companies.
6. Demonstrate continued improvements in the efficiency and capital adequacy of financial intermediaries and the development of some form of minimum guarantees designed to protect individual and institutional investors.

All investors, whether small, medium or large; foreign or local; institutional or individual; government or private person; seek minimum levels of safety to ensure the return of invested capital. The creation of an investment climate which assures a minimum level of safety is the principal challenge facing the privatization program and Egypt's ability to attract local and international private capital back into the market.

To accomplish that end, the GOE will need to continue its policy reform efforts, pass additional legislation, strengthen existing micro-financial institutions, continue its legal and regulatory reform efforts, and support the future development of prudential regulation by the Capital Markets Authority. Underlying all of these areas is the need for strong political support for a freer flow of information from official government agencies to the public.

Emerging markets which have managed to assure a minimum level of investor safety and capture sufficient levels of financing to spur economic growth have seven factors in common:

- Timely and accurate information flows
- A stable political environment
- A stable economic environment
- An adequate tax framework
- Adequate accounting and auditing standards
- An adequate market infrastructure
- An adequate legal framework

Serious privatization is a precondition to serious capital markets development. However, just as important, is the necessity to simultaneously develop all seven of the interrelated areas listed above. These 7 areas are integrally linked to each other and interact in such a way as to enable capital markets to operate efficiently.

#### **RECOMMENDATION # 2:**

The Government of Egypt may wish to consider an assessment of the current state of development in the 5 highlighted areas mentioned above. The purpose of such an assessment would be to determine whether donor provided assistance is being effectively coordinated in order to address areas of concern. Based on the results of that assessment, a subsequent meeting with multilateral and BI-lateral donors could be convened to discuss a prioritization of assistance efforts and a rational division of labor.

### III. B. The Necessity for Additional Information Flows:

Information is key to analyzing the soundness of any investment and determining its level of risk. Without basic information, investors, whether oriented toward high risk projects or conservative ones, will fail to invest their capital in Egypt. Having a multitude of investment choices and environments to choose from, a prudent investor will select the environment which provides sufficient information with which to analyze the potential return on their invested capital.

For whatever historical reasons, timely information is difficult to obtain on a regular basis in Egypt. Basic information on inflation, unemployment, economic growth, retail sales, construction spending, housing starts, up to the minute stock market quotes, trade balances, levels of exports and imports, or proposed changes in legislation are difficult to obtain and their accuracy difficult to substantiate. Strong political leadership is necessary to require Ministries and Offices to compile and release this data to the public on a timely basis. Without such information, it is practically impossible for an investor to know whether their investment decisions are prudent.

In addition to these basic information needs, Egypt and those international donors assisting the privatization program, may wish to concentrate on the provision of information which make the privatization process more transparent and on the reliability of financial information provided by companies to the Capital Markets Authority, sales agents, banks, and the public.

### RECOMMENDATION # 3:

The GOE may wish to consider an assessment of the efficiency with which each Ministry compiles and releases to the public, critical business, trade, and financial data on a timely basis. That assessment could also include what measures might be considered to make the privatization process as transparent as possible.

### IV. C. A Stable Political Environment:

Egypt's domestic political environment is very stable. Regional instability, however, continues to adversely affect the investment climate. The attraction of only 1.4% of the entire flows of FDI and FPI into the middle east highlights the importance of continued progress in the on-going peace negotiations.

### IV. D. Economic Stability:

The GOE's success with its structural reform and liberalization policies is paying off in a stable pound, adequate reserves, falling inflation, and a decreasing budget deficit. The stability of these macro-economic variables and the maintenance of the policies which underlie them are key to attracting further financial capital into the Egyptian economy. Egypt is expanding its privatization and divestiture program to include additional areas and it is speeding up its schedule for the privatization of Law 203 companies. However, as officials within the PEO rightly point out, in some of these other areas more rapid privatizations and the ability to divest public sector companies which currently enjoy monopoly status will depend on further price liberalization and reductions in tariffs.

#### IV. E. A Rational Tax Regime:

The GOE is continuing its efforts at tax reform. Much remains to be done. Many companies in Egypt have outstanding disputes with the tax authorities going back several years or longer. Under these circumstances the ability of the companies involved in tax disputes to expand production, hire more workers, borrow additional capital, or even sell their businesses is fundamentally impaired.

Both sides would benefit from the resolution of these old tax disputes. Government revenues would rise from those cases resolved in favor of the tax authorities. Government revenues would also rise from those cases resolved in favor of companies due to increases in investments, the hiring of additional workers, and an expansion of the tax base. More importantly, the tax system suffers greatly from a lack of credibility with the tax paying public. Improvements in its operation, efficiency, and reputation for fairness would increase government revenues as fewer and fewer companies and individuals seek to avoid paying fairly assessed taxes.

Fortunately, the tax treatment of new financial instruments and micro-financial institutions enjoy a favorable status. The GOE has wisely chosen to treat debt and equity investments on an equal basis. If new financial instruments are treated on an equal basis the markets will determine their price based on their appeal to savers and investors. Tax policies can distort this process either favorably or unfavorably. Chile, for example, exempts savings and investments from taxes and only taxes consumption. This government initiated tax policy is highly favorable to the development of Chile's capital markets and has spurred a new era of economic growth. In the United States and many other countries, interest on borrowing is treated favorably by tax authorities while dividends from equity investments receive double taxation. This means that companies must pay a higher rate of return to investors to compensate for unfavorable tax policies. Equity financing becomes less attractive than debt. Thus far, Egypt continues to pass rules and regulations favorable to the development of its financial markets.

#### RECOMMENDATION #4:

The GOE may wish to utilize arbitration procedures or some other procedure for the resolution of outstanding tax disputes over three years old.

#### IV. F. Adequate Accounting and Auditing Standards:

Many Egyptian firms have not yet introduced international accounting and auditing standards. Most companies still use the Unified Accounting System although those who seek registration on the Cairo Stock Exchange must restate their information according to international standards recognized under the General Auditing and Accounting Procedures (GAAP). However, unless the firms also use international standards in their internal auditing procedures, the financial data provided under the Unified System when restated under GAAP may not always represent acceptable data reporting to the CMA.

#### RECOMMENDATION #5:

The Capital Markets Authority may wish to study the advisability of an additional requirement on companies registering their shares on the exchange to include company certifications that internationally accepted auditing standards are used in the preparation of their reports before they are restated using GAAP.

#### IV. G. An Adequate Market Infrastructure:

The development of capital markets require strong and efficient financial intermediaries to mobilize and allocate domestic savings and international capital for productive purposes. As noted in the African Stock Market Conference, the development of both are reciprocal in nature. Strong market institutions are necessary to attract investors capital and the pressure placed on those capital market institutions by heavy investor demand assists in their further development.

There is a critical linkage between the development of financial markets and economic growth. As Egypt works toward a growth rate of 6% or higher, the strength of its capital market institutions will determine whether the growth process stalls or continues on a smooth path. A financial failure, major scandal, or loss of confidence by the public in the privatization process could set the reform process back by several years. Nearly all other emerging markets have had such setbacks. Careful and considered action at this point in time could well make Egypt one of the few countries who have successfully transformed their economy without a major financial upheaval.

Key among the actions to be accomplished is the continued rapid development of the Capital Markets Authority's prudential regulation and oversight capabilities. Funding for equipment, training, personnel, and administration must be sufficient to allow this organization to develop at a faster pace than the demands placed upon it by the growing financial market.

A major issue discussed at the African Stock Market Conference was the necessity for financially strong and viable micro-financial institutions. Capital adequacy of all micro-financial institutions is essential along with the development of a reserve fund or other form of guaranteed protection for deposits and investors. The level of capital adequacy for brokerage firms varies from country to country but recent examples of brokerage firm failures in the United States and Italy highlight the importance of the issue for Egypt. Larger markets can absorb the closing of several small brokerage houses without a concomitant loss of public confidence in the system. Thin markets, however, with newly emerging firms, could suffer a greater loss of public confidence. (As we went to press, the CMA announced a decision to raise the capital requirements for brokerage firms. This was an extremely positive decision on their part.)

#### RECOMMENDATION #6:

Because of its critical role in the success of the privatization process, the rapid development of the Capital Markets Authority should remain a focus of attention for the Government of Egypt, the MPE, PEO, and international donors. Issues relating to capital adequacy of financial intermediaries and the development of a reserve account or other forms of guarantees for depositors and investors need to be developed. Donor provided technical assistance and training to the CMA is an essential component for a successful privatization effort.

#### IV. H. An Adequate Legal Framework:

The complexities of developing a legal framework to underpin the transition from a socialist economy to a capitalist one are too numerous to be dealt with in detail. Two areas of work are, however, essential, (1) clear property rights, and (2) the enforcement of contracts.

Clear property rights and the ability to enforce contracts in a timely manner are essential components for the pricing of risk. The problem of property rights has already affected the sale of law 203 companies to anchor investors. Several high profile sales were delayed or canceled due to the inability to establish clear ownership of the property involved.

The ability to enforce contracts is also essential in a market economy. This problem extends beyond the sale or purchase of property and into the area of management efficiency as well. Numerous business executives rely on micro-management of their companies because of the inability to quickly resolve contracting disputes through the courts. The passage of a new law on arbitration has not solved the problem. These inefficiencies in the system increase rather dramatically the transaction costs of doing business in Egypt. (This is not meant to infer that Egypt has not made progress--only that much remains to be done. Egypt has done a superb job in passing legislation and Decrees relating to privatization during this period. A list of the laws and decrees passed during this period which underpin the financial reforms and the privatization program can be found in appendix 3.)

#### **V. CURRENT AND EMERGING ISSUES FOR GOE PROGRAM MANAGEMENT:**

Management of the privatization and divestiture program is too widespread to be effective and is causing confusion and doubts about the transparency of the process. Criticism of the GOE's commitment to privatization is unnecessary given the quite clear guidance provided by the President and the Prime Minister. Nevertheless, confusion does exist and it is clearly a management problem.

##### **V.A. Program Transparency:**

There has been a noticeable improvement in the willingness of the GOE to announce the list of companies that it is offering for sale in a coming period. The sales program from May through October generally followed the plan approved by the Cabinet in February. In October, the MPE published a list of 72 companies which it plans to offer in the next twelve months. This announcement stated the desired method of sale (IPO or anchor investor) although the specific timing of each offering was not mentioned. Nevertheless, investors who we spoke with accept the list as a credible statement of what lies ahead in the sales program.

Despite these announcements, however, the privatization program still suffers from a severe lack of transparency particularly with respect to the procedures used by the program for anchor investor sales. This problem contributes to the development and spread of rumors, unnecessary speculative behavior by those attempting to participate in the purchase of shares and a festering criticism of program management and implementation.

##### **V.B. Transparency in IPO Sales:**

The procedures used for offering companies on the stock exchange appear to be generally understood, although some problems remain. For the most part, these problem areas include: (a) the expeditious processing of the IPO orders, (b) trusting the market to price the IPO correctly, (c) the willingness of the GOE to float an entire issue rather than small minorities; and, (d) inefficiencies in the clearance and settlement of trading in both the primary and secondary market.

There is also confusion as to what companies will be offered for majority sale and which will be considered "strategic" and only offered for minority purchase. No clear policy exists. This is especially true with the recent floatation of flour mill companies. In February, the government's approved privatization plan stated that only 40% of the equity of its flour mills would be sold. In April, a first tranche offering of Middle Egypt Flour Mills was announced for about 30% of the company's equity. This was followed in May with an almost 40 percent offering of South Cairo Flour Mills. These offerings were consistent with the announced policy. However, in September the program offered and sold more than 50% of the Middle and West Flour Mills and 60% of the Upper Egypt Flour Mills and the East Delta Flour Mills. As yet, the government has not clarified if these last three sales were exceptions to the basic policy or if the basic policy has changed. Furthermore, it is unclear if this change in position will be extended to other industries which were shown on the government's plan for only 40% divestiture. More importantly, no one knows who or how these decisions are being made.

Obviously, those who are supportive of privatization prefer to interpret the more recent sales of flour mills as a change in the government's policy in favor of full privatization of flour mills. However, the government has not yet taken the opportunity to issue second tranches of North Cairo Flour Mills (20% IPO in April, 1995), Middle Egypt Flour Mills and South Cairo Flour Mills to bring their private holdings above 51%. Nor has the government commented on whether this shift to majority divestiture will be applied to other 40 percent companies.

A second aspect of IPO sales where transparency could be improved is in the availability of financial data and the disclosure of other information about the company being offered. While there is a greater effort to produce some information about the companies as they are offered, this material cannot be considered as yet a proper balance sheet or a fully developed prospectus. There are two important shortcomings. First, there remains serious shortcomings in the financial data being made available at the time of sale. Second, there is, at times, inadequate disclosure of some risks associated with the company's operations and future prospects.

Unfortunately, these shortcomings in IPO sales have not had a particularly strong influence on the demand for initial IPO sales or on the demand for these shares in secondary trading. The stock market has seen strong speculative behavior for new IPOs. Investors do not appear influenced by knowledge or lack of knowledge about the conditions of the companies being traded. The capitalist adage of "caveat emptor" or "Buyer Beware" is not yet in the consciousness of the public. Only the Al Ahram Beverage Company appeared to face difficulty in its IPO. This problem, however, may be explained by the breakdown in efforts to sell the company to an anchor investor, the known legal and policy issues surrounding the issue, or the lack of enthusiasm for purchasing shares of a company which produces alcohol.

A third problem of transparency in IPO sales is the lack of disclosure about the government's intention regarding the disposition of unsold equity. There is no solid information regarding the government's intention to sell off 100 percent of its remaining shares which have already been introduced into the market through a partial IPO. This would seem to be a relatively simple matter at this time since the share price of most companies is above its IPO price. However, should the stock market go into a correction, as it did in 1995 and the first half of 1996, the government may find it politically difficult to dispose of its shares below the share's high and below the IPO price.

**The most important transparency issue related to the disposition of the shares retained by the public sector relates to the extent the public sector plans to exercise its ownership**

rights in these shares to continue to control the management of the companies. The IPO method of privatization has produced a diffuse private sector ownership structure even among companies which have had a substantial percentage of their equity sold (above 60%). Because of the diffusion, the government retains some capability with its 25 to 40% minority position to play a dominant role in determining future corporate governance. In essence, the public sector remains the anchor investor in these companies (but without the management, technology, or marketing know how to make them work). Again, it is too early to tell if this issue is or will influence the share price of these companies in the secondary market. However, in so far as the public sector operates as an anchor investor, the full benefits of the privatization program for Egypt's economy will not be realized.

#### V.C. Recommendations to Improve IPO Transparency:

The problems discussed above are not particularly difficult to solve from a technical perspective. The issue of whether the government is now planning to sell more than 50% of flour mills as a matter of policy could be clarified with a brief policy statement and the sale of more than 50% equity of Middle Egypt Flour Mills and South Cairo flour Mills. While it is anticipated that this issue will be discussed in the People's Assembly in the session which began in early November, the government is likely to have an easier time explaining a consistent policy than a policy which permits some mills to be majority privately owned while others remain majority publicly owned. An inconsistent policy would please neither the Peoples' Assembly nor the private sector investors. While the price of bread remains a politically sensitive issue, the government has better means at its disposal for controlling bread prices than through the ownership of flour mills. In fact, private ownership of these mills within the context of competition is more likely to result in cost minimization in the milling process than would be the case under continued government monopoly control of the industry.

#### RECOMMENDATION #7:

The MPE needs to clarify the GOE's policy concerning which companies will be considered strategic and why. The explanation should include the benefits to the government of retaining public sector ownership and estimate the level of profits or losses accruing to the Treasury. Further, the prospectuses for companies considered "strategic" should clearly note the intention of the public sector to maintain control, the projected profits or losses, along with an explanation of any pricing controls, subsidies, or other forms of public assistance the companies will require to continue effective operations before being offered to the public on the stock exchange.

Similarly, improving the availability and timeliness of financial data requires little more than a decision by authorities. Historically, financial data on public sector companies were confidential. Further, the government became use to a pattern of reviewing the financial position of each company toward the end of the calendar year, usually five to six months after the company's fiscal year had ended. The timing of the financial reviews permitted government auditors sufficient time to certify the books of the companies. But, without a hard budget constraint and with companies operating under production mandates rather than a profit maximization mandate, there was little need to maintain up-to-date knowledge of the exact financial condition of a company. Further, with partial shares floated on the stock exchange, the CMA will require much more timely data, at least once per quarter.

In today's more complex and increasingly more market based economy, the financial position of these companies needs to be made more public and more timely, especially the ones which

have a portion of their equity in the private sector. Not only are these firms public bodies entrusted with the management of public funds, but a better public disclosure of their financial condition will likely promote greater public support for privatization. While there are corporate confidentiality requirements that may relate to a specific financial transaction, a suitable array of summary data on the financial performance of these companies needs to be made more public.

Ideally, preliminary summary data on profits and losses, assets and liabilities, should be made public quarterly within 10 to 15 days after the completion of a quarter. Similarly, annual data should be available 20 to 30 days after the end of the company's fiscal year. In addition, specific items should be explained when they reflect unusual circumstances. For example, if net profit includes revenues arising from the one-time sale of unutilized assets, such revenues should be shown separately. If inventory suddenly jumps up by a substantial percent, an explanation should be provided. Ultimately, Egypt should adopt the kind of practices which are used in modern market economies which have well developed capital markets. On an interim basis, the reporting of financial data on all Law 203 companies should follow the procedures set out for companies listed on the stock exchange, whether the companies are listed or not.

As a practical matter, the timely availability of accurate financial data on a large segment of Egypt's industrial base would make an important contribution to the development of Egypt's emerging financial services industry. One of the important side effects of the privatization program is the dramatic growth in new businesses such as brokerage houses, fund management companies, investor advisory services and market research firms. Given the current size and project future growth of Egypt's market economy, the financial services industry in Egypt should be expected to become a leading sector in the country and in the region. One of the valuable attributes of this industry is that it can become a high employer of college graduates, a category of worker in Egypt which is now experiencing high unemployment. However, without timely and accurate data the quality of services delivered by brokers and fund managers will suffer. (SEE RECOMMENDATION #3)

The issue of the government's retained shares is perhaps more difficult to solve. In one sense it represents a political gesture to those who are not yet supportive of the concept of a fully private sector economy. More importantly, it permits the government to defer decisions on how it will handle the companies which are operating at a financial loss. Without the dividends from the retained shares and profits from other companies not yet sold, the government would have to cover the financial losses in its corporate portfolio from the budget or through bankruptcy/liquidation procedures.

It is difficult to measure the size of the problem, given the data which is now available. It may well be that adequate funds could be raised to pay down the excessive debt of otherwise profitable companies through the sale of the retained share of companies already introduced into the market. However, the problem of debt will not be finally resolved until the government deals with the future of companies that continue to produce operating losses and are both financially and economically inappropriate to continue to operate as companies. This could involve the necessity to outplace, retrain, or retire a substantial number of workers.

#### V.D. Transparency in Anchor Investor Sales:

Thus far, only four companies and an asset which formed a company have been sold to anchor investors. The first sale to be completed was El Nasr Boilers which took 12 months to

negotiate. The soft drink bottling companies which were ultimately sold to investors representing Coke and Pepsi, were actually advertised for sale before El Nasr Boilers, but their sales were not completed until after the completion of El Nasr Boilers, a full 18 months from the date they were announced for sale. In each case, the buyers reported that the process of negotiations was difficult and slow.

In October 1993, the government hired an international investment bank to manage the sale of the Sheraton Hotel. The process of preparing the asset for sale, and finding a prospective buyer took 12 months. When negotiations with the prospective buyer were about to start, the government withdrew the asset from sale and canceled the contract with the investment bank. Shortly thereafter, the government reannounced its intention to sell the hotel and proceeded to enter into direct negotiations with the interested buyer. The sale was complicated by the fact that the hotel industry was facing difficulties as a result of fear of terrorism against tourists in Egypt. In addition, the buyers country of origin (Libya) posed a political problem for the firm managing the hotel. Ultimately, the buyers agreed to form an Egyptian firm with Egyptian management in order to conclude the sale. This firm was approved in November 1996. Presumably, the final steps in the actual sale can now be concluded over the next several months. Thus, this anchor investor sale took 3 years from start to finish.

Finally, El Ahram Beverages was announced for sale to an anchor investor in September, 1995. It was generally known that there were two groups of bidders, although one may have contained a substantial portion of public sector interests. Originally, buyer proposals were due in January 1996 but this date was extended to May. By June, 1996 the government had rejected the offers and attempted to sell the company through an IPO. This occurred in July but was not well received with only fifteen percent of the equity sold in the market. The government then reannounced its interest in an anchor investor sale and ultimately, a consortium of investors emerged to begin negotiations with the government. The process of negotiations with this consortium was not clear and there have been a number of rumors that the negotiations were slowed by the appearance of new offers. Finally, the government announced in November, 1996 that it had reached agreement with the consortium and concluded the sale.

The Al Ahram sale introduced a new confusion in the program related to the sale of land and buildings. In May, 1996, the Cabinet Subcommittee on privatization issued a directive that the land and buildings of public sector companies located in cities were not to be included in the sale of the firms. Presumably, this meant that the buyers would be purchasing only the company's equipment, operations, brand name and market share. The buyers would have to enter into a lease agreement with the Holding Company or whoever owned these physical assets in order to continue to use the land and buildings. However, in September, this decree was rescinded by another decree which said that land and buildings generally would be included in the sale. However, the decree stated that when this was the case, the use of the land would be deed restricted to industrial purposes and valued at the price of land in the nearest industrial city.

In addition to the five concluded anchor investor sales, negotiations have occurred but were not completed on a variety of other Law 203 companies. There is little solid information on the status and issues involved in these negotiations. As a result, the anchor investor sales process is a fertile field for the growth and spread of rumors which are potentially damaging to the privatization program and its management.

Thus, the record shows that anchor investor sales have proven quite difficult and time consuming for both the government and the buyers. In fact, a number of potential investors have expressed a sense of anxiety over the apparent difficulties they would expect to face if they entered into negotiations for the purchase of a company as an anchor investor. This attitude could tend to restrict the market for anchor investors unless the program introduces and follows more transparent procedures.

#### V. E. Recommendations to Improve Anchor Investor Sale Transparency:

A sale of a private company occurs because the sellers have decided that they no longer wish to own the particular business or a buyer, in a take-over, offers a price that the owners can't refuse. The owners of a private company will seek the maximum price for their company because, once sold, they have no further involvement with the company or claim to its earnings.

The sale of state owned companies is different. While sometimes wrapped in an ideological mantle, governments sell public sector companies for one or more of the following reasons. First, to achieve improvements in the allocation of the country's resources. Second, to eliminate a burden on the budget due to lack of taxes paid by the company or to eliminate a continuing need for an operating subsidy. In addition, the sale could be undertaken to resolve other national issues such as the conflict of interest between the government's responsibility to protect its citizens and its interests in corporate profits.

Unlike a private sector sale, the sale of a government enterprise does not eliminate the government from future benefits or from a continued degree of oversight of the enterprise. By selling a public enterprise, the government expects to achieve post sale benefits such as efficiency improvements, new investments, more employment and a more balanced budget through newly generated taxes or the elimination of subsidies required while the firm was under public management. Furthermore, the government, after the sale can treat the firm at arms length in terms of enforcing environment standards, labor laws and product safety standards, to mention a few. Experience shows that these laws are not easily enforced while the government retains ownership in production.

Thus, unlike the private sector transactions, the government's criteria for completing a sale should not be based on maximizing the actual sale price of the company. Rather, it should be based on maximizing the long run returns to the economy. For many firms in the MPE's portfolio, maximizing the long run returns to the economy would suggest a sales strategy which minimized the time required to complete the sale and place the company under the management of the new buyers. While the politics of privatization in Egypt required the government to move first on the profitable companies, a strong economic argument could have been made for the government to first rapidly sell or liquidate the losing companies.

An extreme example of this approach can be seen in the Czech Republic. In this country the government essentially distributed the equity in its public sector factories free to its citizens with the expectation that this would result in the fastest method to achieve the economic efficiency improvements needed to make the economy sound and growing. Over 2,000 companies were privatized this way in 1992 and 1993. Today, the growth of the Czech economy is a model in Eastern Europe.

The Egyptian government's new privatization plan calls for the sale of 45 companies to anchor investors during the next twelve months. This target will be impossible to meet if the methods of sale for each of them parallel those used for the first five anchor sales.

**RECOMMENDATION #8:**

What is urgently needed is a method of sale which is clear to all parties, competent in the treatment of offers and expeditious in completing the processes required to prepare, offer and negotiate the sale of a company to an anchor investor.

The approach should embody the following elements:

1. A new element in the MPE, separate from the HC's and AC's with the exclusive mandate and line responsibility to carry out anchor investor sales.

The new unit should be managed by an individual with private sector experience who is known to be knowledgeable, committed to privatization and of good character. The unit would recruit and manage sales negotiation teams, but, in some cases, could assign sales to local sales agents such as banks. The unit's negotiation team members would be experienced professionals hired under contract but outside the HC's or AC's. A majority of team members should have solid experience in the private sector. At least one should be an expert in the industry which is being privatized. One should have merchant banking skills.

There are several purposes for forming these teams. First, it would place the responsibility to prepare the sales package and carry out the negotiations in the hands of professionals whose full time interest was the privatization transaction. Second, it would more directly link the privatization process to the senior political leadership which is guiding the program. Third, it would eliminate an important conflict of interest that has tended to slow the process. Finally, it would end the liability related to sales decisions faced by a number of career employees of the Holding and Affiliated Companies.

Currently, the preparation and negotiation of an anchor investor sale is in the hands of Holding Company personnel who have little or no experience in the sale of a firm and who have a considerable number of other obligations related to the ongoing management of the Holding Company. Their inexperience and their fear of making a "mistake" in the sale has tended to slow the process as they seek higher level approval for each step in the process. In addition, Law 203 mandated the Holding Companies to maximize profit. This objective may run counter to the interests of a Holding Company in privatizing a particular firm which is on the government's plan. Consequently, the holding company's negotiating team may be operating with conscious or subconscious motives to stall or delay a particular transaction.

2. A published set of procedures which describe each step of the anchor investor sales process. These would be followed for each sale.

The procedures would define the responsibilities and tasks of the sales preparation and negotiating teams. They would inform the prospective anchor investor of each step in the process. Finally, they would provide for appropriate opportunities to inform the public on the status of the sale without compromising confidential information on the buyers or their detailed offers. The procedures would set out an appropriate time frame for sales which permits adequate time for bid preparation, submission and analysis, yet is consistent with the

government's privatization schedule. The procedures should permit negotiations with a single bidder.

3. The negotiating teams should have full authority to conclude an anchor investor sale at or above a set of minimum sale conditions agreed to by the government prior to the request for bids.

On the basis of the analyses needed to prepare the anchor investor sales package, the government should determine the minimum acceptable sale price and other sale conditions. Other sale conditions could, for example, refer to expected buyer responsibilities to current employees, the buyer's rights to the land and buildings, new investment requirements and environmental clean-up requirements. Once the minimum acceptable conditions are determined and agreed to at the program's policy level, the MPE with the approval of the Cabinet Subcommittee would issue these as instructions to the negotiating teams. These instructions would delegate full authority to the negotiating teams to proceed with and conclude the sale to an anchor investor within the terms of the instructions without further approval from the government authorities.

If a sale cannot be concluded at or above the government's minimum acceptable terms, the bidders should be so advised and negotiations terminated. The government would then have to rethink its minimum conditions or seek an alternative sales strategy for disposal of the company.

#### V.F. Other Management and Technical Issues:

Confusion also exists in the following areas for which the GOE can make changes to expedite the sale of State Owned Enterprises and improve public confidence in the program:

1. The public is unaware of the intricacies of approving a company for sale. Who or what organization of government is responsible for approving whether companies are to be sold as majorities or will be determined to be strategic? Who or what government organizations is responsible for deciding the minimum value at which a state owned asset will be sold? Who or what organization of government is involved in the bid negotiations such that inappropriate bids can be eliminated before they near the final stages of completion? Who or what government organization is responsible for approving the final bid and how long should that take?

The current procedures are inadequate for both anchor sales and IPO sales. They have led to delays, cancellations, or reconsideration of fundamental policy at the last minute. A single body needs to be given the authority to make key decisions. Recent activity suggests that the process is still too undefined to be effective.

The GOE has more than adequate reason to be concerned about the privatization process. Other emerging market countries have seen complete changes in governments, high ranking officials charged with illogical crimes, popular politicians removed from office, and similar disruptions which any government would hope to avoid. On the other hand, the present process of spreading responsibility across a great many people and organizations (the Cabinet Subcommittee, the General Assemblies of affiliated companies, the General Assemblies of Holding Companies, the MPE, the Ministerial Council and perhaps others), is simply too broad.

2. The control over the Central Fund for sale proceeds is not clear and the procedures for their utilization are not well known. Clarification of responsibility and procedures is a necessity.

3. Cartels are formal or informal agreements among business firms designed to reduce or suppress competition in a particular market. Cartels may control production and/or distribution. The main activities in which they engage are fixing prices, limiting available supplies, dividing the market, and, at times, the pooling of profits. In socialist economies, forms of cartels were a natural consequence of the necessity to divide up geographic markets, administer price controls, and other measures necessary under a planned economy. Some of these past vestiges of state control may still exist. The privatization process will suffer if different forms of cartels still exist in Egypt and attempt to involve themselves in the purchase of state owned enterprises. This particular form of capitalist behavior (cartels) is perhaps the most difficult to detect and the most difficult for a Government to control. The two recent cases in the United States involving charges of price fixing by ADM and price fixing on the NASDAQ demonstrate how difficult this area is to regulate effectively.

#### **RECOMMENDATION #9:**

The GOE needs to decide soon how it wishes to deal with the sale of monopolies and/or the possible existence and/or participation of manufacturing cartels in bids for related public sector companies. Current legislative progress on anti-trust legislation, as well as, price fixing should go forward at a rapid pace. Companies which may appear to represent manufacturing cartels should not be allowed to bid, along with other anchor investors, for the purchase of state owned assets.

4. The GOE needs to decide how best to structure corporate governance laws such that the reason for selling state owned enterprises to the private sector is realized. If private sector owners cannot effectively release the pent-up efficiency and productivity of these companies due to antiquated laws which restrict their ability to restructure these companies, then private sector ownership on paper will not assist Egypt's economic growth.

5. Egypt needs both technology, managerial expertise, international marketing linkages and capital. The principal place where all four ingredients, structured for a specific industrial need can be obtained is through an anchor sale to a multinational corporation. All four cannot be obtained simultaneously through an IPO or through a structured IPO with a minority going to an institutional owner. Only through an anchor sale to a multinational can Egypt hope to gain all four and quickly bring a particular company up to a competitive standing internationally. This is not occurring at a pace needed to achieve program targets and the managers of Egypt's privatization program need to address this issue.

#### **VI. EVALUATION OF USAID'S TECHNICAL ASSISTANCE CONTRACTOR:**

Arthur Anderson is USAID's prime technical assistance contractor working with the MPE/PEO on assistance efforts with the privatization program. Their counterpart agency is the Public Enterprise Office (PEO) under the Ministry of Public Enterprise. Through their contract with USAID, Arthur Anderson has the following four Purposes:

1. Public Relations: To create an effective local and international public relations program to educate about, and gain the support of key audiences for, the opportunities and benefits presented by privatization.

2. **Organizational Development:** To strengthen the capabilities of the entities that are responsible to enable them to carry out the privatization program effectively.
3. **Sales Support:** To maintain a steady flow of company/property sales. (50 State Owned Enterprises brought to the point of sale over the life of the current contract.)
4. **Decision Support:** To overcome prevailing political, policy, regulatory and organizational impediments to privatization.

VI. A. Internal Reorganization:

As noted under the section reporting GOE progress in privatization, the GOE commitment to privatization became serious at the first of the year and actual transactions did not begin until May. By that time, frustration on the part of donors and technical assistance providers (who had been working for quite some time on privatization) was quite high. With the Government's program now on track, a team of Arthur Andersen executives was sent to Egypt to discern how the technical assistance effort could be reorganized to begin serious privatization preparations. That effort led to an evaluation of past work which was judged as too general in nature and unrelated to the necessary documentation for an actual sale of a public sector company.

Further, the technical qualifications of some staff and the organizational structure of the technical assistance units were also judged to be not well suited to the production of essential documents or to produce them at a rate which coincided with the GOE's rapidly developing privatization schedule. Consequently, an internal reorganization process was begun which is nearing completion. Thus, within the time frame of this evaluation, Arthur Andersen had undergone both an organizational realignment and a personnel reorganization. The former was done to change the strategic approach of the project and the latter to bring in more technically qualified personnel.

Under the new strategic approach, all organizational units were reorganized and will be primarily focused on individual sale transactions to ensure that they occur successfully. This is a vast departure from previous programming which was too general in nature and spread resources across a wide spectrum of programming. Credit should be given for the extremely difficult decisions which these reorganizations required. It is the opinion of the evaluation team that the new strategy is the correct one and only time will tell whether the large reduction in staff (from 120 to under 40) will allow the project to successfully meet its objectives.

The new strategy may have one identifiable weakness. The concentration on sale transactions by all units may inhibit the project from accomplishing three of its other objectives which are primarily developmental in nature. Previously, each of the four main project purposes had an identifiable organizational unit. After the development of the new strategy most units lost their internal structure. The reorganization substantially disrupted the work of these units. Some type of reconstitution of these units may be a necessity. The important issue is whether Arthur Andersen can deliver results on each of its four main purposes in the future.

Each of the four purposes listed above will be examined in depth, however, a few overriding comments are in order:

VI. A. 1. For the Public Relations Unit:

International public relations efforts have been quite good as evidenced by the number of extremely well written and delivered presentation by its Chief of Party, increased coverage by international publications, corrections stimulated by policy discussions between Arthur Andersen and newspapers producing inaccurate reports and/or editorials, as well as, improvements in public speeches and presentations by program managers at five international events. Eleven articles were seeded into international publications including Business Week, the Wall Street Journal, Reuters, UP, AP and the Central European Economic Review. This international press exposure, combined with policy reforms and Government action which signaled the markets that privatization activity was becoming serious has resulted in a significant increase in Foreign Portfolio Investment into Egypt's market.

Press coverage has also been strong locally with a number of press placements stimulated by the AA Public Relations Unit. There is still significant oversight of the local press and the ability of the Public Relations unit to impact the local press is limited by factors outside its control. (A detailed listing of events which may have led to some of these placements can be found in AA's quarterly reports for this period.)

The most successful local effort was the ability of the PR unit to conduct dialogues with the press and change or correct misleading or incorrect privatization articles. Further, much work was done to create a privatization page in Al Ahram which despite its high quality was canceled through no fault of the contractor. Subsequently, part of that effort was published by Al Ahram. Currently, the PR unit has staffed up successfully, is in daily contact with the press office at the MPE, and has a permanent presence in the PEO should there arise an immediate need for a public relations response to a privatization action. However, the effort inside the PEO needs to be refined and strengthened with better communications between both parties. The widespread criticism engendered by the rejection of the bid for Ameriya Cement could have been blunted if the MPE had effectively addressed the criticism with a good public relations response which clearly set out for the public, the criteria for bid review, the concerns which were considered, and a factual recounting of why the bid was rejected. The Public Relations function inside both the MPE and CMA needs further assistance.

Further, and of special note, is the organization of Arthur Andersen's public relations unit such that it effectively supports other project activities in a very cost/effective manner.

In the future, the efforts of the Public Relations unit require increased focus on the new strategy, concentration on institutions which are permanent in nature, the further refinement of its quick response mechanism, and the provision of the bulk of their services to companies which have been, or will be, privatized. They cannot ignore, however, the very great need of the MPE for assistance in individual transactions which become controversial. The same is true of the CMA which will require carefully crafted responses to public questions on speculation in the stock market and other issues.

Finally, gaining the support of a wide group of audiences for the privatization program was perhaps too broadly stated and should be reexamined. The PR unit could improve its performance in the area of educating about the opportunities and benefits of privatization but overall its activities both internationally and locally have been quite good.

#### VI. A. 2. The Organization Development Unit (ODU):

The Organizational Development Unit has been one of the most productive units within Arthur Andersen even though it is one of the smallest. The number of workshops, seminars, and people trained on technical issues, demonstrates that this unit can successfully perform. However, the unit requires technical oversight and coordination with the new strategy because of its lack of private sector expertise. While the unit relies on others to produce its technical materials, some of the unit's products have been too general and contained inappropriate material (for example, training on "warrants" which are a financial product not likely to be introduced into Egypt within the next 3 or 4 years). Arthur Andersen is responsible for the usefulness of those materials and the sustainability of the training efforts. Consequently, Arthur Andersen will have to exert managerial oversight of this unit and reorient it toward individual transactions, the needs of permanent institutions such as affiliated companies, the CMA, and brokerage firms.

In relation to the MPE/PEO and the Holding Companies, the MPE/PEO will want to know that those who are about to enter into anchor sales (whether it be the new unit under the MPE per recommendation # 8, or Holding Company and Affiliated Company personnel) are as well trained in the negotiations as those with which they will negotiate. The Organizational Development Unit should be responsible for this function. If that is to occur, greater coordination and cooperation between this unit and the technical staff of Arthur Andersen is a necessity. Because the ODU is separate from the sales teams, the technical specialists (who have their own work to do) are not particularly responsive to the needs of this unit. Either the Organizational Development Unit will have to bring on a full time person with sufficient private sector experience or the management of Arthur Andersen will have to determine a way in which to integrate the training unit more effectively with its technical specialists.

Finally, it should be noted, that the Organizational Development Unit was encouraged by donors to assist ESAs. That charge was even codified in one of its objectives. Nevertheless, the goal placed too much emphasis on training of workers in ESAs, training of ESA management, and training provided to the ESA association (ADALA). That effort may need to be scaled back if not eliminated. At one point, over 40% of the units activities were related to ESA training. In fact, there may be little future need for this effort given the focus on anchor sales and IPOs. The unit cannot be criticized, however, for doing what they were told. Consequently, given the number of productive activities engaged in by this unit, their performance has also been quite good.

#### VI. A. 3. The Sales Support Unit:

Fundamental to the success of the Sales Support Unit will be: (1) the resolution of what constitutes finalization of bringing a company to the "point of sale", (2) the setting of quantifiable, time bound objectives for the units such that the MPE/PEO and USAID know which companies will be the focus of assistance (say 10 to 15 per year), (3) the ability of Arthur Andersen to allocate scarce technical resources appropriately, (4) the freeing up the units from individual Holding Companies without alienating the five who have come to depend on their assistance; and, (5) a focus on the retention of technical experts in the sales units who have gained significant expertise over the years and cannot easily or inexpensively be replaced.

(Officials within the MPE/PEO have expressed the opinion that it would be better if Arthur Andersen concentrated on 10 to 15 companies per year rather than spread

themselves broadly across a portfolio. Arthur Andersen is ready to do that if a meeting can be arranged between USAID, the MPE/PEO, IBTCI, and the Holding Companies to obtain agreement on which 15 companies will be selected. Arthur Andersen points out that the list of companies for privatizations made public by the MPE differs slightly from the priorities of Holding Company Chairmen and also differs slightly from the ones Arthur Andersen would select as the best candidates for anchor sales. Despite the differences between all three groups, the MPE has the authority to select which 10 to 15 companies Arthur Andersen would concentrate on and ensure the cooperation of all concerned. A meeting on this matter is recommended as a priority item.)

If a decision is reached on which companies Arthur Andersen is to focus on during 1997 and if agreement is reached on what constitutes "bringing a company to the point of sale", then the ability of Arthur Andersen's sales unit to meet its objectives for 1997 will be greatly enhanced.

The production by Arthur Andersen of six important documents fundamental to the new privatization activity makes the six month period covered by this evaluation unusual due to the fact that the new management team was only on board for four of the six months under discussion. These documents include:

1. An Anchor Investor Manual (Unsolicited and Solicited Bid Documents). This manual which for the first times lays out clearly the documentation for how an anchor investor sale should proceed took two years to develop in Hungary but took Arthur Andersen approximately four months. The document was delivered to Prime Minister Ganzouri after extensive discussions with Government officials and legal experts. A number of key policy issues were discovered during its production. The document is still in need of refinement especially as that relates to how the GOE accepts, reviews, and approves anchor investor sales such that transparency is not in question. On the whole, however, it is a positive development which provides the framework for a continuous flow of anchor investor sales if the GOE's approval process is explained.
2. Strategic Portfolio Assessments: Two have been finalized out of five, and the Housing, Tourism and Cinema Holding Company did not require one due to the existence of an information memorandum and fact sheets on 39 assets. It is the opinion of IBTCI that the new Portfolio Assessments are of the quality needed to strategically deliver a continuous flow of companies for sale and are better than similar documents produced before this period.
3. Absorptive Capacity Document: This special report was prepared and delivered to Prime Minister Ganzouri, Yousef Bhutros Ghali, and Minister Ebeid. It was used as the basis for discussion at a Ministerial Privatization Committee meeting which resulted in a decision to proceed with IPO sales through the stock market. As such, it represents a key policy document and Arthur Andersen can take some credit in the privatizations which occurred through the IPO method.
4. Prospectus Guidelines: This document attempted to set the standard for prospectuses to be used in IPO sales in Egypt and as such represented a fundamental change in the way IPOs are conducted now vis-a-vis the earlier period. AA stressed the necessity to produce this document within internationally acceptable standards and incurred the displeasure of at least one sales agent. There is a natural tension between a sales agent's desire to include promotion/positive material and the requirements of a professional prospectus relating to the level and nature of investor risk. Arthur Andersen continues to work with the CMA and others on the proper

content of these documents. Any exclusion imposed on AA or their self exclusion from the production of documents which may not meet internationally accepted standards should be judged as a positive achievement for the program and for USAID.

5. Direct Investment Funds Document: Arthur Andersen worked with the CMA to technically assist in the development of the new Direct Investment Mutual Fund. This achievement was part of their charge to ensure a steady flow of companies into the market place and will also improve the chances of new private sector owners to make the kinds of managerial changes necessary to release efficiencies and productivity within the firms. (While the fund was only recently approved, most of the work occurred during this very difficult reorganization period.)

6. IPO Guidelines: Standardized guidelines for IPOs. (This document will need to address the problems mentioned in the text. It is still in draft form.)

Of the six documents discussed above, the Anchor Sales Manual and the Guidelines for Prospectuses are of particular importance. These are fundamental documents to ensure a steady flow of companies for sale to the market and for the protection of the public. Because the IPO guidelines and Prospectuses may contain some material which discloses weaknesses or other relevant investment information which may not be deemed helpful to the selling process, the creation and distribution of these prospectuses were controversial and led some selling agents to criticize the effort. They are, however, fundamental to bringing the Egyptian financial markets up to international standards and Arthur Andersen can take some credit for that fact.

Secondarily, the material produced by previous contractors was primarily background information and not useful to the actual sale of state owned enterprises. Charged with the necessity to develop a strategically logical sequence of sales from the Holding Companies to the MPE, Arthur Andersen found it necessary to begin redoing the Portfolio Assessments, time tables, and sales strategies for each of the five major Holding Companies. This process is about 60% complete.

Finally, the development of the procedures and processes for Anchor sales of state owned assets to investors is a major achievement which has been approved by the MPE, commented on by the Yousef Bhutros Ghali, and distributed to all Holding Company Chairmen. For the first time, program managers of the privatization process know the documentation necessary to sell a company even if the GOE's decision making procedures still require clarification. Further, during the process of developing this document, a great many policy issues were found and resolved. This effort alone is demonstration that the best way to find and resolve policy issues related to privatization is through the actual process of producing the relevant documents and through the involvement in actual transactions. On the other hand, the failure of this document to explain or recommend GOE procedures for transparency in the process is a major weakness.

#### RECOMMENDATION #10:

Arthur Andersen should be involved in the preparation of all documentation necessary to bring a company to the point of sale and not be directed to accomplish partial assignments during the process if the full benefits of the technical assistance are to be realized.

It is extremely difficult to draw conclusions about the sales support effort. On the one hand, none of the privatized companies were assisted throughout the entire process by Arthur

Andersen. While they did complete some key assignment for individual companies, they did not participate as a partner in the entire process with the MPE/PEO. AA was also not involved in any of the Joint Venture Bank divestitures and was not involved in the development of prospectuses for any of the IPO sales, except EFIC. Nor did AA produce all five of the key documents necessary to bring a company to the point of sale for the anchor sales which were prepared during this evaluation period but announced afterwards. Further, no strategy is now in place which can ensure that next year there will be an identifiable number of companies which AA can point to as representing the successful completion of their work. In these respects, the unit is performing under expectations. Their goals, objectives, and work schedules appear chaotic.

On the other hand, the number of key documents and policy issues which resolve major impediments to privatization and now lay the foundation for a successful year to come deserve recognition. Nevertheless, without follow through on the recommendations made for the sales unit, 1997 may be another disappointing year. (See Recommendation #11 below)

#### VI. A. 4. The Decision Making Support Unit:

Egypt is not a decentralized decision making country. The original charge to the Decision Making Support unit, to cover a wide audience base in order to gain public, institutional, and international support for privatization, was perhaps irrelevant to the program and overlapped with the charge to the Public Relations Unit. Clearly, the process of announcing companies for sale, attempting to spread responsibility for the final decision widely has confused a great many people and not allowed this unit to focus on any particular structure because such a structure does not exist. The Decision Making Support unit may need to be reconstituted under the direct supervision of the Deputy Chief of Party and focus on the GOE's internal decision making process for approving privatizations, as well as, those policy issues which can derail the effort.

The Decision Making Support Unit could also be the unit which provides the technical coordination for both the PR Unit and the Organizational Development Unit. It could receive key policy issues from the Sales Team Units which are handling individual transactions in order to deal with policy issues, evaluate the progress of micro-financial institutions, and generally provide needed policy guidance to the GOE program. To do so would require a greater level of technical expertise.

#### VI. B. Past Practices and The New Strategic Approach:

During the six month period under review, the entire PIDP project needed new focus and strategic direction. The new Chief of Party has provided much of that new strategic direction but additional work to coordinate the new strategic approach with the developmental nature of the other three project purposes is still in need of formulation and rapid implementation.

With the advent of 1996, it is now clear that the Government of Egypt believes the minimum legal and regulatory framework for privatization is in place. Thus, a major part of the objective of the project (To overcome prevailing political, policy, regulatory and organizational impediments to privatization.) has made progress. Nevertheless, as individual transactions occur additional policy and regulatory issues will become evident. Further, previously announced policy has a tendency to change and Arthur Andersen will be required to identify these new policy issues and reemphasize previous policy positions with the MPE/PEO.

GOE pressure to sell public sector companies is now being felt and responded to by the MPE/PEO and Arthur Andersen. Because of the large number of companies to be privatized and the time frame within which that will occur, the ability of Arthur Andersen's reorganization to respond to this pressure will soon be tested. **The purpose was to focus all its assets; its public relations unit, its organizational development and training unit, its valuation and sales unit, and its strategic-policy unit on the task at hand--responsiveness to requests for assistance from its clients on individual privatization transactions. Despite the amount of time it took to evaluate the previous structure, documents, and personnel, Arthur Andersen's strategy is now the correct one and is in time to provide substantial assistance to the privatization process.**

In the past, when the GOE's program was moving slowly, Arthur Andersen's units were providing broad based efforts at public relations, organizational development, affiliate company valuations and special studies. These efforts can best be described as preparatory to the privatization activity Egypt has put in motion during the first 9 months of 1996. While useful to some, both the MPE and Arthur Andersen now require a more transaction focused effort if they are to meet their targeted goal.

As previously mentioned, in addition to its change in strategy, Arthur Anderson is now undergoing an internal personnel reorganization. That reorganization is putting pressure on its staff and its subcontractors due to the need for the release of generalists and to hire specialists. The purpose of this reorganization is to upgrade the quality of its technical staff. This requires that past activities be abandoned and previously produced documents which were general in nature have to become more specific to an actual transaction. Training, which was also of a more generalized nature, has to reinforce attempts by the sale teams to ready a Holding Company or its affiliate for an IPO or Anchor investor sale. And, public relations which was oriented outward to the public and decision makers will have to become more oriented to the publication needs of companies already privatized or in the process of being privatized.

Arthur Andersen found that the degree of knowledge and qualifications of its staff had to match the new strategy and its future requirements for greater specificity and technical know how. The reorganization has already been extensive. Arthur Andersen and its subcontractors have gone from approximately 120 employees to less than 40 today. If the new slim down structure can produce, AA should get high marks for controlling costs and budget control. However, understaffing may now be a problem.

Written material provided to the MPE/PEO, Holding Companies, and Affiliated companies in manuals and handbooks have been useful to set overriding procedures and to ensure that all parties were working in the same manner. However, within those written documents, Arthur Andersen is obliged to provide the GOE with at least a model of international "best practices" in a variety of areas. While the privatization process in emerging markets is by necessity, incremental, knowledge of what will be considered by international investors as a "best practice" is still a necessity for local institutions to know. It may take time and refinement for these practices to be fully implemented but the sustainability of the technical assistance is in question if fundamental knowledge has not been imparted to counterpart institutions. Arthur Andersen's new approach can identify those practices and provide policy guidance on each one. Issues which may impact individual privatizations can be communicated to the MPE/PEO such that transactions which contain those components in the future can be dealt with effectively.

The TA contractor's principal responsibility is to bring law 203 companies to the "point of sale". That requires the production by the AA sales team of 5 essential documents. A serious issue remaining to be resolved is how they intend to accomplish that purpose given their current concern over corporate liability in the production of some of these documents. While AA has raised a particular concern with the valuation document they may also have other liability concerns with some of the other documents as well.. The quantifiable target is 50 companies to the point of sale over the life of the contract. Defining what is meant by "bringing a company to the point of sale" is a question which must be clearly addressed by USAID to the technical assistance contractor. As for the corporate liability issue, the TA contractor bid on and accepted the project. Consequently, the responsibility is on AA to present options acceptable to USAID for the resolution of the corporate liability issue if they hope to successfully meet their objectives.

For purposes of clarification, bringing an anchor sale to the point of sale is different from an IPO and involves the development of: (1) Strategic Portfolio Assessments of five Holding Companies which include subsidiary sections for each affiliated company on Sales Timetables and Sales Strategies; (2) the completion of Internal Information Memoranda which requires the assistance of industry specific experts and is much more difficult than the shortened "fact sheet" proposed by Arthur Andersen; (3) the Bidding Memorandum which Arthur Andersen proposes can be done by the Sales Agent, (4) the Terms of Reference for the Sales Agent's Contract, and (5) the Sales Agent's Contract itself. For IPOs, two documents are needed; (1) the original Strategic Assessment and (2) a Prospectus.

Thus, to satisfy its contract, to demonstrate its efforts and accomplishments to its counterpart GOE organization, the Public Enterprise Office, and to provide its staff with feedback on their own progress, IBTCI highly recommends that the TA contractor be evaluated on its progress in producing these 5 basic documents for anchor investor sales and the two documents listed above for IPO sales. We do not agree that the shortened "fact sheet" can substitute for the Internal Information Memoranda or that the Bidding Memorandum be done solely by the contracted Sales Agent. Further, we strongly recommend that AA be allowed to participate in the development of prospectuses.

#### RECOMMENDATION #11:

USAID needs to clearly specify what constitutes a successful attempt to bring a company to the point of sale. In order to resolve the issue of corporate liability on the part of the technical assistance contractor, the following four options should be considered:

1. USAID may wish to reconsider its decision not to indemnify Arthur Andersen based on its work to produce basic privatization documents which are key products in bringing a company to the point of sale. (IBTCI does not recommend this option.)
2. Arthur Andersen could work closely with Holding Companies and Affiliated companies in the production of these documents such that the HC/AC could (with AA assistance) produce the documents themselves and publish them under the name of the Holding Company. With such a scenario, both the PEO and USAID would need to credit the assistance and accept the documents as a successful performance measure.
3. Arthur Andersen could utilize its budget to select and outsource the production of these documents to demonstrate progress on the project. Or,

4. The Holding Companies could be requested to indemnify Arthur Anderson and release any documentation produced under the name of the Holding Company. (Some Holding Companies have expressed a desire to do this in order to complete the necessary documentation.)

If this decision is not made and one of the options is not chosen, the TA contractor may continue to do generalized work, updating the Strategic Assessments of the Holding Companies' portfolios on a regular basis, and not, in fact, be able to bring a company to the point of sale.

#### VI.C. ORGANIZATIONAL RELATIONSHIPS:

##### VI. C. 1. Subcontractor Relationships:

The technical assistance contractor has a variety of subcontractors (TRG, ARIES, KETCHUM, OSAF, ARTHUR ANDERSEN-EGYPT, FIANI & COMPANY, and AAW) whose organizational culture and past experience with the previous prime contractor do not easily mesh with the new strategic approach or the culture of Arthur Andersen. Needless to say, the reorganizations and change in strategy have frayed the relationship between the prime contractor and its subcontractors. If the project is to be a success, all units involved in the process must shed the work habits and orientation of the past and pull together to ensure progress.

Past false starts must be seen in terms of the political economy and investment environment which existed in Egypt at that time. Now, the focus must be on the future and what can be accomplished with the resources at hand.

Subcontractors cannot expect that levels of work provided in the past will continue without substantial change. Workloads will fluctuate based on the demand of transactions. Persistent complaints about work levels will only damage the reputation of the project and could very well lead to less business for the subcontractors in the future.

On the other hand, the prime contractor needs to carefully consider that this is a "development" effort and that USAID is responsible to Congress for the "Sustainability" of its development projects. Thus, what will be required is a compromise between the necessity to delivery companies to the point of sale and the developmental aspects related to the sustainability of institutions, policy, financial markets, and the structural adjustment program in general. For example, companies to be privatized will need an investor relations functions which produce quarterly reports, annual reports, press releases, and a variety of regular publications which both the PR unit and the OD unit should be assisting. These activities are not strictly related to bringing a company to the point of sale but will nevertheless require PIDP assistance. In short, if the strategies are aligned, the past forgotten, and a new sense of purpose arises, the level of work for all concerned could change for the better.

It should be emphasized that the USAID Request for Proposal and the evaluation which led to the selection of the prime contractor noted that specific functions would need special subcontractor expertise which might only be available through other organizations. Bidders were encouraged in the process to find local subcontractors and/or U.S. subcontractors with specific expertise and include them as part of the proposal. USAID has not eliminated these special functions and in fact has codified them in the purposes under the contract.

Consequently, it is of special importance that the selection of work to be done by the various subcontractors be seen as fair, objective and related to the special skills brought by each subcontractor to the project.

For their part, the subcontractors did not simply accept their assignments in the project to provide the advice they deem warranted. They are working for the prime contractor. If they do not agree with the new strategy or feel they are not capable of performing the new services being requested, then they should resign from the contract rather than stay and obstruct its progress. If they cannot enthusiastically support the new effort they are morally and ethically bound to politely resign.

Finally, it should be noted that there appears to be too many subcontractors on this project. Some have overlapping areas of responsibility. Managing subcontractors is a timely and expensive proposition for the project. Consequently, if the project is to move forward with a new beginning it needs to reexamine its current need with USAID and make those decision necessary to improve its performance quickly. Relying on a slow process of personnel attrition or subcontractor inattention may not improve morale or allow the project to move forward.

#### **RECOMMENDATION #12:**

USAID and Arthur Andersen may wish to reconsider the number and type of subcontractors necessary for project success. At a minimum, the assignment of work needs to be judged as fair and objective. Further, it should be noted that USAID's past experience relating to project success places special emphasis on the need for local counterpart expertise. While the strategic focus of the project should remain as currently structured, the prime contractor cannot lose site of its other three development oriented objectives.

#### **VI. C. 2. Counterpart Relationship:**

The prime contractor's counterpart organization is the MPE/PEO. The three principal areas of assistance to the MPE/PEO should be (1) Sales Support, (2) Decision Making Support, and (3) Public Relations. Since the PEO is a temporary organization, training needs, if any, should be minimal. Training for Holding Companies or affiliated companies, however, need additional attention and IBTCI and the PEO agree that this is "the" priority area for the Training Unit component. This is especially true as that relates to the need to upgrade negotiation skills at the Holding Company level. Further, as previously mentioned, the MPE/PEO very much need the assistance which Arthur Andersen can provide in support of anchor sales and in the development of prospectuses for IPOs. Brochures, procedures, criteria, and studies may well assist in clarifying the privatization process but the real test for their assistance to the MPE is whether or not companies get sold. Finally, both the MPE/PEO and AA need to understand the importance of the public relations unit within the MPE and agree on a method to upgrade the ability of the Ministry to respond effectively to press criticism.

In order to be more client focused, Arthur Andersen's reorganization includes an unwritten agreement with the counterpart GOE organization, the PEO, that its activities will be subject to a "no objection" rule. In other words, should any unit within Arthur Andersen need to undertake activities related to its four purposes agreed to in its contract with USAID, but cannot pass the "no objection" policy, the activity would not be carried out. Some believe that the project should get the approval and clearance of all the activities to be run under the

umbrella of Business Sector. However, since this project is an agreement between the Government of Egypt and the Government of the United States, no subsidiary agreement can override the existing agreement between the two Governments. Thus, the policy as currently structured may not be valid.

In any event, such a policy needs to be carefully reexamined as to its impact on the ability of the project to meet its objectives and its performance measures. When the project was originally agreed to with the Government of Egypt, its purposes and objectives were clearly stated. No objection from individuals can or should change the original agreement on purposes and objectives agreed to between the Government of the United States and the Government of Egypt. Thus, if training activities need to be carried out to meet the objectives of the project (for example, with the CMA), they should be encouraged by the Arthur Andersen and the PEO despite any individual or institutional objections. IBTCI highly recommends that the technical assistance contractor and the PEO eliminate the "no objection" policy.

**RECOMMENDATION #13:**

The "no objection" policy should be reexamined with a view toward its elimination.

**V.I.C.4. STAFFING:**

The strategy developed to focus on bringing companies to the point of sale required a reorientation in the skills and experience of key staff. The downsizing of the project in this regard has had a severe negative impact on morale. In the short run, this would be a normal occurrence. However, morale is still low and improvements have not occurred. Immediate and effective leadership will be required to reorient and enthuse the remaining staff in order to accomplish its objectives.

Further, with the down sizing over, the prime contractor may now be understaffed. Staffing up will be a key barometers of whether the new leadership has been able to instill a new sense of purpose and progress for the program. There are currently three subcontractors and the prime contractor responsible for providing key technical staff, OSAF, ARIES, and ARTHUR ANDERSEN-EGYPT. Clearly, expatriate expertise is more expensive to the project than local expertise. H.E. Atef Ebeid has made this point to IBTCI. What is important is that the selection of staff be seen as fair and no concerns arise as to the objectivity of the selection process given the prime contractors relationship with Arthur Andersen-Egypt. On the other hand, past criticisms of the technical content of documents give Arthur Andersen every reason for concern over the adequate technical competence of recommended staff. Thus, the responsibility is clearly on the subcontractors to now prove that the staff they are recommending have qualified expertise in the area for which they are being recommended.

Finally, the project does not now have a resident Chief of Party. The new Chief of Party is well qualified (and perhaps the best technically qualified fielded under this project) and can direct the project with frequent in country presence. However, a permanent Deputy Chief of Party is an absolute necessity (and of immediate urgency) to reorient the remaining staff and get the project moving forward.

**RECOMMENDATION #14:**

USAID, the MPE/PEO, IBTCI, and all other units involved with the technical assistance program need to provide Arthur Andersen with every possible assistance in order to ensure project continuity and success. Without goodwill on all parts, the prime contractor is not likely to succeed in reorienting and revitalizing the project. For its part, the prime contractor needs to hire on an urgent basis a resident Deputy Chief of Party who is skilled in cross cultural communications, has private sector technical expertise, has experience working with USAID development projects, and is skilled at handling subcontracting arrangements with both U.S. and host country consulting firms.

**VI.E. Project Management:**

As mentioned previously, morale is at an all time low within the project and unless corrective action is taken immediately the progress of the project is in jeopardy. The downsizing of the project which required an approximate 75% reduction in staff coupled with the insecurity that produces in the remaining staff are two primary reasons for the morale problem. Not enough attention has been given to creating a sense of security for the remaining staff. Nor has management given the remaining staff a sense that they are needed and prized for their effort. In addition, there is a very noticeable difference in the cultures of the prime contractor, its local personnel, the cultures of its subcontractors, and the culture of Egypt in general. Attributes of strict timelines, business considerations before civil greetings, formal lines of communications, and culture bound reporting relationships, may work in some environments and be considered a positive attribute; but, the strict adherence to these cultural norms within this project is creating a strong backlash. Further, the Chief of Party needs to ensure that even in his absence, counseling of staff on technical issues and productivity should always account for the sensitivity of this task and occur with civility.

Secondarily, there is lack of free and open discussion of work requirements and issues within and between project units. Individuals working in one unit at times do not know specific facts or events which occur in their own unit or within the other units. Organizational communications is a problem which needs immediate corrective attention.

Both of these problems can be solved by bringing in a Deputy Chief of Party who can bridge the gap between cultures and address immediately the morale situation before the project loses too many long term employees for which the project has invested a great deal money, time, and expense to train.

**(SEE RECOMMENDATION #14)**

**VII. ISSUES AND RECOMMENDATIONS FOR USAID:**

**VII.A. Setting Objectives and the Corporate Liability Issue:**

As mentioned in section VI. B. (see recommendation #11), the definition of what constitutes success is a necessity if the technical assistance contractor is measure its progress. The Minister of Public Enterprise, H.E. Atef Ebeid, needs assistance in the sale of companies to anchor investors. While the documents being produced by AA and the other services provided to the project may be useful, the MPE/PEO would rather have a specific number of companies on which Arthur Andersen would concentrate each year. In that way, both USAID and the PEO could evaluate whether Arthur Andersen did or did not assist in the sale of those specific

companies. Assistance spread out over 50 companies and three years, with no quantifiable yearly objective, is difficult to measure and evaluate. If the performance based contract calls for Arthur Andersen to bring a company to the "point of sale", then both USAID and the MPE need to know when a company is at the "point of sale". The issue of the definition relating to bringing a company to "the point of sale" and the problem of corporate liability need to be resolved.

**RECOMMENDATION #15:** On a priority basis, USAID needs to define for the technical assistance contractor what constitutes finalization of a company to "the point of sale". Arthur Andersen's regular reporting to both USAID, the MPE/PEO, and IBTCI should include time bound, quantifiable objectives for the number of companies it will bring to the point of sale each year.

The issue of corporate liability and the nature of the documents produced also need to be addressed. Of the five documents recommended as needed to bring a company to the point of sale, Arthur Andersen maintains that the Portfolio Assessments are of limited usefulness. They argue that the corporate liability issue is largest in the Valuation of companies and the need to update those valuations on a regular basis make them a costly expense absent an immediate bid to be considered. They also argue that the Information Memorandums for public consumption are seen by buyers as a public relations vehicle and that the Internal Information Memorandum is the most important document but also expensive to produce. Consequently, they are currently doing "fact sheets" which are suppose to double for either of the above. They have no problem with assisting the development of the Terms of Reference or Request for Proposal for sales agents or the development of Contracts for sales agents. Consequently, USAID needs to come to agreement with Arthur Andersen on their involvement in the first three documents. IBTCI agrees with the current level of information contained in the completed Portfolio Assessments. However, on the valuation document and the "Internal Information Memorandum", we strongly believe that for those companies where there is an expressed interest from a potential anchor investor, these document need to be produced by Arthur Andersen. (Importantly, the Internal Information Memorandum would be the document used by the Organizational Development Unit to assist the Holding Company or others in the negotiations---a key request from the MPE.)

Finally, this evaluation raises two issues which we believe need addressing on the strategic question of priorities for sale of Law 203 companies. Previously, USAID and the GOE have concentrated on selling the most profitable of these companies in order to begin the program on a successful note. This had the unexpected but very positive result of creating the rapid development of a new financial industry in Egypt. In addition, it put pressure on micro-financial institutions to develop more rapidly than would have occurred normally. And, finally, the development of the prudential regulation ability of the CMA is by far the most important occurrence during this period. Despite these successes, IBTCI recommends that in concert with continued anchor sales and IPOs, the GOE should begin to focus on the necessary liquidation of some of the companies producing large losses but may have a relatively small workforce.

The other issue in need of refinement concerns whether the locus of privatization activity and decision making should remain within the existing Holding Company structure. There are simply too many potential conflicts of interest for this managerial structure to be relied upon to successfully pursue the GOE's privatization program. It will not be capable of meeting the GOE's privatization targets.

We believe an additional unit, located in the MPE, staffed with specialists, responsible for the transparency of the process, with an exclusive mandate and line responsibility to carry out anchor investor sales, needs to be created. This unit would publish a set of procedures which describe each step of the anchor investor sales approval process and have the authority to approve sales at or above a set of minimum sale conditions agreed to by the government prior to the request for bids. (See Recommendation #8)

#### VII. B. Donor Coordination:

IBTCI tracks a variety of bilateral and multilateral donors who are actively seeking to assist the privatization program. However, we have relied on TI/FI to inform us of the activities of other departments within USAID which are becoming involved in the program. That has not worked successfully.

The new Depra Project which focused on Egypt's ports and the possible privatization of activities within the ports was undertaken by USAID's EAP unit. The project produced a report and subsequent seminar without the knowledge of EU's technical assistance team which was assisting the Maritime Holding Company. They and other donors would have been vitally interested in that project and the subsequent seminar if they had been informed.

Similarly, the Agricultural Directorate within USAID and other Directorates are becoming involved in privatization and it is incumbent on all concerned that coordination be made a priority. In addition, Directorates which were not involved in the past may be drawn into the process through the widening of the Government's program and the opening up of sectors previously closed to private sector participation. The Health Ministry is allowing the privatization of units within hospitals. The private sector is being allowed to assist in road development, airport management, and power generation. Insurance companies and the Social Security and Retirement Fund are interested in private sector investing or management of retirement funds by private sector entities.

The number of areas where donor coordination is necessary are too numerous to mention and need to be addressed effectively by IBTCI. Suffice it to say that the GOE sees donor advice and assistance as varying greatly one from another, as a trial and error method, and fraught with frequent changes.

**RECOMMENDATION #16: USAID should provide for the expansion of coverage and reporting by IBTCI on issues relating to donor coordination with recommendations for prioritization of donor provided assistance including the identification of new areas in need of policy expertise or technical assistance within USAID.**

#### VII. C. Prudential Regulation of Financial Markets and Technical Assistance:

USAID currently provides technical assistance for the upgrading of the Capital Markets Authority. That effort is scheduled to be completed soon but the work of upgrading the CMA is in its infancy. The project was originally developed when the workload on the CMA was small. Since that time, the number of transactions have increased ten fold.

Regulation and oversight of capital markets is a most difficult task. Even in the United States and other "developed" countries the oversight responsibilities of the SEC and similar bodies are strained by the magnitude of their responsibilities. New scandals in United States, Italy, and other countries arise daily and as yet, neither the NASD or the SEC can effectively regulate

over the counter trading. Price fixing within the NASDAQ was only recently examined even though it was known for years.

The upgrade of the CMA's physical facilities, additional staff, more training, and more technical assistance is needed if Egypt's progress in attracting Foreign Portfolio Investment is to stay on track. A single scandal with the clearance and settlement system, or worse yet, a major scandal with the failure of a particular brokerage firm would have a devastating effect on the markets. Questions of capital adequacy are still present, the effective implementation of the Clearance and Settlement system needs to go forward, and additional training for brokers and brokerage houses needs to be done.

Finally, USAID will soon implement a new training program and coordination is a necessity between the needs of the financial markets and the ability of the new training program to assist this vastly growing industry in Egypt.

**RECOMMENDATION #17: USAID needs to expand and extend its assistance for the prudential regulation of capital markets. A new and expanded program of assistance to micro-financial institutions such as brokerage houses, mutual funds, the clearance and settlement system, and the Capital Markets Authority should be developed. Finally, the new training program should be utilized extensively for the training needs of this new industry.**

## VII. IMPACT EVALUATION

### 1. Public Relations

#### Purpose:

*To create an effective local and international public relations program to educate about, and gain the support of key audiences for, the opportunities and benefits presented by privatization.*

*Using the experiences of other countries, this Project provides technical assistance to the GOE Entities, to develop and carry out a strategy to achieve this purpose.*

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<b>Objective #1-A</b>  <i>Create a clear sense of purpose and ability to communicate an image uniformly and aggressively by the GOE Entities.</i>	<ul style="list-style-type: none"> <li>The MPE retains, refines or creates additional policy guidance over the life of the program which are made available to the public and are referenced by program participants as the principal source of guidance for the current or expanded program.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence that the TA contractor has provided policy guidance on key policy issues of importance to the program.</li> </ul>	<ul style="list-style-type: none"> <li><b>Phase One Message Grid</b> - Based on two pieces of research (one completed by the PIDP representative located at the MPE), PR developed an English/Arabic message grid. This grid outlines the key messages which need to be delivered to the selected audiences over the period of September - December 1996. Prior to completion of the grid, PR held an in-depth message development session with the PEO in order to obtain consensus on all the points/audiences which need to be addressed.</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		<ul style="list-style-type: none"> <li>Evidence of advice and assistance on how a consistent message about privatization in speeches, news releases, press conferences, newspaper articles, TV and other documents can be achieved</li> </ul>	<ul style="list-style-type: none"> <li><b>Al Ahram Page</b> - Using the message grid as the base of this page, PR worked closely with the PEO and Al Ahram on the production of the first two pages. The first page is scheduled for publication on October 23.</li> </ul>
			<ul style="list-style-type: none"> <li><b>Practical Guide to Public Relations</b> - In order to ensure the clear communication of key messages among all the stakeholders in the privatization process as well as maximize public relations. PR intends to hold a series of communication sessions with the office of MPE, PEO, CMA, HCs, ACs and others in order to facilitate the understanding of their role in the communication process</li> </ul>
			<ul style="list-style-type: none"> <li><b>MPE Privatization Library</b> - To help facilitate the MPE and his staff in the area of privatization, macro economic concepts/terminology and case histories, PR set up a mini-library at the office of the MPE. The library was accompanied by an annotated bibliography and a card catalog system.</li> </ul>
<p><b>Objective #1-B</b> <i>Develop the capacity of the GOE Entities to</i></p>	<ul style="list-style-type: none"> <li>Privatization messages from the MPE, PEO, and Holding Companies are timely,</li> </ul>	<ul style="list-style-type: none"> <li>Evidence that TA contractor has assisted the MPE, PEO, Holding Companies and Affiliated</li> </ul>	<ul style="list-style-type: none"> <li><b>Daily Press Review &amp; Privatization Hot Issues</b> - Since message communication is a dynamic process, it is imperative that PR monitor the dialogue between the players and the public. AA used the two items above as</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<i>define, structure, and communicate the privatization message</i>	relevant, and deal with the changing concerns of the general public and target groups.	Companies with their communications program including but not limited to: draft speeches, success stories from other countries, question and answer briefs, quick response mechanism to press criticism from credible sources, and quick response mechanism to emerging new issues--(responses in Arabic).	a base for counsel to appropriate spokespersons on issues discussed as well as to help direct their activities
			<ul style="list-style-type: none"> <li>• <b>Weekly National &amp; International Highlights</b> - Similar to the above activities, the weekly highlights provide an overview of the global dialogue. Since AA's access to the MPE is somewhat limited, AA included some analysis/ suggestions in this document with the objective of trying to counsel the MPE (and others) when appropriate</li> </ul>
			<ul style="list-style-type: none"> <li>• <b>Counsel/Habbeck Case</b> - When the story broke about this former chairman and the possibility that he illegally amassed funds during the privatization of Nasr Boilers, AA worked with both the media outlet and the PEO on clarifying the issue. As a result, the publication</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			discontinued the link between this scandal and privatization.
			<ul style="list-style-type: none"> <li>• <b>Counsel/Al Ahram Beverages</b> - Late May, early June, the HC for HT&amp;C was in the process of making a decision on how to sell this AC. Understanding that the GOE was more inclined to sell through an IPO, PIDP counseled all players involved on the consequences of this action. PR provided insight into the potential problems with the media, including the possibility of damaging the confidence of the international investment community.</li> </ul>
			<ul style="list-style-type: none"> <li>• <b>MPE Staff Support</b> - In their effort to assist the MPE in his communication of privatization messages, PIDP continues to have a full-time person dedicated to this office. Although this staff member is actively involved in a variety of tasks, one of her most recent accomplishments was her support of the creation of a speech which the MPE delivered at the Euromoney Conference</li> </ul>
			<ul style="list-style-type: none"> <li>• <b>MPE/IMF Meeting Support</b> - In support of the series of meetings the MPE held with the IMF, PR pulled together recent articles which included GOE statements in support of economic reform and the privatization program. These articles were included in an overall report which the MPE delivered to the IMF.</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<ul style="list-style-type: none"> <li>• <b>Arab Contractors Research</b> - Although this company is not nearly as close to privatization as others AA assisted senior management in the creation and execution of two internal surveys which were designed to obtain insight into the perceptions/acceptance of privatization. Realizing that this company would most likely use this research as a base for their internal communications efforts, AA's objective was to ensure the company obtain accurate and useful information.</li> </ul>
<p><b>Objective #1-C</b></p> <p><i>Generate new local and foreign business interest in the Egyptian privatization program</i></p>	<ul style="list-style-type: none"> <li>• The amount, scope and quality of media campaign and informational programs are appropriately provided and targeted at local and international investor audiences.</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence that some portion of investor interest arose from the publicity program of the contractor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>International Media Relations</b> - In order to build confidence in the GOE's privatization efforts as well as encourage foreign investment in Egypt, AA has embarked on a campaign to generate positive dialogue in international media outlets. These efforts have taken place in the form of one-on-one meetings, press conferences, press releases, etc. As a result, some of the key placements include: <u>Business Week</u>, <u>Associated Press</u>, <u>United Press International</u>, and <u>Agency Press</u>.</li> </ul>
		<ul style="list-style-type: none"> <li>• Evidence that TA contractor took advantage of local and international fora with targeted media/informational programs of appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Code of Ethics (Part One)</b> - Aiming to encourage participation in the privatization process, PR initiated the creation of a Code of Ethics. In June, PR held a workshop with over 70 brokers during which the speaker, Mr. Bob Amen, addressed the need for standard practices and a Code of Ethics. This workshop, which included the COP and the CMA, was an</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		scope and quality designed to attract investor interest in Egypt's privatization program.	opportunity for the brokers to learn how other countries work under such Code. In order to educate the public about the government's efforts to safeguard their potential investments, the event was publicize in the Arab Press.
			<ul style="list-style-type: none"> <li>• <b>Central Depository System/Media Relations</b> - Again, to ensure the Egyptian public believe that the GOE is making every effort possible to protect their investments, PR conducted some targeted media relations efforts to communicate the benefits of this system. As a result, many in-depth placements were generated, including. "Good Morning Egypt," <u>Al Ahram</u>, <u>Al Ahram Weekly</u> and <u>Al Wafd</u>.</li> </ul>
			<ul style="list-style-type: none"> <li>• <b>Conference Participation</b> - <i>Euromoney, African Stock Exchange Annual Conference, Emerging Markets of the Middle East and North Africa conference.</i> In Support of the above objective, the Project participated in these conference on a variety of levels: 1) the COP delivered a presentation which highlighted Egypt's achievements in the area of privatization 2) brochures were distributed 3) domestic and international media relations were conducted in order to increase awareness of Egypt as an investment opportunity</li> </ul>
			<ul style="list-style-type: none"> <li>• <b>EFIC</b> - In support of the sale of this company through an IPO, PR created a series of print advertisements for the Egyptian public. This series included some "teaser"</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><b>Objective #1-D</b></p> <p><i>Gain support for privatization from key, targeted groups.</i></p>	<ul style="list-style-type: none"> <li>Evidence over time that key target groups are becoming more supportive of the privatization program to include but not limited to: a more rapid privatization schedule announced by the GOE, additional sectors of the economy added to the privatization program, supportive pronouncements by key target groups, reductions in public criticism of the program, and/or lack of legal or legislative challenges to the program.</li> </ul>	<ul style="list-style-type: none"> <li>Preparation and distribution by TA contractor of effective responses (in Arabic) to fundamental privatization issues under debate by key target audiences.</li> </ul>	<p>spots which ran prior to the sale in order to build demand as well as post offering spots.</p> <ul style="list-style-type: none"> <li><b>EBA July and September Workshop</b> - Working closely with this non-government organization, PR conducted all the media relations activities in support of these events with the aim of encouraging the private sector to become involved in the privatization program. Extensive media coverage of the topics/debates were generated.</li> </ul>
		<ul style="list-style-type: none"> <li>Evidence of "rapid response" by the</li> </ul>	<ul style="list-style-type: none"> <li><b>Hungarian Privatization/Media Relations</b> - Leveraging the fact that a government official was visiting, PR held</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		project's communication program to highly negative media stories.	a session with 20 key media. The discussion focused on strategies and concepts used in the Hungarian privatization case. The event served two purposes: 1) provide media with case studies 2) generate articles to educate media. The event resulted in several placements, including <u>Al Ahram</u> , <u>Akhbar</u> and <u>UPI</u> .
<p><b>Objective #1-E</b></p> <p><i>Strengthen local institutional and selected targeted audiences of the private sector to carry out the communications in support of privatization and the larger economic reform program.</i></p>	<ul style="list-style-type: none"> <li>Evidence that relevant media representatives, key target groups, and program participants (MPE, PEO, Holding Companies and Affiliate Companies) have received training relevant to their specific responsibilities for privatization coverage or response and that TA contractor has provided training, informational programming or other appropriate assistance.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence that TA contractor has provided training to MPE, PEO, Holding Companies, and other privatization groups as appropriate, on the development and utilization of effective public affairs programming</li> </ul>	<ul style="list-style-type: none"> <li><b>Understanding Privatization/ Economic Journalism (Part One)</b> - PR hosted a two day workshop for 25 senior economic editors. PR brought in a former New York Times financial reporter as the main speaker. The event focused on a variety of areas, including investigative journalism, writing a lead, research, understanding financial research and privatization/ economic terminology.</li> </ul>
		<ul style="list-style-type: none"> <li>Evidence that TA</li> </ul>	<ul style="list-style-type: none"> <li><b>Alam Al Youm</b> - In mid August, when the government</li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		contractor has provided timely informational programming/briefings to media representatives when a privatization issue is being actively debated amongst target audiences.	announced the sale of Misr Oil and Soap company, this particular media outlet devoted a lot of space to the story. However, the stories which they wrote were contradictory and often times incorrect. After tracking this coverage, PR had in-depth meetings with several reporters from the outlet and discussed the contradictions. As a result, the media outlet corrected the story.
		<ul style="list-style-type: none"> <li>Evidence that the quality of independent media reporting has improved.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Analysis Workshop</b> - The first of a series of the workshops included a full-day session which covered topics such as assets, liabilities, balance sheet, etc. Over 23 journalists, including opposition press, attended the entire session.</li> </ul>
			<ul style="list-style-type: none"> <li><b>Journalist Study Tour</b> - Five pre-selected journalists traveled to New York for a one week tour which includes meetings with the New York financial Writers Association, New York Society of Security Analysts, New York Stock Exchange as well as key media such as Dow Jones, fortune, Wall Street Journals, CNN Financial News and NBC. These media will be required to conduct a series of 5 post-trip workshops between December and June.</li> </ul>

## 2. Organizational Development

### Purpose:

To strengthen the capabilities of the entities that are responsible to enable them to carry out the privatization program effectively.

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><b>Objective #2-A</b></p> <p><i>Develop the organizational capabilities of GOE Entities to carry out privatization effectively by:</i></p>	<ul style="list-style-type: none"> <li>Evidence that key participants are following a mutual agreed strategic approach to privatization utilizing "best practices" relevant to the method of privatization being pursued; and, evidence that the GOE is improving its approval mechanisms for sales.</li> </ul>		
<p>i) building a common vision within stakeholder organizations and among these</p>		<ul style="list-style-type: none"> <li>Evidence that the GOE Entities organizational capabilities are enhanced to enable them to recognize and deal with policy, regulatory,</li> </ul>	<p><b>I. A. Internal Workshops</b></p> <p>In order to enhance the internal capabilities of AA employees to create an external environment that is more conducive to privatization, 9 internal workshops were conducted during the period April -September 1996:</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
organizations;		technical and political issues relevant to the privatization of assets: such as, adoption of contractor provided guidelines, evidence of increased awareness through provision of seminars, workshops, etc..	<ol style="list-style-type: none"> <li>1. <b>Personal capability statement and formation of transaction team membership workshop</b> (Technical input Brad Warner and Larry Reger.)</li> <li>2. <b>Team effectiveness workshop</b>, to build transactions teams which operate as an integrated whole with common objectives, understandings and plans to better serve HC clients; to clarify transaction team leader responsibilities and team member responsibilities; and to agree on ways to monitor transaction implementation and assure efficient sharing of staff resources.</li> <li>3. <b>Five transaction team startup Workshops</b> for 5 of the HCs (Housing Tourism and Cinema, Engineering, Chemical, mining and Refractories and the Metallurgical HC) were conducted. The purpose of this workshop was to clarify roles and responsibilities and promote teamwork among the privatization team members.</li> <li>4. <b>Team managers workshop</b>: to build skills and strategies for managing transaction teams.</li> <li>5. <b>Methodologies and approaches for transaction teams workshop</b>: To present the consistent approaches for valuation, writing prospectuses and information memorandums.</li> </ol>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p><b>I. B. Work shops among Key Stakeholders</b>  OD/T events and workshops designed to assist in enhancing the capacity of GOE entities (PEO, MPE, CMA, HCs, Sales Agents, PIDP, etc.) to privatize are outlined below.</p> <ol style="list-style-type: none"> <li>1. <b>Two CMA/HCs Informal Sessions</b>, held April 1, 1996, for 80 participants, and May 23, 1996, for 30 participants from HCs and ACs. Purpose: To enable the Chairman of the CMA, Abdel-Hamid Ibrahim, to present the public offering strategy, and respond to holding company issues and questions.</li> <li>2. <b>CMA/PEO/HCs/PIDP Public Offering Workshop</b>, held June 8-9, 1996 (in Alexandria), for 50 participants from these entities -- including the Minister of Public Enterprises, the Chairman of the CMA, and the 16 Holding Company Chairmen. Purpose: to clarify how to go public, and to address issues related to valuation and dividend policy (PIDP technical presentation from Dr. Mohamed El Sahragty.)</li> <li>3. <b>Role of Sales Agents Workshop</b>, held June 13, 1996, for 15 participants from the PEO, holding companies and affiliated companies. This workshop was a direct request from the Minister in the June 8th Public Offering Workshop. Purpose: to clarify the role of</li> </ol>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>sales agents and the benefits to the holding company in using them (Technical presentation from Mark Carawan and Bill Fielding).</p> <p>4. <b>Workshop on Pursuing Anchor Investors: The Hungarian Experience</b>, held July 22, 1996 for 80 participants from the PEO and HCs, as well as managing directors and financial managers of ACs. Purpose: To present the Hungarian experience in anchor investor sale; and to identify application to the Egyptian setting [PIDP technical presentation from Dr. Mohamed El Sahragty and consultant Gyorgy Valyi of the Hungarian Privatization and State Holding Company).</p> <p>5. <b>Focus Group Session: Steps for Going Public</b>, held August 15, 1996, for 9 participants from the CMA, and the public and private sector. Purpose: To reach a common understanding of the preferred steps that affiliated companies should take in preparing for an IPO.</p> <p>6. <b>PIDP technical presentation and roundtable at the Euromoney Conference</b>, held September 3-4, 1996. Over 300 people attended the plenary PIDP technical presentation, and over 50 people attended the PIDP roundtable, which was chaired by Youssef Boutros Ghali (Technical presentations: Mark Carawan.)</p> <p>7. <b>Workshop on Steps for Bringing Shares to the</b></p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>Market, held September 28, 1996, for 85 participants from the CMA, PEO, MPE, HCs and the 25 ACs targeted for privatization in 1997 through IPOs. Purpose: To enable the CMA and PEO leadership to present the requirements of HCs in the IPO process, and the roles of each entity; and to introduce the Central Depository System to the ACs with upcoming IPOs, and the application process (Technical input: Dr. Mohamed El Sahragty).</p> <p><b>I.C. Individual Technical Skills Development Training Sessions</b></p> <p>Training sessions focusing on individual's skill development in technical areas include the following:</p> <ol style="list-style-type: none"> <li>1. <b>Financial Analysis Course</b>, held from March to May, 1996, for participants of the HCs, State Banks, the stock market financial journal (Al Borsa), and law firms. Purpose: To build skills in financial statement analysis, cash flow mechanics, cash flow projections, and discounted cash flow valuation method (Technical presentation by local Egyptian consultant, Gilan Shindy).</li> <li>2. <b>Four workshops to Introduce the Central Depository System</b>, held for over 400 people during the month of August, 1996.</li> </ol>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<ul style="list-style-type: none"> <li>• three 5-hour sessions for brokers (2 in Cairo and 1 in Alexandria);</li> <li>• one 4-hour session for the Minister, his advisors, the PEO, and the 16 HC Chairmen. [Technical input: Dr. Mohamed El Sahragty.]</li> </ul> <p><b>I. D. ESA workshops</b>                      The OD workshops to enhance the capacities of 11 affiliated companies in the Holding Company for Public Works in their transition to employee ownership.</p> <p><b>1. Five 5-day Organizational Development Workshops</b> for five ESA companies, held between March and September 1996. Purpose: To assist the company in assessing and re-define its overall company mission; reaching agreement on priority company objectives; developing strategies for achieving objectives; and establishing a mechanism for monitoring the implementation of company improvements (Technical presentation by Dr. Amr Moussa. Technical input from Fatma Khattab).</p> <p><b>2. Two-day Organizational Development Follow-Up Workshops for two ESA companies</b>, held in August-September 1996, six-months after their 5-day Organizational Development Workshop. The</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>companies included Beheira, Upper Egypt Dredging and Kom Ombo companies. Purpose: To determine the degree of success of companies in implementing their company improvement plans developed in the 5-day OD workshop (Dr. Amr Moussa, with technical input from Fatma Khattab).</p> <p>3. <b>Three 2-day Culture of Marketing Follow-Up Workshops</b>, held May and June 1996 for a total 85 participants from the 11 ESA companies of the Public Works Holding Companies. Purpose: to introduce private sector marketing techniques and to assist companies in developing marketing improvement plans [Technical presentation by Dr. Ahmed Shalaby, with technical input from Fatma Khattab].</p> <p>4. <b>Four 1-day Culture of Marketing Follow-up Workshops</b>, held in September and October 1996 for 100 participants from the 11 ESAs. Purpose: To determine the success of companies in implementing their marketing plans (Dr. Ahmed Shalaby, with technical input from Fatma Khattab)</p> <p><b>Four 1-day ESA Corporate Governance Workshops</b>, held in April, May, September and October 1996, for 101 participants for six ESA companies. Purpose: To assist ESA companies in developing approaches for strengthening corporate governance capability in the transition period for full ESA ownership of the company (Technical presentation</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
ii) developing common plans and strategies for privatization and issues resolution among collaborating organizations;		<ul style="list-style-type: none"> <li>• Evidence of the extent and quality of technical assistance provided to GOE Entities management to enable them to successfully present and gain approval for privatization plans at the level of the MPEs, PEO, CBE, Board of Directors and General Assemblies.</li> </ul>	by PIDP Fatma Khattab and Dr. Amr Moussa).  <b>II. Privatization Plan Approval</b> <b>A.</b> In the last six months, workshops aimed at helping GOE entities gain approval for privatization plans include the following: <ol style="list-style-type: none"> <li>1. Two CMA/HCs/ACs Informal Sessions (Duplicate with I.B-1).</li> <li>2. CMA/PEO/HCs/PIDP Public Offering Workshop (Duplicate with I.B-2).</li> <li>3. Workshop on Pursuing Anchor Investors: The Hungarian Experience (Duplicate with I.B-4).</li> <li>4. Focus Group Session: Steps for Going Public (Duplicate with I.B-5).</li> <li>5. Workshop on Steps for Bringing Shares to the Market (Duplicate with I.B-7).</li> </ol> <b>B.</b> In addition to the above multi-stakeholder workshops, the internal PIDP workshops for the transaction teams were also intended to help focus and strengthen PIDP's technical assistance to HC and AC management in presenting and gaining approval for privatization plans. These workshops included: <ol style="list-style-type: none"> <li>1. Personal Capability Statement and Formation of Transaction Team Membership (Duplicate with I.A-1).</li> </ol>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<ol style="list-style-type: none"> <li>2. <b>Team Effectiveness Workshop</b> (Duplicate with I.A-2).</li> <li>3. <b>The 5 Transaction Team Startup Workshops for 5 HCs</b> (Duplicate I.A-3).</li> <li>4. <b>Team Managers Workshop</b> (Duplicate with I.A-4).</li> <li>5. <b>Methodologies and Approaches for Transaction Teams</b> (Duplicate with I.A-5).</li> </ol>
<p>iii)strengthening technical understanding of privatization methods, including private sale, ESOPs, public offerings and management contracts with option to buy;</p>		<ul style="list-style-type: none"> <li>• Evidence that TA contractor is identifying when “best practices “ are not being utilized and provision of timely and effective response to include written briefs and/or corrective training.</li> </ul>	<p><b>III. Best Practices Identification</b> In the last six months, ID/T assistance in best practices identification and application has been as follows:</p> <ol style="list-style-type: none"> <li>1. <b>Financial Analysis Course</b>, (Duplicate with I.C-1)</li> <li>2. <b>Workshop on Code of Ethics and Standard Practices in Securities Dealings</b>, held June 16, 1996, for 80 participants that included brokers, CMA officials and PIDP. Purpose: To provide case examples from the USA and the UK on the importance of creating a code of ethics for the brokerage community (technical presentation by Mark Carawan and Bob Amen).</li> <li>3. <b>The 4 Central Depository Roundtables</b> (Duplicate with I.C-2).</li> <li>4. <b>Workshops on Public Offerings: HC/AC Needs Assessment</b>, carried out in August 1996. Purpose: To help identify when best practices are not being utilized in the public offering process, and to outline pressing</li> </ol>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			issues and training needs as perceived by the CMA, HCs/ACs, Sales Agents, Brokers, PEO, and PIDP (Technical input from Dr. Mohamed El Sahragty, and Mark Carawan).
iv) establishing agreed upon performance standards re "best practices" and providing training in these practices;		<ul style="list-style-type: none"> <li>• Evidence that TA contractor is fielding qualified staff relative to their roles and responsibilities for the provision of technical assistance.</li> </ul>	<p><b>IV. Fielding Qualified Staff</b></p> <p>Over the last six months, the technical experts that have provided technical presentation in workshops or support in development of workshop materials have included:</p> <p><b><u>Within PIDP</u></b></p> <ul style="list-style-type: none"> <li>• Dr. Mark Carawan (AA/Inter I)</li> <li>• Bill Fielding (AA/E)</li> <li>• Dr. Mohamed El Sahragty (OSAF)</li> <li>• Aly Zeidan (OSAF)</li> <li>• Dalia Khalifa (OSAF)</li> <li>• Dr. Ossama Khalifa (OSAF)</li> <li>• Bob Amen (Ketchum)</li> <li>• Fatma Khattab (AA/E)</li> <li>• Larry Reger (Aries)</li> <li>• Brad Warner (AA/Inter I)</li> <li>• Wael Salam (Aries)</li> </ul> <p>Mohsen Hassan of PIDP facilitated many of the Arabic language workshops as a privatization specialist.</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p><b><u>Local Egyptian Consultants</u></b>  A.Hassan Hussein  B.Amr El Sharnouby</p> <ul style="list-style-type: none"> <li>• Gilan Shindy</li> <li>• Dr. Amr Moussa</li> <li>• Dr. Ahmed Shalaby</li> <li>• Ahmed Abou Aly (lawyer)</li> </ul> <p><b><u>OD/T unit Specialists</u></b></p> <ul style="list-style-type: none"> <li>• The PIDP full-time OD/T specialist is Steven Joyce.</li> <li>• The full-time Training Manager is Ibtisam Ahmed; full-time</li> <li>• Technical Information Specialist is Salma Hussein; and pre- and post-training materials preparation support staff includes Ghada Tawfik and Rasha Anis.</li> <li>• Organizational development and training support has also been provided by three short-term consultants in the last six months: Jim Carney, Wilma Gormley, and Dr. James McCaffery.</li> </ul>
v. Promoting good teamwork among stakeholder groups; and			

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
vi. helping people in organizations make better choices.			
<p><b>Objective #2-B</b></p> <p><i>Expand the involvement and participation of selected target audiences of the private sector, businessmen's associations and NGOs in the privatization process.</i></p>	<ul style="list-style-type: none"> <li>Evidence that the number of NGOs and private sector organizations/associations are incorporating privatization in their policy agendas and/or addressing privatization issues in their organizational meetings, plans, or public pronouncements.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of comprehensive plan to maximize the number of outreach activities involving selected target audiences of the private sector, business associations, and relevant NGOs.</li> </ul>	<p><b>I. Outreach Plan</b> OD/T activities in support of Objective 2-B are twofold:</p> <p><b>1. Cooperative Agreements with Businessmen &amp; Associations and NGOs</b> Between June and August 1996, the OD Unit entered into cost-sharing or purchase order agreements with the following NGOs:</p> <ul style="list-style-type: none"> <li><b>•Egyptian Businessmen's Association (EBA)</b> The EBA purchase order was finalized in June 1996 for five roundtables, and to date two roundtables have been conducted: July 1st on the role of anchor investors, with Minister Youssef Boutros Ghali (for over 70 participants); and September 23rd on the role of private sector businessmen in the capital markets, with CMA Chairman Abdel Hamid Ibrahim (for over fifty participants). The target audience is the public and private sector business community.</li> <li><b>•Egyptian Junior Businessmen's Group (EJBG)</b></li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>The EJB purchase order was finalized in August 1996, also for five roundtables. The target audience of EJB roundtables is the business community, particularly the financial institutions. Up till September 1996 there was no roundtables organized</p> <p>• <b>Bi-national Fulbright Commission</b>                      The PIDP-Fulbright Commission agreement was finalized in August 1996 and is based on cost-sharing. The target audience of the five Fulbright roundtable will change with each roundtable. The audiences are: the academic community; university student unions and other student associations; women's associations; and the NGO community. Up till September 1996 there was no roundtables organized.</p> <p><b>2. Media Training in Support of Public Relations Activities</b></p> <p>Technical topics for media training are determined by the PIDP public relations specialists, and OD/T assistance is in delivery of the training sessions. Following are the Workshops conducted during the period from April till Sep.96 are:</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<ul style="list-style-type: none"> <li>•Senior Economic Editors workshop, Held in Alexandria for 25 participants, to explore key issues in financial journalism in Egypt today, and to consider practical implications of conference discussions for future best practices in Egypt (PIDP technical presentation by Bob Amen, Mark Carawan &amp; Mohamed El Sahragty).</li> <li>•Workshop for Senior Editors on Pursuing Anchor Investors: The Hungarian Experience, conducted July 21,1996 for 21 senior economic editors (PIDP technical presentation by Dr. Mohamed El Sahragty).</li> <li>• Central Depository System Roundtable to introduce the CDS, its benefits and applications for Senior Financial editors and Journalists, conducted in Sept.11, 1996 (27 participants, including CMA officials, economic editors and journalists).</li> </ul>
		<ul style="list-style-type: none"> <li>• Evidence that TA contractor is effectively utilizing outreach opportunities coordinated with their media and informational</li> </ul>	<p><b>II. Effective Outreach (in Arabic)</b></p> <p>All the private sector roundtables are conducted in Arabic language, and the media training sessions are either conducted in Arabic language or have simultaneous translation services available.</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		programming efforts to provide in Arabic--briefs, issue papers, presentations, and when requested, training to these audiences on the privatization program and their stake in that program's success.	

### 3. HCs/ACs/FIs Support

**Purpose:**

*To maintain a steady flow of company/property sales*

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><b>Objective #3-A</b></p> <p><i>Assuming that all associated variables which are outside the TA Contractor's control are conducive to the TA's Contractor's involvement in privatization, the TA Contractor will provide advice and assistance in order that the Holding Companies are able to (if they so desire) offer a strategically-sensible and steady flow of assets or properties for sale, currently</i></p>	<ul style="list-style-type: none"> <li>Evidence that TA contractor has delivered appropriate strategic advice on GOE announced privatization schedule and delivered appropriate technical assistance documenting AA's participation in successful privatization or delayed privatization amounting to approximately 25 privatization candidates per year.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of input, assistance, and advice to GOE on importance of second tranche offerings to stock market liquidity and their ability to speed up the privatization program with a view to refining the privatization schedule.</li> </ul>	<ul style="list-style-type: none"> <li><b>Stock Market Liquidity</b> <ol style="list-style-type: none"> <li><b>Workshops</b> <ul style="list-style-type: none"> <li>Tow sales decision frame workshop</li> <li>Two CMA/HCs/ACs/ Informal sessions</li> <li>CMA/PEO/PIDP Public offering Workshop</li> <li>Workshop on pursuing Anchor Investor</li> <li>Focus Group Session</li> <li>Workshop on Step for building shares to the market</li> </ul> </li> <li><b>Absorptive capacity</b> <ul style="list-style-type: none"> <li>An advisory paper was submitted to assist the Ministerial Privatization Committee (MPC) in response to expressed concerns over sufficiency of Stock Market Liquidity to absorb forthcoming market offerings</li> </ul> </li> <li><b>CMA Unit</b> <ul style="list-style-type: none"> <li>One of the purposes of the newly formed unit is to provide assistance in the training of CMA staff assigned to review prospectuses submitted for CMA approval. Improved understanding of requirements will improve quality of information content and</li> </ul> </li> </ol> </li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><i>estimated to be approximately 50 public sector enterprises.</i></p>			<p>improve demand for newly launched stocks.</p> <p><b>4. Prospectus guidelines</b> Was provided to CMA to improve the accepted standards of information disclosure for IPOs thereby improving market liquidity.</p> <p><b>5. Prospectus checklist</b> CMA staff have received from the project a standard checklist acting as a control mechanism to ensure that all applicable disclosure have been made in accordance with the guidelines.</p> <p><b>6. CMA brochure</b> PIDP has produced two brochures for CMA which details stock market activity.</p> <p><b>7. Investments Fund Assistance</b> PIDP held a meeting with a number of newly established funds prior to their set-up. (Lazards and Merrill)</p> <p><b>8. Al Ahram Beverage Company</b> PIDP has made a number of recommendations concerning the lack of preparations was made.</p> <p><b>9. Amerya</b> The project assisted in the drafting of the prospectus in accordance with the best practice resulting in substantial improvements to the quality of the information disclosed.</p> <p><b>10. Misr Aluminum</b></p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>The project assisted in the drafting of the prospectus in accordance with the best practice resulting in substantial improvements to the quality of the information content to the prospectus.</p> <p>11. CMA Unit The CMA units training will lead to improvements in the time necessary for review of submitted documents.</p> <p>12. Prospectus guideline and checklist</p> <p>13. Anchor investor guidelines the project has developed guidelines to formalize the process and procedure for anchor investors.</p> <p>14. MIS The project developed a conceptual outline for a management information system which was submitted to the MPE's privatization adviser.</p> <p>15. PEO agenda Weekly Meetings with PEO</p>
<p><b>Objective #3-B</b></p> <p><i>Assist HCs in developing sound contracts with sales agents to carry out most of the work associated with the sale; assist HCs in</i></p>	<ul style="list-style-type: none"> <li>Evidence that AA has assisted MPE/HCs in the strategic selection of sales agents and provided technical assistance in the development of contractual relationships between</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of appropriate strategic advice and assistance to MPE such that strategy for anchor sales/ liquidation, IPOs, ESOPs, ESAs, or other methods are correctly prioritized. Evidence that anchor sales</li> </ul>	<ul style="list-style-type: none"> <li>Reasonableness of Sales Strategy               <ol style="list-style-type: none"> <li>Portfolio reviews It was done for the entire Engineering HC's portfolio of AC's and is in the process of undertaking a similar review for the Mining HC.</li> <li>Strategy recommendations Strategy recommendation were made concerning the following companies : Amerya; Al Ahram Beverage; Koldair; Sheeni; Kafr El</li> </ol> </li> </ul>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<i>seeking competent performance by these sales agents.</i>	AC/HC and sales agents.	strategy is reasonable related to the financial viability/sale viability of enterprises under consideration based on documented comparisons between companies under consideration and industry standards. Evidence that AA's valuations are using acceptable international accounting principles and training affiliated companies on utilization of these accounting standards.	Zayat and Nile Match.
		<ul style="list-style-type: none"> <li>• Evidence of appropriate advice/assistance to MPE/HC/AC as specified in AA's contract for all methods of privatization chosen by the GOE.</li> </ul>	Appropriateness of Advice IPO/Anchor transaction involvement
		<ul style="list-style-type: none"> <li>• Evidence that the TA</li> </ul>	Monitor Transaction Flow

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		contractor is monitoring the flow of transactions and developing appropriate levels of assistance along with all necessary technical documentation when requested.	Portfolio review timetables The Project agreed with the Engineering HC a timetable of work enabling the projects assistance to be directly matched to the GOE timetable
		<ul style="list-style-type: none"> <li>Evidence of the creation and maintenance of a database incorporating information on external advisory/sales agents.</li> </ul>	Sales Agent Database. Sales Agent listing The project has maintained a sales agent directory for intermediaries and advisers.

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><b>Objective #3-C</b></p> <p><i>Advise and comment on offerings with a view of building confidence:</i></p>	<ul style="list-style-type: none"> <li>Suggested press articles or success stories are released by public officials or presented by AA at public forums or released through alternative communications channels.</li> </ul>	<ul style="list-style-type: none"> <li>When the contract is let and if requested, evidence of assistance to local sales agents in effective methodologies for identification of buyers and completion of sales.</li> </ul>	<p>Assistance in Investor Identification</p> <p>1- Assistance Investor guidelines The guidelines provide detailed instruction for advertising for potential interested parties.</p> <p>2- Advertisement assistance The project assisted with placing advertisements for the following transactions during the period: EFIC, Koldair, Electro Cables Industrial Gases, Amerya.</p> <p>3-Bidding Documentation The project was involved in assisting in preparing bidding condition for the following transactions during the period : Koldair, Electro Cables, Industrial Gases, Amerya Cement, Sale of projects sale of floating Hotels Sale of Non-Operating Hotels Sale of Hotels Al-Ahram Beverage Company</p>
		<ul style="list-style-type: none"> <li>Evidence that TA contractor has performed a post sales review of the performance of the sales agent and provided feedback to all parties on any identified</li> </ul>	<p>Review Agent Performance</p> <p>1-Process chart The project has documented the main features of the IPO and anchor processes and identified potential weaknesses in the quality of investor documentation and sales agent in the case of IPOs and in the case of anchor investor transaction, procedure and the engagement of the sales agents.</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		<p>procedures which may have hampered or delayed completion of the sale.</p>	<p>2-CMA unit The unit's technical training for the content and form of prospectuses will assist the CMA in the time taken to approve submitted prospectuses necessary for IPO's to proceed to market.</p> <p>3-Prospectus Guidelines Was provided to CMA to improve the accepted standards of information disclosure for IPOs thereby improving market liquidity</p> <p>4-Anchor Investor Guidelines the project has developed guidelines to formalize the process and procedure for anchor investors</p> <p>5-Sales Agent Engagement The sales agent workshop directly dealt with the services and engagements of sales agents.</p> <p>6- Law 301/159 conversion The project assisted in drafting appropriate guidelines to create certainty in the process. These procedures have been circulated by the PEO to all HCs.</p> <p>7-Al Ahram Beverage Company Book The project collected data related to Al Ahram Beverage Company transaction and is in the process of analyzing the sale process for lessons learnt.</p> <ul style="list-style-type: none"> <li>• Documentation/Success Stories</li> </ul> <p>1- Media</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
			<p>The Project prepared a brief to Minister associated with all transactions.</p> <p>2- Conferences The project has participated in key-note speeches at Euromoney and North African Stock Exchange</p> <p>3- Other e.g. NGO's The project has made presentation to international donor community reporting on the progress of privatization and the British Business Group.</p> <p>Third country Success Stories (in Arabic )</p> <p>1- Workshop - Hungarian Regarding privatization strategy development for pursuing anchor investors based on the Hungarian experience.</p> <p>2- Media</p>
		<ul style="list-style-type: none"> <li>• Evidence that AA is collecting and documenting the performance of privatization methods and reporting on successful privatization.</li> </ul>	
		<ul style="list-style-type: none"> <li>• Evidence that AA is providing success stories from other</li> </ul>	

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		country privatization programs for utilization by the GOE in press and public forums in Arabic.	
<p><b>Objective #3-D</b></p> <p><i>Advance socio-economic goals, as long as the cost-efficiency of the transactions process is not seriously compromised by striving to ensure that all parties involved in the privatization process are aware of their responsibilities and the potential socio-economic implications of each specific transaction.</i></p>	<ul style="list-style-type: none"> <li>Evidence of assistance to requesting parties in the creation of instrumentalities designed to facilitate widespread public ownership of stocks and the consequent exercise of stockholder rights in corporate governance and effective management oversight.</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of assistance/advice to MPE/HCs/ACs on implementation of corporate governance procedures to facilitate private ownership's effective input into corporate management.</li> </ul>	<p>Socio-Economic Goals</p> <p>1- Corporate Governance Procedures</p> <p>The project assisted in drafting appropriate guidelines to create certainty in the process. These procedures have been circulated by the PEO to all HCs</p>
		<ul style="list-style-type: none"> <li>If necessary, evidence of assistance to MPE on</li> </ul>	<p>2- Draft Legislation.....</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		draft legislation related to the above.	
		<ul style="list-style-type: none"> <li>Evidence that TA contractor has provided advice and assistance to MPE on the development of open end mutual funds, as well as, listing on Cairo Stock Exchange of closed end funds.</li> </ul>	3- Mutual Fund Assistance No activity to report.

#### 4. Policy Maker Support

**Purpose:**

*To overcome prevailing political, policy, regulatory and organizational impediments to privatization.*

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
<p><b>Objective #4-A</b></p> <p><i>Establish a process to identify political, policy, regulatory, and organizational impediments to privatization.</i></p>	<ul style="list-style-type: none"> <li>• Impediments to privatization are identified and dealt with before a privatization method is unsuccessfully utilized.</li> </ul>	<p>A. A unit within the PEO or MPE can be identified which deals effectively with these impediments and maintains on-going consultations with the TA contractor on issues of immediate concern.</p>	<p>A.1 PIDP has established senior &amp; junior liaison officers to provide focused contact with the MPE/PEO. The following issues were brought to the attention of program practitioners:</p> <ul style="list-style-type: none"> <li>• Concerns over ABC</li> <li>• Anchor Investor Procedures</li> <li>• Sales Agent Engagement</li> <li>• Law 203/159 Conversion</li> </ul> <p>A.2. PIDP through the PUs (in five HCs) has maintained a continuous communication of issues related to bringing ACs to the point of sale.</p>
		<p>B. Evidence that the TA contractor has developed a documentation process, issue identification system, and an organization process</p>	<p>B.1 Designing a Process Chart that documented the main features of the IPO and anchor processes.</p> <p>B.2 The establishment of CMA technical assistance unit.</p> <p>B.3 PIDP has developed an internal system for the identification of specific issues related to specific transactions.</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		related to these impediments with relevant program practitioners.	
<b>Objective #4-B</b>  <i>Provide assistance in the analysis of these impediments and present alternative solutions</i>	<ul style="list-style-type: none"> <li>• Evidence that TA contractor has provided relevant, timely, and appropriate solutions to impediments to program implementation.</li> </ul>	A. Evidence that policy/technical analysis is directed to the needs of senior policy makers in Arabic if required.	A.1 The following documents were produced in response to policy makers needs: Absorptive Capacity of the Stock Market <ul style="list-style-type: none"> <li>• Anchor Investor Manual</li> <li>• Anchor Investor Management System</li> <li>• IPO Prospectus Manual</li> <li>• Prospectus Checklist</li> <li>• Sales Proceeds</li> </ul>
		B. Evidence of provision of regular analysis to USAID of identifiable policy issues which may have a negative impact on the reputation or effectiveness of the US foreign assistance program.	B.1 PIDP has made a number of presentations to USAID in addition to regular meetings.
		C. Evidence of the provision of timely interventions for the resolution of program	C.1 PIDP presented a paper to the PEO on Anchor investor timing related to IPO issues. C.2 PIDP was involved in the Ahram Beverage Co. deal. PIDP made a number of disclosure recommendations to

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		impediments.	<p>the HC to incorporate into the prospectus to ensure that essential information was properly considered by the HC for disclosure to the public.</p> <p>C.3 PIDP involved in Misr Aluminum disclosure.</p> <p>C.4 PIDP completed the Portfolio assessment of the Engineering HC. Three other similar assessments were being finalized.</p> <p>C.5 PIDP has developed a document that outlines the appropriate steps to transfer the company from Law 203 to Law 159</p>
<p><b>Objective #4-C</b></p> <p><i>Help in engaging relevant participants, decision-makers and potential interested parties (including external experts, non governmental organizations, targeted segments of the business, and financial community) in the impediment, identification, analysis and resolution process.</i></p>	<ul style="list-style-type: none"> <li>Evidence that efforts taken by the TA contractor to widen the participation of interested parties are being utilized by the GOE in addressing program impediments.</li> </ul>	<p>A. Evidence that TA contractor has assisted the MPE/PEO in the identification of relevant external parties with relevant expertise or interest to provide assistance with the resolution of program impediments.</p>	<p>A.1 PIDP has been instrumental in the start-up ADALA.</p> <p>A.2 Transaction assistance in sales agent engagement</p> <p>A.3 Same as C.5.</p> <p>A.4 PIDP produced a document that look at the Absorptive Capacity of the Stock Market.</p> <p>A.5 PIDP produced a study on the acceleration of the stock market activity which was presented by the CMA Chairman to the MPC.</p> <p>A.6 PIDP has maintained a sales agent directory for intermediaries and advisors.</p>

Objective	Indicator (USAID)	IBTCI Performance Measures	Achievement
		<p>B. Evidence that TA contractor provided outreach, informational and media programming is resulting in greater desired participation by interested parties in the resolution of program impediments.</p>	<p>B.1 PIDP commenced the design of a comprehensive training program aligned with the anchor investor manual developed by PIDP.                      B.2 PIDP presented policy guidances related to media in Ahram Beverage Co. deal.                      B.3 Same as C.5.</p>

## STAFF COMMENTS

### PURPOSE # 1

BY OLA ATTIA

#### Public Relation

The purpose of this unit is to create an effective local and international public relations program to educate about, and gain the support of key audiences for the opportunities and benefits presented by privatization.

The objectives of the Public Relations are as follows:

- Objective # 1 - A Create a clear sense of purpose and ability to communicate an image uniformly and aggressively by GOE Entities.
- Objective # 1 - B Develop the capacity of the GOE Entities to define, structure, and communicate the privatization message
- Objective # 1 - C Generate new local and foreign business interest in the Egyptian privatization program
- Objective # 1 - D Gain support for privatization from key targeted groups.
- Objective # 1 - E Strengthen local institutional and selected targeted audiences of the private sector to carry out the communications in support of privatization and the larger economic reform program.

*Objective # 1-A Create a clear sense of purpose and ability to communicate an image uniformly and aggressively by GOE Entities.*

Performance Measure 1 - Policy Guidance

#### HTC Q & A Document

- PIDP prepared and submitted a document which identified potential questions and provided suggested answers for the HC and PEO to use as guidance when addressing the international media in regard to HTC's change in its selling strategy of Al Ahram Beverages (distributed to F. Wahab, PEO and H. Fahmy, HTC Chairman on May 24, 1996).
- PIDP prepared and submitted a document which provided insight into potential reactions from international media in terms of the change in the selling strategy (distributed to F. Wahab, PEO, MPE office and H. Fahmy, HTC Chairman on May 24, 1996).

*Comments*

PIDP has successfully handled Al Ahram Beverage change of sale strategy, and facilitated and prepared all parties for any unexpected questions. PIDP has also clarified any information that might be considered.

**Weekly Analysis/ Media Profile Chart**

PIDP prepares and distributes on a weekly basis, an overview of the national and international media focusing on privatization, including recommendations (distributed to MPE, PEO, CMA, USAID and PIDP subcontractors every week).

*Comments*

PIDP was keen in updating all key players (MPE, PEO, CMA, USAID & PIDP subcontractors) on a weekly basis on all aspects related to privatization. This activity has been well taken care of, but lacks comments and suggestions on the status and effect of media on audiences, and whether this effect is positive or negative.

**MPE Privatization Library**

PIDP researched a list of potential books/ studies for the MPE to assist the Ministry in policy guidelines for privatization and purchased 51 texts, arranged the library in the office of MPE and created an annotated bibliography for the MPE (delivered to H. Naguib, MPE on June 14, 1996).

*Comments*

The Privatization library is important, as it provides the Minister with background materials on all aspects related to privatization.

The library's use should not be restricted to the MPE office alone, but should also be accessible to all technical and financial teams at the PEO. It should be updated on a regular basis, and should contain all the laws and decrees issued regarding privatization, as well as privatization success stories.

This library has not been updated since it's establishment.

**Steps for Going Public - Media Outreach**

PIDP included Nagla Zikry, from Al Ahram Newspaper, in a workshop with the HC Chairmen which outlined the steps by companies taken when going public (conducted on September 28, 1996).

Good approach, but focuses on one media, Al Ahram newspaper, whereas Al Akhbar newspaper has a much wider readership.

### **CMA Compliance**

PIDP has worked closely with the CMA to provide policy guidance regarding professional conduct of financial intermediaries and CMA IPO requirements e.g. specific issues identified on a day to day basis with the CMA Technical Assistance Unit.

#### *Comments*

This is a notable achievement. It is a positive step to work closely with the CMA, by establishing a unit inside the CMA, PIDP should be aware of day to day transactions. Success in this area is contingent upon submitting a bi-weekly report on CMA transactions, problems and suggested methods of resolution.

### **Policy Guidance for Anchor Investor Transactions**

PIDP has developed a manual which gives policy guidance on anchor investor transaction procedures, documentations, sales contracts, bidding documents, appointment of sales agents, protocols for HC decision making and other related matters. The policy guidance was presented at the Euromoney Conference.

#### *Comments*

This is a commendable achievement because it will facilitate and accelerate the selling process for Anchor Investor.

### **Policy Guidance for IPO Prospectuses**

PIDP has developed a draft manual for IPO prospectuses which gives policy guidance on disclosure, transparency and consistency in reporting quantitative and qualitative information.

### **Policy Guidance for Investment Funds**

PIDP has provided basic advice and guidance to the CMA and PEO on the formation of venture capital funds, to provide alternative financing and improved market absorption capacity for anchor investor transactions, portfolio placements (or potential IPOs) where rehabilitation and restructuring are required



**Objective # 1 - B** *Develop the capacity of the GOE Entities to define, structure, and communicate the privatization message*

**Performance Measure 2 - Message Consistency**

**Message Communication Session**

PIDP held two, three hour sessions with F. Wahab, PEO and G. Mosaad, Advisor to MPE. Privatization messages and delivery mechanisms were jointly created and discussed (conducted on September 10 and September 15, 1996).

**Message Matrix**

PIDP prepared an English/Arabic message matrix which identifies the three target audiences and the relevant messages (final copy delivered to the PEO on September 19, 1996).

**CMA Message Training**

PIDP prepared a question and answer document and overview of the pending media interviews. These items were used during a three-hour media training session (training took place on July 24, 1996).

*Comments*

Egypt was one of the leaders in the stock exchange in the 40s. As the stock exchange was closed for many years the existing media generation are not familiar with how to report on the overall market, therefore they should be trained and updated on regular basis until they get the feel of the CMA operations.

**Daily Press Review and Privatization Hot Issues**

- PIDP published 120 issues of Daily Press Review.
- PIDP published 90 issues of Privatization Hot Issues.

**Press Releases**

PIDP produced seven press releases on a variety of issues (Arabic and English) and distributed to all target media:

Date	Topic
June 15, 1996	EBA-Privatization Debate between Public and Private Sector
June 17, 1996	Code of Ethics
July 1, 1996	Privatization: Obstacles/Solutions
July 4, 1996	Ameriya Cement
August 11, 1996	Central Depository System
August 27, 1996	Euromoney Conference
September 23, 1996	Capital Market Role in Privatization

*Comments*

It is an adequate means of conveying messages related to privatization.

**IMF Research**

PIDP gathered relevant newspaper articles which discussed the GOE privatization plans, for MPE meeting with the IMF (delivered to the MPE on September 17, 1996).

*Comments*

All newspaper articles related to privatization should be a collective item to the library for record purposes and as part of the updates of the library.

**Euromoney Conference**

- PIDP co-sponsored this conference on capital markets and privatization (conference held September 3 and 4, 1996).
- PIDP's Technical Unit at the MPE assisted the Minister with the creation of His Excellency's speech for the Euromoney conference.
- PIDP's Privatization Booth at the conference included an overview of past, present and future GOE privatization achievements and plans; PIDP distributed over 1000 brochures addressing the GOE's privatization program.
- PIDP COP delivered a plenary session speech on the Anchor Investor Manual and methodology, timetable and transparency requirements for the GOE privatization program (400 attendees).
- PIDP held one workshop, chaired by Minister Boutros Ghali. PIDP COP presented technical material on GOE privatization (50 attendees).

*Comments*

PR Unit was actively involved in the Euromoney Conference. The contributions of PR Unit were as follows:

- Over 1000 brochures addressing the GOE's privatization program were distributed at the conference.
- PIDP arranged a workshop and presented technical material on GOE privatization.

**Al Ahram Page**

PIDP developed an educationally focused newspaper page to be published a minimum of six times, signing a contract with Al Ahram on September 30, 1996. Two full pages were written in close collaboration with Al Ahram and PEO, once in April/May and once in September. In both instances the final approval was not forthcoming from the GOE.

*Comments*

If the cancellation of Al Ahram Page was a result of GOE policy guidance, or due to internal fighting in Al Ahram Newspaper over who will manage and direct the page, then PIDP should consider other written media alternatives such as Al Akhbar, Al Gomhoreya or any widely distributed magazine. PIDP may also consider other forms of media such as a TV forum program.

**Arab Contractors**

PIDP prepared two survey research tools; one qualitative and one quantitative (conducted two training sessions with AC on August 25 and September 24, 1996).

*Comments*

Although this company is a prestigious company and if such company could be privatized, it would have led to an extremely positive effect on the credibility and speed of the privatization program in Egypt. Though this company is not a part of Law 203 company and does not appear in the government privatization list, therefore, it is not a privatization candidate.

**Issues Management Program**

PIDP created a plan to assist the MPE with issues on a proactive basis, both in identification and response (presented to MPE advisor, Dr. Mukhtar Khattab and PEO in March and April).

### **Al Alam Al Youm Report**

PIDP provided counsel to CMA Chairman and Deputy on August 14, 1996 following this paper's running of contradicting stories.

### **Television Documentary Scripts**

- I. PIDP wrote two television documentary scripts
  - A. Program one: Are Shares For Everyone?
  - B. Program two: Why Do Share Prices Change?

### **Privatization Case Booklet**

PIDP wrote a 15 page booklet outlining GOE goals and strategies (presented to MPE advisor, Dr. Mukhtar Khattab; on May 8, May 18, June 2, September 8 and September 15).

### **Newspapers Advertisements**

PIDP wrote one Arabic newspaper advertisement (discussed with Dr. Mukhtar Khattab, MPE on May 8, May 18 and June 2. Delivered items again on September 8 and discussed with PEO on September 15).

### **MPE Communication Liaison**

PIDP has placed at the MPE a communications Liaison Officer whose responsibilities include drafting MPE speeches, preparing privatization briefing documents for the MPE, preparing questions and answer briefs and gathering information on privatization successes and lessons learnt from other jurisdictions, under the guidance of the MPE's privatization assistant, H. Naguib.

### *Comments*

Although there is PIDP Liaison Officer stationed at the Minister's office full time, however Arthur Andersen claims that they have limited access to MPE.

Internal communications and coordination is still a problem.

### **Habbeck Case**

Following the publication of this article, PIDP pointed out to the opposition newspaper that the alleged activities were separate from and not connected with the privatization of a state owned enterprise; provided oral update to PEO on the events (began September 26, 1996).

*Comments*

PR tasks are not limited to reacting towards criticism or scandals, but it has to shed light on local and international privatization success stories.

**Al Ahram Beverage**

Public Relations has successfully handled Al Ahram Beverage.



**Objective # 1 - C *Generate new local and foreign business interest in the Egyptian privatization program***

**Performance Measures 3 - *Privatization Message***

**International Media Relations**

In order to build confidence in the GOE's privatization efforts as well as encourage foreign investment in Egypt, PIDP has embarked on a campaign to generate positive dialogue in international media outlets. These efforts have taken place in the form of one on one meetings, press conferences, press releases, etc. As a result, some of the key placements include: Business Week, Associated Press, United Press International, and Agency Press.

**Central Depository System**

PIDP has shared in enhancing the transparency of privatization by arranging a press conference for national media to educate them on how transactions are handled in the Central Depository System.

The PR Unit has a notable achievement in conjunction with the ODT Unit in planning conferences, seminars and workshops to promote privatization.

**Central Depository Broker Session - Media Relations**

PIDP wrote a press release (English and Arabic) and distributed to 40 journalists (conducted August 11, 1996).

**EFIC Advertising Support**

PIDP created six print advertisements for Egyptian newspapers and one television script in support of this IPO; assisted the HC in placing the advertisements (April and May 1996).

### **HTC Marketing Support**

PIDP delivered marketing capabilities presentation; designed and printed English brochure of assets; completed layout and printing of 31 fact sheets (April and May 1996).

### **Code of Ethics/Broker Session**

PIDP identified speakers, developed session outline, wrote presentation materials, gathered appropriate leave behind materials, invited attendees, wrote and distributed post-event press release in Arabic illustrating "Code Of Ethics" and SRO "best practices" from the USA, UK, EU, Sweden and "London Code" (conducted June 16, 1996).

### **Donor Group Presentation**

PIDP presented to a Donor Group meeting, held at UNDP, the progress of the GOE privatization program, key issues and weaknesses, giving "Best Practices" examples from Central European and South American privatization programs (June 1996).

### **GOE Presidential Visit to the US**

- PIDP interviewed the CMA Chairman for a potential story; contacted media; arranged two interviews, conducted one interview for GOE.
- PIDP briefed the CMA Deputy media management techniques prior to the interview (July 24; interview took place on July 30, the placement was published on July 30).

### **Value of Trading on Stock Market - Press Materials**

PIDP conducted an interview with CMA Chairman to determine story; wrote press release for international media; contacted BBC and Business Week. Release written and media outlets contacted on August 18. Business Week article published October 7.

### **Privatization in Egypt Brochure**

PIDP researched, wrote and printed 8 page color, English language brochure.

### **Inward Investor Brochure**

PIDP researched, wrote and printed 8 page color, English language brochure.

### **PIDP Brochure**

PIDP researched, wrote and printed 3 page color, English language brochure.

### **International Media Placements**

PIDP generated 13 stories in the international press with a readership estimated at 1.2 million.

### **CMA Booklet**

PIDP assisted in the preparation and publishing of a CMA Booklet (September 1996) which improved the image and transparency of the capital market and stock exchange, appealing to both domestic and overseas investors.

### **Daily Media Counsel**

PIDP's full-time media relations professional fields approximately 10 calls per week. Oral counsel is often delivered as well as written information provided.



### **Objective # 1 - D *Gain support for privatization from key targeted groups***

#### **Performance Measure 4 - *New Local and Foreign Interest***

#### **EBA July Event**

PIDP wrote a press release and invitation (English and Arabic), contacted the media to attend, facilitated media coverage during the event, summarized two speeches (in Arabic) from the event for the media (conducted July 1, 1996).

#### *Comments*

This was a good move directed towards highly qualified businessmen.

#### **Hungarian Privatization/Media Relations**

PIDP wrote and distributed Arabic invitation; conducted three hour session and provided additional information on the issue (conducted July 16, 1996).

#### *Comments*

PR contributed in the Hungarian Privatization press conference. This conference was successful in bringing a number of ideas (mainly the Golden Share issue) that could be used in the privatization program in Egypt.

#### **Ameriya Press Release**

PIDP wrote and distributed English language press release in support of the sale of this company to an anchor investor (conducted July 4, 1996).

### **Hungarian Privatization Q&A Document**

PIDP created a question and answer document based on press conference information used as guidelines for media.

### **Private Sector Session**

PIDP designed, conducted and led a three hour session with public and private sector individuals debating the privatization program (conducted April 10, 1996).



**Objective # 1 - E** *Strengthen local institutional and selected targeted audiences of the private sector to carry out the communications in support of privatization and the larger economic reform program.*

**Performance Measure 5** - *Support from key target groups support from privatization*

### **Journalist Study Tour**

PIDP has sponsored a trip to New York for five selected journalists. PIDP could have brought a foreign journalist to widen the number of beneficiaries and reduce the cost associated with such an activity.

### **Economic Reporting Workshop - Alexandria**

PIDP conducted a 25 day workshop for 23 economic journalists to help increase the level of sophistication in reporting, bringing in a former reporter and current investor relations specialists, as well as providing a "Best Practices" case study from Latvia's privatization program (conducted June 17-19, 1996).

### **Guide to Public Relations**

PIDP wrote 70 page document (English and Arabic) on guidelines for public relations. Measurement/evaluation section, under review to determine if applicable to Egypt.

### **MPE Urgent Action Task - Base for Public Awareness**

PIDP developed a public relations process chart and implementation plan (English and Arabic) to help clarify public relations (delivered to PEO and MPE on June 25, 1996).

### **Egyptian Media Placements**

PIDP helped support, provided input to, created press releases for, organized press interviews for or other wise influenced 65 articles in Arab press.

### Reporting Indicator

Prior to attending PIDP's first media education session, one prominent reporter frequently wrote inaccurate articles. After working with the reporter on a regular basis PIDP has been able to track a positive change in the reporting quality (summarized in July 9, 1996 memorandum).



**PURPOSE # 2**

**BY MANAL EL HENNAWY**

**2. Organizational Development**

*Purpose 2: To strengthen the capabilities of the entities that are responsible to enable them to carry out the privatization program effectively.*

**Objective #2-A**

*Develop the organizational capabilities of GOE Entities to carry out privatization effectively by:*

**Objective #2-B**

*Expand the involvement and participation of selected target audiences of the private sector, businessmen's associations and NGOs in the privatization process.*

**Introduction**

The Organizational Development (OD) unit has been the most active component of PIDP during the period from April till September 1996. It conducted a series of 45 workshops, seminars and training sessions. Workshops were conducted internally within AA to enhance the internal capabilities of AA employees to create an external environment that is more conducive to privatization. Other workshops were conducted externally to empower other GOE entities to implement the privatization program.

**Objective #2-A**

*Develop the organizational capabilities of GOE Entities to carry out privatization effectively by:*

**Performance Measures:**

**I-A Workshops within PIDP**

Out of the 45 workshops that were conducted by the OD unit during this evaluation period, 9 were internal workshops. These 9 workshops were conducted prior to the new contract agreement reached in August 1996 between AA and the USAID. The idea of organizing these internal workshops is included in the scope of the old contract and listed under Task #2-A. Nonetheless, the majority of the conducted workshops did not confine themselves to their defined scope as stated under their objective. The following table shows the actual tasks to be accomplished compared to the workshops that were conducted during this period:

Task # 2A	Internal workshops conducted
<p>Help the privatization teams develop expertise in the evaluation of bids and proposals from merchant banks;</p> <p>Design and carry out practical training programs and site visitations that may include assistance in business planning, strategic planning, financial management, privatization procedures</p>	<p>Personal capability Statement and Formation of Transaction Team Membership workshop</p> <p>Team Effectiveness workshop, to build transactions teams which operate as an integrated whole with common objectives, understandings and plans to better serve HC clients; to clarify transaction team leader responsibilities and team member responsibilities; and to agree on ways to monitor transaction implementation and insure efficient sharing of staff resources.</p> <p>Five transaction team startup workshops for 5 of the HCs (Housing Tourism and Cinema, Engineering, Chemical, Mining and Refractories and the Metallurgical HC) were conducted. The purpose of these workshops was to clarify roles and responsibilities and promote teamwork among the privatization team members.</p> <p>Team managers workshop: to build skills and strategies for managing transaction teams.</p> <p>Methodologies and Approaches for Transaction Teams workshop: To present the consistent methodologies and approaches for valuation, writing prospectuses and information memorandums.</p>

Despite the efforts made by the OD unit in organizing these different internal workshops, the ultimate objective of these workshops, as formulated by this purpose, was not met. This was due to the continuous change in AA's organizational chart, and the reshuffling of senior staff. In addition, the transaction teams, to which the above workshops were targeted, are no longer active.

### I-B Workshops among Key Stakeholders

Under this same objective, and in order to enhance the capacity of the GOE entities to privatize, the OD unit conducted 14 workshops. The purpose of these workshops was to assist the key stakeholders (PEO, MPE, CMA, HCs, Sales agents and PIDP) in building a

common vision by agreeing on a given strategy, and working collaboratively to implement this strategy. Following is a list of the conducted workshops:

1. **Two CMA/HCs Informal Sessions**, held April 1, 1996, for 80 participants, and May 23, 1996, for 30 participants from HCs and ACs. Purpose: To enable the Chairman of the CMA, Abdel-Hamid Ibrahim, to present the public offering strategy, and respond to holding company issues and questions.
2. **CMA/PEO/HCs/PIDP Public Offering Workshop**, held June 8-9, 1996 (in Alexandria), for 50 participants from these entities -- including the Minister of Public Enterprises, the Chairman of the CMA, and the 16 Holding Company Chairmen. Purpose: to clarify how to go public, and to address issues related to valuation and dividend policy (PIDP technical presentation by Dr. Mohamed El Sahragty.)
3. **Role of Sales Agents Workshop**, held June 13, 1996, for 15 participants from the PEO, holding companies and affiliated companies. This workshop was a direct request from the Minister in the June 8th Public Offering Workshop. Purpose: to clarify the role of sales agents and the benefits to the holding company from using them (Technical presentation given by Mark Carawan and Bill Fielding).
4. **Workshop on Pursuing Anchor Investors: The Hungarian Experience**, held July 22, 1996 for 80 participants from the PEO and HCs, as well as managing directors and financial managers of ACs. Purpose: To present the Hungarian experience in anchor investor sale; and to identify application to the Egyptian setting (PIDP technical presentation from Dr. Mohamed El Sahragty and consultant Gyorgy Valyi of the Hungarian Privatization and State Holding Company).
5. **Focus Group Session: Steps for Going Public**, held August 15, 1996, for 9 participants from the CMA, and the public and private sector. Purpose: To reach a common understanding of the preferred steps that affiliated companies should take in preparing for an IPO.
6. **PIDP technical presentation and roundtable at the Euromoney Conference**, held September 3-4, 1996. Over 300 people attended the plenary PIDP technical presentation, and over 50 people attended the PIDP roundtable, which was chaired by Youssef Boutros Ghali (Technical presentations: Mark Carawan.)
7. **Workshop on Steps for Bringing Shares to the Market**, held September 28, 1996, for 85 participants from the CMA, PEO, MPE, HCs and the 25 ACs targeted for privatization in 1997 through IPOs. Purpose: To enable the CMA and PEO leadership to present the of HCs requirements in the IPO process, and the roles of each entity; and to introduce the Central Depository System to the ACs with upcoming IPOs, and the application process (Technical input: Dr. Mohamed El Sahragty).

All the selected topics in the conducted workshops, were well chosen to meet the demands of the GOE entities (for example the CMA informal sessions, public offering workshop, the role of sales agents, steps for going public, steps for bringing shares to the market, and

the workshop on pursuing anchor investors). In addition to these workshops, the PEO has also suggested that AA concentrate on Corporate governance workshops.

However, these workshops would have been more effective if the selected topics had been geared to serve the GOE's future plans. By the time the OD unit was organizing workshops for the steps for bringing shares to the market and public offerings, a number of 16 successful (fully covered) IPOs had already been finalized by the GOE. Hence, the workshops should have been ahead of, or at least in tandem with the government's plan, in order to assist in implementing the GOE's future plan.

Despite the fact that the privatization of the banking sector is an integral part of the overall privatization program in Egypt, and despite the pivotal role played by banks and brokerage firms in privatizing the public sector portfolio, AA did not adequately involve these parties in its workshops. This is evident from the workshop lists of participants. The OD unit should focus on the banking sector and brokerage firms as candidates for organizational development and training assistance.

The effectiveness and usefulness of the workshops and seminars organized by PIDP is a function of the capabilities and qualifications of the technical experts who provide the workshops' technical inputs. Since the OD unit relies on PIDP technical expertise to produce its technical materials, by examining the number and qualifications of the technical experts in PIDP, it is apparent that both their number and qualifications are not sufficient to cover the required material for the different fields. This is evident from the quality of the material that was presented in some of the workshops. A number of them were too general in terms of coverage, and also contained inappropriate material. The OD unit's reliance on a single technical expert to discuss varied topics in a number of work shops in different fields, indicates the scarcity of qualified technical staff in PIDP.

### **I -C Individual technical skills development training sessions**

In order to develop individual skills needed to meet agreed upon performance standards for carrying out privatization mandates, the OD unit organized two training workshops.

1. The first was the 3 month financial analysis course that started in March 1996 and continued till May 1996, for 23 participants(6 from state banks, 3 from law firms, 4 from the Public Works HC, 2 from the Engineering HC and 8 from the PIDP employees!!). The purpose of this course was to build skills in financial statement analysis, cash flow mechanics, cash flow projections and discounted cash flow valuation method. Examining the material of this financial course together with its purpose, it would have been more effective if the participants had been divided into several work groups according to their fields. The financial analysis material should have been tailored to the needs of the various participants according to their background (banking, legal, etc..).
2. The second was a series of 4 workshops held to introduce the new Central Depository System for over 400 of the key users (brokers from Cairo and Alexandria, the Minister of the PEO, his advisors, PEO and the 16 HC chairmen) in four sessions during the month of August, 1996. The OD unit was successful in targeting the key users. However the workshop would have been more effective if the technical input had originated from someone with first-hand experience in this field.

### **I-D ESA Workshops**

During this evaluation period, AA focused on ESA workshops. Over 40% of the total workshops dealt with ESAs. This focus on ESA workshops was mandated and supported by the directions of the PEO, although, ESA workshops have little significance given the following:

- ESAs are not considered by many experts as a practical method of privatization.
- With the speeding up of the privatization program in Egypt that started in May, other methods of privatization beside ESAs have been used.

Hence, the workshops and seminars should have focused more on other methods of privatization as they appear in the GOE's Privatization Plan covering the period from 1996 till 1998.

## II. Privatization Plan Approval

Following are the six workshops that were conducted under the first performance measure. These workshops were also used by the TA contractor to serve the second performance measure, in addition to aforementioned internal workshops:

1. **Two CMA/HCs/ACs Informal Sessions** (Duplicate with I.B-1).
2. **CMA/PEO/HCs/PIDP Public Offering Workshop** (Duplicate with I.B-2).
3. **Workshop on Pursuing Anchor Investors: The Hungarian Experience** (Duplicate with I.B-4).
4. **Focus Group Session: Steps for Going Public** (Duplicate with I.B-5).
5. **Workshop on Steps for Bringing Shares to the Market** (Duplicate with I.B-7).

## III. Best practices

During the last six months, the OD component of the TA contractor assistance in Best Practices and application has been as follows:

1. **Financial Analysis Course**, (Duplicate with I.C-1)
2. **Workshop on Code of Ethics and Standard Practices in Securities Dealings**, held June 16, 1996, for 80 participants that included brokers, CMA officials and PIDP. Purpose: To provide case examples from the USA and the UK on the importance of creating a code of ethics for the brokerage community (technical presentation by Mark Carawan and Bob Amen).
3. **The 4 Central Depository Roundtables** (Duplicate with I.C-2).
4. **Workshops on Public Offerings: HC/AC Needs Assessment**, carried out in August 1996. Purpose: To help identify when best practices are not being utilized in the public offering process, and to outline pressing issues and training needs as perceived by the CMA, HCs/ACs, Sales Agents, Brokers, PEO, and PIDP (Technical input from Dr. Mohamed El Sahragty, and Mark Carawan).

Despite the fact that the topics of these work shops were useful and appropriate, and that they served and satisfied the performance indicator, the lack of an adequate number of technical experts detracted from the usefulness and effectiveness of these workshops.

#### IV. Fielding Qualified Staff :

Over the last six months, technical experts who have provided technical presentations in workshops, or support in the development of workshop materials included:

##### Within PIDP

- Dr. Mark Carawan (AA/Inter I)
- Bill Fielding (AA/E)
- Dr. Mohamed El Sahragty (OSAF)
- Aly Zeidan (OSAF)
- Dalia Khalifa (OSAF)
- Dr. Ossama Khalifa (OSAF)
- Bob Amen (Ketchum)
- Fatma Khattab (AA/E)
- Larry Reger (Aries)
- Brad Warner (AA/Inter I)
- Wael Salam (Aries)

Mohsen Hassan of PIDP facilitated many of the Arabic language workshops in his capacity as a privatization specialist.

A number of the above technical experts are engaged extensively in other managerial responsibilities. It is very difficult for them to allocate the adequate amount of time and effort needed to prepare and organize the required standard of technical material, in addition to their other duties. Further more, two of the above technical experts are no longer in the employment of AA. This leaves the PIDP project short off needed qualified technical experts in the different fields that are supported by the assistance of the TA contractor.

Finally it should be mentioned that all the conducted workshops were extremely well organized. Practically all of the chosen venues for the workshops and seminars were adequate and appropriate. Examining the evaluation done by all the participants, all the seminars and workshops were positively rated. This demonstrates that the OD unit exercises great effort in preparing and organizing for seminars and workshops.

To sum up, despite the effort made by the Organizational Development unit in organizing the different workshops, seminars, and courses, the ultimate objective formulated by this purpose was unsuccessfully met. This was due to lack of needed technical expertise capable of furnishing adequate materials that can help to build individuals skills. These skills are needed to meet agreed upon performance standards for carrying out privatization mandates.



**Objective #2-B** *Expand the involvement and participation of selected target audiences of the private sector, businessmen's associations and NGOs in the privatization process.*

**Performance Measures**

I - The OD activities to support this objective are twofold:

- To develop and implement cooperative agreements with businessmen's associations and NGOs that have constituency groups in the private sector and academic communities; and
- To provide training on relevant privatization topics to members of media associations, as well as independent media representatives, with whom the PIDP Public Relations specialists are working.

**1. Cooperative Agreements with Businessmen & Associations and NGOs**

Between June and August 1996, the OD Unit entered into cost-sharing or purchase order agreements with the following NGOs:

• **Egyptian Businessmen's Association (EBA)**

The EBA purchase order was finalized in June 1996 for five roundtable's, and to date, two roundtables have been conducted: July 1st on the role of anchor investors with Minister Youssef Boutros Ghali (for over 70 participants); and September 23rd on the role of private sector businessmen in the capital markets, with CMA Chairman Abdel Hamid Ibrahim (for over fifty participants). The target audience is the public and private sector business community.

• **Egyptian Junior Businessmen's Group (EJBG)**

The EJB purchase order was finalized in August 1996 for five roundtables. The target audience of EJB roundtables is the business community, particularly the financial institutions. Up till September 1996, no roundtables were organized

• **Bi-national Fulbright Commission**

The PIDP-Fulbright Commission agreement was finalized in August 1996 and is based on cost-sharing. The target audience of the five Fulbright roundtable will change with each roundtable. The audiences are: the academic community, university student unions and other student associations, women's associations, and the NGO community. Up till September 1996, no roundtables were organized.

**2. Media Training in Support of Public Relations Activities**

Following are the Workshops conducted during the period from April till September 1996:

- **Senior Economic Editors workshop:** Held in Alexandria for 25 participants, to explore key issues in financial journalism in Egypt today, and to consider practical implications of conference discussions for future best practices in Egypt (PIDP technical presentation by Bob Amen, Mark Carawan & Mohamed El Sahragty).

- **Workshop for Senior Editors on Pursuing Anchor Investors: The Hungarian Experience**, conducted on July 21, 1996 for 21 senior economic editors (PIDP technical presentation by Dr. Mohamed El Sahragty).
- **Central Depository System Roundtable** to introduce the CDS, its benefits and applications to Senior Financial editors and Journalists, conducted on September 11, 1996 (27 participants, including CMA officials, economic editors and journalists).

The technical topics for media training are determined by the PIDP public relations specialists. OD/T assistance is through the delivery of the training sessions. See the discussion of TA contractor achievements under purpose 1.



**PURPOSE # 3**

**BY MOHAMED RAGUI**

**HCs/ACs/FIs Support**

**Purpose:**

*To maintain a steady flow of company/property sales*

**Objective #3-A**

*Assuming that all associated variables which are outside the TA Contractor's control are conducive to the TA's Contractor's involvement in privatization, the TA Contractor will provide advice and assistance in order that the Holding Companies are able to (if they so desire) offer a strategically-sensible and steady flow of assets or properties for sale, currently estimated to be approximately 50 public sector enterprises.*

**Objective #3-B**

*Assist HCs in developing sound contracts with sales agents to carry out most of the work associated with the sale; assist HCs in seeking competent performance by these sales agents.*

**Objective #3-C**

*Advise and comment on offerings with a view of building confidence:*

**Objective #3-D**

*Advance socio-economic goals, as long as the cost-efficiency of the transactions process is not seriously compromised by striving to ensure that all parties involved in the privatization process are aware of their responsibilities and the potential socio-economic implications of each specific transaction.*

**Introduction**

Under this purpose, we will be presenting in detail the TA contractor's principal responsibility, degree of involvement, and achievements in bringing law 203 companies to the point of sale.

In February 1996, the GOE announced its privatization plan which consisted of privatizing 76 affiliated companies (only 53 which were to be majority privatized) among the 16 HCs. During this period 13 companies were privatized through IPOs and one company was liquidated. Arthur Andersen was required to provide advice and assistance to only five holding companies. Their participation in the privatized companies or those offered for sale during this period was insignificant (minimal) and (ineffective).

**Comments on Arthur Andersen Achievements**

- **TA Contractor Achievements**

During this period, Arthur Andersen assisted in three privatization transactions in only two HCs (Mining & Refractories and Chemical Industries). These three companies were privatized through the stock market and represented 23% out of a total of 13 companies that were privatized. Also, PIDP was involved in the offering of 4 companies to anchor investors out of a total of 7 companies which are not yet finalized.

The below table (1) presents the TA contractor's degree of assistance and participation in the majority IPOs and anchor investors offerings and privatizations. (for details see annex 1)

**Summary of Arthur Andersen Participation in the GOE Privatization Activity From April 1996 to September 1996**

(Table 1)

Item Description	IPOs Privatization	Liquidation	Majority Anchor Investor Offerings not Finalized during the period
AA Participation	3	0	4
Total Privatization	13	1	7

• **TA Sale Support Effort**

To bring a company to the point of sale, the TA contractor is responsible for producing five essential and consecutive documents. The following is a list of these documents:

- Strategic Portfolio Assessment
- Valuation
- Information Memorandum/Prospectus (for IPOs)
- Bidding Memorandum/ Sales Agent TOR/RFP
- Sales Agent contract

It is almost impossible to draw conclusions regarding the TA contractor's sale support effort, as they did not assist in the entire process of bringing any company to the point of sale. (see tables- 4,5, 6, 7 and 8). It should also be noted that the documents were not produced consecutively.

• **TA Produced Documents**

Arthur Andersen's documentation production was heavily concentrated on the information memorandum and prospectuses. One bidding memorandum was produced as well as 3 valuations. No sale agent contracts were produced as shown in table 4.

**Summary of Arthur Andersen number of document produce from April to September.**

(Table 2)

Strategic Portfolio Assessment	Valuation	Information Memorandum	Bidding Memorandum	Sales Agent Contract
2 HCs and 1 ACs	1 Share valuation of a strategic company, 1 Update Valuation and 1 Valuation of a company that was not offered.	Involved in 12 Information Memorandum/ Prospectus and 39 fact sheets for the Hotels (assets).	1 Bidding Memorandum	None

• **Format and Language of the Documents Produced**

Most of the documents produced during this period were in a draft format and in English. It is our opinion that all these documents should have been in Arabic as well.

• **TA Portfolio Assessment**

The two portfolio assessments for the Engineering (22 Affiliated Companies) and Mining and Refractories (21 Affiliated Companies) Holding Companies were produced in a very short period (45 days each), and without drawing up the available expertise for the particular industrial sectors. We believe after the examination of the two portfolio assessments that they were not comprehensive and were not used by the Holding Company Chairman during this period. Furthermore, the overall usefulness of these documents both for Holding Company

Chairman, the MPE, or as a strategic document, is questionable. It should be noted that all of the companies were actually privatized before the delivery of these two documents (the Mining & Refractories assessment is still pending and the Engineering was delivered in Sept. 15th.). The Portfolio assessment time table sets out the project assistance in the flow of transactions over the next 2 years, and corresponds with the GOE timetable.

- **TA Contractor Assistance to the GOE**

During this period, the GOE was not involved with tier 2 and tier 3 companies. It is imperative that the GOE start working immediately on a strategy for these law 203 companies, as they are realizing more losses and dramatically increasing their debts each year. Furthermore, these realized losses and increase in debts will absorb their accumulated funds generated from the sale proceeds. Arthur Andersen should assist in this strategic issue.

- **Various Methodologies of the Share Flotations**

Arthur Andersen did not render any advice or assistance to the GOE on the various share flotations methodologies that were used. The GOE used five different methods in offering the companies' shares on the market, as follows:

- 1- Fixed price with allocation of the shares.
- 2- Fixed price of the second tranche offering.
- 3- Bidding price.
- 4- Price discovery.
- 5- Private placement.

- **Level of Effort**

According to the below table (3) the level of effort (time spent) in 3 out of the 5 holding companies did not exceed 2 months. This was perhaps the result of the massive reorganization occurring with the project.

**Arthur Andersen Level of Effort from April 1996 to September 1996.**

(Table 3)

HCs	Arthur Andersen Level of Effort
Chemical Industries	1.5 months
Engineering	4 months
Metallurgical	2 months
Mining & Refractories	1 month
Housing, Tourism and Cinema	4 months

- **Preparation of the Housing, Tourism and Cinema HC Fact Sheets.**

Arthur Andersen's unit working with the Housing, Tourism and Cinema Holding Company spent more than two months in preparing, updating and translating the hotel's fact sheets. This appears to be inordinate amount of time for these documents considering their length (approx. two pages) and the amount of information they contained. (See table 10)

- **Participation in the minority Share Offering**

The TA contractor participated in the 12.5% share offering of Ameriya Cement that occurred in June 96 and Misr Aluminum Company (minority, and not yet offered). The participation in the minority offering in companies which the GOE has designated as strategic, should not be considered in a privatization, as the GOE's share offering does not exceed 51%. Furthermore, AA's participation in such transactions should not be counted as a privatization.

- **Al Ahrum Beverage Company**

The project made a number of disclosure recommendations (two letters) to the HC of issues for incorporation into the prospectus. These recommendation were made to ensure that essential information pertaining to the future business prospectus of the company was properly disclosed to the public. PIDP should get high praise for dealing with these issues.

- **Advertisement Assistance**

The project assisted in the advertisement for several transactions during the period (EFIC, Koldair, Electro Cable, Industrial Gases, Telemisr and Ameriya Cement).

- **TA Contractor Number of Staff**

The number and the qualifications of the remaining employees in Arthur Andersen are not sufficient to effectively carry out the required tasks (bringing 10 to 15 companies to the point of sale) in the coming period. Especially since a number of these employees are in non-technical positions (They should immediately start hiring technical people). It should be noted that the organization chart has changed many times (This is a problem they must deal with).

- **Anchor Investor Guidelines**

The project has developed guidelines to formalize the process and procedures for anchor investors.

- **CMA unit, IPO Prospectus Guidelines and Prospectus Checklist**

The CMA unit produces a brochure which details stock market activity. These brochures have been distributed in several conferences. On the other hand, the unit did not assist during this period in the training of the CMA staff assigned to review the prospectuses submitted for CMA approval. In conjunction with the CMA training mentioned above, a detailed pro-forma prospectus has been developed for CMA staff and sales agent to provide guidance on the form and content of prospectuses, to ensure compliance with applicable laws and best practice.

The CMA unit will use a standard checklist as a control mechanism to insure that all applicable disclosure has been made in accordance with the guidelines. It should be noted that during the evaluation period, the checklists had yet to be used.

- **Investment Fund Assistance**

PIDP presented to the CMA an appraisal of the venture capital investment vehicles (funds, partnership and limited liability companies), to compare international best practices, legal, taxation and regulatory and investor protection as a foundation for establishing such vehicles.

**Chemical Holding Company**

(Table 4)

Item Description	GOE Feb. Plan	Strategic Portfolio Assessment	Valuation	Information m	Bidding Memorandum	Sales Agent Contract	Others
Industrial Gases	Anchor Investor (Offered Not Finalized)	-----	-----	Summary Inf. Memo. Sept. 14-29	Bidding Memo. Sept. 14-29	-----	Transaction Assist. Sept.
Kafr El Zayat	Majority IPO (Finalized 74.65%)	-----	Update Valuation July	-----	-----	-----	Market Analysis
Nile Matches	Majority IPO (Finalized 54.47%)	-----	-----	-----	-----	-----	Contact Anchor Investors May
Bata	Not in the Plan	-----	-----	-----	-----	-----	-----
Misc Chemical Industries	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
Paints and Chemical Industries	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
a Portland Cement	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----

Metallurgical Holding Company

(Table 5)

Item Description	GOE Feb. Plan / Status	Strategic Portfolio Assessment	Valuation	Information Memorandum	Bidding Memorandum	Sales Agent Contract	Others
Misr Aluminum	Minority IPO (Not Offered)	-----	Share Valuation Ended in May 96	Prospectus	-----	-----	Transaction Assist., Tax review, GATT Review ...etc.
Ameriya Cement	Anchor Investor (Offered 40% not Finalized)	-----	-----	Inf. Memo. April- May	-----	-----	Market Sounding ....etc.
METALCO	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
STEELCO	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----

Engineering Holding Company

(Table 6)

Item Description	GOE Feb. Plan / Status	Strategic Portfolio Assessment	Valuation	Information Memorandum	Bidding Memorandum	Sales Agent Contract	Others
Koldair	Anchor Investor (Not Offered)	Strategy Advice Completed July 1	Valuation May 1-June 11	Inf. Memo. Aug. 14-Sept. 30 Fact Sheets July	-----	-----	Market Study Completed May 5  ... etc. Ongoing
Electro Cable	Anchor Investor (Not Offered)	-----	-----	Review Inf. Memo. (NBE) July 21- Aug. 15	Instructions August	-----	... etc. July
Telemisr	Majority IPO (Offered 66.2%)	-----	-----	-----	-----	-----	-----
Ideal	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
El Nasr Television & Electronics	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
General Category	Portfolio Assessment	-----	-----	-----	-----	-----	-----

**Mining and Refractories Holding Company**

(Table 7)

Item Description	GOE Feb. Plan / Status	Strategic Portfolio Assessment	Valuation	Information Memorandum	Bidding Memorandum	Sales Agent Contract	Others
EFIC	Majority IPO (Finalized 74.7%)	-----	-----	Prospectus April	-----	-----	Market Sounding & Advertising April
Sheeni	Anchor Investor (Offered but not Finalized)	-----	-----	-----	-----	-----	-----
Torah Portland Cement	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
Eastern Tobacco	Minority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
Helwan Portland Cement	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
Al Nasr Glass & Crystal	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
General Category	Portfolio Assessment	-----	-----	-----	-----	-----	-----

## Housing, Tourism and Cinema Holding Company

(Table 8)

Item Description	GOE Feb. Plan/HTC Request	Strategic Portfolio Assessment	Valuation	Information Memorandum	Bidding Memorandum	Sales Agent Contract	Others
EGOTH	Sale of Assets (No Sales)	-----	-----	Fact Sheets March, July Inf. Memo. August	-----	-----	-----
Egyptian Hotels	Sale of Assets (No Sales)	-----	-----	Fact Sheets March, July Inf. Memo. August	-----	-----	-----
Misr Travel	Sale of Assets (No Sales)	-----	-----	Fact Sheets March, July Inf. Memo. August	-----	-----	-----
Misr Hotel	Sale of Assets (No Sales)	-----	-----	Fact Sheets March, July Inf. Memo. August	-----	-----	-----
Ahram Beverage	Anchor Investor (Offered 74.9%)	Recommendation (Letters)	-----	Inf. Memo. June23- July10	-----	-----	-----
Egyptian Vineyards Company	Anchor Investor (Not Offered)	-----	-----	Inf. Memo. August 8- Sept. 19.	-----	-----	-----
Misr Free Shops	Anchor Investor (Not Offered)	-----	-----	Inf. Memo. August 25- Sept. 29.	-----	-----	-----
Woodco	Anchor Investor (Not Offered)	-----	-----	-----	-----	-----	-----
Cairo Housing	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----
United Housing	Majority IPO (Not Offered)	-----	-----	-----	-----	-----	-----

## **BANKING SECTOR**

**BY MANAL EL HINNAWY**

### **IBTCI Comments on AA Sales Unit Assistance in the Banking Sector Divestiture Program:**

Examining the activity of the Banking sector unit or the sales unit in AA during this evaluation period, only one visit was made to the Deputy Governor of the Central Bank of Egypt. The purpose of this visit was to seek his advice and direction regarding how AA's project can contribute to the Privatization process of the JVBs. The Deputy Governor supported Arthur Anderson, and advised them to contact the four public sector banks to discuss the required technical assistance that AA can provide in order to enhance the privatization process of JVBs, through allocating anchor investors.

Following AA's meeting with the Deputy Governor of the CBE, AA made a number of unconstructive visits to two of the Public sector banks, 6 Joint Venture banks and 4 private banks!. These visits had no outcome whatsoever, Public sector and JVBs decided continued in the privatization of the banking sector without the assistance of the TA contractor.

During the last six months, a number of major sales transactions for the shares of public sector banks in JVBs took place. These privatization transactions were conducted via various methods of sale. In a number of these transactions, the public sector banks used the assistance of a number of financial institutions and consulting offices other than AA. It remains a mystery why these banks would prefer to pay for assistance which was offered free of charge. The following table present examples of these sales:

(Table 11)

Name of the Joint Venture Bank	% sold of its share in the JVB	Value of the shares sold	Method of Sale	Date	Companies assisting or managing the sale transaction
Egyptian American bank	20% increased in capital	LE120.00 million	IPOs	2-7-1996	Egyptian Financial Group (EFG) <ul style="list-style-type: none"> <li>• Finrate Consulting</li> </ul>
Commercial International Bank	50% of the NBE's share in CIB  -ing 20% of CIB's total capital)	\$ 120.00 million	Offering GDRs internationally	8-7-1996	Commercial International Company for Investment Salomon Brothers <ul style="list-style-type: none"> <li>• ING Barings</li> <li>• Robert Flaming</li> <li>• Other Int. Banks</li> </ul>
Misr Intl. Bank (MIB)	offered 10% of Banque Misr's shares	LE 116.25 million	IPOs	9-9-1996	Concord International

Despite the fact that the PIDP assistance in the banking sector privatization is an integral part of the TA contract, AA failed to provide any degree of technical assistance to successfully privatize Joint Venture Banks or to bring them to the point of sale during this current evaluation period.

AA's marginal involvement in assisting in the banking sector's privatization program has persisted since the beginning of PIDP II.



## PURPOSE # 4

BY AHMED KAMALY

**Purpose 4:** *The purpose is to overcome prevailing political, policy, regulatory and organizational impediments to privatization.*

The following general comments will shed some light on how PIDP has interpreted this purpose, and how PIDP has reacted to accomplish the objectives listed under this purpose.

- The focus of this purpose is to identify the impediments to privatization. To successfully meet this ultimate objective, PIDP has designed a system of communication with the most influential parties in the privatization program; mainly MPE, PEO and a number of HCs (The five HCs that were assigned to AA).

However, throughout this period of evaluation, AA concentrated on what it considers to be its principal client, the PEO. For the T-A contractor, the PEO is the heart of the privatization process as it is responsible for coordinating with the different HCs to come out with the list of privatization candidates. The T-A contractor did not capitalize on its liaison officers in other entities besides the PEO. Given its new transaction oriented structure, AA should rely more on its liaison with HCs, since privatization transactions are being implemented through the HCs. By using its system of communication with the HCs, the T-A contractor can easily spot and target the impediments that hinder the completion of any privatization transaction, at least in the five HCs that AA works closely with. The new management of PIDP believes that the PEO is the project's focal point. Senior staff in AA holds the view that AA has to work very closely with the PEO because of two main reasons:

- \* Privatization is a process that is being directed and controlled from the top.
- \* PEO is the principal customer according to the contract.

This close engagement with the PEO has centralized decision-making regarding the level and degree of assistance that is provided by the T-A contractor to the implementing bodies (HCs).

The T-A contractor works directly with the implementing bodies if they are given particular assignments. Requests made by HCs asking for the assistance of AA are channeled first to the PEO where they are approved, and then returned back to AA. This process takes time and effort in communication, and in preparing the needed paperwork. The process has a number of negative outcomes that adversely affect the pace of the privatization program in general, and the efficiency and effectiveness of the assistance given by the T-A contractor in particular.

These negative outcomes can be summarized in the following points:

- \* It imposes an additional load on the PEO at a time when it needs all the resources and time that it can get.

- \* It complicates the process of using the assistance given by the T-A contractor.
- \* It increases the cycle time between the receipt of requests by a given HC and the actual delivery of the needed work.
- \* It makes HCs reluctant to use the assistance of the T-A contractor as they have to go through a lengthy and time-consuming process.

As for the belief held by the management of AA that contractually, the PEO is the principal customer, IBTCI has both contractual and practical reasons to support its view that AA should not consider the PEO as its principal customer for the completion of all purposes under the project.

### I- Contractually

These sections are extracted from the customers sections of the four purposes of the projects in the contract.

In the contract section of Purpose and Objectives

#### “Customers

GOE entities are the customer.

In particular the MPE will manage the public affairs of the GOE for the Privatization Program and has established a small unit to focus on public relations and other communications activities. The HCs require assistance in promoting the sale of individual assets/properties. The TA contractor will provide the necessary advice and assistance to these customers to attempt to meet the objectives of this purpose. Such advice and assistance will be directed towards the performance measurements detailed in the contract”.

In the contract, section of C4.e Organizational Development

#### “Background

The HCs are responsible for developing strategic plans and initiating privatization actions for their respective Affiliated Companies (ACs). Many HCs, however, do require assistance in carrying out the privatization plan and carrying out their responsibilities under this program. The HCs have not in all cases been well informed during the ongoing privatization process and must be better assimilated into the process. At this time, the HCs institutional capability requires additional support to handle their role as implementors of the Privatization effort.”

It is obvious from the wording of the contract that in general, GOE entities affecting the pace of privatization are the customers of the project. The contract puts a stress on the necessity of working closely with the HCs. The HCs as labeled correctly by the contract are the "implementors of the privatization effort."

## II-Practically

As of 1996, the privatization program has been given a great push with the political support of the president and his mandate to the new cabinet to accelerate the pace of the privatization program. Since that date, the privatization program has gained the needed political support. The challenge was passed on to the minister and his supporting bodies, who in turn passed it on to the "implementors of the privatization effort." HCs are now responsible for providing a continuous flow of privatization candidates. The T-A contractor should provide complete support and assistance to HCs in order to meet the targets set by policy makers in charge of privatization. Policy makers are not interested in privatizing company "x" first or company "y" first, therefore the main responsibility of HC chairmen is to provide a continuous supply of appropriate privatization candidates. The HC chairmen are closely involved in deciding which of the ACs are to be privatized, the method of privatization, and whether a certain company is ready or not to be privatized.

- Almost all the achievements of PIDP during the period of evaluation were reactions to the policy makers requests, ideas and decisions. It should be emphasized that part of T-A contractor assignment is to react to the actions taken by policy makers, although, the T-A contractor should not focus primarily on this task. AA should not exclusively be a body that reacts to the policy makers' actions. PIDP, given its technical staff and capabilities should play a more influential role in giving technical assistance to direct the privatization program to reach its designated objectives. In doing so, PIDP should be an initiator and a leader in foreseeing the general and the specific (to individual transaction) impediments and suggesting a wide spectrum of solutions available to policy makers. By successfully accomplishing this task, AA will supply the Egyptian privatization program with the required and needed assistance to enhance the probability of success of individual privatization transactions, and hence, the success of the privatization program as a whole.

Another reason why AA should be ahead of policy makers in identifying the various impediments to privatization, is that policy makers do not have enough time to deeply study the various policy issues related to privatization. This is why on a number of occasions, policy makers have produced inconsistent and confusing guidelines and announcements regarding important issues related to privatization ( The land issue, uses of sale proceeds, method of privatization, privatization candidates .... ). This inconsistency in announcements, and in some cases decrees, will eventually lead to a credibility problem regarding government policies in general and the privatization program in particular. It should be noted here, that government credibility is a necessary condition to encourage absolute and relative domestic and foreign investment, which is the ultimate objective of the privatization program. Any slight credibility problem will send out negative signals regarding the government's commitment and seriousness in pursuing the privatization program and the reform program in general.

If PIDP has no power over the various decrees made by policy makers, PIDP can at least advise the policy makers on how dangerous this loss of credibility will be on the success of the program.

- There are two sets of impediments that PIDP should work on:

i) **Impediments specific to each privatization transaction.** These impediments may be legal, organizational or technical. Each transaction is usually accompanied by a number of problems. To finalize the privatization transaction, these problems must be identified and resolved. The job of the T-A contractor is to help government bodies, especially the implementing bodies, to phase out all the specific problems related to individual transactions. The T-A contractor should identify (if any) the problems associated with privatization candidates.

Identification of the problems, and assessing the nature of these problems are very important steps in dealing effectively and efficiently with these obstacles. Failure to identify and comprehend the nature of these problems has strong adverse effects on the speed and the success of the individual privatization transactions, and hence the success of the entire privatization program in Egypt. This suggests that a critical assignment of the T-A contractor is to give the required assistance to GOE entities related to privatization and to identify the obstacles hampering the completion of any individual privatization transaction. IBTCI recognizes the fact that the T-A contractor can not ensure that all the obstacles identified by AA are taken into consideration in the finalization of the privatization transaction. Nevertheless, this should not prevent the T-A contractor from providing policy advice whenever it is appropriate. AA's involvement in Ahram Beverage Co. (ABC) transaction took the form of advising the HC about the importance of disclosure on critical issues. This was a very positive involvement on AA's part. The unsuccessful launching of the IPO for ABC proved that AA's concerns were valid and concrete.

AA should be not discouraged by the attitude of the HC in not considering the issues or problems raised by the T-A contractor immediately. Frequently, the advice is taken at a later date.

This involvement has proven that the T-A contractor can be useful in identifying the critical policy issues that should be addressed prior to the launch of a given privatization transaction. The T-A contractor, however, should not confine its analysis to just identifying the obstacles, but it should be extended to cover the possible solutions open to the GOE to deal effectively with such obstacles.

ii) **Impediments general to the privatization program.** Mainly, there are two kinds of impediments that are general to the privatization program in Egypt: first the labor problem and second the debt problem. Despite the fact that such problems are a part of the overall impediments to privatization, PIDP, given its transaction-oriented structure and methodology places little emphasis on general macro-impediments to privatization. PIDP believes that macro-impediments to privatization are only addressed by the government and that the T-A contractor has no power to solve such problems. Hence, in the T-A contractor's opinion, it

makes more sense to focus on impediments specific to each privatization transaction. IBTCI recognizes that the T-A contractor is not in a good position to address general key issues dealing with privatization. Nevertheless, the T-A contractor should advise the policy makers of the danger of not dealing immediately with, or being inconsistent when addressing macro-impediments to privatization.



**IBTCI comments on the achievement of PIDP to satisfy Purpose 4**

**Objective 4-A**

**Performance indicator A:**

- A1 PIDP has established a system of contacts that covers the program practitioners (PEO, MPE, HCs). This system was mainly used to supply information on the dynamics of the privatization program in Egypt.
- A2 Close contacts with the five HCs via PUs have been waning during this period of evaluation. IBTCI recommends that integration between the different liaison officers working with program practitioners should be adequately prioritized. This integration is essential as it represents the basis for establishing a process to identify and present alternative solutions to impediments to privatization.

**Performance indicator B**

- B1 The designed process chart has no narrative at all. It has little significance in accomplishing the objective given the corresponding performance indicator.
- B2 The establishment of CMA technical assistance unit is considered to be a good initial step to help in reaching objective 4A and 4B. It should be noted that to ensure the success of this unit, highly qualified technical full-time experts should guide and direct the work of this unit.
- B3 There is no valid reason for keeping these issue memorandums internally within PIDP. These issues should be forwarded to the concerned parties and USAID, along with suggested action plans for dealing with such issues.



**Objective 4-B****Performance indicator A**

A1 The majority of the produced documents are useful, effective and practical (see table 1). Though, these documents could be more useful if they had an Arabic version (only the Anchor Investor Manual has an Arabic version)

**Table 1**

Documents	Usefulness	Effectiveness	Practicality	Comment
Absorptive Capacity of the Stock Market	Yes	Fair	Fair	This study has good theoretical arguments, views and policy issues. But its empirical analysis is not significant nor useful given its simplicity and biasness.
Anchor Investor Manual	Yes	Yes	Yes	The failure to describe the GOE's review, evaluation and decision making structure is a needed addition.
IPO Prospectus Manual	Yes	Yes	Yes	This document is a very valuable document but it lacks the Arabic edition.
Prospectus Checklist	Yes	Yes	Yes	This document is a very valuable document but it lacks the Arabic edition.
Sale Proceeds	Fair	Fair	Yes	This document is an update of an old document produced during the previous period of evaluation.

**Performance Indicator B**

- B1 PIDP should be more active in presenting to USAID a periodic update with the policy issues that need direct attention from USAID, in the light of the actual implementation of the privatization program.

**Performance Indicator C**

- C1 The deliverable is just a short memo (not a paper) dealing with deadlines for strategic anchor investor to respond to invitations to bid.
- C2 PIDP involvement in Ahram Beverage Co. is considered an example of successful, relevant, and timely assistance and advice, as was mentioned above.
- C3 PIDP should not have been involved in any technical assistance given to Misr Aluminum. This is because Misr Aluminum appears in the government privatization plan as a minority transaction. In addition, on several occasions, the Minister of Public Enterprise has announced that Misr Aluminum together with a number of other industries are considered strategic and the GOE is not planning to do majority privatizations. Given this, PIDP should not be involved in giving assistance to ACs that will not be majority privatized.
- C4 This activity by PIDP can not be considered an activity that helps in achieving the objective 4-B and it does not relate to the corresponding performance measure.
- C5 This document is not produced by any of PIDP staff. PIDP contracted a lawyer to produce this document. This document is only useful from the legal stand point. This document should be complemented by another document that identifies the reasons behind the delay in changing the corporate governance status.

**Objective 4-C**

**Performance Measure A**

- A1 As was mentioned above in the discussion of purpose 2, PIDP should minimize the level of activity and involvement in ESAs. In addition, PIDP "instrumental" involvement in the start-up of ADALA does not add much to the achievement of the corresponding performance measure.
- A2 This transaction assistance took the form of providing an anchor investor manual and a workshop dealing with the service and engagement of sales agents. Despite the importance and the relevance of the anchor investor manual to achieve other performance measures, this document is not relevant to this performance indicator.
- A3 See above comments in C5 (objective 4B).

- A4 See above comments on the document in A1 (Objective 4-B). This study is not relevant given the corresponding performance measure.
- A5 IBTCI could not assess the quality of this study given its strict confidentiality, though, this study has received positive feedback on the part of MPE.
- A6 Despite the usefulness of this directory, PIDP should have made a more comprehensive and informative one, and not just a list of sales agents than can be obtained from an ordinary directory.

**Performance Measure B**

- B1 Refer to purpose 2
- B2 This activity is not relevant to the corresponding performance measure.
- B3 This activity is not relevant to the corresponding performance measure.



# Annexes

## Revised Privatization Plan

### Majority Sales in the Stock Market Before December 31, 1996

Company Name	HC	Status
Damietta for Container Handling	Inland Trans.	Shown as strategic company (40 % only sale) in February plan.
Paints and Chemical Industries	Chemical	Shown for 2nd tranche sale in February plan. 12.5 % privatized in 1994 IPO.
Egyptian Electro Cables	Engineering	Shown for 2nd tranche sale in February plan but advertized for anchor investor during evaluation period. 30% privatized in 1995 IPO.
Misr Free Shops	Housing	Shown for anchor investor sale in February plan.
Egyptian General Warehouses	Maritime Trans.	Not included in February plan.
Misr El Gedida Housing & Development	Nat Const	Shown for 2nd tranche sale in February plan. 20% privatized in 1995 IPO.

### 40 Percent Sale in Stock Market Before December 31, 1996

Company Name	HC	Status
Kahira Pharm % Chem Industries	Pharm	Not shown in February plan.
General Co. for Silos & Storage	Rice Mills & Silos	Shown for majority IPO in February plan.
Alex Pharm & Chem Industries	Pharm	Shown for 2nd tranche sale in February plan. 10% sold in June, 1996. As of 9/30/96, 31 % privatized.

## Anchor Investor Sale Before December 31, 1996

Company Name	HC	Status
Industrial Gases	Chem	Shown for anchor investor sale in February plan. Advertized in September 1996.
BISCOMISR	Food Industries	Shown for anchor investor sale in February plan. Advertized in July 1996.
El Ahram Beverages	Housing, Tourism and Cinema	Shown for anchor investor sale in February plan. Advertized in 1994 and 1995. Bids rejected in June 1996. Offered as an IPO in July 1996 and 15% was sold. Re-advertized for anchor investor in August 1996. Announced as sold in November 1996.
El Ameriya Cement	Metallurgical	Shown for 2nd tranche in February plan. Advertized for anchor investor in June 1996.

## Companies to be Prepared by December 31, 1996 for Anchor Investor Sale in 1997

Company Name	HC	Status
Delta Industries (IDEAL)	Engineering	Shown for majority IPO in February plan.
STEELCO	Metallurgical	Shown for majority IPO in February plan.
METALCO	Metallurgical	Shown for majority IPO in February plan.
El Nasr Wool (STIA)	Textile & Trade	Shown as strategic (40 % only sale) in February plan.
Societe du Papier (SIMO)	Chemical	Not included in February plan.
El Nasr Glass and Crystal	Mining & Refractories	Shown for majority IPO in February plan.
Misr Dairies	Food	Shown for anchor investor sale in February plan.

AA Participation in the IPOs Offered from April 1996 to September 1996

HC/AC	Flotation Date	% of Shares Sold	AA Participation
<u>Rice &amp; Flour Mills</u>			
South Cairo Flour Mills	May-96	39.40%	N/A
Middle & West Flour Mills	Sept.-96	61.00%	N/A
Upper Egypt Flour Mills	Sept.-96	60.92%	N/A
East Delta Flour Mills	Sept.-96	60.69%	N/A
<u>Housing, Tourism &amp; Cinema</u>			
United Housing	Jun.-96	8.80%	No
Al Ahran Beverage	Jul.-96	15.00%	Partial
Development & Popular Houses	Sept.-96	62.58%	No
<u>Metallurgical Industries</u>			
-Ameriya Cement	Jun.-96	12.50%	Partial
<u>Cotton &amp; Foreign Trade</u>			
Arab Ginning Company	Sept.-96	62.60%	N/A
<u>Food Industry</u>			
Middle Egypt Flour Mills	Apr.-96	40.07%	N/A
Starch & Glucose	Jun.-96	61.00%	N/A
Misr Oil & Soap	Aug.-96	61.07%	N/A
El Nasr for Dehydrating Agri. Products	Aug.-96	59.46%	N/A
<u>Engineering Industries</u>			
Telemisr	Sept.-96	66.20%	No
<u>Mining &amp; Refractories</u>			
-Egyptian Financial & Industrial Co.	May-96	74.70%	Partial
<u>Chemical Industries</u>			
-Kafr El Zayat Insecticides	Aug.-96	74.65%	Partial
-El Nile For Matches & Prefabricated Houses	Aug.-96	54.47%	Partial
<u>NTL. Construction &amp; Development.</u>			
Madinat Nasr for Housing & Developing	May-96	74.80%	N/A
<u>Pharmaceuticals</u>			
Memphis Pharmaceuticals & Chemicals	Sept.-96	40.00%	N/A
Arab Drug	Sept.-96	39.95%	N/A

**Arthur Andersen participation in the Anchor Investor Offerings and Sale from  
April 1996 to September 1996**

<b>Holding Company</b>	<b>Affiliate Company</b>	<b>%</b>	<b>Period</b>	<b>Status</b>	<b>AA Participation</b>
Pharmaceuticals & Medical Appliances	Alexandria Pharmaceutical & Chemical Industries	10%	May 1996	Completed	N/A
	Nile Pharmaceutical & Chemical Industries	10%	May 1996	Not Finalized	N/A
Electric Power Distribution & Construction	Nasr Transformers & Electrical Ind. (ELMACO)	89%	May 1996	Completed	N/A
Mining & Refractories	Porcelain Dinner Ware & Utility Ware (sheeni)	27.53%	May 1996	Not Finalized	No
Metallurgical Industries	Ameriya Cement (AA participated)	40%	June 1996	Not Finalized	Yes (partial)
Food Industries	Egyptian Co. for Food (Bisco Misr)	100%	July 1996	Not Finalized	N/A
Engineering Industries	Egyptian Electro Cables (AA participated)	70%	August 1996	Not Finalized	Yes (partial)
National Co. for Construction & Development	Al Nasr for Utilities & Installation Company	90%	August 1996	Not Finalized	N/A
	El Shams for Housing & Development	74%	Sept. 1996	Not Finalized	N/A
Chemical Industries	Industrial Gases (AA participated)	100%	Sept. 1996	Not Finalized	Yes (partial)
Housing, Tourism and Cinema	Cairo Housing & urbanization Company	40%	August 1996	Not Finalized	No
	Al -Ahram Beverages (AA participated)	74.9%	July 1996	Not Finalized	Yes (partial)

**Laws and Regulations issued from April' 96 to September' 96**

1. Custom Exemption Amendment "71/1996"
2. Desert Land Law amendment "72/1996"
3. Customs through Green Line "448/1996"
4. Exports and Imports Amendment "178/1996"
5. Desert Land Executive Regulations "1057/1995"
6. Stock Market Executive Regulations "360/1996"
7. Brokers Commissions "348/1996"
8. Offering increments for Government's Workers "85/1996"
9. Banking and Credit Law amendments "97/1996"
10. Commercial Register Law "98/1996"
11. Stock Market Amendment "89/1996"
12. Income Tax Law "90/1996"
13. Entrance and Residence for Non-Egyptians "99/1996"
14. Sales Tax Amendment "91/1996"
15. Stamp Tax Amendment "92/1996"
16. Foreign Currency Law Amendment "228/1996"
17. Income Tax Law Amendment "226/1996"
18. Investment and Industrial Zones "2069/1996"
19. Export and Import Amendment "315/1996"
20. Registration in the Commercial Register "354/1996"
21. Simplifying Administrative Procedures in the General Organization for Industrialization (GOFI) "178/1996"

## Additional Ministerial Decisions & Administrative Changes

### April

- The Prime Minister approved that labor representatives can still hold their positions in the expected new formation of labor representatives until the end of the syndicate cycle 1991/96.

*Al Wafd 4/12 p.1*

- The Cabinet approved the upcoming state's budget for the fiscal year 1996/97.

*Al Wafd 4/20 p.2*

- The Chairman of the CMA assured that any company that will not submit quarterly financial statements will be directly abolished from CMA's schedules.

*Akhbar Alyoum 4/13 p.9*

- An agreement between Kuwaiti and Egyptian stock exchange was signed on April 1996.

*Al Ahram 4/8 p.14*

*Al Ahram Weekly 18-24 p.7*

### May

- The Chairman of the Executive Body of the General Investment Authority announced that Technical Committee for Free Zones Affairs approved to transfer Aluminum Complex into a private free zone.

*Al Ahram 5/25 p.14*

- The Prime Minister made a decision to raise the working hours of the Egyptian Stock market from [10:30-1:30] to [11:30-3:30]

*Al Ahram 5/25 p.6*

- The Cabinet met on 5/22/1996 and made many important decisions:

1. Exemption funds' net profits from annual taxes determined by article 111 of Tax Law.
2. Canceling capital profits taxes resulted from the sale of securities
3. Approving a proposed banking law aiming to amend some of the articles of Law 163/75, and Law 120/75. The amendments state that no person can hold more than 10% of any bank's capital unless he obtains the approval directly from the Central Bank of Egypt.

*Al Ahram 5/23 p.1,15*

- Representatives of the General Assemblies of SOE's decided to decrease the age of retirement from 62 to 60 years only.

*Al Wafd 5/11 p.22*

- Dr. Ebeid decided to replace chairmen of eight holding companies:  
National Construction  
Cotton & International Trade  
Textile Manufacturing & Trade  
Spinning and Weaving  
Engineering Industries  
Mining and Refractors  
Chemical Industries  
Rice Mills and Silos

*Al Ahram Weekly 30-5 p.4*

- The Board of Directors of the Capital Market Authority approved to implement the regulations of Clearing and Settlement system on the Egyptian stock market.

*Al Ahram 5/14 p.15*

### June

- Minister of Finance announced that the Ministry has opened an account for the proceeds of the sale of SOE's. The account will be used in settling national debts.

*Akhbar Alyoum 6/22 p.9*

- The Central Bank of Egypt made a decision to prevent Egyptian banks from financing the purchase of the contributions of National Banks in joint venture banks. Investors who are willing to purchase the shares should purchase them with their own money only.

*Al Alam Alyoum 6/16 p.1*

- Dr. Ebeid issued a decree number 538/1995 which concerns forming a committee to study early retirement compensations.

*Al Ahram 6/27 p.26*

- The Holding Company for Food Industries and the Holding Company for National Construction signed two contracts with the Social Fund for Development. By virtue of the two contracts, the SFD will contribute in the compensations of nearly 13,500 workers in the affiliates of the two HC's.

*Al Ahram 6/27 p.26*

- Misr Clearing and Central Depository Company started to implement the Central Depository System, for the first time in the Egyptian stock market.

*Al Alam Alyoum 6/26 p.1*

- The Egyptian Financial Group "EFG" for Brokerage and HERMES Brokerage Firm merged in one new company called "EFG-HERMES Company".

*Financial Times 6/21 p.16*

- The Chairman of the CMA announced that the National Council of Port Said Governorate has decided to establish the first private stock market in Egypt.

*Al Alam Alyoum 6/26 p.1*

### July

- Dr. Ebeid announced that elected members of the board of directors of the affiliates will receive the same share in profits as the appointed members, for the fiscal year 1994/95.

*Al Ahram 7/13 p.1*

- The government decided to apply free zones regulations over some factories.

*Al Wafd 7/7 p.1*

- Minister of Economy made a decision to decrease charges on services offered by the Egyptian stock market from one fourth in a thousand of the total transaction value, to one eighth in a thousand with a maximum of LE 250.

*Al Alam Alyoum 7/6 p.5*

- The Holding Company for Spinning and Weaving decided to lease Misr-Helwan Spinning and Weaving Company to an Italian Spinning Company for five years.

*Al Wafd 7/2 p.1*

- Egyptian stock Exchange signed two agreements with American and French Stock Exchanges.

*Al Ahram 7/7 p.26*

- It was decided that the National Bank of Egypt and Banque Misr are that two clearing banks working with the Central Depository System.

*Al Ahram 7/21 p.1,15*

- Omani, Bahraini, and Egyptian Capital Markets signed a triple agreement to facilitate cooperation and dealing in the securities of the three countries.

*Al Alam Alyoum 7/28 p.1*

- It was decided to allocate one of the five working hours of the stock market for price inquiries.

*Al Alam Alyoum 7/27 p.1*

### August

- The Implementation of the Central Depository System.

*Al Ahram 8/28 p.14*

- El Nile Matches Company split the nominal value of its shares from LE 100 to LE 10 per share.

*Al Ahram 8/11 p.27*

- Misr Al Gadida for Housing and Development split its shares into four divisions from LE 40 to LE 5 per share.

*Al Ahram 8/20 p.14*

### September

- The Cabinet decided to decrease charges and regulations for issuing the commercial registration.

*Al Ahram 9/21 p.1,14*

- Minister of Industry decided to cancel all charges on services offered by the General Organization for Industrialization "GOFI".

*Al Wafd 9/25 p.1*

- The Cabinet decided to cancel all taxes imposed on retirement and death pensions of workers in public enterprises sector companies, government agencies, and the private sector.

*Al Wafd 9/21 p.1*

- Minister of Justice issued a ministerial decree decreasing charges on new registrations in the notary public.

*Al Wafd 9/6 p.1*

- The government issued the second tranche of treasury bills 2000.

*Al Wafd 9/3 p.1*