PD-ABK-367

# USAID PRIVATIZATION PROJECT

# Evaluation Services Contract

Contract # 263-0238-C-00-5016-00

## *Quarterly Report*

for period ending January 31, 1995

*Submitted to:*

**U.S. Agency for International Development**
106 Kasr El Aini Street • Garden City, Cairo • Egypt

*Submitted by:*

**International Business & Technical Consultants, Inc.**
13 Ibrahim Naguib Street • 4th Floor, Suite 14 • Garden City, Cairo • Egypt
Telephone: 202-354-4544 • Facsimile: 202-354-9833

**Head Office**
45150 Russell Branch Parkway • Ashburn, VA • U.S.A.
Telephone: 703-589-1900 • Facsimile: 703-729-2088 • Email: IBTCI@aol.com

IBTCI

# TABLE OF CONTENTS

# Preface

International Business and Technical Consultants, Inc. (IBTCI) completed its first quarter of work under USAID contract number 263-0238-C-00-5016-00, which had two basic elements. First, it entailed developing the parameters and laying the foundation for monitoring/evaluating the technical assistance (TA) contract. Secondly, special studies were conducted addressing major issues affecting privatization in Egypt. IBTCI is pleased to present its first quarterly report. With respect to this report, please note the following:

- Sections 1 and 2 of the report have been developed following the new "Guidelines for Contract Quarterly Performance Reporting" provided to us by the USAID Office of Procurement in January.
- Sections 3 through 11 contain copies of some of the deliverables submitted to the Privatization Directorate over the course of the last quarter. We have included many of those deliverables as illustrations for the permanent records of the Mission's Contract Division.
- Since our contract was signed on November 9, our work started in real sense from that date. As such, we are closing our first contract quarter on January 31. As we carried out some work in October, in anticipation of the award of the contract, that work is also included in this first report. Our contract quarters will end January 31, April 30, July 31 and October 31 each year.
- As required under the RFP, another report entitled "Quarterly Review" will also be submitted by IBTCI. The review will contain evaluation of the work of the TA contractor. Since that contract is not yet awarded, our first quarter review will contain description of the work completed to date in advance of the award.



2

# Section 1
# Contractor's Report

## 1. Background

USAID/Egypt has initiated a new Privatization Project to assist the GOE with its Privatization Program. USAID has determined that the Project "shall require substantial monitoring of its implementation and regular evaluation of its activities and accomplishments through the life of the project". IBTCI has been contracted by USAID to perform ongoing monitoring and evaluation, and to conduct special studies as needed. It will also provide the Mission critical insight in the overall privatization process in Egypt and assist in management of the TA contract. Over its life of 4½ years, the project is expected to cost an estimated $2.7 Million.

## 2. Expected Results On Conclusion

Based on the guidance provided by USAID/Cairo officials and Section C of RFP No. 263-94-P-019, a work plan was developed. Our work plan encompasses the activities to be performed during each month of the first year and includes a blueprint of our future activities during each quarter of the remaining 3½ years (i.e., Quarters 5 thru 18), as shown in Tables I and II.

The results expected at the conclusion of the contract, corresponding to the work plan, and are briefly described below:

### I. Organization Support

IBTCI is expected to establish and maintain an office in Cairo throughout the life of the project. This office would maintain ongoing contacts with our counterparts in Egypt to remain abreast of developments relevant to our role. The office will also provide ready support to the Mission in the managing its Privatization Program, as well as participating in regular meetings, conferences and deliberations, as appropriate. The Corporate Program Manager will provide supervision to the project from IBTCI's Washington office, when not in Cairo, to ensure our overall responsiveness.



3

# FIRST YEAR WORK PLAN

**TABLE I**

| Activity Name | 1994 | | | 1995 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
| **I. Organizational Management** | | | | | | | | | | | | | |
| Assemble project management team | | | | | | | | | | | | | |
| Policy / Strategy team in Cairo | | | | | | | | | | | | | |
| Office set-up | | | | | | | | | | | | | |
| Long Term Intermittent Advisors in Cairo and supervision from D.C.* | | | | | | | | | | | | | |
| Hire Local Staff | | | | | | | | | | | | | |
| Short Term Consultants in Cairo as needed * | | | | | | | | | | | | | |
| **II. MI Planning / Design** | | | | | | | | | | | | | |
| Identify USAID division management needs | | | | | | | | | | | | | |
| Develop / Establish project performance measures | | | | | | | | | | | | | |
| Incorporate program achievement measures | | | | | | | | | | | | | |
| Establish system for data collection | | | | | | | | | | | | | |
| Establish reporting formats | | | | | | | | | | | | | |
| MI Design upgrades | | | | | | | | | | | | | |
| Procedure for deciding on special studies | | | | | | | | | | | | | |
| **III. Performance / Impact Evaluation** | | | | | | | | | | | | | |
| Data collection | | | | | | | | | | | | | |
| Surveys (TBD) | | | | | | | | | | | | | |
| Analysis and reporting | | | | | | | | | | | | | |
| Regular evaluations | | | | | | | | | | | | | |
| Issues / Exceptions identification | | | | | | | | | | | | | |
| **IV. Assist and Advise** | | | | | | | | | | | | | |
| Transition to new contract | | | | | | | | | | | | | |
| Project management | | | | | | | | | | | | | |
| Meeting program objectives (GOE / Prism) | | | | | | | | | | | | | |
| Special studies - as needed | | | | | | | | | | | | | |

* Cairo time to be scheduled in consultation with the USAID Privatization Division Management.



4

# IBTCI 2 - 5 YEAR WORKPLAN

**TABLE II**

| Activity Name | Contract Quarter Number | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| **I. Organizational Support** | | | | | | | | | | | | | | |
| Project Management Team Review / Update | | | | | | | | | | | | | | |
| Review / Update local staffing | | | | | | | | | | | | | | |
| Long-Term Intermittent Advisor in Cairo or supervision from D.C. * | | | | | | | | | | | | | | |
| Short-Term Consultants in Cairo* | | | | | | | | | | | | | | |
| **II. MI Design** | | | | | | | | | | | | | | |
| Review USAID needs | | | | | | | | | | | | | | |
| Update project performance measures | | | | | | | | | | | | | | |
| Update program achievement measures | | | | | | | | | | | | | | |
| MI Design upgrades | | | | | | | | | | | | | | |
| Enhance data collection system | | | | | | | | | | | | | | |
| **III. Performance / Impact Evaluation** | | | | | | | | | | | | | | |
| Data Collection | | | | | | | | | | | | | | |
| Surveys (TBD) | | | | | | | | | | | | | | |
| Analysis and reporting | | | | | | | | | | | | | | |
| Regular evaluations | | | | | | | | | | | | | | |
| Issues / Exceptions identification | | | | | | | | | | | | | | |
| **IV. Assist and Advise** | | | | | | | | | | | | | | |
| Project Management | | | | | | | | | | | | | | |
| Meeting program objectives (GOE / Prism) | | | | | | | | | | | | | | |
| Special Studies - as scheduled | | | | | | | | | | | | | | |

* To be scheduled in consultation with the USAID Privatization Division Management.



5

## II. Management Information

As one of the major components of this contract, IBTCI must meet the management information needs of the USAID officials and any other significant entities we are directed to support. In this respect, IBTCI will design an information system with a clear focus of supporting USAID/Cairo's roles and responsibilities, and the privatization program in Egypt. The system will be able to measure the project as well as program level achievements.

## III. Performance/Impact Evaluation

By the end of this project, IBTCI would have helped the Mission track the TA contractor's performance in each component of its work plan and also gauge the impact of their work. IBTCI will collect data, analyze and provide its evaluation of the work being done. IBTCI plans to conduct surveys on selected occasions to independently verify the impact of the work performed and communicate to the Mission its assessment as needed. Semi-annually, IBTCI would make recommendations regarding award to the contractor. IBTCI would also identify any critical issues needing special attention and make corresponding recommendations.

## IV. Assist and Advise

USAID does not want IBTCI to stop at conducting the monitoring and evaluation of the privatization support work on its behalf. The Mission has directed IBTCI to also assist in the management of the transition of the project from the present TA contract to its successor contract. Once the new contract is awarded, IBTCI will assist USAID/Cairo in the management of the contract, as directed. As Mission officials have articulated, IBTCI is to "advise us in the direction and effectiveness of USAID's efforts" in supporting privatization in Egypt. As specified in the RFP, IBTCI would also have undertaken special studies to examine the areas of critical importance to the program's direction or effectiveness.

## 3a. <u>Current Core Activities</u>

Consistent with the "expected results", discussed above, IBTCI commenced the activities planned for the quarter ending January 31, 1995. Given below is a short description of each major activity in process as included in the work plans.

## I. Organizational Support

a. Assembling a project management team and visiting with the Cairo Mission to agree upon policy and strategic issues.

b. Setting up an office in Cairo suitable for our work.

c. Mobilizing suitable, long-term intermittent advisors according to the needs under our proposal.

d. Hiring local staff for technical as well as administrative support.

e. Making specialized short-term consultants available in Cairo, as requested by USAID.

**II. Management Information**

a. Identifying Privatization Division management's information needs.

b. Developing project performance measures based on the TA Contract RFP.

c. Incorporating program achievement measures based on PRISM and the Division management needs.

d. Establishing a system for data collection.

e. Designing reporting formats to conform with information needs.

f. Proposing a procedure for deciding on special studies.

**III. Performance/Impact Evaluation**

a. Commencing identification of sources of information and begin data collection.

b. Submitting a quarterly report based on the preparatory work done prior to award of the TA contract.

c. Evaluating certain aspects of the present TA contractor.

d. Identifying issues significant to the program.



1

# FIRST YEAR WORK PLAN
## STATUS AS OF JANUARY 31, 1995

**TABLE III**

| Activity Name | 1994 | | | 1995 | Status | Comments |
|---|---|---|---|---|---|---|
| | Oct | Nov | Dec | Jan | | |
| **I. Organizational Management** | | | | | | |
| Assemble project management team | | | | | ✓ | |
| Policy / Strategy team in Cairo | | | | | ✓ | |
| Office set-up | | | | | + | |
| Long Term Intermittent Advisors in Cairo and supervision from D.C.* | | | | | ✓ | |
| Hire Local Staff | | | | | — | Short-term fill-ins in place. |
| Short Term Consultants in Cairo as needed * | | | | | ✓ | |
| **II. MI Planning / Design** | | | | | | |
| Identify USAID division management needs | | | | | + | |
| Develop / Establish project performance measures | | | | | ✓ | To be updated after award of the contract. |
| Incorporate program achievement measures | | | | | ✓ | |
| Establish system for data collection | | | | | ✓ | |
| Establish reporting formats | | | | | + | |
| MI Design upgrades | | | | | NA | |
| Procedure for deciding on special studies | | | | | ✓ | |
| **III. Performance / Impact Evaluation** | | | | | | |
| Data collection | | | | | ✓ | |
| Surveys (TBD) | | | | | NA | |
| Analysis and reporting | | | | | ✓ | |
| Regular evaluations | | | | | + | Present contract only. |
| Issues / Exceptions identification | | | | | + | |
| **IV. Assist and Advise** | | | | | | |
| Transition to new contract | | | | | + | Guidelines are ready. |
| Project management | | | | | ✓ | |
| Meeting program objectives (GOE / Prism) | | | | | ✓ | |
| Special studies - as needed | | | | | + | On accelerated schedule. |

* Cairo time to be scheduled in consultation with the USAID Privatization Division Management.

✓ **Completed** + **Ahead of Schedule** — **Behind Schedule**

## IV. Assist and Advise

a. Assisting USAID in preparing for transition from the present TA contract to the new contract.

b. Assisting USAID in managing the present contract, where appropriate.

c. Providing initial assistance toward meeting program objectives identified by the Mission.

d. Performing three special studies and provide additional terms of reference, in compliance with USAID's request.

## 3b. Current Buy-ins

Not applicable.

## 3c. Current Subcontracting Activity

Not applicable.

## 4. Performance

With minor exceptions, our performance under this contract is on target, and in many cases ahead of schedule with respect to the objectives, deliverables or requirements established for the period. The status of these activities as of the close of Quarter, January 31, is discussed below and summarized in Table III.

### I. Organizational Support

a. IBTCI put together a project management team in anticipation of the contract award and visited the Cairo Mission to agree on the strategic and policy issues. This rapid deployment allowed IBTCI to benefit from the valuable insight of key participants and to be well ahead of schedule in many aspects.

b. As of January 2, IBTCI established an office in Garden City in close proximity to USAID/Cairo Mission. The office is well suited for our work with a conference room and optimum amount of space and furnishing.

c. Highly qualified, long-term intermittent advisors (LTIAs) were quickly appointed. As required under the contract, one of the LTIAs is providing uninterrupted supervision, whether in or away from Cairo. Both LTIAs are also technically competent to act as the backbone of our day-to-day support.

d. Hiring local staff is somewhat behind schedule. Excellent administrative staff is in place, meeting logistical, liaison, secretarial and communications support needs. There has been a delay in placing technical staff at the level of proficiency IBTCI considers a must if we are to provide the quality support needed. Newspaper advertizing resulted in some response but failed in quality standards. Discussion has been underway with several excellent candidates. It is hoped that once salary and certain other issues are resolved, we will have hired the technical staff necessary. Two short term appointments have been made, pending permanent appointments.

e. USAID expressed the need for several specialized short term consultants to meet some of their needs. Highly qualified short-term consultants were promptly bought to Egypt for this purpose, satisfactory to USAID.

## II. Management Information

a. Based on extensive interaction with USAID, the management information needs in a variety of areas were identified, completing the initial round by November 9. Originally, the RFP and our proposal called for completion of this phase in five months of the award of the contract. The submission date was moved up in response to USAID needs (See Section 4).

b. Project performance measures were developed and submitted on December 15. To be well prepared in advance of the award of the new TA contract, these detailed performance indicators were developed based on TA contract's RFP. IBTCI expects to review and update these indicators based on the winning contractor's actual work plan. Award criteria for fees based on the TA contractor's performance that was included in their RFP was also reviewed and a revised scheme was recommended. (See Section 5).

c. Program achievement and related measures were identified in the context of PRISM and the overall scope of the TI/FI's program in the privatization area. Suitable measures have been incorporated within the economic indicators format, included in Section 5. These measures will, however, be revised, if needed, as part of the upcoming PRISM review in April.

d. Establishing a system for data collection has begun. So far, the types of data needed have been established. Most sources of information have also been identified. While a data base has not been developed, automation of the systems is being approached with caution to ensure: first, that the software is compatible between USAID, IBTCI and the TA Contractor - as much as possible; and second, the data storage is institutionalized outside of IBTCI as much as possible for efficiency and longer term value to the country. We have outlined



10

the data that needs to be provided by the present contractor and have forwarded it to them via USAID. Design of the ongoing data requirements from the new contractor is also ready.

e. Reporting formats were developed and submitted, and while subject to adjustment when actual data becomes available, they have been favorably assessed by Mission personnel. The work plan calls for establishment of additional levels of reporting before May 15.

f. Procedure for the approval of special studies was revised during January. It is, henceforth, going to be utilized with all new requests by USAID.

## III. Performance/Impact Evaluation

a. Limited data collection has begun and will accelerate with the award of the new TA contract and the selection of the case study candidates. Selection of the case study candidates was moved to the March/April time frame in view of other higher priority activities during our January visit. It will also benefit from the potential local professionals' knowledge and the enterprise selection/strategy exercise now underway.

b. A quarterly report is hereby submitted. This report, following USAID's new guidelines, captures the accomplishment of IBTCI under its own contract. Another report labeled "Quarterly Review", will contain an analysis of the performance of the contractors, as the work plan indicates. It was, however, agreed with USAID that our first quarter was to be utilized for laying the foundation for monitoring and evaluation work and undertaking special studies. Therefore, this quarter's review contains accomplishments in those categories. Future reviews will be more heavily weighted toward assessment and recommendations regarding the new contractor's work.

c. Even though the new contract is not in place, our evaluation work has started at the instruction of Mission officials and includes a review of and recommendations for improving certain deliverables of the present TA contractor (See Section 6 for an illustration).

d. IBTCI began providing input to USAID on various issues well ahead of schedule. The issues are being addressed as directed.

## IV. Assist and Advise

a. IBTCI has started assisting USAID in transition management by recommending an approach for an orderly and cost-effective close-out of each activity under the present contract and its hand-off to the new contract. Regardless of who wins the new TA contract, a seamless transition of activities is important for the program. In addition, a clear cut baseline for the new contract must be established to assess achievements under that contract. IBTCI is expected to start additional work in this area in the second quarter.

b. Project management activities have not begun with respect to the new TA contract. However, IBTCI is working selectively and strategically on the present TA contract as directed by TI/FI. For example, we have reviewed the procedure to be applied toward selecting future privatization candidates and made recommendations.

c. IBTCI and USAID have reviewed the program management refinements both under PRISM and as desired by the Privatization Division. We have also begun providing limited assistance in monitoring the attainment of program objectives by the Mission - as reviewed with Ambassador Walker on January 29 (See Section 7).

d. Three special studies have been performed by IBTCI and have been well received by USAID. We have also provided four additional Terms of Reference, in compliance with USAID's request.

## 5. Statement of Work

Several notable changes have taken place since our present contract was designed. These changes may require adjustments to the contract in the future. For illustration, the following are the most significant matters:

a. There were many urgent needs for special studies affecting the Privatization Program that are being addressed on an accelerated basis.

b. Because of changing market conditions, USAID is looking to modify - even reduce - the scope of the originally proposed merchant banking component. IBTCI has been asked to make recommendations as to how the objectives planned for the component can be achieved expeditiously.

c. To increase effectiveness of various privatization related efforts emerging within and outside USAID in Egypt, IBTCI has been asked by USAID to assist it in a review of all such initiatives and their coordination.

d. To insure the proper handing over of the assignments in progress between the existing and the new contract, IBTCI is to provide assistance to USAID in transition management.

The above imperatives are examples of work that have accelerated our use of LOE under the contract beyond the level originally envisioned.



13

# Section 2
# Administrative Information

## 3.1 **Level Of Effort** (as of December 31, 1994)

| | |
|---|---|
| Contract Data: Total LOE: | 260 p/m |
| Total est. costs: | $2,676,545 |

| | |
|---|---|
| 1. LOE (last 3 months) | 18.76 p/m |
| 2. Cumulative LOE | 18.76 p/m |
| 3. Unused LOE | 241.24 p/m |
| 4. Expenditures (last 3 months) | $388, 770 |
| 5. Cumulative Expenditures | $388, 770 |
| 6. Remaining Unexpended Balance | $2,287,775 |

## 3.2 **Budget Expenditures** (as of December 31, 1994)

EGYPT

| | Current | To Date | Budget | | Budget | Remaining | Variance |
|---|---|---|---|---|---|---|---|
| Salaries | 51,551.59 | 137,445.76 | 476,091 | | 476,091 | 338,645 | 28.87% |
| Fringe Benefits | 1,780.86 | 14,521.16 | 142,827 | | 142,827 | 128,306 | 10.17% |
| Overhead | 4,938.92 | 40,272.02 | 396,108 | | 396,108 | 355,836 | 10.17% |
| Consultants | | | | | | | |
| Local Staff Support | | | 492,283 | | 492,283 | 492,283 | |
| OTHER DIRECT COSTS | | | | | | | |
| Travel and Per Diem | 31,190.84 | 100,401.72 | 323,742 | | 323,742 | 223,340 | 31.01% |
| Office Rent | 2,758.28 | 6,015.90 | | | | (6,016) | |
| Communications | 3,739.87 | 5,925.61 | | | | (5,926) | |
| Supplies/Equipment | 6,904.30 | 18,651.47 | 394,820 | | 394,820 | 376,169 | 4.72% |
| DBA/Medivac Insurance | 1,397.84 | 4,262.27 | 29,855 | | 29,855 | 25,593 | 14.28% |
| Subtotal Other Direct Costs | 45,991.13 | 135,256.97 | 748,417 | | 748,417 | 613,160 | 18.07% |
| TOTAL TASK ORDER | 104,412.50 | 327,645.91 | 2,255,726 | | 2,255,726 | 1,928,080 | 14.53% |
| GENERAL AND ADMINISTRATIVE 9.36 | 9,773.01 | 30,667.66 | 211,136 | @7.72% | 174,060 | 180,468 | 14.53% |
| TOTAL COST | 114,185.51 | 358,313.57 | 2,466,862 | | 2,429,786 | 2,108,548 | 14.53% |
| FIXED FEE @ 8.5% | 9,705.77 | 30,456.65 | 209,683 | | 206,532 | 179,227 | 14.53% |
| TOTAL COST PLUS FIXED FEE | 123,891.28 | 388,770.23 | 2,676,545 | | 2,636,318 | 2,287,775 | 14.53% |



14

## 3.3 Personnel

The following personnel worked on this contract during the last quarter for varying lengths of time:

### Expatriate/Corporate:

- Jayant Kalotra, President
- Edwin Hullander, Executive Vice President
- Bharat Bhargava, Program Manager/ Long Term Intermittent Advisor
- Gary Hines, Senior Financial Officer
- Cathy Maris, Administrative Support
- Lynn Brandenburger, Administrative Support
- Julie Lancaster, Procurement, Technical Support
- Wendy Kabele, Project Coordinator
- Atul Wad, Member, Strategic Team
- Gray Cowan, Member, Strategic Team
- Joe Murrie, Member, Strategic Team
- Dona Bainbridge, Evaluation Baseline Specialist
- Sandra Bertoli-Minor, Data Collection Specialist
- Robert Craver, Economic Indicator Advisor
- Elizabeth Jackson, Project Coordinator/Special Studies
- John Bolton, Legal Advisor/Special Study 2
- Francois Quinsson, Organization Specialist, Special Study 2
- Elizabeth Morrissey, Capital Markets Specialist, Special Study 6a
- Pierre Gianni, Legal Advisor, Special Study 6b

### Local:

- Molly El Shazli, Office Manager
- Khalifa Hamid, Technical Consultant
- Dalia Zhagho, Administrative Assistant
- Hanan Ragheb , Part-Time Research Assistant
- Mohammad Soliman Hussein, Office Assistant



15

# Section 3
# Special Studies

IBTCI has been performing a series of special studies for the USAID mission to further certain causes in support of the privatization program. These studies have been in-depth analyses of selected areas that the Program Officer and Trade and Investment Directorate has expressed interest in examining further. During the initial visit in October, IBTCI drafted six special studies for USAID consideration in the Mission's expressed areas of interest. Of the six identified, two were chosen to be of immediate importance.

IBTCI fielded two teams at the beginning of December to meet this request. The first team consisted of a lawyer, Pierre Gianni and a capital markets specialist, Elizabeth Morrissey to work on a study on the functioning of the capitals markets. The team was in the field from November 27 through December 11. They conducted interviews with key brokers, bankers, legal experts and government officials among others. Their preliminary oral reports were presented to USAID. The study was then submitted in two different reports. The first report written by Elizabeth Morrissey, covered the functioning of the formal and informal capital markets, its impediments, an overview of the first two share flotations, suggestions for improvements and areas for potential USAID assistance (See Section 9). The second report covered in-depth, the legal and regulatory issues affecting the sale of shares for companies covered under Laws 203, 230 and 159. These reports were submitted January 15 to the Mission and concluded that the laws while complex were adequate for the initial functioning the stock market, but the enforcement of laws and skill levels need strengthening.

A second team was also in Cairo the first two weeks of December to look and the organization structure affecting privatization. Francois Quinsson, an organizational specialist, and John Bolton, legal advisor, conducted interviews in country and prepared their report. Interviews were conducted with Chairmen of the Holding Companies, members of the Privatization Units staffs, donors and officials at the Public Enterprise Office. While in-country, Mr. Quinsson presented preliminary findings and data on organizational structures in other developing countries to USAID. A draft report was prepared in Washington. IBTCI then elicited comments from the World Bank in Washington about current views on organizing the privatization process in Egypt to pursue better donor coordination. A report was submitted to USAID on January 15. IBTCI, in this report, urged USAID to maintain the current organizational structure of the Privatization Units to support the Holding Companies.

In response to our findings, USAID has requested additional work as follow-on to these studies as well as analysis of pressing issues for the Mission. IBTCI is in the process of preparing scopes of work, preparing budgets and proposing personnel for the following studies: enterprise selection, public sector investment, USAID Decision Support, Strategy Recommendation and Assistance for the Merchant Banking component.

# Section 4

**Program Management Information Format**

18

# USAID/EGYPT

## PRIVATIZATION PROGRAM

# PROGRAM MANAGEMENT INFORMATION

*MATERIAL FOR APPROVAL - SUBMITTED BY IBTCI*

JANUARY 18, 1995

19

## RFP #263-94-P-019 - Section C.1

*"Within two months of the award of the contract, the contractor shall be expected to send an initial evaluation team to Egypt to begin the initial three month exercise of developing the evaluation baseline and indicators to be used as benchmarks for project implementation.*

*Following . . . [that], the evaluation contractor shall do extensive privatization information and economic data collection, communicate directly and immediately with USAID on particularly significant findings, provide to USAID valuative assessments on a quarterly basis, complete annual evaluation summary reports, and conduct a mid-term evaluation and final evaluation."*



ய

## CAVEATS

- This is work-in-progress, intended to receive feedback/guidance from internal and external customers.
- It contains "mock-up" of desired reports. Availability and starting points of data will vary considerably from category to category.
- Concepts are based on the initial field work. Refinement and embellishment will follow USAID's further guidance and award of the TA contract.

# MANAGEMENT INFORMATION

- A truly performance measurement/decision tool
- Reliable
- Delivered in time all the time
- Focuses on the matters that matter
- Easy to use - even appealing - presentation
- Delivered in "bite-sizes"
- Contains data as well as analysis
- Onus of use also on the deliverer
- Itself maintains the high standard it is meant to promote

# PROGRAM MANAGEMENT INFORMATION BINDERS

**PMI-1 ORGANIZATIONAL**

- HCs/State Banks Board of Directors
- ACs/Banks - Management
- MPES
- PEO
- USAID
- World Bank
- Other Donors
- IBTCI
- TA Contractor
- TA Assistance Committee
- Merge Lists

**PMI-2 PERFORMANCE REPORTS**

- IBTCI Quarterly Report
- TA Bi-weekly Reports
- Survey Summaries
- Definitions

**PMI-3 ENTERPRISES/BANKS**

- Privatization Schedule
- ACs - Financial Data
- Banks - Financial Data

# QUARTERLY REPORT

I. Executive Summary/Highlights

II. IBTCI Narrative Report

- Current World View (Relevant to Egypt)
- Contextual Developments in Egypt
- Prism Update
- TA Contractor Progress Evaluation (Achievements/Success Stories and Shortfalls)
- Critical Issues
- Near-Term Opportunities and Challenges
- Decision Agenda

III. Stakeholder Analysis/Update

IV. Special Studies/Surveys

V. Upcoming Calendar

VI. Tables & Charts

- Program Performance (Table)
- Program Performance (Bar Chart)
- Economic Impact - Nation
- Economic Impact - Sectors
- Economic Impact - Enterprises
- Economic Impact - Banks

VII. Attachments

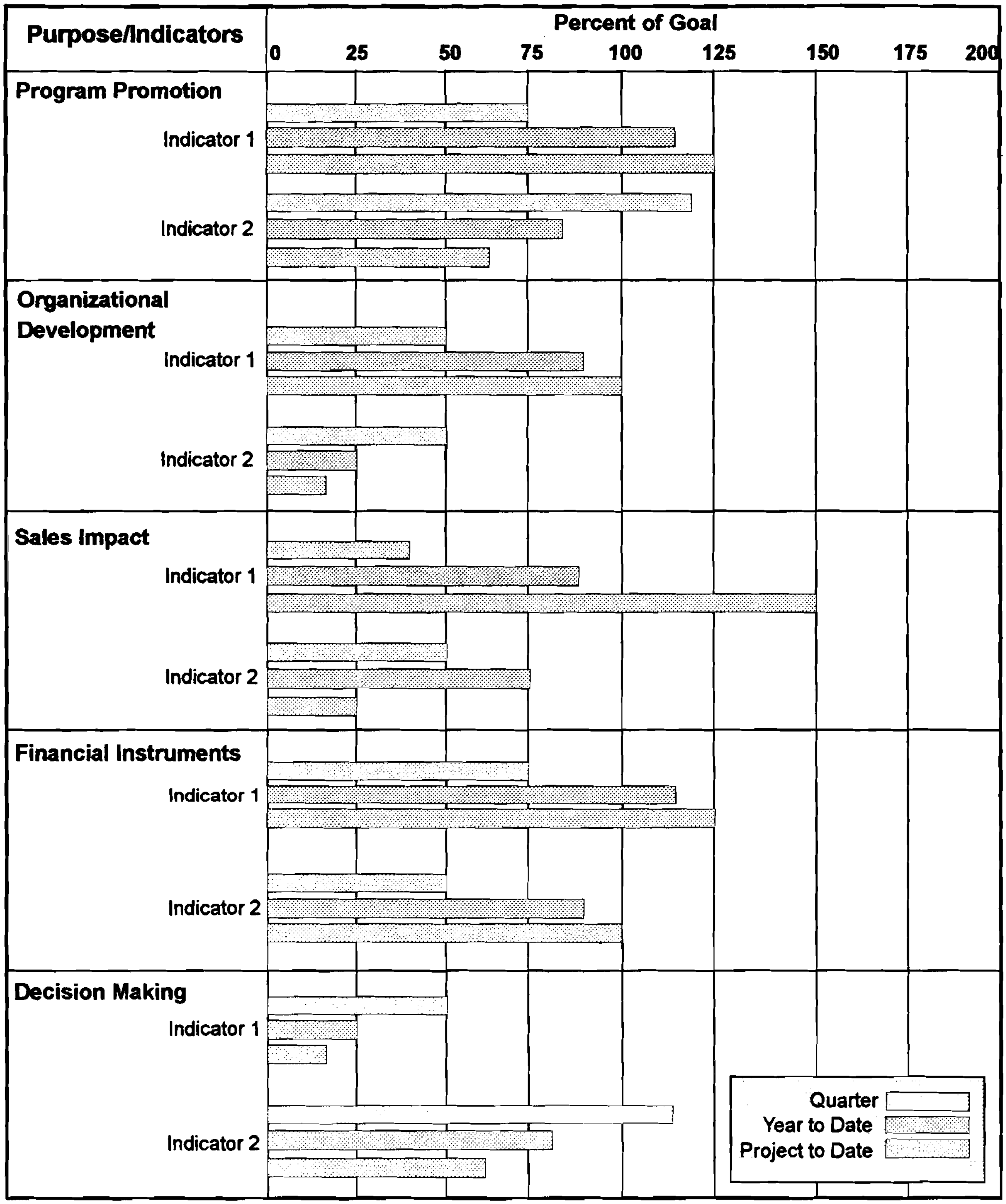
- Proposed "Quarterly Progress" memo from DJ to "Those Listed" (on disk also, with a merge list)
- "From the Desk of the Stakeholders"
- Organizational Data (updates)

24

# PERFORMANCE INDICATORS
## Quarter Ending September 1996

| Purpose/ Indicators | Project-to-Date Actual | Year-to-Date | | Quarter-to-Date | | Explanation |
|---|---|---|---|---|---|---|
| | | Plan | Actual | Plan | Actual | |
| Program Promotion<br>• Indicator 1<br>• Indicator 2 | | | | | | |
| Organizational Development<br>• Indicator 1<br>• Indicator 2 | | | | | | |
| Sales Impact<br>• Indicator 1<br>• Indicator 2 | | | | | | |
| Financial Instruments<br>• Indicator 1<br>• Indicator 2 | | | | | | |
| Decision Making<br>• Indicator 1<br>• Indicator 2 | | | | | | |

**Performance Indicators**
Quarter Ending September 1996



# ECONOMIC IMPACT OF PRIVATIZATION

## Affiliated Company A

## Quarter Ending September 1996

| INDICATORS | Base Year | | 1995 | | 1996 | | III Quarter | |
|---|---|---|---|---|---|---|---|---|
| | LE | % | LE | % | LE | % | LE | % |
| **FINANCIAL:** | | | | | | | | |
| Sales | | | | | | | | |
| Gross Margin | | | | | | | | |
| G & A Expenses | | | | | | | | |
| Sales Expenses | | | | | | | | |
| Financial Charges | | | | | | | | |
| Other | | | | | | | | |
| Profit Before Taxes | | | | | | | | |
| Taxes | | | | | | | | |
| Net Profit | | | | | | | | |
| Total Assets | | | | | | | | |
| Total Equity | | | | | | | | |
| Private Ownership | | | | | | | | |
| Employee Ownership | | | | | | | | |
| Capital Expenditure | | | | | | | | |
| Return on Equity | | | | | | | | |
| Return on Fixed Assets | | | | | | | | |
| Return on Assets | | | | | | | | |
| Debt to Equity Ratio | | | | | | | | |
| Book Value per Share | | | | | | | | |
| Earnings per Share | | | | | | | | |
| Dividend per Share | | | | | | | | |

| INDICATORS | Base Year | | 1995 | | 1996 | | III Quarter | |
|---|---|---|---|---|---|---|---|---|
| | LE | % | LE | % | LE | % | LE | % |
| Revenue per Employee | | | | | | | | |
| Average Employee Income | | | | | | | | |
| Secondary Income Created | | | | | | | | |
| Domestic Market Share | | | | | | | | |
| Export Sales | | | | | | | | |
| **OPERATIONS:** | | | | | | | | |
| Cost of Production | | | | | | | | |
| Raw Materials | | | | | | | | |
| Labor | | | | | | | | |
| Overhead | | | | | | | | |
| Machinery | | | | | | | | |
| Power | | | | | | | | |
| Other | | | | | | | | |
| Productivity | | | | | | | | |
| Capacity Utilization | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Quality of Output | | | | | | | | |
| Receivable Turnover | | | | | | | | |
| Payable Turnover | | | | | | | | |
| Number of Employees | | | | | | | | |
| Shares Traded | | | | | | | | |

# ECONOMIC IMPACT OF PRIVATIZATION
## Bank A
### Quarter Ending September 1996

| INDICATORS | Base Year | | 1995 | | 1996 | | III Quarter | |
|---|---|---|---|---|---|---|---|---|
| | LE | % | LE | % | LE | % | LE | % |
| Revenue: | | | | | | | | |
| Interest Domestic | | | | | | | | |
| Interest International | | | | | | | | |
| Fees Commercial | | | | | | | | |
| Fees - Consumer | | | | | | | | |
| Total | | | | | | | | |
| Expenses: | | | | | | | | |
| Interest | | | | | | | | |
| Personnel | | | | | | | | |
| Other General | | | | | | | | |
| Profit Before Taxes | | | | | | | | |
| Extraordinary Income/Experiences | | | | | | | | |
| Taxes | | | | | | | | |
| Net Profit | | | | | | | | |
| Total Assets | | | | | | | | |
| Total Loans | | | | | | | | |
| Long Term | | | | | | | | |
| Short Term | | | | | | | | |
| Interbank - Domestic | | | | | | | | |
| Interbank - International | | | | | | | | |
| Other Credit | | | | | | | | |
| Other Assets | | | | | | | | |
| Non-Performing Loans/Classified | | | | | | | | |

| INDICATORS | Base Year | | 1995 | | 1996 | | III Quarter | |
|---|---|---|---|---|---|---|---|---|
| | LE | % | LE | % | LE | % | LE | % |
| Total Liabilities | | | | | | | | |
| Commercial Deposits: Time | | | | | | | | |
| Demand | | | | | | | | |
| Average | | | | | | | | |
| Consumer Deposits: Time | | | | | | | | |
| Demand | | | | | | | | |
| Average | | | | | | | | |
| Total Equity | | | | | | | | |
| Private Ownership | | | | | | | | |
| Employee Ownership | | | | | | | | |
| Capital Expenditure | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Capital Adequacy | | | | | | | | |
| Loan Loss Reserve | | | | | | | | |
| Return on Equity | | | | | | | | |
| Return on Assets | | | | | | | | |
| Capital Expenditure | | | | | | | | |
| Book Value per Share | | | | | | | | |
| Earnings per Share | | | | | | | | |
| Dividend per Share | | | | | | | | |
| Revenue per Employee | | | | | | | | |
| Average Employee Income | | | | | | | | |
| Secondary Income Created | | | | | | | | |
| Domestic Market Share: Loans | | | | | | | | |
| Deposits | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Number of Employees | | | | | | | | |
| Shares Traded | | | | | | | | |

30

# ECONOMIC IMPACT - SECTOR A **
## Quarter Ending September 1996

| INDICATOR | BASE | 1990 | 1994 | 1995 | 1996 | 1997 | 2000 |
|---|---|---|---|---|---|---|---|
| **Privatization:** | | | | | | | |
| % Assets Private Owned | | | | | | | |
| % Assets Private Control | | | | | | | |
| % Assets Private Management | | | | | | | |
| **Industrial Output:** | | | | | | | |
| Nominal LE | | | | | | | |
| 1982 - 1983 Constant LE | | | | | 2* | | 4* |
| Export | | | | | | | |
| Investments: Public | | | | | 3* | | |
| Private | | | | | 1* | | |
| Foreign | | | | | | | |
| Employment: Total | | | | | | | |
| New | | | | | | | |
| Average Wages | | | | | | | |
| Productivity: Capital | | | | | | | |
| Labor | | | | | | | |
| Resource Utilization | | | | | | | |

Footnotes:
1* Updated III Quarter 1996
2* Preliminary Estimates: (CBE)
3* Dr. A. Ebeid's remarks - Chamber: August 14, 1996
4* Projections - *Economist:* II Quarter 1996
** May be an aggregate of targeted enterprises, initially

31

# ECONOMIC IMPACT - EGYPT
## LE BILLIONS* (except where noted)

| INDICATOR | 87/88 | 90/91 | 91/92 | 92/93 | 93/94 | 2000 |
|---|---|---|---|---|---|---|
| Privatization: | | | | | | |
| % Assets Privately Owned | | | | | | |
| % Assets Privately Control | | | | | | |
| % Assets Private Management | | | | | | |
| | | | | | | |
| GDP (Current) | 61.0 | 98.7 | 118.2 | 131.1 | 146.4* | |
| Real % Growth | | 2.1 | .3 | .5 | 2 | |
| | | | | | | |
| Industrial Output: | | | | | | |
| Nominal LE | | | | | | |
| 1982 - 1983 Constant LE | | | | | | |
| | | | | | | |
| Value Added - Public | 22.0 | 42.3 | 50.8 | | | |
| Private | 36.6 | 66.4 | 80.3 | | | |
| | | | | | | |
| Export - Year ($B'n.) | | 3.9 | 3.6 | 3.5 | 3.5 | |
| Export - July/December ($B'n.) | | | 1.94 | 1.7 | 1.52* | |
| Petroleum | | | | .86 | .77 | |
| Agriculture | | | | .08 | .08 | |
| Spinning and Weaving | | | | .24 | .22 | |
| Other Industries | | | | .36 | .32 | |
| Unclassified | | | | .15 | .13 | |
| Total Private Sector | | | | .23 | .24 | |

| INDICATOR | 87/88 | 90/91 | 91/92 | 92/93 | 93/94 | 2000 |
|---|---|---|---|---|---|---|
| GOE Budget | 26.8 | 45.5 | 47.6 | 50.5 | 56.3 | |
| Public Debt Interest | | | | 13.9 | 16.5 | |
| Capital Expenditure | 11.0 | 15.8 | 11.4 | 9.4 | 10.1 | |
| Surplus/(Deficit) | (14.4) | (10.0) | (9.3) | (9.1) | (9.0) | |
| Private Sector Fixed Investment: | | | | | | |
| Total | 7.6 | 10.8 | 11.6 | | | |
| Industry and Mining | 2.3 | 2.6 | 2.7 | | | |
| Petroleum | 1.5 | 2.9 | 3.0 | | | |
| Services | 1.2 | 1.6 | 1.7 | | | |
| Housing | 1.6 | 2.6 | 3.0 | | | |
| Money Supply - Year-end | | | | | 25.6 | |
| Average Inflation Rate | | 14.7 | 21.2 | 11.2 | 9.5 | |
| CPI - 1986/87=100 - Year-end | | | | 255 | 280 | |
| Exchange Rate (Dollar) | | 3.33 | 3.32 | 3.35 | | |
| Interest Rates - Year-end: | | | | | | |
| Discount | | | 20.0 | 18.4 | 16.5 | |
| Average Short Term Loan | | | 20.6 | 19.1 | 17.5 | |
| Average 3 month CD | | | 16.2 | 15.1 | 12.1 | |
| Average 3 month CD - US | | | 3.5 | 2.7 | 2.5 | |
| - UK | | | 10.2 | 6.5 | 4.5 | |
| - FR | | | 9.4 | 10.6 | 5.3 | |



33

| INDICATOR | 87/88 | 90/91 | 91/92 | 92/93 | 93/94 | 2000 |
|---|---|---|---|---|---|---|
| Cairo Stock Exchange: | | | | | | |
| Companies Listed | 490 | 582 | 635 | 654 | 674 | |
| Shares Listed | 348 | 374 | 396 | 410 | 424 | |
| Shares Value | 2.1 | 2.7 | 3.2 | 3.6 | 4.1 | |
| Share Price Index-High | | | | | 135 | |
| Share Price Index-Low | | | | | 123 | |
| LE Stock Transactions: | | | | | | |
| Number (Thousands) | | | 5486 | 5880 | 3797 | |
| Value | | | .061 | .202 | .085 | |
| Average Value (LE) | | | 11.2 | 34.4 | 22.5 | |
| Dollar Stock Transactions: | | | | | | |
| Number (Thousands) | | | 3982 | 8130 | 1132 | |
| Value | | | .047 | .060 | .026 | |
| Average Value (LE) | | | 11.8 | 7.3 | 23.2 | |
| Bank Deposits - Year-end: | | 70.5 | 89.6 | 111.0 | 120.4 | |
| Public Sector Companies | | 9.2 | 10.6 | 11.7 | 12.5 | |
| Private Businesses | | 10.6 | 10.5 | 11.8 | 12.9 | |
| Households | | 41.3 | 53.8 | 67.8 | 76.9 | |
| Bank Loans - Year-end: | | 39.5 | 45.1 | 46.0 | 55.5 | |
| Public Sector Companies | | 14.0 | 16.1 | 18.3 | 23.0 | |
| Private Busnesses | | 16.5 | 16.1 | 20.2 | 23.9 | |
| Households | | 1.0 | 1.2 | 2.1 | 3.0 | |

| INDICATOR | 87/88 | 90/91 | 91/92 | 92/93 | 93/94 | 2000 |
|---|---|---|---|---|---|---|
| Employment: Total | | | | | | |
| New | | | | | | |
| Productivity: Labor | | | | | | |
| Capital | | | | | | |
| Tourism: | | | | | | |
| Revenue | | | | 5.0 | 3.5 | |
| Number | | | | 1721 | 1310 | |
| Nights: Total | | | | 11,901 | 7,993 | |
| Middle East | | | | 4727 | 3340 | |
| Non - Middle East | | | | 7174 | 4653 | |

Explanation: Based on 1986/87 prices for 1987/88 through1991/92, and 1991/92 prices for 1992/93 onward. Much data verification and reconciltation needs to be done.

35

# STAKEHOLDERS ANALYSIS

| STAKEHOLDERS* | ASPIRATIONS | APPREHENSIONS | ACTIONS BEING TAKEN |
|---|---|---|---|
| HC's/State Banks | | | |
| AC/Bank Management | | | |
| AC/Bank Employees | | | |
| PUs | | | |
| Strategic Suppliers | | | |
| Strategic Customers | | | |
| GOE | | | |
| MPES | | | |
| People's Assembly | | | |
| PEO | | | |
| Org. Private Sector | | | |
| Informal Private Sector | | | |
| Organized Labor | | | |
| Financial Community | | | |
| Investors - Domestic | | | |
| Investors - Foreign | | | |
| Academia | | | |
| Media | | | |
| Public | | | |
| Other Donors | | | |

*USAID, IBTCI and TA Contractor not listed here.

**XXX HOLDING COMPANY**
**Status as of December 15, 1994**

| Activities | Plan | | Actual/Estimated | | Status/Description |
|---|---|---|---|---|---|
| | Start | Finish | Start | Finish | |
| **Company A** | | | | | |
| Review/Valuation Study | 7/15 | 11/30 | 7/15 | 1/20 | 80% complete |
| ESOP Study | 7/15 | 11/28 | 7/22 | 12/1 | Completed 11/23 |
| Announce Sale | | 7/31 | | 7/31 | |
| Implementation Assistance | 7/15 | 2/28 | 7/15 | 3/31 | |
| Comments: Delay in the review of valuation study due to XXX. No serious hurdles now. | | | | | |
| **Company B** | | | | | |
| Preparation | 8/1 | 8/31 | 8/10 | 9/15 | XX Situation |
| Sale Solicitation | 8/31 | 11/20 | 9/15 | 12/10 | |
| Sale Negotiation | 11/20 | 2/28 | 12/10 | | On hold. |
| Comment: Status X attained. Then HC refused bid offering. Have done Y to get back on track. USAID needs to know/do Z. | | | | | |
| **Deliverable A** | | | | | |
| Activity 1 | | | | | |
| Activity 2 | | | | | |
| Activity 3 | | | | | |
| **Deliverable B** | | | | | |
| Activity 1 | | | | | |
| Activity 2 | | | | | |
| Activity 3 | | | | | |

# PRELIMINARY PERFORMANCE INDICATORS[1]

## PROGRAM PROMOTION

1. Development of Privatization Message

- number of GOE policy statements produced regarding the privatization success stories and sectoral issues affecting future privatization potential
- number of forums designed and delivered to allow for dialogue among senior decision makers
- number and type of contact with key GOE decision makers and stakeholder management

2. Direct Delivery of Privatization Message

- number of information seminars and training programs delivered to major stakeholders
- number of participants in seminars
- number of promotional documents produced and disseminated

3. Delivery of the Privatization Message via Media

- number of press releases
- number of print, radio and television stories, or
- amount of air time devoted to the privatization process

4. Delivery of Message Regarding Opportunities

- number of industry and company specific promotional documents produced
- number of promotional activities undertaken to disseminate information regarding privatization opportunities to Egyptian and foreign investors
- number of potential investors receiving promotional materials
- number of interested investors receiving follow-up assistance as a result of initial enquiries
- number of interested investors entering into negotiations as a result of initial promotional contact
- number of sales completed for privatization opportunities made available as a result of TA promotional assistance

## ORGANIZATIONAL DEVELOPMENT

1. HC Skills Development

- number of leadership and management training sessions designed and delivered to the privatization staffs
- number of staff participants
- degree to which staff utilizes training (follow-up meetings with staff)

2. Donor Agencies Coordination

- number of meetings and communications between donor agencies and the HC s regarding specific privatization opportunities and success stories
- number and type of new information dissemination procedures put into place to communicate opportunities to donor agencies
- number and type of meetings held to bring about the completion of privatization opportunities requiring donor participation

[1] To be revised based on contractor work plan and USAID guidance.

3. Assistance to PEO

- number of technical assistance projects delivered to support the PEO activities
- number and type of communications with PEO management and staff to bring about the identification, promotion and sale of opportunities
- number of new reporting requirements established between PEO and major stakeholders to monitor privatization opportunity progress

## SALES

1. Sales of Targeted Companies/Shares

- number of sales opportunities available for promotion
- a targeted percentage of assigned companies result in sales contracts
- a targeted percentage of contracts result in sales
- number of privatized companies at the national and industrial sector levels and by targeted annual goal

2. Overall Assistance to Sales Program

- number of technical assistance sales programs designed and delivered to major stakeholders
- number of policy statements referencing privatization goals achieved as a result of sales goals met at the national and industrial sector level
- dollar value of technology transfer opportunities identified as a result of technical assistance to each affiliated companies
- number sales completed
- dollar value of asset sales in each industrial sector

3. Identifying/Facilitating Social Development Goals

- number of programs recommended to support private sector industrial skill development
- number of new private sector jobs created as a result of the sale of targeted companies

## FINANCIAL INSTRUMENTS DEVELOPMENT

1. Creation of New Financial Instrument

- number of recommended financial instruments provided by contractor
- degree of increase in the sophistication of financial instruments available to support privatization activities at the national level

2. Assistance to Egyptian Financial Institutions

- number of Egyptian financial institutions visited and reviewed by the contractor, including brokerage houses, banks, investment banking firms and venture capital firms
- number of Egyptian institutions identified as viable to contract with for sales services
- number, name and position of Egyptian banking staff capable of delivering sales services to clients in each of the targeted institutions
- inventory of skills and technical training requirements for targeted financial institutions

3. Specialized Assistance for Privatization of Small and Difficult Enterprises

- number of recommended technical assistance programs to assist these companies
- number of specialized financial instruments designed to assist in their sale
- number and type of technical training programs developed to assist sales agents in dealing with this special group of sales opportunities

4. Identification of Foreign Sales Agents

- number and name of potential foreign sales agents
- report completed on the technical capabilities of foreign sales agents to participate in the sales process
- degree of participation of targeted foreign sales agents
- number (with name and position) of foreign sales executives identified to participate

5. Recommendations Regarding Successful Attraction of U.S. Investment to Egypt

- number of U.S. firms targeted for contact by contractor regarding their investment interests globally
- report completed to assess U.S. and European companies' perception of the Egyptian privatization program
- number of recommendations developed to overcome negative perceptions of Egyptian investment environment
- number of recommended promotional programs put into place targeted towards the increase in foreign investor enquiries

DECISION MAKING SUPPORT

1. Development of New Policy Guidelines

- number of legal and regulatory guideline recommendations identified and submitted to the GOE for the purpose of facilitating the promotion, sale and transfer of assets to the private sector in a timely and orderly fashion
- number of policy initiatives implemented as a result of recommendations submitted

2. Strengthen HC Decision Making Capabilities

- number of management analyses prepared to assess the technical capabilities of the HC staffs so as to determine their ability to participate in policy dialogue
- number of initiatives and recommendations prepared to help overcome the technical impediments to policy dialogue and implementation
- number of HC staff dedicated to policy dialogue, names and positions

3. Coordinating Policy Decision Making

- number of coordinated meetings held to initiate policy dialogue among the major stakeholder participants
- number of forums, such as workshops, retreats and seminars for the development of new policy initiated by stakeholders to facilitate the transfer of public sector enterprise assets to private sector ownership
- number of action plans designed and implemented as a result of coordinated policy dialogue among stakeholders

40

## AWARD CRITERIA

**I. Excellence in Planning/Update (25%)**

a. Clear direct link to the Project purposes and Objectives
b. Wide base of input (e.g. contacts, research, analysis of alternatives) to the plan
c. Clear statement of lessons learned as part of back up for modifications to the plan
d. Innovation and initiative *

**II. Excellence in Achievement of Results (20%)**

a. Project objectives met
b. Quality of output *
c. Quality and completeness in implementation
d. Innovation and initiative *
e. Overall leadership *
f. Substance, quality, and accuracy of reporting

**III. Time consciousness (20%)**

a. Adherence to schedules in meeting objectives/deliverables
b. Foreseeing and planning for contingencies to prevent delays
c. Taking steps to recover from delays occurred
d. Responsiveness to client's needs

**IV. Cost Consciousness (10%)**

a. Adherence to budget estimates
b. Cost effectiveness as reflected by
   - cost reduction measures utilized
   - greater than targeted output delivered

**V. Communication effectiveness (15%)**

a. Working as a bi-cultural team
b. Leadership in strengthening the counterpart relationship
c. Strengthening the circle of influence of the Project
d. Communication with USAID

**VI. Business Management (10%)**

a. Subcontractors: direction, communication, coordination and administration
b. Property control
c. Small Business Subcontracting Program
d. Compliance with contract provisions (i.e. Equal employment Opportunity Program)

***Illustratively described as follows:**

Initiative: Anticipate problems and opportunities and take actions without being directed or required.
Innovation: Develop creative solutions to tackle persistent/hard core obstacles.
Leadership: Not only have excellent solutions, but can convince/inspire others to utilize them.
Quality of outputs: As measured by their impact or as judged by USAID and stakeholders concerned.

# Section 5

## Performance and Award Indicators

## AID/CAIRO PRIVATIZATION PROJECT

## PROJECT MONITORING AND EVALUATION

This report will address the project monitoring and evaluation system for USAID support to the Egyptian Privatization Program. The report will discuss IBTCI's recommended approach to monitoring and evaluation, the structure and use of indicators, and the source and availability of data.

**BACKGROUND:**

The overall objective of the Egyptian Privatization Program is the conversion of selected State Owned Enterprise (SOE) to the private sector, and, to the extent possible, prepare the enterprise to survive and prosper in a competitive world market. To this end the Government of Egypt (GOE) has identified a number of enterprises for conversion and grouped them under 17 holding companies. It is the responsibility of the holding companies to move the enterprises through the privatization process.

USAID is supportive of the Egyptian Privatization Program by providing technical assistance to six of the 17 holding companies. This advisory service is provided through a consulting contractor (Bechtel International currently).

It is important to remember that the USAID consultant is only an advisor--they do not have the authority to bring about privatization. Secondly, USAID is supporting only a portion of the Privatization Program, so the impact of USAID support should be limited to that subsection of the overall program. Not withstanding their contribution, the project monitoring and evaluation system must be able to accurately and adequately access progress made toward the objective of the Egyptian Privatization Program.

The Egyptian Privatization Program has identified five major purposes, that if attained will meet the overall objective of the program. Within these five purposes are a series of goals, that when accomplished will satisfy the general purpose. Likewise a series of tasks are described that are required to meet these goals. While the structure is large and complex, it is logically sound and provides a foundation on which to loose the project monitoring and evaluation system.

Because of the size, complexity, history and venue of this project it is important that USAID (and the evaluation contractor) choose the right things to measure progress and accomplishments. Because the project should ultimately be about outcomes and impacts, these indicators should stress results of task and not the level of effort that is expanded. For it is only after the results or deliverables have been created that the real success of the project can begin to be anticipated. Specifically, how the results are used by the intended recipients -- in this case the privatized enterprise, the holding companies, and the PEO's -- and if used are they accomplishing or making progress towards the five desired outcomes. Therefore, it is recommended that privatization monitoring and evaluation efforts focus on the aspects of the project, results of activities and the impacts on the program purposes, rather than the allocation of the contractors resources.

**MONITORING AND EVALUATION STRUCTURE**

The monitoring and evaluation system is to measure both the accomplishments of the privatization program and the achievements of the contractors over the life of the project.

The success of the privatization program will depend upon a number of factors outside the control or authority of the contractor and the GOE. Therefore, it is essential to base the evaluation system on those activities that can be controlled or influenced. For example, the progress of preparing an enterprise for privatization involves the close interaction of the contractor, the holding company and the enterprise being converted. The contractor can bring two assets to this process -- competent and timely advice and the power of persuasion. Therefore, the contractor may provide all necessary actions to bring about privatization (satisfactory completion of tasks) but the GOE may decide not to act or be uncertain of how to act. If the contractor can persuade the GOE to move towards privatization and the achievement of the goal, then they should be rewarded for demonstrating actions. The key to the monitoring and evaluation system will be the indicators of performance, impact and reward.

As the evaluation contractor, IBTCI has been asked to advise AID/CAIRO on the best way to ensure that progress is made in the accomplishment of these outcomes, and ultimately the achievement of the impact desired.

The privatization project envisioned is large, complex and builds on previous contractor efforts to promote the privatization of state owned enterprises. Therefore, it is essential that USAID's approach to monitoring and evaluation be focussed on the right indicators to ensure that progress continues and that the probability of having an impact is maximized.

**RECOMMENDED APPROACH**

The privatization project will follow a comprehensive technical assistance progression of:

1. Resources, human and other, applied to the project.

2. Tasks carried out.

3. Deliverables and other results produced by the contractor.

4. The desired impact achieved.

94

Because of the size, complexity, history and venue of this project it is important that USAID (and the evaluation contractor) choose the right indicators to measure progress and accomplishments. The project should ultimately be aimed at outcomes and the impact of these indicators should be stressed over inputs (resources), tasks and contractor results (deliverables). The real success of the project can begin to be anticipated only after the results or deliverables have been created. Specifically, how the results are used by the intended recipients -- in this case the privatized enterprise, the holding companies, and the PEO -- and if used are they accomplishing or making progress towards the five desired outcomes. **Therefore it is recommended that AID/CAIRO's privatization monitoring and evaluation efforts focus on the downstream aspects of the project (results used, outcomes accomplished, new privatization achieved) rather than upstream ones (resources in place, tasks carried out, deliverables made).** Upstream events can be monitored using monthly contractor progress reports and briefings. Based on the proposed five outcomes of the privatization project, the monitoring and evaluation system will follow upstream events as the primary indicators of project impact. Downstream events should be determined through the monitoring and evaluation system to determine whether, for example:

- The number of state owned enterprises that received technical assistance (TA) have been privatized (program promotion; sales impact; and decision making support).
- The amount of new local or foreign venture capital that has been mobilized to invest in existing SOE's or new investment companies (financial instruments development).
- The number and significance of GOE regulations, laws, or policies that have been removed as barriers to Private sector ownership or investment (decision-making support).
- The total amount of new foreign investment that has been brought into the country to invest in SOE's (program promotion and financial instruments development).
- The increase in the number of local banks or other financial institutions making capital loans to local businesses (financial instruments development).
- Individual holding company's performance in moving public companies into the private sector or liquidating them (organizational development).
- The number of SOE's in the sales or liquidation pipeline that move through and are replaced over time; possibly categorized sales by industry, size, capitalization, size of employment, etc. (sales).
- The number of SOE's that have been successfully restructured and valuated, making them more likely to be privatized (organizational development and sales).



45

- The number of holding companies that have terminated their activities because they have liquidated their holdings and gone out of business (sales).

- Resolved policy issues that affect the sale of SOE's or the creation of new private enterprises and become precedents for future policy resolution (decision-making support).

These types of outcome indicators are both relevant to AID/CAIRO's privatization objectives and can be directly attributable to the technical assistance contractor's efforts if the contractor is successful.

This is important because there must be a plausible connection between the range of impact of the contract and the outcomes claimed by it. Macroeconomic indicators such as GNP or a reduction in national unemployment, while important, are probably not going to be directly affected by this contract although the contract may be a contributing influence as will a number of other exogenous, i.e., political will, alternative rates of returns for comparable investments elsewhere, prevailing attitudes towards business and profit making, etc.

AID/CAIRO has laid out an impressive array of statistical indicators that it is interested in having. However, it is suggested that very few of these indicators will be helpful to this contract in the short and medium term. Therefore indicators like those shown above may be a more appropriate choice for purposes of project monitoring and evaluation. Successful outcomes should lead to desired impact. An impact statement for privatization in Egypt might be:

> *Increase economic growth and employment through privatization of state owned enterprise and new private sector investment.*

The impact indicators that were suggested above could be condensed into quantifiable statements such as, but not limited to, the following:

1. As a consequence of the AID supported activity there are fewer public enterprises on the government budget. Target: ___ companies have been privatized or liquidated resulting in a reduction in public expenditure of $_____.

2. There is an increase in new private enterprises - outside of any SOE conversations -- that have taken place as a consequence of AID's privatization efforts (and attribution or at least association can be demonstrated). Target ____ companies created capitalized at an estimated value of $_____.

3. Government regulations, policies and laws have been adjusted to encourage, rather than restrict, the growth of private industry and investment, both local and offshore. Target: $______ million



46

dollars of new investment within ____ months of the commencement of TA activities (will require a base line estimate of the rate of investment prior to the TA to be meaningful).

## MONITORING & EVALUATION PHASING

If AID/CAIRO accepts this recommended approach to emphasize the impact of events and documenting outcomes that can be associated with the project (i.e., outcomes that are plausibly within its sphere of perspective influence) then these will also be a need of baseline data on the indicators cited above or similar indicators. This would be a shift in emphasis from the indicator list as outlined in Attachment 5, the Logical Framework which tend to be more wide ranging.

The aggregate indicator for the macroeconomic, political and social/religious impacts of privatization will result from a comparison of program impact indicators to the national indicators (i.e., the employment imports of privatized enterprises compared to the nation's employment/unemployment ratio).

There will probably be an approximate lag of six months before the selected contractor can reach the level where his or her deliverables will produce changes (i.e., recipients are achieving desired outcomes through use of the TA being provided). It is during this time that IBTCI should be completing its catalogue of baseline indicators, identifying/verifying sources and gathering information to create an efficient and reactive data collection system.

## EVALUATING CONTRACTOR PERFORMANCE

AID/CAIRO is interested in an incentive payment system to encourage contractor performance beyond a minimum level of acceptability. Effectiveness is one measure that has been cited as important. In considering an incentive or performance based reward system, several needs should be met: 1) the system should reward performance, beyond what is being paid, through base fees, and 2) such performance should be readily measurable and apparent to all parties concerned.

It is suggested that the upstream aspects of contractor performance, as outlined in the five components, are covered by base fees, (i.e., resources committed, tasks carried out, and deliverables produced). Base fees should also contain an assumption about effectiveness, attitudes, energy and style. Therefore, it is the downstream indicators that may warrant the consideration of additional incentives.

Rewards in business are normally associated with risks. The axiom being the greater the risk the greater the reward. A contractor has very little risk in terms of providing resources to a project, carrying out tasks and creating deliverables, as these are activities within his or her control. However, as shown in the project evaluation scheme above, as the project moves towards the use of results, the outcomes that the use of those results are designed to contribute to, and ultimately impact, the contractor's degree of direct control becomes less and the risks (in terms of being able to deliver outcomes rather than outputs) becomes greater, and therefore may be considered for performance-based incentives.

## STRUCTURE OF INDICATORS

The Logical Framework and the Project Paper laid out an impressive array of indicators, however for the indicators to be most useful, they should focus on measurable results of tasks undertaken, and be linked to the goals and purposes of the program. For example: *The number of SOE's that received technical assistance that have been privatized.* This indicator should be tied to the elements under these purposes - program promotion, sales , decision making support, organizational development and financial instrument development. Other examples include but are not limited to the following:

- The amount of new local or foreign venture capital that has been mobilized to invest in existing SOE's or new investment companies (financial instruments development).
- The number and significance of GOE regulations, laws, or policies that have been removed as barriers to Private Sector ownership or investment (decision-making support).
- The total amount of new foreign investment that has been brought into the country to invest in SOE's (program promotion and financial instruments development).
- The increase in the number of local banks or other financial institutions making capital loans to local businesses (financial instruments development).
- Individual holding company's performance in moving public companies into the private sector or liquidating them (organizational development).
- The number of SOE's in the sales or liquidation pipeline that move through and are replaced over time; possibly categorized sales by industry, size, capitalization, size of employment, etc. (sales).
- The number of SOE's that have been successfully restructured and valuated, making them more likely to be privatized (organizational development and sales).
- The number of holding companies that have terminated their activities because they have liquidated their holdings and gone out of business (sales).

- Resolved policy issues that affect the sale of SOE's or the creation of new private enterprises and become precedents for future policy resolution (decision-making support).

- As a consequence of the AID supported activity there are fewer public enterprises on the government budget. Target:_______ companies have been privatized or liquidated resulting in a reduction in public expenditure of $________.

- Government regulations policies and laws have been adjusted to encourage rather than restrict the growth of private industry and investment, both local and offshore. Target: $______million dollars of new investment within _____months of the commencement of TA activities (will require a base line estimate of the rate of investment prior to the TA to be meaningful).

These types of outcome indicators are both relevant to the privatization objectives and can be directly attributable to the technical assistance contractor's efforts if the contractor is successful.

This is important because there must be a plausible connection between the range of impact of the contract and the outcomes claimed by it. Macroeconomic indicators such as GNP or a reduction in national unemployment, while important, are probably not going to be directly affected by this contract although the contract may be a contributing influence as will a number of other exogenous variables, (i.e., political will, alternative rates of returns for comparable investments elsewhere, prevailing attitudes towards business and profit making, etc.)

## PERFORMANCE INDICATORS

The Logical Framework (Attachment 5) and Section F.5, "Evaluation by Verifiable Objectives" (Section F Delivery and Performance) outline a significant number of potential performance indicators that can be grouped efficiently under each of the five component areas. Performance indicators should provide some direction in monitoring and evaluating the contractor's minimum level of effort to delivery technical assistance services. Examples of quantifiable indicator statements to verify contractor performance in providing technical assistance in each of the five components include:

### *PROGRAM PROMOTION INDICATORS*

1. As a result of the technical assistance provided by the contract, the privatization policy statement of the GOE is successfully delivered to the major stakeholder audiences.

   *Means of verification:*

   - number of information seminars and training programs delivered to major stakeholders;



19

- number of participants in seminars; and
- number of promotional documents produced and disseminated.

2. A public relations mechanism exists for incorporating new privatization issues into the message delivery process and to deal with contradictions that may emerge from time to time.

   *Means of verification:*

   - number of GOE policy statements produced regarding the privatization success stories and sectoral issues affecting future privatization potential;
   - number of forums designed and delivered to allow for dialogue among senior decision makers; and
   - number and type of contact with key GOE decision makers and stakeholder management.

3. The Egyptian public's awareness of the positive impact of privatization on the economic well-being of the country increases over time.

   *Means of verification*:

   - number of press releases;
   - number of print, radio and television stories; or
   - amount of air time devoted to the privatization process.

4. Privatizing companies are actively promoted to domestic and foreign investors as a result of technical assistance services: Output:_______ companies received:_________________.
   Means of verification:

   - number of industry and company specific promotional documents produced;
   - number of promotional activities undertaken to disseminate information regarding privatization opportunities to Egyptian and foreign investors;
   - number of potential investors receiving promotional materials;
   - number of interested investors receiving follow-up assistance as a result of initial enquiries;
   - number of interested investors entering into negotiations as a result of initial promotional contact; and
   - number of sales completed for privatization opportunities made available as a result of TA promotional assistance.



50

## *ORGANIZATIONAL DEVELOPMENT INDICATORS*

1. The contractor provides technical support to the privatization units of the HC's to develop the necessary skills to carry out activities related to the privatization of the affiliated companies.

   *Means of verification:*

   - number of leadership and management training sessions designed and delivered to the privatization staffs;
   - number of staff participants; and
   - degree to which staff utilizes training (follow-up meetings with staff).

2. The major stakeholders coordinate more effectively with the major donor agencies regarding privatization activities and opportunities.

   *Means of verification:*

   - number of meetings and communications between donor agencies and the HC's regarding specific privatization opportunities and success stories;
   - number and type of new information dissemination procedures put into place to communicate opportunities to donor agencies; and
   - number and type of meetings held to bring about the completion of privatization opportunities requiring donor participation.

3. The contractor provides support to the PEO in improving its technical and management decision making skills necessary to promote and deliver privatization prospects to buyers.

   *Means of verification:*

   - number of technical assistance projects delivered to support the PEO activities;
   - number and type of communications with PEO management and staff to bring about the identification, promotion and sale of opportunities; and
   - number of new reporting requirements established between PEO and major stakeholders to monitor privatization opportunity progress.

## *SALES INDICATORS*

1. As a result of the technical assistance provided under the contract, the sale of targeted batches of privatizable companies is completed.

*Means of verification:*

- number of sales opportunities available for promotion according to the targeted goal of ___ number of companies per year;
- a targeted percentage of assigned companies that result in sales contracts;
- a targeted percentage of contracts that results in sales; and
- number of privatized companies at the national and industrial sector levels and by targeted annual goal.

2. The contractor assists in the development of a privatization sales program to support overall private sector development.

*Means of verification:*

- number of technical assistance sales programs designed and delivered to major stakeholders;
- number of policy statements referencing privatization goals realized as a result of sales goals achieved at the national and industrial sector level;
- dollar value of technology transfer opportunities identified as a result of technical assistance to each affiliated companies;
- number sales completed; and
- dollar value of asset sales in each industrial sector.

3. Technical assistance towards privatization assists in identifying and facilitating the social development goals of the GOE.

*Means of verification:*

- number of programs recommended to support private sector industrial skill development; and
- number of new private sector jobs created as a result of the sale of targeted companies.

## *FINANCIAL INSTRUMENTS DEVELOPMENT INDICATORS*

1. Technical Assistance programs assist in the creation and delivery of new financial instrument mechanisms to the Egyptian banking and financial services industry to support privatization goals.

*Means of verification:*

- number of recommended financial instruments provided by contractor; and



SV

- degree of increase in the sophistication of financial instruments available to support privatization activities at the national level.

2. The contractor provides assistance in assessing the capabilities of the Egyptian financial institutions available to provide privatization services including an assessment of the technical capabilities of the corporate finance departments of targeted financial institutions.

   *Means of verification:*

   - number of Egyptian financial institutions visited and reviewed by the contractor, including brokerage houses, banks, investment banking firms and venture capital firms;
   - number of Egyptian institutions identified as viable to contract with for sales services;
   - number, name and position of Egyptian banking staff capable of delivering sales services to clients in each of the targeted institutions; and
   - inventory of skills and technical training requirements for targeted financial institutions.

3. The contractor assists in the design of new technical services to support the privatization of small and difficult to see Egyptian companies.

   *Means of verification:*

   - number of recommended technical assistance programs to assist these companies;
   - number of specialized financial instruments designed to assist in their sale; and
   - number and type of technical training programs developed to assist sales agents in dealing with this special group of sales opportunities.

4. The contractor assists in the identification of foreign sales agents to bring about the active promotion and sale of companies to foreign investors.

   *Means of verification:*

   - number and name of potential foreign sales agents;
   - report completed on the technical capabilities of foreign sales agents to participate in the sales process; and
   - number and name and position of foreign sales executives identified to participate degree of participation of targeted foreign sales agents in the price.

5. The contractor will analyze and document the issues affecting the successful attraction of U.S. firms to the Egyptian privatization environment and compare with alternative opportunities in emerging markets globally.

*Means of verification:*

- number of U.S. firms targeted for contact by contractor regarding their investment interests globally;
- report completed to assess U.S. and European companies' perception of the Egyptian privatization program;
- number of recommendations developed to overcome negative perceptions of Egyptian investment environment; and
- number of recommended promotional programs put into place and targeted towards the increase in foreign investor enquiries.

## *DECISION MAKING SUPPORT INDICATORS*

1. The contractor assists in the development of new policy guidelines regarding the implementation of privatization objectives for the GOE.

   *Means of verification:*

   - number of legal and regulatory guideline recommendations identified and submitted to the GOE for the purpose of facilitating the promotion, sale and transfer of assets to the private sector in a timely and orderly fashion; and
   - number of policy initiatives implemented as a result of recommendations submitted.

2. Technical Assistance is used to strengthen the decision making capabilities of HC management so as to participate fully in the implementation of national privatization objectives.

   *Means of verification:*

   - number of management analyses prepared to assess the technical capabilities of the HC staffs so as to determine their ability to participate in policy dialogue;
   - number of initiatives and recommendations prepared to help overcome the technical impediments to policy dialogue and implementation; and
   - number of HC staff dedicated to policy dialogue, names and positions.

3. The contractor provides support in coordinating the policy decision making activities of the HC's, the Minister's office, major donors and USAID.

*Means of verification:*

- number of coordinated meetings held to initiate policy dialogue among the major stakeholder participants;
- number of forums, such as workshops, retreats and seminars for the development of new policy initiated by stakeholders to facilitate the transfer of public sector enterprise assets to private sector ownership; and
- number of action plans designed and implemented as a result of coordinated policy dialogue among stakeholders.

IBTCI should provide the baseline information required to determine whether the project is having the desired outcomes. For example, has foreign investment increased as a consequence of TA activities, has there been an increase in new business ventures, is more operating and investment capital available to the local business community than before, etc.

IBTCI and AID/CAIRO should agree that the emphasis on monitoring should be on upstream inputs and that the accent on evaluation should be on downstream outputs and impacts. Monitoring of resources, tasks and deliverables should be done through monthly progress reports and briefings provided to USAID by the contractor selected. Evaluation of the impacts and their contribution to stated goals should be analyzed on a quarterly basis. The progress made towards meeting. The five program purposes will be assessed annually.

A schedule for anticipated outcomes should be created and used to monitor whether these outcomes are occurring as planned.

## *IMPACT INDICATORS*

As tasks are accomplished by the contractor and actions taken by the Egyptian officials, progress will be made towards the attainment of goals and achievement of the five general purposes listed in the Logical Framework (Attachment 5). The monitoring of the task and action of the GOE will be tracked by a set of performance indicators. The results orientation of the performance indicator provides a good foundation for determining the impact indicators associated with goal attainment. While there will be a number of external issues that will influence the accomplishment of the five general purposes, they are outside the control of the privatization program. For example, if an economic down turn among the industrialized nations results in limited investment capital, then there is little that GOE can do to change the situation. For the purpose of program evaluation these are accepted as the limitations of the program.

The following set of impact indicators, like the performance indicators are tied to goals and the five general purposes of the privatization program. While other indicators may be developed, these represent a sufficient set of measurements to determine the level of goal attainment over time.

## *PROGRAM PROMOTION INDICATORS*

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

   *Means of Verification:*

   - The number of state owned enterprises that received technical assistance (TA) that have been privatized; and

   - The total amount of new foreign investment that has been brought into the country to invest in SOE's.

## *ORGANIZATIONAL DEVELOPMENT INDICATORS*

1. Organize the PEO, the HC's and the SB's to carry out the privatization program effectively

   *Means of Verification:*

   - Individual holding company's performance in moving public companies into the private sector or liquidating them;
   - The number of SOE's that have been successfully restructured and valuated making them more likely to be privatized; and
   - The number of new private sector employment opportunities created as a result of the transfer of public sector assets to private sector ownership, (organizational development, sales and decision making support).

## *SALES INDICATORS*

1. Carry through the privatization of companies identified as candidates. The number and significance of Government of Egypt regulations, laws, or policies that have been removed as barriers to Private Sector ownership or investment (decision-making support).

*Means of Verification:*

- The number of state-owned enterprises that received technical assistance (TA) that have been privatized;
- The number of SOE's in the sales or liquidation pipeline that move through and are replaced over time; possibly categorized by industry, size, capitalization, size of employment, etc.;
- The number of SOE's that have been successfully restructured and valuated making them more likely to be privatized;
- The number of holding companies that have terminated their activities because they have liquidated their holdings and gone out of business; and
- The number of new private sector employment opportunities created as a result of the transfer of public sector assets to private sector ownership, (organizational development, sales and decision making support).

## *FINANCIAL INSTRUMENTS DEVELOPMENT*

1. Develop new sources of funding, financial instruments and markets for those instruments responding to the financing need found for individual deals.

*Means of Verification:*

- The amount of new local and foreign venture capital that has been mobilized to invest in existing SOE's or new startup companies;
- The total amount of new foreign investment that has been brought into the country to invest in SOE's; and
- The increase in the number of local banks or other financial institutions making capital loans to local businesses.

## *DECISION-MAKING SUPPORT PURPOSE INDICATORS*

1. Overcome the prevailing political, policy, regulatory and organizational impediments to privatization

*Means of Verification:*

- The number of state owned enterprises that received technical assistance that have been privatized;
- The number and significance of GOE regulations, laws and policies that have been removed as barriers to private sector ownership or investment;



51

- Policy issues resolved that affect the sale of SOE's or the creation of new private enterprises and that become precedents for future policy resolutions; and
- The number of new private sector employment opportunities created as a result of the transfer of public sector assets to private sector ownership, (organizational development, sales and decision making support).

This approach emphasizes the impact of events and documenting outcomes that can be associated with the project, such that outcomes that are plausibly within its sphere of perspective influence of baseline data will be structured requirements of the indicators cited above or similar indicators. This would be a shift in emphasis from the indicators list as outlined in Attachment 5, the "Logical Framework" which tend to be more wide ranging.

The aggregate indicator for the macroeconomic, political and social/religious impacts of privatization will result from a comparison of program impact indicators to the national indicators (i.e., the employment imports of privatized enterprises compared to the nations employment/unemployment ratio).

There will probably be a lag of about six months before the selected contractor can get to the point where his other deliverables will produce change (i.e., recipients are achieving desired outcomes through use of the provided TA). It is during this time that IBTCI should be completing its catalogue of baseline indicators, identify/verifying sources and gathering information necessary for a data collection system.

### *AWARD INDICATORS*

The award should come from the flow of information stemming from the performance and impact indicators. In fact, the award indicators should cut across the flow to measure the efficiency and effectiveness of the contractor's performance.

USAID is interested in providing incentive payment to encourage contractor performance beyond a minimum level of acceptability. Effectiveness is one measurer that has been cited as important. In considering an incentive or performance based reward system several needs should probably be met: 1) the system should reward performance beyond what is being paid for through base fees; and 2) such performance should be readily measurable and apparent to all parties concerned/

Base Fee

It is suggested that the contractor performance as outlined in the five components are covered by base fees, (i.e., resource committed, tasks carried out, and deliverables produced). Base fees should also contain an assumption about effectiveness, attitudes, energy and style. Therefore there should be a clear distribution between satisfactory performance and incentive awards. The following list of standards should be used to determine the level of satisfactory performance.

**EXPECTED STANDARDS OF PERFORMANCE**

Basis for Determination of Award Fee:

I. Excellence in Planning/Update (25%)

a. Clear direct link to the Project Purposes and Objectives
b. Wide base of input (contacts, research, analysis of alternatives) to the plan
c. Clear statement of lessons learned as part of back up for modifications to the plan
d. Innovation and initiative *
e. Ambitiousness and feasibility

II. Excellence in Achievement of Results (20%)

a. Project objectives met
b. Quality of output *
c. Quality and completeness in implementation
d. Innovation and initiative *
e. Overall leadership *
f. Substance, quality, and accuracy of reporting

III. Time Consciousness ( 20% )

a. Adherence to schedules in meeting objectives/deliverables
b. Foreseeing and planning for contingencies to prevent delays
c. Taking steps to recover from delays occurred
d. Responsiveness to client's needs

IV. Cost Consciousness (10%)

a. Adherence to budget estimates
b. Cost effectiveness as reflected by:
- cost reduction measures utilized
- greater than targeted output delivered

V. Communication Effectiveness (15%)

a. Working as a bi-cultural team



59

b. Leadership in strengthening the counterpart relationship
c. Strengthening the circle of influence of the Project
d. Communication with USAID

VI. Business Management (10%)

a. Subcontractors: direction, communication, coordination and administration
b. Property control
c. Small Business Subcontracting Program
d. Compliance with contract provisions (i.e. Equal Employment Opportunity Program)

## INCENTIVE AWARD

The proceeding indicators provide the basis for determining the performance range as shown in the chart below.

| Range | Qualification | Fees |
|---|---|---|
| 0% - 59% | Unacceptable | Base fee not paid |
| 60% - 74% | Marginally Acceptable | Base fee paid |
| 75% - 84% | Fully Acceptable | Base fee plus up to half of the award fee paid |
| 85% - 100% | Excellent | Base fee plus up to the full award fee paid |

Illustrative Definitions:

Initiative: Anticipate problems and opportunities and take actions without being directed or required.
Innovation: Develop creative solutions to tackle persistent/hard core obstacles.
Leadership: Promote excellent solutions, and convince/inspire others to utilize them.
Quality of outputs: As measured by their impact or as judged by USAID and stakeholders concerned.

In order to be considered for an award fee, the TA contractor must succeed beyond the barriers inherent in the task. USAID, in Section F.4 of RFP No. 263-94-P-017, has defined acceptable performance as "providing the best effort possible even though variables outside the control of the contractor mitigate the accomplishment of the stated objectives." In the same section, USAID has defined extraordinary performance "when in addition to providing the best possible effort, the contractor substantially contributes to actually reaching those stated objectives."

Part of the Evaluation contractor's job then, is to take into account what barriers the TA contractor must deal with and then measure the TA contractor's performance despite those barriers. IBTCI envisions three different kinds of barriers: market, institutional and bureaucratic.

1.) Market Barriers are ones that have to do with the structure of the Egyptian market, such as: high cost production, inefficient production, poor distribution systems or a saturated market.

2.) Institutional Barriers are ones that come Egyptian institutions, for example, the Central Auditing Agency has to perform an audit on all enterprises to be privatization, in addition to any earlier audits. This process is very slow and lengthens to time before tender can be significantly made.

3.) Bureaucratic Barriers are ones that come from resistance, especially in the middle management level, of bureaucracies to change.

**Note:** in RFP No. 263-94-P-017, section F.4 AID provides 2 definitions of extraordinary performance. The first mention of that extraordinary performance states that it: " shall be noted and rewarded when in addition to providing the best possible effort, the contractor substantially contributes to actually reaching those stated objectives." The second mention of extraordinary performance says that it "shall be noted and rewarded based not directly on the accomplishment of the objectives but, rather, on the accomplishments of the tasks incorporated into a rolling workplan formally agreed to each quarter by USAID and the TA contractor." We recognize that with these two statements AID first wishes to ensure results are attained, and second to reward the TA contractor if it can be established that extraordinary efforts were made, even if the results do not completely attain the desired goal.

Firstly, did the recipients use the results produced by the contractor?

Secondly, did the use of those results lead to the accomplishment of an outcome desired (e.g., more SOE's privatized and sold, more investment capital available, etc.)?

Finally, did the outcome (s) produce the impact desired (e.g., fewer SOE's in the holding companies' portfolios, less government regulation, more capital investment, etc.? Can an attribution link be made?)

Performance-based awards should be directly tied to the degree of risks/barriers inherent in these three stages. Each stage of accomplishment is increasingly beyond the direct control of the contractor and will require persuasive skills and dedication to purpose beyond the corporate experience and technical skills spoken to in the base contract.



61

AID/CAIRO has mentioned an incentive fee of up to three percent of base fees to be allocated based on performance. IBTCI considers that a three percent incentive is too low to induce contractors to really achieve results and would recommend raising it to 7 ½%. This fee could be allocated on a percentage basis to reflect the increasing risk (or loss of direct control) as the project progresses beyond the creation of deliverables.

For example:

| | | |
|---|---|---|
| Stage 1 | Recipient Use of TA Results | 40% |
| Stage 2 | Use of TA Results Leads to Accomplishment of Outcomes | 40% |
| Stage 3 | Accomplishment of Outcomes Provides Impact Sought | 20% |
| **Total:** | | **100%** |

Note: Stage 3 impact is allocated fewer points not because it is less important than stages 1 and 2 - in fact it is the most important - but because it is subject to a number of other influences which in many cases will be beyond the contractor's ability to influence or control.

This approach has several advantages: One, it rewards outcomes rather than outputs. Two, gives an incentive to the contractor to go beyond what he or she can directly control and attempt to influence the acceptance of his or her product (deliverables) by the TA recipients who ultimately will control the changes being sought through the privatization project. Three, it associates risks with rewards, a concept that successful and effective businesses will understand and appreciate, and it is both explainable, measurable and defensible.

One caveat is in order. The privatization contractor cannot and will not be successful, no matter how valiant an effort is made, unless the GOE is truly committed to the outcomes stated for the project. If privatization is resisted and the contractors products are not used USAID will not achieve its privatization objectives in the program. The contractor has no political capital to ensure that the GOE continues to share AID's privatization objectives. Therefore it is really up to USAID/CAIRO to ensure, through policy dialogue or other means available, that the GOE continues to instruct its offices and departments affected to act in good faith. In this respect USAID and the contractor selected are operating in partnership to achieve project objectives, with both parties assuming their respective roles and responsibilities.

## DATA COLLECTION REQUIREMENTS

The monitoring and evaluation program requires the development of data submission processes that will analyze information routinely prepared by the technical assistance contractor and report the quality and effect of this information via the agreed upon impact and performance indicators. The development of information will enable the correct assessment of the performance of technical assistance provided and will allow sound decision-making, and corrective actions.

A number of secondary information sources have been identified by IBTCI as a result of the initial work to design the monitoring and evaluation guidelines. Additional sources will be ascertained as the data collection phase progresses (after approval of the initial submission).

**Management Information Sources**

Names, title and responsibilities, organizational charts of:
- MPE
- PEO
- Donor Agencies
- Holding Companies (management, privatization committees and privatization units)
- Affiliated Companies
- Split off companies
- Agent and Merchant Banks
- Consultant teams (e.g., MISR National Bank of Egypt)
- OBI/5 PU's
- OBI assignments
- PR Firms -- Financial Institutions

Public Relations Programs:
- Contracts and activities
- Government public relations departments
- Target Group descriptions

Success Stories:
- Case Study Information
- Steps completed under the TA contractor's workplan

Domestic and Foreign Investor Inventory:
- company names and decision makers
- foreign sales agents

Impediment Inventory
- Critical issue, identification
- Stake holder analysis
- Policy studies
- Recommendation file and status reports

## Impact Indicators - Data Requirements

Macroeconomic indicators - GDP, inflation, overall budget deficit, exports, imports, trade balance, external debt, debt service ratio through 1992 - 1993 projected for 1993 - 1994 (e.g. report by the Delegation of the European Commission, Annual Report for 1993). Variables include:

- The general population, including key target groups, will be able to make informed decisions to support and participate in Egypt's privatization program (Project Stakeholders).
- Employment statistics (e.g., CAPMAS published Real Wage Trends by Economic Sector in Egypt, Public/Private - 1973-1987; Characteristics of Permanent Employees in the Egyptian Public Sector by Activity based on sample, 1986).
- Growth of Private Investment.
- Balance of Payment Deficit (private merchandise exports).
- Total Private non-petroleum exports.
- New investment in private sector companies.
- Case studies of AC's and IBU's before, during and after privatization re: profitability, management decisions and corporate decision making style.
- Social Soundness data including worker benefits, health and safety information.
- Environmental concerns including the efficiency level of natural resource utilization such as power, water, pollution mitigation and waste reductions.
- Published laws and regulations affecting the privatization of public enterprises.
- Special Studies in the areas of financial instalment development, organizational development and decision making support.
- Interview and management meeting reports from HC's management regarding the transfer of assets to the private sector, including the status of activities, impediments and success stories.
- Policy studies prepared by the TA contractor, donor agencies and other major stakeholders.
- Ministerial position statements regarding privatization goals and objectives.
- GOFI database of 20,000 public and private firms including bankruptcy information (e.g., Ministry of Economy).

**Performance Indicators - Data Requirements**

Program Promotion

- Seminar development list and schedule.
- List of potential seminar participants for each stakeholder.
- Summary of promotional documentation content (monthly reports).
- Promotional program development schedule (annual).
- Reports and official reports provided by GOE and other stakeholders regarding promotional needs and activities.
- Copies of press releases.
- Scripts/video tapes of radio and television reports on privatization.
- News clippings.
- Domestic and foreign investor enquiry list.
- Meeting reports regarding buyer negotiations.
- Sales documentation including value of assets purchased, terms of agreement, etc.

Organizational Development

- Training program agendas and schedules.
- Names and affiliations of participants.
- Follow-up reports to participants regarding usefulness of information.
- Training documentation.
- Meeting reports with donor agencies and stakeholders such as HC's and AC's.
- Technical assistance status reports.

Sales Impact

- Names and descriptions of sales opportunities made available for promotion.
- value of sales per quarter.
- List of technology sales opportunities identified for each company at point of sale.
- Stock exchange listings of assets traded.
- Policy statements by Ministry regarding sales goals met for each industry sector.
- Descriptors of industrial skill development program for companies at point of sale.

Financial Instruments Development

- Inventory of financial institutions (including names; positions etc.) involved in the promotion and sale public sector assets.
- Technical assessment reports prepared for each financial institution.

- Technical reports by TA contractor regarding proposed financial instruments needed to encourage privatization.
- Descriptions of technical training programs for Egyptian financial specialists,
- Participant lists.
- Follow-up meeting reports with financial specialists regarding the application of training.
- List of domestic and foreign investors utilizing financial instruments.
- Donor agency reports regarding the financial services sector in Egypt.
- Copies of promotional documentation used to advertise financial services for privatization.
- Names of foreign sales agents.
- Names of prospective foreign and domestic investors.

Decision Making Support

- Texts of Egyptian laws and regulations affecting privatization program.
- List of law firms and other private sector decision makers involved in assisting companies to privatize.
- Policy papers produced by Ministries regarding privatization objective and activities.
- List and schedule of forums such as workshops, focus groups and retreats for senior decision makers.
- Program reports for each forum activity.
- Copies of proposed action plans regarding policy recommendations.
- Meeting reports between major stakeholders.

Action Plan

- Policy statements by Ministry regarding sales goals met for each industry sector.
- Descriptors of industrial skill development program for companies at point of sale.
- In addition, data provided by the TA contractor, data collected by IBTCI staff, we will develop working relationships with specialized researchers and informed professionals to provide their assessments of key issues and outcomes relating to privatization.

## Section 6

**Format suggested for effective bi-weekly reporting by TA contractor**

# PIDP BI-WEEKLY REPORT

**Privatization Unit/Activity________________________________**

**Status as of January 15, 1994**

| Deliverables/Milestones | Plan | | Actual/Estimated | | Status/Description |
|---|---|---|---|---|---|
| | Start | Finish | Start | Finish | |
| **Company A** | | | | | |
| 1. Review/Valuation Study | 7/15 | 11/30 | 7/15 | 1/20 | 80% complete |
| 2. ESOP Study | 7/15 | 11/28 | 7/22 | 12/1 | Completed 11/23 |
| 3. Announce Sale | | 7/31 | | 7/31 | |
| 4. Implementation Assistance | 7/15 | 2/28 | 7/15 | 3/31 | |
| **Company B** | | | | | |
| 5. Preparation | 8/1 | 8/31 | 8/10 | 9/15 | XX Situation |
| 6. Sale Solicitation | 8/31 | 11/20 | 9/15 | 12/10 | |
| 7. Sale Negotiation | 11/20 | 2/28 | 12/10 | | On hold. |
| **Deliverable A** | | | | | |
| 8. Activity 1 | | | | | |
| 9. Activity 2 | | | | | |
| 10. Activity 3 | | | | | |
| **Deliverable B** | | | | | |
| 11. Activity 1 | | | | | |
| 12. Activity 2 | | | | | |
| 13. Activity 3 | | | | | |

A further explanation of variants, or status reports, are on the following pages by status point.

Company A:
1) Delay in the review of valuation study due to XXX. No serious hurdles now.

Company B:
5) Status X attained. Then HC refused bid offering. Have done Y to get back on track. USAID needs to know/do Z.

## *Section 7*

**Program Overview material for USAID's**
**January 29 briefing to Ambassador Walker.**

# Organizational Actions Supporting Privatization

Recent GOE actions do deserve recognition, when compared with the stance toward reform in the late 1980's. GOE decided to privatize in "camera" and in such a way that avoids dramatic actions and creates a quiet acceptance of the inevitability of privatization.

The privatization program is operating in unchartered waters. The economy is in an unusual position of low investment, low growth, high unemployment but a very high level of liquidity - over 120 Billion L.E.

Major organizational actions supporting the overall privatization effort:

| | |
|---|---|
| Oct. 1991 | GOE passed Law 203 which provided legal basis for the reorganization and privatization of PEs operating under Law 97 of 1983. |
| Dec. 1991 | Creation of the PEO to act as a technical secreteriat to the minister in charge of public enterprise - promoting privatization (centralized approach) |
| Feb. 1992 | Reorganization of HCs from 27 to 17, covering 314 affiliated companies. Majority of HC/AC Board from non-government sectors. |
| Feb. 1993 | Issuance of General Procedures Guidelines for privatization/restructuring. |
| Nov. 1993 | Appointment of Dr. Ebeid as the Minister of Public Enterprise. |
| Feb. 1994 | USAID's Agreement with MPE and the decision to establish Privatization Units (Decentralized Approach). |



72

# Actions Completed

1991 Through January 1995

| | |
|---|---|
| Valuation of Companies | 75%+ |
| Offered for Sale | 65 |
| Sales Completed | 7 |
| Leases<br>Ginning (17), Textile Production Lines (2) and Outlet (1) | 20 |
| Employee/Management Buyouts (95%) | 10 |
| Liquidation | 8 |
| Minority Sales (10% and above) | 12 |
| Employee ESOPs<br>Minority Sales (5 - 10%) | 80 |



13

# FY 1994 Accomplishments

| | M.L.E or % |
|---|---|
| **Law 203 Companies Privatized** | |
| Nasr Co. for Bottling (Coca Cola)* | 322 |
| Egyptian Bottling Co. (Pepsi)* | 157 |
| Nasr Boiler and Steam Vessel* | 57 |
| Engineering Design and Irrigation Projects (EDIPCO)* | 1 |
| Cairo Sheraton* | 350 |
| **Banks** | |
| Commercial International Bank (CIB)* (IAC 27%, IFC 3.3%, Employees and Others 26.2%) | 56.2% |
| **Sale of Shares Initiated** | |
| Wady Kum Ombo for Land Reclamation | 60% |
| Misr Chemicals Co. | 51% |
| Amerya Cement | 10% |
| Alexandria Portland Cement | 15% |
| Torah Portland Cement | 10% |
| Alexandria Textile Company | 40% |
| Uni Arab Textiles | 20% |
| **Joint Venture** | |
| Suez Cement | 20% |
| Egyptian Pharmacy Int'l Co. (EPICO)* | 53% |
| OTIS Elevators | 30% |
| Lord | 13.6% |
| MISROOB | 14.1% |
| Alexandria Iron and Steel | 20% |
| **Liquidation** | |
| El Nasr Hardboard Co. Farascour | |
| South Tahrir Agriculture Co. | |
| Cairo Co. for Public Building | |

*Counting Towards FY 1994 Targets

# PIDP Supported Privatization Actions

| Evaluation/ Valuation | Initiation of Sale | Negotiations Underway | Sold in 1996 |
|---|---|---|---|
| Misr Travel | Misr Free Shops | | |
| Verta/Moharam Press | Kafr El Zayat Pesticides | *Egyptian Vineyds. → | |
| | Nile Match | El Ahram Bevgs. → | |
| Misr Aluminum Co. | Assiut Cement | SEMAF → | |
| | Koldair (no offers) | NA~~N~~SCO → | |
| El Nasr Co. for T.V. & Elect. | Spring Transpt'n | El Tramco → | |
| | IDEAL | | |
| El Nasr Glass | MICAR | Beni Suef Cement → | |
| | Cairo Metals | ESAs (9)** → | |
| Phosphate Fertilizer | General Co. for Ceramics | Liquidation (4)** → | |
| | Egyptian Co. for Refractories | | |
| | Eastern Tobacco Cigarette Co. | | |
| | Delta Spinning & Weaving | | |
| | Kabo Spinning & Weaving | | |
| | Nile Engineering | | |
| | Information Design | | |
| | Egyptian Cables | | |
| | Siegwart Co. | | |
| | SABI | | |
| | Egyptian Copperwork | | |

*Management Contract with option to buy 100%

** See tables 5 and 6



75

# Employee/Management Buyout (ESA)

| Sales Agreement Concluded - 1994/1995 | Transfer from Law 203 To 159 |
|---|---|
| Wady Kum Ombo | EPIDCO (1994) |
| Egyptian Akkarya | |
| General Co. for Land Reclamation | |
| Egyptian Dredging | |
| Irrigation Co. for Public Works | |
| General Co. for Research & Ground Water (RIGWA) | |
| Upper Egypt Dredging | |
| Arab Co. for Land Reclamation | |
| Arab Bureau for Design | |
| *Societe Annonyme De Behera (JSC) | |
| *Popular Houses | |

* In Process



76

# ACs Currently Under Liquidation

| AFFILIATED COMPANIES | DATE OF GA DECISION |
|---|---|
| Gen. Contracting Co. for Sanitary Install. | 1995 |
| Gen. Co. for Foundations | 1995 |
| Prefabricated Houses Co. | 1995 |
| Middle Delta Agricultural Co. | 1/7/91* |
| Upper Egypt Co. for Agriculture | 1/7/91 |
| El Nahda Agricultural Co. | 10/11/91 |
| West Nubariya Agricultural Co. | 10/11/91 |
| El Nile Co. for Export of Agricultural Crops | 7/01/92 |
| South Tahrir Agricultural Co. | 28/02/94 |
| Cairo Co. for Public Buildings | 15/06/93 |
| El Nasr Hardboard Co. (Farascour) | 28/06/93 |
| High Dam | 1995 |

* Liquidators have been appointed by General Assemblies of ACs
Monitoring the performance of liquidators is being done by HCs

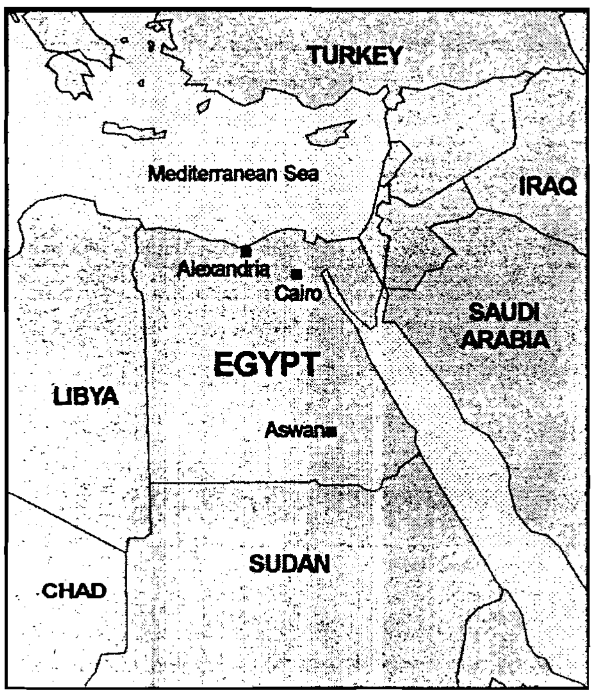
# Section 8

## Special Study 6A: Capital Markets: Operations and Procedures

18

# EGYPT
# SPECIAL STUDY 6A

## CAPITAL MARKETS: OPERATIONS AND PROCEDURES
## *- FINAL REPORT -*




**By Elizabeth Morrissey for:**

**INTERNATIONAL BUSINESS & TECHNICAL CONSULTANTS, INC.**
45150 Russell Branch Parkway · Ashburn, Virginia 22011
Telephone: 703-589-1900 · Fax: 703-729-2088

February 15, 1995

19

# TABLE OF CONTENTS



80

# I INTRODUCTION

The Government of Egypt has shifted its privatization focus from transfer of ownership through direct sales of state owned enterprises to strategic buyers, to selling shares through public flotations where possible, thereby widening share ownership. Success of the privatization program through public share offerings will depend not only on the commitment of the government, but also on the operations, capacity, transparency, and efficiency of the local capital market.

This special study released with sale of shares in Egypt, reviews the current operations of the Cairo Stock Exchange and related financial intermediaries. An analyses of the two partial flotations in 1994 --El Ameriya Cement and Paint and Chemicals -- which will highlight the strengths and weaknesses of the financial markets from a variety of relevant viewpoints, including those of local financial intermediaries directly involved in the sale and trading of the shares. The final section of this study will identify operational problems and provide recommendations for both immediate and longer-term action to facilitate public share sales through the Cairo Stock Exchange.

To prepare this study, local research was conducted in Cairo from November 28 - December 8, 1994, and was supplemented by a series of telephone interviews with international investors currently or planning to become involved in the Egyptian capital markets and with the Egyptian Capital Markets Authority (CMA). In performing the local research, interviews were held with a wide variety of public and private sector financial sector representatives from domestic and international banks and brokerage firms. Insights were also provided by several Partnership in Development Project participants, including the Privatization Unit for Chemical and Metallurgical Industries; Hassan Hussein, Head of Financial Sector; Steve Joyce, Organizational Development and Training; and Moetaz Soliman, analyst, who provided a history of the exchange which is gratefully acknowledged.



81

## II THE CAIRO STOCK EXCHANGE: BACKGROUND

The Cairo and Alexandria Stock Exchanges were unofficially launched in 1883 with the introduction of a law authorizing establishment of joint stock companies. Within two dozen years, there were more than 225 companies registered, market capitalization totaled £E 29 million, the number of brokers reached 73, and an official stock exchange building was constructed. The market collapsed during World War I, but resumed in 1927 and by 1955 was ranked the fifth most active in the world by trading volume.

In 1957 previous laws governing the sale of securities were amended under Law 161 which limited profit distribution to shareholders, causing a severe market slump for which the government intervened to prop up the market. During the nationalization of industries in the 1960's, the market virtually dried up as low returns and high taxes on stocks deterred any investment. With the institution of new laws in conjunction with the government's 1974 Open Door Policy, the market regained limited trading. However, the listed companies performed poorly and investors again retreated.

Activity on the Egyptian markets was lackluster until 1993 and since then trading volume and share prices have surged. At the end of 1993, dealing on the Cairo Stock Exchange (CSE) and the Alexandria Stock Exchange was unified through the linkage of the two by computer. Daily trading volume in actively traded shares reached an average £E4.6 million in 1994, more than triple the level of 1993, while share prices jumped by 41 percent in 1993 and by a further 142 percent through November 1994 (see Annex 1). A large part of the recent price surge on the CSE is attributed to too much money chasing too few shares, which local and international investors, money managers, bankers, and brokers agree is currently the largest problem facing the CSE. Privatization via public share offerings will help to alleviate this problem, as will incentives and educational programs to encourage "closed" listed companies -- which account for more than two-thirds of listed companies -- to open their shares to public subscription, as an affordable way to access fresh capital.

With the partial share flotations of El Ameriya Cement and Paint and Chemical, and the launch of three domestic mutual funds, share ownership has broadened this year. Moreover, there are currently six international mutual funds targeting the Cairo Stock Exchange (see Annex 3) -- one of which is the first-ever country fund investing solely in Egyptian securities -- and several London-based securities firms are said to be in the process of applying for local brokerage licenses, broadening international access to the exchange.

However, the market is not currently equipped to handle the massive planned privatization flotations or the entry of large numbers of foreign institutional investors. In November 1994 the Capital Markets Authority banned the launch of additional domestic mutual funds targeting only shares due to lack of liquidity which has attributed to price spikes this year.



87

# III CURRENT OPERATIONS

In this section, the study will detail the specific operational aspects of the exchange that directly impact the successful sale and future trading of state owned enterprises. Procedural problems will be detailed, but legal/regulatory impediments to privatization will only be briefly mentioned as they are elaborated in a separate study.

## Share Listing

The 1992 Capital Markets Law (Law 95) and The Executive Regulations of the Law on the Capital Market (Decree no. 135) issued the following year proscribe in great detail the process for securities issuance. The Capital Markets Law spells out quite clearly the information disclosure requirements: the Capital Markets Authority (CMA) must approve all companies, but listing may proceed if approval or denial is not granted in three weeks. Part 1 of the Law and Articles 42 through 44 of Section 5 of the Executive Regulations Governing the Capital Markets Law clearly define the process which any company -- public sector or joint stock private -- must go through in order to list shares.

There are more than 500 "closed companies" listed on the exchange, which have corporate charters granting "right of first refusal" to existing shareholders. Most private joint stock companies maintain two sets of balance sheets: a real one for shareholders and a separate "doctored" one for the tax authority which show lower (or no) profits. Opening shares for public subscription would substantially raise these company's tax obligations, and business owners do not understand that accessing cheaper capital via public issuance would offset the increased tax obligation. By contrast, for public sector companies, raising capital through share issuance has tax benefits, the most important of which is that interest on debt is tax free.

Listing of corporate debt instruments is similar to that for equities. However, registration of the first corporate bond in thirty years -- Hoechst Orient -- took five months. Formal intervention by the Minister of Economy, to which the Capital Markets Authority reports, was finally requested by the bond guarantor --the Egyptian branch of Banque Paribas -- so that official registration would be completed before the first coupon payment date.

## Trading

The CSE computer system software installed in early 1994 was designed by a local company and is inadequate to handle the high volumes experienced in late 1994. Bid and ask prices are entered into the system by floor traders and are displayed on screen but in order to actually complete a trade, brokers must physically hand-write a ticket, hand the order to the key operator and orders must match specifically. Aside from the time lag problem, which could be corrected through installation of the rest of the software that has been developed but not yet employed, transactions were also at risk from the Share Pricing Committee until December 28, 1994 when it was disbanded by the CMA.



97

The pricing committee was made up of individual brokers -- these are so-called "old brokers" (described below) not managing directors from new brokerage firms -- and representatives from the CSE and CMA. The committee did not actually set prices, but they had the power to cancel trades for "any justifiable reason." As noted above, software has been designed to do screen-based trades, but that portion has not yet been installed. The disbanding of the committee came after numerous complaints to the CMA from brokers who had trades canceled.

The elimination of the committee will allow enforcement of the 1994 regulation limiting share price movement to 5 percent daily and 20 percent weekly, which the Share Price Committee regularly ignored and over-ruled. More importantly it will free trading in the market and allow greater transparency.

The old brokers seem to dislike the computer system, although much of their aversion is attributed to computer illiteracy, according to the new brokers and several bankers. Several seem to believe that the system artificially inflates or pushes down prices, and they do not like the fact that the market knows all bids and offers. One "old broker" conceded that despite the fact that he dislikes the system, that if it must be used it should show all transactions. The maximum capacity on the software installed now is 300 tickets/day, which is inadequate for current volume.

Clearing/Settlement

A new clearing company is being established. The first meeting of its Board of Directors was November 9, 1994. Total capital of new clearing company is £E3 million, with 50 percent paid up and the rest payable within five years. Bank Misr is the lead investor in the company. Misr owns 4 percent with 11 other banks making up 46 percent, and brokers and the two exchanges holding the other 50 percent. National Bank of Egypt -- which currently handles virtually all international custody and a large part of the domestic custody market as well -- is not a shareholder in the new company. NBE had applied to the CMA to begin a competing clearing company, which many representatives in the financial community saw as a way for them to control virtually all clearing and custody, but the CMA rightly refused their request because the market does not need two clearing companies. Despite the fact that many of the shareholders are public banks and the stock exchanges, the new company is being referred to as a "for-profit, private" venture.

All accounts between brokers will now go through new clearing company, providing better efficiency and control. Not all brokers are members, but they will be required by CMA and CSE to clear through the company.

Currently settlement is done on T+2, payment against delivery basis. While T+2 is currently working, and there have been few if any failed trades despite this year's high volume, there is a fear that with increased CSE trading volume the system will break down. There have been numerous reports of delays, however, and there is a risk of system failure because there is no automated mechanism to track and ensure settlement.

Share Registration

Registration of transactions currently takes months because each share must be returned to the issuer to be signed by two board members of the company. National Bank of Egypt claims in their global custody information package that registration takes one-to-three weeks, but brokers seem to agree that the actual registration process takes 6 to 8 weeks, and sometimes even longer.

However, to re-sell a share, official registration is not needed. Registration is only necessary for dividend payment and it has not yet happened that payments were misdirected to old rather than current stock holders due to the delay in officially registering a transaction. Instead, a simple Certificate of Transfer is required, which by law must be generated by the CSE in T+3, but currently there is a one week to one month backlog due largely to inefficiencies at the CSE. Many mistakes are also being made on broker requests for certificates of transfer and this is delaying the processing of the certificates. All broker reports on trades required by the CMA must be completed by hand -- e.g. they cannot be completed on CSE computer system. According to one of the "old brokers", more than 200 pieces of paper must be submitted daily to the CMA. Information on each trade needed for certificates of transfer include price, quantity, and registration number of each share (which has eight or nine digits.)

Custody

By law any bank under jurisdiction of the Central Bank of Egypt may offer custody services. Currently the National Bank of Egypt has a virtual monopoly on international custody services, and acts as sub-custodian for more than a dozen global custodians (see below). The Cairo Branch of American Express Bank currently offers full service custody to clients, and Citibank is gearing up internally to do so, although they are already the custodian for a US-based, Cayman domiciled fund. Barclays Bank is also planning to set up a capital markets unit next year, and also expects to offer custody services.

National Bank of Egypt Sub-Custodian Agreements:

- State Street Bank
- Salomon Brothers
- Chase Manhattan Bank
- Kredit Bank, Luxembourg
- J.P. Morgan
- Morgan Stanley
- Bank International Luxembourg
- Northern Trust Company
- Lloyds Bank
- Royal Bank of Scotland
- Bank of Bermuda
- Midland Bank
- Bankers Trust

National Bank of Egypt's custody fees are in line with international standards, and are detailed in Annex 2. International clients must open separate accounts in US dollars and Egyptian pounds, with the USD account debited for securities purchase, and the funds then credited to the EGP account.

All proceeds and revenues from share and treasury bill transactions are credited to the EGP account, which can then freely converted to dollars to client request. NBE is not connected to SWIFT, so confirmations and instructions are received via fax or telex.

NBE holds physical shares and bonds at its head office in "strong rooms," which employs armed guards, and uses alarm systems connected with police stations. In addition, Ministry of Interior guards are also used to ensure safekeeping.

On the retail side, brokers are acting as custodian for clients. This saves clients additional custody fees, but is risky. Although Article 23 of Law 95 establishes a Broker Insurance Fund for investor protection to cover non-trading issues, this fund has not yet been started. This fund would cover not only broker insolvency, but would cover loss of physical shares due to natural disasters which is a threat due to poor building conditions.

# IV FINANCIAL MARKET PARTICIPANTS

## The Capital Markets Authority

A governmental organization reporting to the Minister of Economy, the Capital Markets Authority is staffed by some 200 civil servants. Established in 1979, the CMA was given sole control over supervising, reforming and modernizing the stock exchange through Capital Market Law 95, approved in June 1992 and in force since April 1993. The Chairman of the CMA is cited as the key catalyst behind the Capital Markets Law and related Executive regulations.

The authority is charged with market development, supervision of trading, broker licensing, and general market surveillance. The staff of the CMA is cited by both new and old brokers alike as inefficient, although the top officers have won the respect of market participants.

## Brokerage Firms

The brokerage community in Cairo is sharply divided: new brokerage firms run by internationally trained professionals and "old brokers" who last saw turnover at 1994's levels in the late 1950's. There are currently 18 registered brokers in Cairo, of which four may be considered true "new brokers." In addition, there are four brokers which operate in Alexandria. All brokerage firms must be licensed by the Capital Markets Authority, and the managing director of each must have "some background in financial markets," according to the law.

To be licensed as a brokerage firm, the minimum capital requirement is only £E250,000, with only one-quarter required to be paid up in advance of launching operations and the rest payable over ten years. The CMA licenses brokers through an examination which is, in the view of several new brokers, quite similar in content to the Series VII given in the US. However, it is given orally by a panel from the CMA, and therefore personality becomes an issue and the exam becomes quite subjective.

Several international brokerage firms -- based in London -- are currently in the process of incorporating in Egypt, and they will be automatically licensed by the CMA, according to the authority.

## The Banks

Virtually all of the large banks, and several of the smaller joint venture banks and branches of foreign banks, have established capital markets departments. The individuals with whom interviews were conducted for this study were without exception enthusiastic about the market developments to date and the potential for further activity through both public flotation of state companies as part of the privatization program and through new listings or the opening of closed private sector companies.

Mutual Funds

As of December 20, 1994, four mutual funds had been granted approval from the CMA, with three of them fully subscribed. In November, after three local funds targeting equities had been launched, new licenses were suspended by the CMA due to the limited supply of shares and the sharp price rises. The three funds are sponsored by National Bank of Egypt, Egyptian American Bank and Bank of Alexandria. The latter two are managed by Egyptian Financial Group, and the former by National Fund Management Corporation, a joint stock company set up by National Bank of Egypt.

The NBE Investment Fund was established in March 1994 and was the first fund authorized. The fund raised £E100 million in two weeks, of which five percent was seed money from the NBE pension fund. The fund invests largely in shares, with the remainder in short-term treasury instruments. Eighty seven percent of investors are individuals, with the balance being local institutions. To successfully sell the fund, NBE designed and implemented a major training program for staff and managers at all of their branches so that all employees dealing with the public fully understood the concept of mutual funds and the accompanying risk/reward/savings aspects. Television and newspaper ads were also run.

Bank of Alexandria ran a similar training and advertising campaign and their £E200 million fund which closed in two weeks instead of the planned two month subscription period. Their manager, Egyptian Financial Group, insisted that the fund not be oversubscribed due to the market's lack of available shares. This fund cannot invest more than 90 percent of assets in shares, no more than 50 percent in bonds and only 10 percent or less in short term deposits and treasury bills. The EAB fund has the same investment objectives.

In December, a fourth fund sponsored by Bank Misr and managed by Concorde International was granted a license by the CMA despite the current "ban" on new launches. The November restriction on new funds was, according to the CMA, not a ban but a move to prevent huge price run-ups from too many investors chasing too few stocks that could -- as has happened in other emerging markets -- be followed by huge falls, thus damaging the new-found investor interest and confidence in the market. The Bank Misr fund will invest only 5 percent of its portfolio in shares, with the rest in fixed income. When asked how they could actually invest since there is only one corporate bond, the CMA indicated that they hope that this will essentially turn Misr into a market maker, convincing private companies -- and hopefully candidates for privatization -- to issue bonds. In the meantime, the fund will concentrate investment activity on short-term deposits, treasury bills and bonds.

## V RECENT PRIVATIZATION SHARE FLOTATIONS

Following a summary of the ten percent public flotations of Paint and Chemical and El Ameriya Cement Company, this section will provide a series of brief analyses of the recent flotations, as well as consensus opinions about the broader status and future of the privatization process, from the view of various market participants.

Paint and Chemical: The price for the Paint and Chemicals was set by the holding company with the guidance of Bank Misr at £E 250/share. The company was already registered on the exchange and paper was formally issued there, but the CSE computer system could not keep up with the buy orders on the day of issue. Trades were conducted totally off-exchange between brokers, who informed the CSE and CMA of transactions after they were completed. The issue was nine times oversubscribed and the methodology of allocation was proportional: the maximum allocated to institutions was 5,000 shares and for individuals it was 500.

El-Ameriya Cement: This issue by contrast was an unregistered, over-the-counter sale and was open to only retail investors because the Holding Company was said to be fearful that otherwise public sector banks and insurance companies would purchase all the shares, thus negating the idea of spreading share ownership through privatization. The Holding Company came up with a price of £E 25/share which was revised upward to £E 27. Two million shares were offered and this issue was 4.6 times oversubscribed. Share registration took more than 2 months due to the need for two board member signatures on share certificates and secondary trading had as of end-December still not begun.

Broker View

In a rare consensus of opinion, the brokerage community's largest complaint about the two ten percent flotations was the pricing of the issues, which is not believed to have accurately reflected the value of the either company. They believe the fault lies with the choice of public sector banks to guide in pricing. The brokers believe that the banks do not have the professional expertise to do valuations and pricing. But, the brokers believe that public banks are chosen for political reasons so that the Holding Company cannot be blamed for under- or over-valuing shares.

While the CMA was displeased with the brokers' trading procedures during the Paint and Chemicals offering, brokers believed they were protecting their clients. Transactions were conducted off-exchange because retail investors had to give brokers funds to purchase shares more than two months in advance and since there is a half hour wait between bid and when prices are matched, arbitragers could have exploited the computer system's inefficiencies and bid up the price.

According to several new brokers, the HC's want to give brokers a mandate to sell shares directly. However, most of the brokers believe that this would not work since none of the brokers have national distribution capacity, and that it would negate spreading share ownership throughout the



99

country. It was recommended by a couple of new brokers that brokers team up with public sector banks for distribution and that brokers then share the sell-side commission.

Broadly, the new brokers believe that the bulk of the problems in selling shares via public flotation is at the policy level, and that if clear pricing and flotation procedures existed, the bulk of the capital markets problems could be quickly cleared up. Moreover, the brokers -- old and new -- believe that small investors could be hurt by the process as it exists now due to the lack of information -- both offerings went to market without a proper prospectus -- and speculation, could damage future confidence in the market.

Privatization Unit/PIDP View

For Paints and Chemicals, the HC Chairman had promised that the Privatization Unit could review the General Auditing Organization valuation and numbers, but they were never provided. The Privatization Unit took a factory tour and thinks the price could have been higher since the management of the company has instituted quality control measures, has a sophisticated understanding of marketing, etc.

The largest complaint is the lack of financial information available and the lack of GAAP. Moreover, the PU staff interviewed indicated that they believe that none of the local financial intermediaries are equipped to do true valuations, underwriting, or new financial instrument development that could facilitate privatization.

Bank View

Bank Misr was the agent for the two flotations which took place through its 348 branches nationwide. The bank provided loans of up to 50 percent of the amount clients wanted to purchase, which is less than the 70 percent permitted in the US but still in view of the volatility in emerging markets seems to have been a fairly risky move.

The banks believe that the first flotation of only 10 percent of shares was needed to test the market, but that there is clearly investor appetite, a minimum 30 percent of any company should be floated at one time to avoid over-subscription. Subsequent allocations, which the banks acknowledge meant that broker clients had no use of funds, were subsequently returned to retail investors after the Paint and Chemicals sale.

Several of the large public banks believe that a 20 percent flotation of bank shares would be useful right now to boost market liquidity. However, they also acknowledge that this would likely prove unappealing due to the huge level of bad debt they hold from mandated public sector company lending.

Public, joint venture, and international bankers believe that the biggest hold-up in the privatization process overall is the huge amount of debt of the affiliated companies targeted for divestiture. Many of the bankers believe that development of debt instruments -- straight bonds or convertible bonds -- could be the answer for some companies, but for many the amount of outstanding debt far exceeds potential equity availability.

Bankers also believe that the other large stumbling block to successful privatization of public enterprises is the management in place at many of the affiliated companies scheduled for divestiture. In addition, they expressed concern over labor and social issues that must be resolved. However, despite high unemployment, the bankers interviewed were pragmatic and believe that companies need to be downsized in order for them to be competitive or at least commercially viable as joint stock companies. Overall the public sector bankers believe that privatization is a global phenomenon that must be pushed through in order for Egypt to be part of the global economy.

CMA View

The Capital Markets Authority was displeased by both offerings. In the Paint and Chemicals sale it charges that the brokerage community manipulated the market by settling trades off-exchange, whereas brokers believed they were protecting their clients. When pressed, they admit that they understand why the brokers acted they way they did, but the CMA is trying to ensure that market is run by rules so that the authority can perform its supervisory function and ensure the safety and soundness of the market.

El Ameriya Cement was able to sell OTC because they are not listed. While the sale was legal, the CMA would prefer that companies list before issuing shares publicly. The other mistake with El Ameriya offering was its selling by the bank, which was a "procedural mistake" in the view of the CMA. The CMA believes the biggest problem for the CSE is how to deepen the market, and mobilize savings, not just in relation to privatization, but also more broadly since the privatization issues will not continue to be successful if the market remains as thin as it is now.

The key for market development to ensure successful privatization through share offerings, according to the CMA, is to "teach and train" the private sector, closed companies listed on the market, other private companies, and financial intermediaries. Basic market practices must be instilled in the participants, such as the benefits of listings, how to provide information on corporate results in a timely manner which meets regulations, how to write a prospectus, etc. The CMA believes that such training comes under its mandate, but that it is restricted in its efforts since it is a government organization and is under-funded and not well - staffed.

The CMA is frustrated by the fact that the two issues in 1994 went to market without proper prospectuses, particularly since by law all public companies must disclose results. The CMA did allow the issuers to simply put ads in the major papers highlighting their financials which technically covered the disclosure issue, but did so in order that they would not be accused of delaying the state's divestiture program. The CMA was also concerned about the pricing of the issues, but believes that privatization through the market is the only way that the proper prices of these companies will be determined. True prices accurately reflecting the worth of the shares will not, in the view of the CMA, be determined by at the IPO stage, but will be determined through secondary trading.

IBTCI Analysis

Both Paint and Chemicals and El Ameriya Cement were well received despite the apparent procedural problems with both issues. The pricing of the cement company may have been too low, as evidenced by the sharp spike in price from £E27 to more than £E40 in the weeks following the flotation.

The most worrisome issue about these two flotations is the lack of information available to either brokers or investors. Prospectuses were not prepared -- although by law neither one had to have one and ads were run detailing financial results.

On the Paint and Chemical issue, there were many procedural mistakes. Off-exchange trading and settlement of a listed issue is illegal and the CMA was quite distressed that they were informed of transactions after the fact. However, the brokers honestly seemed intent on protecting small investors, not in breaking any regulations.

After interviewing several dozen people about the issues and careful consideration of the broader sell-off program, the two main concerns that threaten the privatization process -- and the market more broadly -- are pricing and information. Proper pricing procedures must be instituted and all companies issuing shares -- or raising new capital -- must issue proper prospectuses with historical financial results, etc.

# VI ISSUES AND RECOMMENDATIONS

In the course of numerous in-person and telephone interviews with financial intermediaries either established in or investing in the Cairo Stock Exchange, a number of issues were repeatedly cited in which USAID/Cairo could provide invaluable technical and financial support. After an analysis of the operational aspects of the market, this study has selected a number of issues listed below, in order of priority. Although some of these issues may appear to only peripherally affect the privatization process, in fact the program will be slowed -- and may not achieve the success intended over the next few years -- if the problems described below are not addressed. Since development of capital markets is necessary for savings mobilization and a true free market economy, this section will also address several non-privatization related capital market development issues.

Clearing/Settlement:

Immediate assistance could be provided to the new clearing company (which is governed by Article 103 of the Regulations) which aims to begin in January 1995. If technical assistance could be provided within weeks -- at the very beginning of their operations -- it would greatly assist the company in instituting internationally accepted and efficient practices from the start. To do this, a small team of experts (2-3 people) from a major international bank (State Street Bank, Cedel, and Euroclear were mentioned) could and help establish the company's operations and procedures at the outset, thereby preventing any start-up delays, or possible failures. Two of the international (US-based) banks with branches in Cairo suggested that they would likely be willing to assist with the funding of this effort, as it would also facilitate their custodial activities.

Broker Insurance Fund:

Article 23 of the Capital Markets Law calls for the establishment of a "special fund" to "insure dealing parties against non-trading risk resulting from the activities of companies dealing in the field of securities." This fund has yet to be established by official decree of the Prime Minister, which must be proposed by the Economy Minister, although the CMA and brokers advocate the start of this fund to ensure small investor protection. Establishment of this fund --which is expected to be largely self-funded by the brokers, fund managers, portfolio managers, etc. -- is crucial, particularly since brokers are acting as custodian for small investors. Due to the markets early development stage, a natural disaster of any sort -- e.g. fire, flood, etc. -- that occurred to even one brokerage firm would place the entire market structure and operation at risk. In addition, this fund would also cover broker insolvency, which is also a threat.

USAID/Cairo could provide assistance by proposing to the CMA and Minster of Economy that it assist with setting up the fund, providing specialized expertise for detailing the funding and coverage of the vehicle, and by providing up-front seed money either outright or as a loan.

Central Depository:

In addition to the establishment of the above mentioned clearing company and the broker insurance fund, a related problem is the lack of a central depository, particularly since the market is entirely paper-based. The Central Depository should be separate from the CSE, receive and deposit securities, assign internationally recognized identification to publicly traded securities and financial instruments, hold and maintain the accounts of depository participants and keep all records. In addition, the depository would provide for the transfer of securities among depository accounts and perform the execution of issuer obligations to shareholders, including dividend and interest payments, conversion, redemption of bonds, etc. The central depository should ultimately perform all clearing and settlement functions, including guaranteeing settlements. After establishment, the clearing company could be folded into the depository an eventually automated.

USAID/Cairo could provide the lead-in funding and technical assistance in establishing an independent Central Depository which would receive ongoing funding for sustainability through broker and bank contributions. For the near-term this effort would have to be closely coordinated with the CMA and the large banks and brokerage firms. However, there are several successful models from around the world -- both from emerging and developed markets -- which could be successfully instituted in a relatively short amount of time. While ideally a central depository would perform all functions described above, this process is a long and complicated one and the development of the body can certainly be done in stages to ensure broad financial sector support and cooperation from those involved.

Training:

Everyone interviewed for this study agrees that technical and operational training is a necessity in order for the market to successfully absorb the anticipated new listings resulting from privatization. While market participants do learn a great deal from trips to other markets, it is more efficient and ultimately more beneficial for busy people to hold a series of one or two day seminars targeting specific participants. Ideally, a series of these could be scheduled for different segments of the market over a period of two weeks so that experts in various fields could be brought in just once for a relatively short period of time. In addition to international experts, it would also be useful to have sessions conducted by other emerging market participants (e.g. Capital Markets Board, Istanbul Head of Stock Exchange in Zimbabwe, etc.)

To do this, USAID/Cairo could contract a capital markets expert well-connected to the emerging markets to work with Cairo-based financial intermediaries to develop a series of programs and to identify professionals to speak at these sessions. Below are several ideas for sessions, which ideally should be given separately to different segments of market participants, e.g. brokers, bankers, CMA staff, and CSE staff.

- Disclosure: market transparency, prospectus drafting and dissemination, information provision
- Accounting: setting of standards, preparation and dissemination of financial reports



94

- Legal: market supervision, enforcement and strengthening of existing regulations, compliance standards
- Operations: securities issuance, trading, settlement, securities registration
- Instrument development: design and use of bonds, convertibles, warrants, options

In addition, USAID/Cairo and the CMA could co-host a regional (e.g. Middle East/Mediterranean) market conference at which key brokers, bankers, regulators, and exchange authorities from throughout the region could convene to discuss regional cooperation, attracting foreign investment, privatization and the market, and related issues. This could also serve to enhance working relations between the two groups.

Development of a Brokers Association:

While the CMA is to be commended for its supervisory efforts despite its limited resources and relatively untrained staff; in emerging markets it is also useful to establish a self-governing brokers association with obligatory membership for all brokers to ensure adherence to a professional code of conduct and investor protection. Although formation of a brokers group is currently said to be underway in Cairo, its purpose is CMA/CSE/Ministry lobbying rather than self-regulatory. Establishment of a separate and mutually agreed on code of professional conduct for the brokers could serve to unite the two quite separate parts of the brokerage community, i.e. the new and old.

In several other emerging and developed markets, a member of the association is elected to serve as the industry representative to the CMA. In addition, many have separate auditing committees which audit and approve member firm accounts. In addition, the association can have a Disciplinary Committee, whereby the association can impose warnings or fines on single individuals, but not usurp the authority of the CMA for action against the firm as a whole. This committee can also help to alert the CMA about illegal or questionable activities, which the CMA may be incapable of tracking at all brokerage houses due to its limited staffing.

USAID/Cairo could, with the assistance and consent of the brokerage community and the CMA, take the lead in organizing the self-regulatory body, where again several strong models in other markets exist. The funding for establishment of this body is likely to be minimal since it will become self-supporting after dues are paid by member firms. Moreover, once all parties involved agree to formation of the association, a review of various models in other countries could be conducted and then presented to USAID and the broker members for discussion, review and decisions, with perhaps one or two consultants needed to assist with developing the professional code of conduct and enforcement measures needed in the early stages.

Information Provision/Investor Protection:

All of the market participants interviewed for this study were concerned with investor protection, particularly in this crucial early stage of market development where there are likely to be huge price fluctuations. The two recent ten percent flotations -- El Ameriya and Paint and Chemicals -- were sold without proper documentation. While both were legal by the strict letter of the law, only Bank Misr and General Auditing Organization and company representatives really have any idea of what these issues are really worth.

A first stage in assistance could be to convene the CMA, banks and brokers to discuss with international experts the importance of information provision and to provide technical assistance with prospectus drafting and ongoing information provision and dissemination. Currently only two brokerage firms have started to publish analyses of listed companies which is circulated to a limited clientele, and there is some concern that this is resulting in a form of insider trading which is against the law.

CSE Computer System:

With the disbanding of the CSE Pricing Committee, now would be an ideal time for installation of the second portion of the locally developed computer system software which would allow prices to be matched on screen. However, as evidenced by the Paint and Chemical flotation, the system itself still may be unable to handle anticipated high levels of trading volume precipitated by new privatization issues.

USAID/Cairo could consider first analyzing the capability of the computer system and then provide upgrade/inputs as needed to ensure smooth on-screen trading procedures that are crucial to the success of the privatization program. It may be that the local software company can improve the current system as needed, or perhaps assistance can be provided in funding new systems.

Stock Transfers and Share Registration: Increased trading volume in the months to come with new privatization flotations is going to exacerbate the already cumbersome process of CSE certificate of transfer processing and company share registration. While it has not yet occurred, there is a real risk that proper documentation of trading will be delayed to the point that dividends are paid to the wrong party.

While ideally computerization of these processes is a long-term possibility, in the near term technical assistance and training of CSE employees to streamline the certificate of transfer processing is a first step in which USAID/Cairo could assist.

Issue Pricing:

The initial offering prices of Paint and Chemical and El Ameriya Cement were determined largely by the Holding Company with input from Bank Misr and the General Auditing Organization. Both rose dramatically once trading began, bringing the offering price into question. The problem of pricing is complicated due to numerous parties involved in public company sell-offs, but ultimately becomes a stock exchange-related issue. Issues to date have come to market with fixed prices, which may not be the best method. Other methods that could be considered are minimum prices above which offers may be made and direct auction, through which the market determines the price.

USAID/Cairo could provide assistance in pricing of issues by encouraging formal and professional underwriting, and by assisting with valuation. In addition, a seminar could be held reviewing other pricing methods, with presentations from other emerging markets on how these pricing methods have worked in practice.

Valuation:

Related to issue of pricing is that of valuing the companies to be brought to market. The basic problem seems to be the current state of flexible and inconsistent accounting practices employed. While Law 203 companies follow a consistent set of rules, these are not the same employed by private sector 159 joint stock companies which must only adhere to "recognized" accounting principles, making comparisons between listed 203 and 159 companies impossible for investors.

USAID/Cairo could assist in developing a set of accounting standards to be applied by both public 203 and joint stock 159 companies which are listed. This would allow the CMA to better enforce standards equally to all listed companies, provide investor protection, and allow more transparent pricing of public companies to be offered publicly.

USAID/Cairo could be instrumental in this effort by coordinating a project with the Egyptian Institute of Accountants, the GAO, and the CMA. The goal would be to adopt country-wide accounting and auditing standards in line with GAAP and in the early days, to assist the CMA in ensuring adherence to these standards by all traded companies.

Instrument Development:

Development of financial instruments -- bonds, convertible bonds, options, warrants, etc. -- is crucial for the Egyptian capital market. In terms of privatization, convertible bonds could be an ideal way to offer part of some the companies to the public because of the already heavy debt emphasis of these companies, and would be of particular interest to international investors as evidenced by the interest in convertible offerings in the Asian emerging markets.

However, before new instruments can be developed, the merits of these instruments must be taught to the financial intermediaries in the market. Currently, the bankers, for example, do not understand the concept of investing in corporate debt instruments despite the fact that bond investments are, according to market sources, more attractive than bank loans in real yield terms for the banks themselves.

USAID/Cairo could offer, perhaps with the CMA which advocates instrument development, technical assistance both in training the banks and brokers about bonds, as well as in issuance techniques. The appropriate laws surrounding bonds already exist in Law 95.



9A

Private Pension Fund Development:

Bank sponsored mutual funds appear to be well developed and selling well throughout the country and are providing market deepening and wider share ownership. The development of private pension funds would, over the medium-term, provide the Egyptian capital market greater liquidity, stability and sophistication, essential to successful privatization through the stock exchange. Several brokers and bankers mentioned in interviews that pension funds, developed at the same time as mutual funds with the ongoing privatization program through public flotations would greatly aid both privatization and market development. Several private companies have already begun to explore this option with the brokers and bankers.

Pension funds help to stabilize markets, particularly since they are long-term investors who are better able to weather price fluctuations. In addition, large, professionally managed funds promote better market transparency, widen share ownership and instill better corporate governance in the market, and their large presence generally tends to reduce overall transaction and information costs.

The current public pension fund is solvent, according to the World Bank, but it is also said to be inadequate in providing a good standard of living for retirees. Promoting private pension funds in concert with privatization would assist in market development, and in the privatization process more broadly, since they would be able to invest with strategic partners in privatizing companies.

USAID/Cairo could initially provide assistance by undertaking a study of other emerging markets' successes with private pension fund development that occurred during the state divestiture process (e.g. Chile, Argentina) to determine procedures used and successes in market deepening and development. Then, it could devise a proposed framework for the GOE to consider, after reviewing that the appropriate legal framework for private pension funds exists.

Market Makers:

Development of a market maker system for the Cairo Stock Exchange is a longer-term issue. Emerging markets generally do not have market makers, as it is essentially a separate industry requiring new regulations and skills, and a more established stock and bond market than currently exists today in Cairo. USAID/Cairo could provide preliminary assistance in developing market makers through commissioning a study of other emerging markets to determine at what stage implementation becomes necessary and useful, which would also provide recommendations for the CMA to consider, since the legal framework would have to be altered to establish market makers.

Development of Electronic Market/Privatization of The Stock Exchanges:

Several of the new brokers interviewed for this study indicated that the efficiency and absorption rate for new privatization issues could best be handled by either privatization of the existing capital market or launching a separate NASDAQ type electronic market. Of the two ideas, privatization of the stock exchanges makes the most sense, given the size of the market and the government's overall



98

commitment to privatization, and could be an idea to be considered. An example of increased efficiency, turnover, liquidity, and transparency comes from Indonesia. Before the Jakarta Stock Exchange was privatized, it was seen as the least transparent of all emerging markets. Today, little more than two years after its transfer to private ownership, the Indonesian exchange is praised by international investors for its new efficiency and transparency. The increase in market efficiency and transparency comes from the shift in ownership from public to private sector: currently market developments and operations are being hindered by civil servants.

While this is a politically sensitive recommendation, USAID/Cairo might consider broaching the idea with the CMA or Ministry. If there is any interest from the authorities affected, as a first step USAID/Cairo could commission of a brief study reviewing other exchanges' transfer from public to private ownership, and resulting operational changes, which would include recommendations for strategies that could be considered in Cairo.

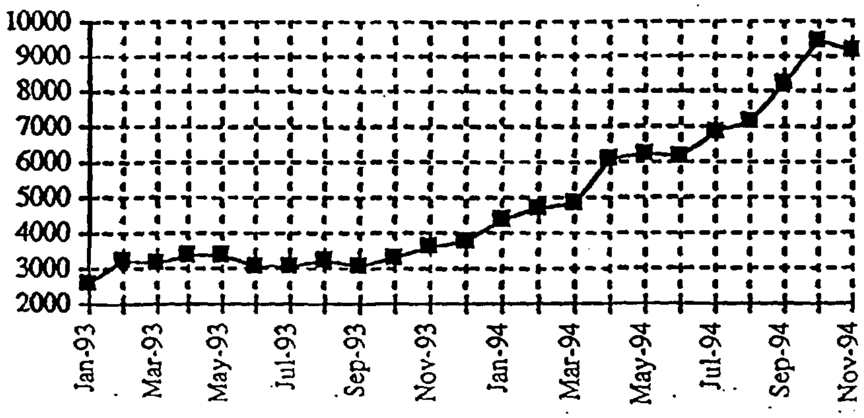


99

# ANNEX 1:
# Cairo Stock Exchange

There are two main indexes measuring the performance of the Cairo Stock Exchange: one developed by Hermes Financial -- which is the revised and ongoing index originally developed by the former heads of the Cairo office of US-based Kidder Peabody who are now managing directors at Hermes -- and one developed by Egyptian Financial Group, which is partially owned by the UK's Framlington. Of the two, the Hermes Index is thought by market participants -- both domestic and international -- to best reflect price changes on the exchange since it is weighted. In addition, the Cairo Stock Exchange publishes a series of indexes which cover all open and closed companies, but which are only available in Arabic.

Hermes Index

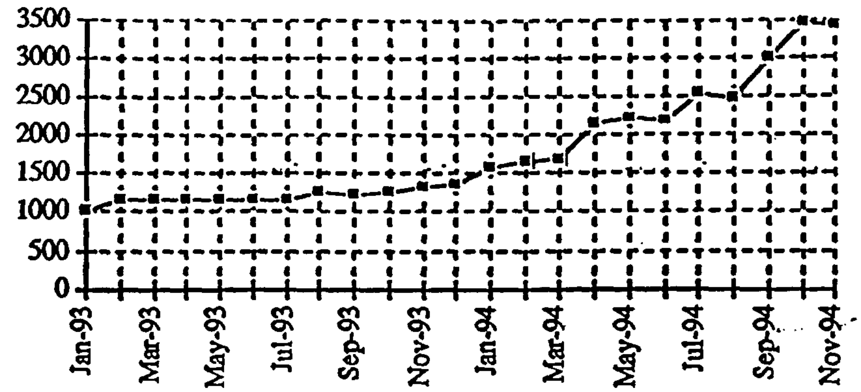



*Source: Hermes Financial*

The Hermes Financial Index is made up of 24 stocks:

| | |
|---|---|
| Commercial International Bank | Oriental Linen Spinning & Weaving |
| Misr Hotels (Hilton) | Dakahlia Spinning & Weaving |
| El Shams Housing | El Nasr Garments & Textiles |
| United Housing | Alexandria Spinning & Weavings |
| Middle East Land Reclamation | National Cement |
| El Kahera Housing | Suez Cement |
| Misr Soft Drinks | Arab Ceramic Company |
| Egyptian Poultry Company | General Ceramic and Porcelain |
| Egyptian Chemical Industries | The Engineering Industries |
| The General Paper Company | United Arab Spinning & Weaving |
| Abou Keir Fertilizers & Chemical Industries | Oriental Pharmaceutical Company |
| Damietta Spinning & Weaving | Egyptian International Pharmaceutical Co. |

EFG Index

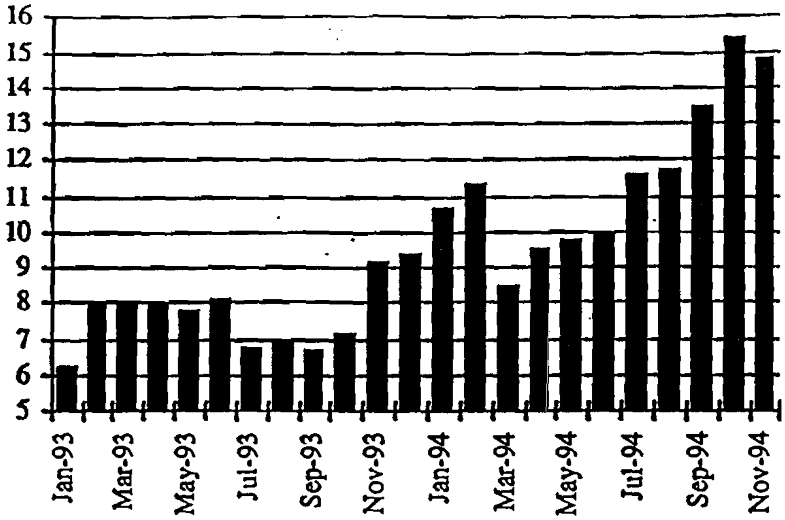



*Source: Egyptian Financial Group*

The EFG Index encompasses 32 actively traded shares, including Ameriya Cement which is not yet listed.

| | |
|---|---|
| Suez Cement | Suez Canal Bank |
| Kabo | El Mohandes Insurance |
| AbouKir Fertilizers | El Shams Housing |
| Misr Chemicals | Misr Dairy |
| Misr Hotels | PACIN |
| Motahida for Housing | Misroob |
| Cairo Housing | Almaco |
| Damietta Textile | Kima |
| Alexandria Textile | Rakta |
| Arabeya Textile | Workers Bank |
| Khazaf & Sini | Arasemco |
| Dakahlia Textile | Hoechst (Oriental Pharmaceutical) |
| Elwatany Bank | Pfizer |
| Econ | Sharkeya Linen & Cotton |
| EIPICO | MIGOP |
| Ameriya Cement | Commercial International Bank |

Price/Earnings Ratios: January 1993-November 1994



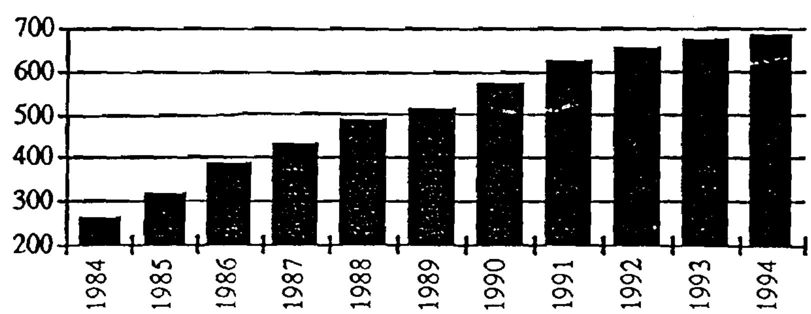

*Based on EFG Index Companies*
*Source: Egyptian Financial Group*

**Number of Companies Registered on the Cairo Stock Exchange**

| | June 1993 | November 1994 |
|---|---|---|
| Public Subscription | 155 | 156 |
| Closed Subscription | 499 | 531 |
| Total | 654 | 687 |

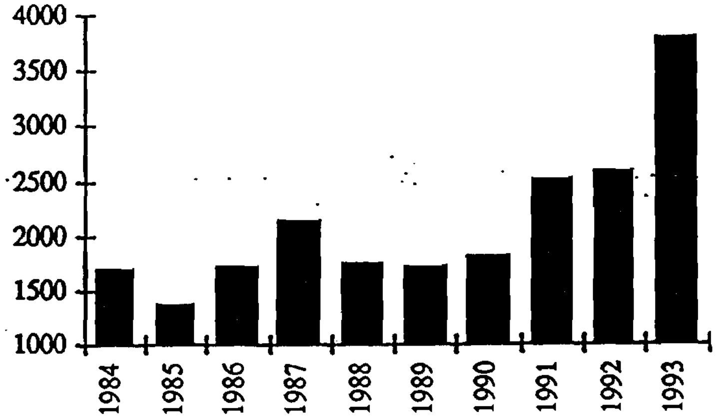
*Source: Stock Market Orientation Guide, USAID/PIDP*

Number of Listed Companies




*Source: IFC, Emerging Stock Markets Factbook, 1994*

Market Capitalization: All Listed Companies
(in millions of US Dollars)




*Source: IFC, Emerging Stock Markets Factbook, 1994*

# ANNEX 2:

## National Bank of Egypt's Schedule of Fees for Custody and Settlement Services

Treasury Bills:

- Bid and receive/Delivery Costs: US$50/transaction

Custody Fees:

- Physical stocks and Bonds: 0.1% p.a./US$50 minimum
  (Calculated on basis of market value at end of every quarter)
- Collection of coupons: 1% of value/US$10 minimum
- Exchange/splitting of shares: 10¢/share, with US$1 minimum and US$50 maximum plus actual expenses charged by issue company

Miscellaneous Fees:

- Statement of Securities Account annually and periodically: US$5/report
- On Request Additional Statements for Outstanding Securities: US$5/report
- Registering Nominal Shares with the Issuing Company: 10¢/share/US$10 minimum
- Annual Income Collection Statement for Securities: US$5

# ANNEX 3:

## Foreign Institutions Investing in Egypt

- Framlington Group (UK)
- Fiduciary Trust Company International (US)
- Schroders (UK)
- Foreign and Colonial (UK)
- Baring Brothers (UK)
- Morgan Stanley (US)

# ANNEX 4:
# Capital Markets Contacts Interviewed for Study

Mr. M. Madbouly, Senior Executive General Manager, Member of the Board
Mr. Mohamed M. Hassneen, Manager, Securities Operations Department
National Bank of Egypt

Mr. Ahmed Kamal el-Mahrouki
General Manager, Bills and Stocks
Bank Misr

Dr. Magda el-Manasterly
President, CEO & Chairman of the Board
Megavest International Securities

Mr. Shaheer S. Kolta
Resident Vice President
Corporate Banking Group
Citibank

Mr. Pierre Cardonne
General Manager
Banque Paribas

Mr. Talaat Ghourab, Senior Executive General Manager, Member of the Board
Mrs. Naela Dewidar, Manager, Foreign Department
Bank of Alexandria

Aly el Tahry, Managing Director
Aladdin Saba, Managing Director
Hermes Financial

Dr. Mohamed Taymour
Chairman
Egyptian Financial Group and
Managing Director
Egyptian Fund Management Group

Andy O'Neil, Investment Manager
Salah Deif, Assistant Team Leader
Mohsen Hassan, Consultant
Holding Company for Chemical Industries
Holding Company for Metallurgical Industries

Mr. Fouad Sidrak
General Manager
Delta International Bank

Mr. Hossam Raouf
Director Treasury and Capital Market
American Express Bank Ltd.

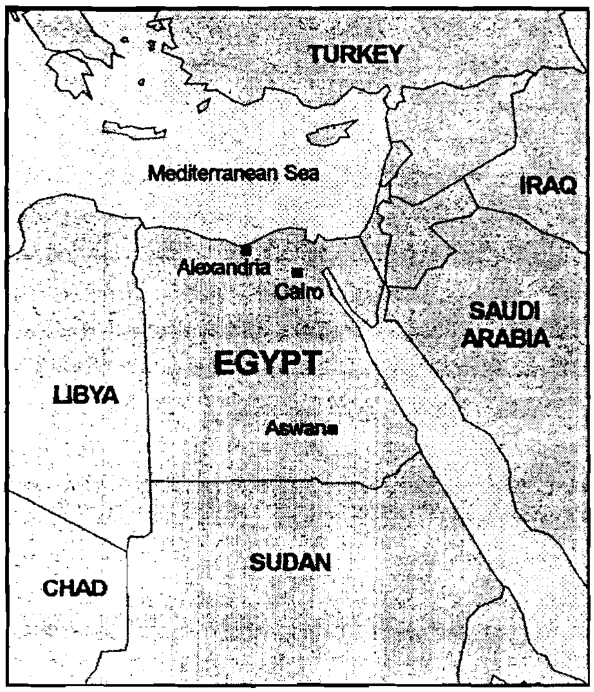
# Section 9

## Special Study 6B: Capital Markets Legal and Regulatory Analysis

107

# EGYPT
# SPECIAL STUDY 6B

## CAPITAL MARKETS:
## LEGAL AND REGULATORY ANALYSIS
## - *FINAL REPORT* -




**By Pierre Gianni for:**

**INTERNATIONAL BUSINESS & TECHNICAL CONSULTANTS, INC.**
45150 Russell Branch Parkway · Ashburn, Virginia 22011
Telephone: 703-589-1900 · Fax: 703-729-2088

February 15, 1995

108

# TABLE OF CONTENTS



- 109

# INTRODUCTION

One of the main avenues now being used by the Government of Egypt for its privatization program is through the offering of shares of public companies for sale on and off the stock market. It is of critical importance to have an understanding of the legal and regulatory framework which affects such operations. What is the legal and regulatory framework? How does it operate? Is it reliable? Will it support the privatization process? What are the problems? How can they be solved? The answers to these questions are key elements to the success of the privatization program.

This special study looked into technical issues related to the legal and regulatory framework in Egypt for the direct and stock market offering of shares. It is not intended to be a comprehensive legal discussion. The aim is to provide a general understanding of the legal mechanisms and procedures which affect the issue and sale of shares in Egypt, in the context of the Government of Egypt's privatization program. It will also discuss the capabilities and effectiveness of this framework to support the privatization process. The specific assignment was detailed in the Scope of Work, Special Study No 6: Sale of Shares and Role of Merchant Banks.

This document covers the following broad area and is organized in two main sections:

Section I: A description of the legal and regulatory framework affecting the issue and sale of shares;

Section II: An assessment of the capabilities and effectiveness of this framework to support the Government of Egypt's privatization program.

The time period of the study encompassed a twelve-day field mission to Egypt, from November 28, 1994 to December 10, 1994, followed by time in the U.S. for completion of the report.

### Methodology

As a first step, all available documentation on the Egyptian privatization program and its legal and regulatory framework was studied. This was followed by a detailed examination of the laws affecting the issue and sale of shares and the functioning of the stock market. Meetings were then held with appropriate representatives from the USAID Mission, the legal, banking and securities communities, and members of the privatization program technical assistance contractor's team. Well-informed opinions and comments regarding the contents of the laws, as well as their actual application and results, were thus able to be obtained.

# SECTION I

## THE LEGAL AND REGULATORY FRAMEWORK AFFECTING THE ISSUE AND SALE OF SHARES

Two key areas will be discussed under this section:

- The legal framework--an analysis of the Egyptian corporate law provisions governing the issue and sale of shares in general, and

- The regulatory framework--an examination of both: (1) the regulations issued by the Government of Egypt specifically for the offering of shares of public companies in view of their privatization; and (2) the role of the different institutions and Government agencies directly concerned by the process for the offering of shares.

Prior to this discussion, however, it is necessary first to present the context in which this report is prepared--the organization of the public sector and the Government of Egypt privatization program.

### 1.1 THE ORGANIZATIONAL AND INSTITUTIONAL FRAMEWORK OF THE PUBLIC SECTOR

With the Public Business Sector Law 203, of October 1991, the Government of Egypt reorganized public sector enterprises. Under the structure set by the new law, government authorities that had previously overseen state-owned enterprises were abolished and replaced by state-owned Holding Companies (HC's). Wholly government-owned enterprises or subsidiaries (where the state had a minimum share of 51%) from a broad range of economic sectors were put under the control of the Holding Companies, and referred to as Affiliate Companies (AC's). At present, there are 17 HC's under which there are 314 AC's, representing 70% of the industrial sector in Egypt.

The HC's which operate as portfolio managers are run along private sector lines with a chairman and a Board of Directors accountable to a General Assembly. Until companies are privatized, the government, as owner, is represented in the General Assembly while leaving day-to-day management in the hands of Boards of Directors. The AC's are also organized along private sector lines as they have to take the form of Joint Stock Companies, with special rules set by Law 203 in the organization of the Board of Directors and the General Assembly of shareholders which allow for private sector representation.

The supervision of these companies ultimately lies with the Minister of Public Enterprise. This Minister has a powerful role in both guiding the overall privatization process and decision making in divestiture transactions. The Public Enterprise Office (PEO) acts as a technical advisory body to the

Minister of Public Enterprise and provides advice and assistance to HC's during the privatization process. HC's additionally have the authority to take privatization initiatives, by restructuring, liquidating or reselling AC's. Management and employees of AC's can also initiate divestiture actions.

Although an essential element of the privatization program in its reorganization of the legal framework of the public sector, Law 203 does not by itself provide specific rules for the privatization of public companies. Law 203, in fact, does not even mention the privatization program. This law has therefore been completed by regulations which concern specifically the privatization of public companies through, in particular, the offering of shares. These regulations result from the "General Procedures and Guidelines for the Government Program of Privatization, Restructuring and Award System" (also known as the "Blue Book"), issued February 1993 by the PEO. They are subsequently discussed in this paper in the Regulatory Framework section. Prior to this discussion, however, general legal provisions affecting the issue and sale of shares must be considered; these provisions result from Egyptian corporate laws and are analyzed in the Legal Framework section below.

## 1.2 THE LEGAL FRAMEWORK

This section will discuss the legal framework for the issue and sale of shares resulting from Egyptian corporate laws.

### 1.2.1 The Main Laws Defining the Legal Framework

Several main laws define the legal framework affecting the sale of shares of the public companies to be privatized. The basic laws upon which this framework is based are:

**The Civil Code of 1948**, as subsequently amended, contains the main rules regarding contracts, particularly sales, and also provisions regarding formation and organization of companies;

**The Commercial Code**, amended on many occasions, but dating back to 1883, contains the primary provisions regarding trade, traders, commercial companies, brokers and brokerage, and bankruptcy;

Specific laws have been enacted more recently which set forth provisions for corporations, including issuance and sale of shares. These laws are discussed in detail below and consist of:

(A) **The Law No. 159 of 1981**, as amended, on Shareholder Companies, Joint Stock Companies, and Limited Liability Companies and its Executive Regulations, can be considered as the Egyptian Corporate Law, as its provisions apply to any Egyptian commercial company, unless specified otherwise;



13

(B) **The Law No. 203 of 1991** or "Public Business Sector Law," and its Executive Regulations, previously discussed above, not only reorganized public sector enterprises but also contains specific corporate law provisions which apply to public sector companies (Holding Companies and Affiliate Companies);

(C) **The Law No. 230 of 1989**, also known as the "Investment Law" and its Executive Regulations, as amended, contains specific provisions regarding companies formed with foreign investment for certain projects or in free trade zones, provisions which supersede standard rules;

(D) **The Law No. 95 of 1992** on the Capital Market and its Executive Regulations is now the fundamental law regulating public offering of shares and the Stock Exchange.

(E) **The Law No. 144 of 1988** on the Central Agency for Audits sets forth the law for auditing of financial accounts and performance of public sector companies and of any project in which the State participates.

From the above list, one main feature of the Egyptian general legal framework is quickly apparent: the Egyptian system of law is based on **Romano-Germanic systems**, as opposed to common law systems. The primary source of law is the Civil Code and the law is of a statutory nature rather than case law. [1] With regard to corporate law, an essential characteristic is thus, that, unlike in the U.S., where statutes on corporations are generally flexible and enabling, **Egyptian corporate law is quite regulated and not permissive**. As a result, the issue and sale of shares is governed by many compulsory legal provisions, all very detailed.

Another important aspect of the Egyptian law can also be seen from above: most of the corporate laws are fairly recent. The legislation has been revised and updated regularly. This means that the **legal provisions will reflect in many of their features current trends and principles of modern corporate law**, (e.g., provisions on protection of minority shareholders or regulation of the Stock Exchange).

The third characteristic is that **numerous laws affect a single legal issue. Conflicts between laws are unavoidable from such diversity.**

### 1.2.2 Law 159

The main rules for the issue and sale of shares are defined in Law 159. This law sets the framework for the corporate law in Egypt. Law 159 of 1981 is the basic Egyptian corporate law and has

[1] In fact, the Egyptian commercial law is based on the Napoleonic Code and many features of Egypt companies law are very similar to the French ones.

replaced the former General Companies Law, Law 26 of 1954. On some points, however, it has to be completed by the Civil Code, the Commercial Code, and also some provisions of the Law 95.

In most of its provisions, this law is very close to current French corporate law. Four main groups of companies exist in Egypt, very similar to their French counterparts:

- the "Partnership," like the U.S. "Partnership," where the partners have unlimited liability and interests in the partnership cannot be transferred freely (the organization of the partnership is in fact mainly addressed by the Commercial Code);

- the "Commandite" and "Commandite With Shares," close in their nature to the U.S. "Limited Partnership," with one or more general partners unlimitedly liable for the debts of the business and other partners with liability limited to the extent of their capital contribution;

- the "Limited Liability Company," which cannot be formed or increase its capital through public offerings and is not allowed to issue negotiable shares; and

- the "Joint Stock Company," equivalent to the U.S. "Corporation," with limited liability of shareholders, and which can issue publicly traded stock.

For the purpose of this study, the focus will essentially be on the type of company known as the **Joint Stock Company.** In fact, only Joint Stock Companies (and Commandite With Shares[2]) can issue shares, and the Joint Stock Company is the type of company by far the most concerned by the privatization process.

### 1.2.3 The Egyptian "Joint Stock Company"

Like its U.S. counterpart, the Joint Stock Company is a type of company where shareholders have limited liability and shares are in principle freely transferable and can be publicly traded. However, unlike the U.S. corporation, the Joint Stock Company is heavily regulated by the law. Articles of Incorporation, in fact, must conform to models issued by the Government and can be changed only with great difficulties.

The Joint Stock Company is organized around two main institutional bodies: shareholders and the Board of Directors. The Board of Directors, which is headed by a Chairman, is in charge of the management of the company. Members of the Board are elected by the shareholders. Shareholders meet in General Assemblies at least once a year. These meetings of shareholders are called "ordinary" when their purpose is to approve the year-end financial statements of the company, to decide on the election or dismissal of the members of the Board, the distribution of dividends and, more generally,

[2] The "Commandite with Shares", equivalent to the French "Commandite par Actions ", is an old type of company which is not at this time very common either in Egypt or in France.



115

to vote on the results of the operations of the company in its normal course of business. Meetings which are related to changes to be brought to the Articles of Incorporation are called "extraordinary" and occur when needed.

In addition to the aforementioned bodies, each Joint Stock Company is required by law to have auditors which are appointed by the shareholders in a General Assembly meeting. Auditors must be independent and not associated with the direction of the company. The role of the auditor is to review the accounts and financial statements and prepare reports and opinions on general and specific operations.

Public sector companies, HC's as well as AC's, are also organized in the form of Joint Stock Companies, and Law 203 makes clear from the start that its corporate law provisions are simply complementary. Where there is no relevant specific provision, Law 159 will apply.[3] Provisions of Law 203 applicable to AC's regarding share issue, capital increase, negotiability of shares, and rights of the shareholders are basically the same as in Law 159. Where relevant particularities exist, they will be stated in the course of this study.

## 1.3 THE ISSUE AND SALE OF SHARES

What types of shares exist in Egypt? What are the rules governing their issue and sale? Who decides on such operations? What are the procedures? What are the shareholders' rights? The answers to these questions are complex, because of the number of separate laws affecting these operations, the variety in status of companies, and the very comprehensiveness of the law.

### 1.3.1 The Issue of Shares by a Joint Stock Company

The issue of shares by an existing Joint Stock Company, either to simply finance the company or to expand the number of shareholders, will in fact require the intervention of the three institutional bodies discussed above: the Board of Directors will propose the issuance; the shareholders will authorize or approve the operation; and the auditors will prepare a special report on the reasons and conditions of the new issue.

However, prior to considering the issue of shares by a company at the time of an increase in capital, an analysis will be done of the issue of shares at the time of the formation of a company. Both situations need to be addressed, since even though most of the offerings of new shares of companies to be privatized will take place through increases in capital, shares can also be issued to private investors at the time of the formation of a new company. This may occur, for example, when only part of a state-owned company is to be privatized through the formation of a new company.

[3] Law 203, Article 1.



116

It should also be emphasized that the rules discussed below apply to a Joint Stock Company which does not offer its shares for public subscription either at the time of its formation or at the time of a capital increase. Specific requirements for a company offering its shares to the public will be analyzed in a separate section.

### (a) Issue of Shares at the Formation of the Company

Egyptian law requires compliance with numerous detailed provisions in order to issue shares for a non-publicly traded company. These requirements are discussed below.

Initial Requirements for Corporate Formation[4]

The founders of the corporation must first draft and sign Articles of Incorporation, following the models set forth by the government. [5] Application for approval of the formation shall then be made to a special government agency in charge of supervising companies: the General Companies Administration. [6] The Articles of Incorporation shall define the authorized and issued capital.

Authorized and Issued Capital

The concepts of authorized and issued capital are familiar in U.S. corporate law. Authorized shares are the number of shares allowed to be issued by the Articles of Incorporation; issued shares are the actual number of shares which have been issued to shareholders. Such concepts allow for flexibility in financing the company, by simplifying the process to increase capital. The Egyptian provisions on this topic are of the same nature as the ones found in U.S. laws, but are very detailed and more restrictive.

The company must have an issued capital with a minimum set by the law of 250,000 Egyptian Pounds. [7] This amount is raised to 5 million Pounds for holding companies and companies dealing in securities. The concept of capital is still considered very important in Egyptian law, and the law requires that all documents issued by the company clearly state the issued capital.

---

[4] Law 159, Executive Regulations, Articles 7-20.

[5] Separate models exist for companies governed by Law 159, companies governed by Law 203 and companies operating under Law 230.

[6] For AC'S, the formation is decided by the Minister of the Public sector, upon proposal by the Board of Directors of the HC (Law 203, Article 17).

[7] This minimum is raised to one million Pounds for AC'S.



117

## Par Value

Par value is the stated value of each share of stock. This amount is determined by dividing the total authorized capital into the total number of shares authorized, and is set forth in the Articles of Incorporation. The minimum par value is 5 Egyptian Pounds; the maximum is 1,000 Pounds. [8] The concept of par value has limited importance in most states in the U.S. today, but is still of major significance in Egyptian law. Shares cannot be issued without a par value or under par value.

## Payment for Shares

Shares can be issued for cash or property. **Shares issued for cash** do not have to be paid in full at the time of their issuance; however, the law requires that the minimum paid be no less than one-fourth of the amount, with the balance to be paid over ten years. Special rules apply to shares not completely paid up regarding distribution of dividends, recovering of the portion not paid if the shareholder fails to do so upon request by the company, and joint liability of successive owners in case of a transfer. [9] A stamp stating the fact they have not been completely paid must be apposed on the certificate.

Shares issued for property are subject to a special valuation procedure under specific scrutiny of the relevant government agency. [10] Such shares are not freely negotiable for two years[11] and a stamp to this effect is apposed on the share certificate. Also, the shareholder subscribing such shares and the members of the Board are accountable for overvaluation of the property.

## Formalities of Issuance

Shares cannot be issued before compliance with all legal formalities. The amounts paid in cash by the shareholders must be deposited in an escrow account with a Bank authorized by the government, and no withdrawal is allowed by the corporation until all formalities required for the formation of the company have been properly completed.

[8] No less than five Pounds but no more than one hundred (!) for AC'S.

[9] Law 159, Executive Regulations, Articles 142 through 149.

[10] Verification of the valuation is of the competence of a special committee for AC's. The composition of this committee is detailed under Article 19 of Law 203.

[11] Law 159, Executive Regulations, Articles 70 and 71.

Bearer and Nominal Shares; Egyptian ownership of shares requirement

In Egyptian corporate law, unless otherwise provided by the Articles of Incorporation of the company, shares can be issued either to the bearer or in the name of a person (nominal shares). [12] Bearer shares, however, cannot exceed 25% of the total number of shares issued. [13] Bearer shares cannot be converted to nominal shares and vice versa. [14] An important distinction also is that bearer shares shall not have the right to vote in General Assembly meetings of shareholders. [15]

It should also be noted that for companies governed by Law 159, at least 49% of the shares must belong to Egyptian nationals. [16]

Issuance of Share Certificates

In some countries, shares can be issued either in the form of a certificate, or as a simple book entry in the register of the issuing company. In other countries, the book entry system is compulsory. [17] In Egypt, the situation is hybrid: shares issued to the bearer are evidenced by a certificate, while shares issued in the name of a person are in the form of a book entry in a register. In practice, however, the book entry is additionally formalized by a certificate. The Egyptian law also contains numerous and very detailed provisions applying to the issuance of share certificates and book entry registration. [18]

Classes of Stock

The Egyptian law allows for different classes of shares with different rights for voting, dividends, and distribution of assets upon liquidation. All shares of the same class must have the same rights. However, although legal provisions are not completely clear, it appears that such differences are

---

[12] For AC'S, it seems that all shares must be in the name of a person. Such requirement would result from the AC'S' model act of incorporation which states that all shares are "nominal". However, this may be only the consequence of an inaccurate translation of the law in the English language.

[13] Law 95, Executive Regulations, Article 1.

[14] Law 95, Executive Regulations, Article 16.

[15] Law 95, Part I, Article 1.

[16] Law 159, Article 37.

[17] For example, in France, book entry ownership is compulsory and effective since 1981; in the U.S. where corporate laws are more flexible, book entry registration is the most common form of ownership for publicly traded companies, a share certificate being issued only upon request of the shareholder.

[18] In particular, Law 159, Executive Regulations, Articles 120 though 130.



119

required to be set forth in the Articles of Incorporation **at the time of the formation of the company** in order to be valid. [19]

**(b) Increases in capital are usually decided by companies for two main purposes:**

- the company needs more financial resources and prefers to obtain those resources through equity rather than debt;

- new shareholders must be brought in, because of a change in majority shareholders or other reasons, and the issue of new shares is preferred to (or combined with) a sale of stock by existing shareholders.

Both situations, however, involve the same concepts.

Decision to Increase Capital

After the corporation has been formed, the authorized capital can be increased at an extraordinary meeting of the General Assembly, following a proposal made by the Board of Directors. The Board shall provide justification for the proposed increase, with an accompanying opinion by the auditors[20] on the justification. Issued capital may also be increased by a resolution of the Board of Directors. No increase can be approved until all existing shareholders have fully paid for their shares, with exceptions allowed for specified situations, including payment guaranteed by a mortgage, payment guaranteed by the State, or stocks subscribed to by banks. A copy of the decision to increase the capital must be given to the General Companies Administration agency.

Methods of Increasing Capital

New shares are issued according to formalities set forth in the law. [21] The shares can be issued for cash or property, with the same rules for initial contributions of capital applying as discussed above. In addition, when shares are issued for property for an increase in capital, the General Assembly must approve the valuation of shares issued. Shares can also be issued in exchange for debt owed to the subscriber by the corporation. The amount of the debt must be issued in a statement by the Board of Directors and verified by the auditors. Another method of increase of capital is by the exercise of a conversion option of convertible debentures.

[19] Article 92 of the Executive Regulations of Law 159, completed by Article 9 of the Executive Regulations of Law 95.

[20] In AC's the audit function is exercised by a Government Authority: the Central Agency for Audit. This Agency is responsible not only for reviewing the accounts of the company, and give opinions on special operations, as would a private sector auditor, but also to evaluate its performance.

[21] Law 159, Article 33; Executive Regulations, Articles 86 to 104.

An alternative means of increasing capital is by transferring a portion, or all, of retained earnings to capital, and issuing of shares to the shareholders on a pro rata basis. This will not, of course, result in the addition of new shareholders to the corporation.

Par Value

Subsequent issuances of shares can be issued for an amount in excess of par value where the actual value is more than the par value as verified by an audit report. The excess amount is added to a special reserve capital account. Shares cannot be issued under par. Therefore, where net assets are less than the total par value of issued stock, the law requires that the capital first be reduced to equal the net assets.

Priority Rights of Existing Shareholders

Existing shareholders by law have rights to purchase new issuances of shares before others. This right, however, can be overridden at the extraordinary meeting of the General Assembly upon request of the Board of Directors for reasons contained in a report approved by the auditors.

Preferred Stock

According to Article 95 of Law 159, in an extraordinary General Assembly meeting at which issued shares are increased, it can decide to give existing shares greater rights than the new shares for voting, profits, or liquidation. However, Article 9 and 24 of Executive Regulations of Law 95 indicate different rights can only be given if they are so established at the time of the formation of the corporation. The predominant opinion in Egypt of this apparent ambiguity appears to be that different rights can be given only if established in the Articles of Incorporation at the time of the corporation's formation.

Finalization of the Capital Increase

The same rules apply for withdrawal of amounts paid for the new shares and the issuance of the new share certificates as for initial issuance of shares. All increases in authorized and issued capital must be reported to the relevant government agency; the agency reviews all such increases for appropriateness and shall indicate their approval.

### 1.3.2 The Sale of Shares

Relatively few specific provisions of Egyptian corporate law govern the sale of shares off the stock market. In fact, the main rules which should be followed in a sale of shares are set by the Civil Code. Egyptian corporate law mostly addresses the forms transfers should take, legal or contractual restrictions to the principle of free transferability of shares, and some particular sale situations. These topics are discussed below.

## (a) Importance of the General Rules of the Civil Code

In addition to the specific provisions of corporate law, the sale of shares must conform to the general rules set by the Civil and Commercial Codes for contracting, particularly with regard to the requirements of a sales contract: agreement, purpose, capacity of the parties, set price. While a discussion of these rules is not within the purpose of this study, this consideration must be emphasized.

## (b) Corporate Law Requirements

All shares of stock are in principle freely transferable by negotiation. Bearer and nominal shares result in different means of transferring shares. For bearer shares, the rights of the shareholder result simply from possession of the certificate and can be transferred very easily by traditio, i.e., from hand to hand. In case of nominal shares, a special transfer form must be filed with the corporation, the previous entry and the certificate must be canceled, and a new entry and certificate must be established. Fulfilling these detailed requirements can result in delays in changes in ownership. Bearer certificates, of course, do not have this constraint, but they can be lost or stolen very easily, therefore, presenting a considerable drawback. It should be noted that no sales agreement is required by law, but may be advisable for specific situations, such as the sale of a majority interest.

## (c) Restrictions on Negotiability and Sale

As mentioned above, there are two major restrictions on the ability to sell shares: (1) shares which have not been fully paid for; and (2) shares issued for property within two years. Such shares are not freely negotiable; in order to effect a sale of such shares, special procedures of the Civil Code must be followed.

In addition, the Articles of Incorporation can state that shares are not freely transferable without the approval of the board of directors, except in the case of transfers to spouses, lineal descendants, and ancestors. There is a specific procedure specified in the law for obtaining such approval. If agreement to the proposed sale is not granted, the corporation or the other shareholders must then buy the shares.[22] This is different from U.S. law which usually gives shareholders preemptive rights to purchase shares before the corporation in such cases.

An important further point is that Egyptian law does not contain provisions which would allow certain restrictions to be placed on transferability of shares, such as: (1) restrictions on transfers of shares during a specific period after share issuance; (2) restrictions stating conditions under which a shareholder would be required to sell his shares; or (3) conditions allowing for voting pool agreements. Since no clauses are contained for such provisions in the model forms for Articles of

[22] Law 159, Executive Regulations, articles 139 to 141.

Incorporation and the model forms must be exactly followed, it appears that such useful provisions apparently cannot be used.

### (d) Consequences of Sale

The sale of shares results in the transfer of ownership at the date agreed by the parties. Unless otherwise provided in the sales agreement, the buyer will have the right to dividends received after the date of sale. Any portion of the retained earnings attributable to the seller's share of ownership is taken into consideration in negotiating a sale price, and the seller is not entitled to any payment from the corporation for this share.

Under general principles of law, the seller has an obligation of guarantee, but this guarantee only extends to the ownership of the share, and not the value. Consequently, for sale of majority interests, it is usual to have a contractual guarantee as to the value contained in the sale agreement.

### (e) Particular Sale Situations

Sale of Interest of Majority Shareholder

There are no specific provisions in Egyptian law regarding sale of shares of a majority interest sold off market. Procedures and consequences discussed above are therefore applicable. The additional consequence of this is that minority shareholders do not have any particular protection regarding sale of shares.

Buying and Sale of its Own Shares by the Company

Egyptian corporations are allowed to buy its own shares only in specific situations: [23] (1) to decrease its capital; (2) as a result of a contractual restriction to a projected transfer of shares; and (3) when the purchase is to distribute the shares to the workers of the company. The first two situations normally translate into a cancellation of the shares; in the third situation, the company can sell the shares only to the workers and according to the specific rules set by the law. [24]

Limit to the Selling Price of Shares

Law 159 and its Executive Regulations as well, contain provisions limiting the selling price of shares newly issued. [25] These cannot be sold at a higher value than the price at which they were issued during one full year. It is not clear from the English translation of the law if this provision applies

[23] Law 159, Executive Regulations, Articles 149 to 150.

[24] Law 159, Executive Regulations, Articles 151 and 152.

[25] Law 159, Article 46; Executive Regulations, Article 138.

only to the shares issued at the initial formation of the company or also to shares issued for a capital increase.

### 1.3.3 The Rights of the Shareholders

Although apparently not directly tied to the subject of the issue and sale of shares, the question of the rights of the shareholders is of fundamental importance in the context of a privatization program. Indeed, if shareholders have limited or non-existent rights, due to the content of the law or for other reasons, they will very quickly lose interest in buying and holding shares of the public companies offered for sale. This is especially true in situations such as Egypt, where the market is small and shareholders do not have much choice as to selling shares of a company and buying those of another. This question is therefore an essential component of the legal framework of a privatization program.

Under Egyptian law, shareholders of a corporation, even of corporations not publicly traded, have well-protected rights. Those rights cover not only a general right to vote and access to information but include special procedures for the protection of minority shareholders. In addition, the law provides complementary protection through the requirement of a compulsory Auditor.

#### (a) Right to Participate in the Operations of the Campaign

Right to Participate in General Assembly Meetings

In principle, every shareholder is entitled to attend the ordinary and extraordinary General Assembly meetings of shareholders and to vote in such meetings either personally or by proxy. [26] The right to vote is a fundamental right of the shareholder, and restrictions to this right can result only from the law. The law does restrict this right only in particular circumstances to protect other shareholders, or to sanction shareholders who have failed to pay the balance of their shares after they have been advised to do so. [27]

Egyptian law has an important feature for the protection of minority shareholders, and that is the right given to shareholders representing 5% [28] of the capital of the company to require that a specific topic be submitted to the vote of the shareholders in a General Assembly meeting. [29] It should also be noted that, in a General Assembly meeting, shareholders have the right at any time to decide upon the dismissal of the Board of Directors, even if this item is not on the agenda.

[26] Law 159, Article 59.

[27] Executive Regulations of Law 159, Article 148.

[28] This percentage is raised to 10% for AC's (Law 203, Article 27-e ).

[29] Law 159, Article 63(e).

Under the law, the ordinary General Assembly meeting should be held at least once a year, not later than six months after the end of the fiscal year of the company. Normally the convocation of such a meeting is set by the chairman of the Board of Directors. The law provides the minority shareholders again with protection, giving shareholders representing 5%[30] of the capital of the company the right to require that such a meeting be held.[31]

Another important right of the shareholders is the right to ask questions to the Board prior to and during the General Assembly meetings, and if not satisfied with the answer received, to appeal to the General Assembly of shareholders.[32] The law also contains numerous and detailed provisions regarding requirements for the calling of the General Assembly meetings[33], shareholders' attendance and registration, organization of the meetings, voting quorum and rules of majority, and records to be kept. [34] [35]

Rights to Information

In addition to their right to ask questions to the Board as mentioned above, shareholders also have a general right to information on the operations of the company. This right can be exercised either at the occasion of a General Assembly meeting or at any time during the year.

Right to information prior to a General Assembly meeting [36]

Prior to the ordinary General Assembly meeting, the Board of Directors must publish in daily newspapers the financial statements of the company, the report of the Board, and the report of the company's auditors. If the Articles of Incorporation so allow, these documents can instead be mailed to the shareholders before the General Assembly meeting.

Also, specific information and documents must be kept at the disposal of the shareholders at the headquarters of the company prior to the ordinary General Assembly meeting, including information

---

[30] Percentage raised to 10% for AC'S (Law 203, Executive Regulations, Article 63).

[31] Law 159, Article 61.

[32] Law 159, Article 72 and Executive Regulations of Law 159, Article 224.

[33] Either by direct mail to each shareholder or by publishing twice in two daily newspapers, one of each at least in Arabic, if the company is publicly traded (Executive Regulations of Law 159, Article 203).

[34] Notably Articles 59 to 76 of the Law 159; Articles 200 to 231 of its Executive Regulations.

[35] For AC's, Article 30 of Law 203 confirms that articles 59 to 76 of Law 159, relating to General Assemblies of shareholders, should apply.

[36] Law 159, Executive Regulations, Articles 218 to 222.

on the members of the Board, report of the Board, and general report of the auditors on the operations of the company, financial statements, and draft resolutions to be submitted to the General Assembly.

Other information required to be maintained at the disposal of the shareholders at the company's headquarters are transactions with other companies involving members of the Board and special benefits or advantages granted to these persons, a special audit report on such transactions, and information on any loans, credit, or guarantees extended by the company.

The same type of provisions pertaining to the right to information of shareholders exist in the case of extraordinary General Assembly meetings.

Permanent right to information [37]

In addition to their right to information prior to a General Assembly meeting, shareholders also have the right to review and get copies of documents at the company's headquarters at any time. The law also contains an important provision allowing shareholders - and whoever has an interest - to review reports, documents, minutes of the company in the offices of the Government agencies in charge of supervising companies. [38]

Right to a special audit [39]

The Egyptian law again provides an important feature for the protection of minority shareholders. Shareholders representing 10% of the capital are entitled to request the examination of the books and operations of the company by an independent auditor, in case of an alleged infraction committed by members of the Board or the auditors in the course of duty. This request must be presented to the appropriate government authority in charge of supervising company operations and execution of corporate law. Several articles in Law 159 and in its Executive Regulations detail the conditions and consequences of this audit procedure. [40]

Right to Be Elected

All shareholders have the right to bid for their election as a member of the Board. In fact, the possibility for election depends on the number of votes the shareholder can obtain, either by himself or with the assistance of other shareholders. Members of the Board are required to be shareholders.

---

[37] Law 159, Executive Regulations, Articles 301 to 302.

[38] Law 159 , Executive Regulations, Article 302, as amended by Decree No 408/1987.

[39] A very similar procedure exists in France's Corporate Law: "l'expertise de minorite" (Minority shareholders' right to a special audit).

[40] Law 159, Articles 158 to 160; Executive Regulations, Articles 303 to 308.

Right to Go to Court

For the protection of their interests, shareholders have the right to bring in court any action related to the operations of the company which would result in a violation of the law or a violation of their rights as shareholders. This action can be exercised either by a shareholder individually or by a decision of shareholders in a General Assembly meeting. [41] An important feature also is that shareholders can obtain the nullity of a decision of the General Assembly made in violation of the law or the Articles of Incorporation, or if such decision favors a particular group of shareholders[42] or gives special advantages to members of the Board. [43]

In addition, shareholders can bring to the attention of the relevant government administrative agency any matter related to improper execution of the law. [44]

**(b) Pecuniary Rights**

Right to Dividends

Unlike in the U.S. where the Board of Directors decides on the distribution of dividends, in Egyptian law, such decision is made by the shareholders in their General Assembly meeting, after proposal by the Board. The law, however, contains provisions restricting the freedom of decision of shareholders with requirements which must be met. Particularly, part of the profits must be earmarked for the formation of a legal reserve and a distribution of dividends is not allowed if, as a consequence, the company cannot fulfill its debt obligations. Provisions of the Articles of Incorporation must also be respected with regard to statutory reserves or other requirements. A particular feature of Egyptian law on this subject is worth noting: workers are entitled to a minimum of 10% of the profits to be distributed.

It should also be noted, as mentioned above, that shares not fully paid up have a special treatment regarding the right to dividends; they are entitled to a dividend only in proportion to the amount of the share which has been paid. [45]

[41] Law 159, Articles 160 and 161.

[42] This situation, known in France's corporate law as " abus de majorite" (abusive use of their power by majority shareholders) was the subject of numerous court cases before the concept received general acceptance in that country. It is interesting to note that in Egypt, the law itself recognizes and sanction the abuse.

[43] Law 159, Article 76.

[44] Law 159, Article 155.

[45] law 159, Executive Regulations, Article 142.



127

Right to Assets on Liquidation

After all creditors have been paid, each shareholder has the right to receive the face value of his share; the residue is distributed pro rata, unless otherwise provided by the Articles of Incorporation. If the assets are less than the total par value of the outstanding stock, a pro rata allocation is made based on par value owned by shareholders.

Preemptive Right to Subscribe New Shares

By law, a preemptive right permits existing shareholders to subscribe to new shares to be issued by the corporation, in preference to strangers and pro rata with other existing shareholders. However, the shareholders may decide in a General Assembly meeting to reduce or suppress this preemptive right to subscription. [46]

Protection of Shareholders Through an Auditor

Each joint stock company is required by law to have auditors. [47] These auditors are appointed by the General Assembly of shareholders. They must be independent and not associated with the direction of the company. The role of the auditor is to review, inter alia, the accounts, financial statements, budget, and prepare general and special reports on the operations of the company. An interesting feature of Egyptian law is that any member of the General Assembly may propose that the auditor be changed, and the General Assembly shall decide whether to make such a change following the opportunity of the present auditors to respond to such a proposal.

## 1.4 SPECIFIC ASPECTS FOR PUBLIC SECTOR COMPANIES

Although the general principles of corporate law are relatively similar for private sector and public sector companies, as they are all organized in the form of Joint Stock Companies and provisions of Law 159 are the standard rule for both types, differences exist.

Some of these differences have been stated above in the analysis of the legal concepts pertaining to the issue and sale of shares, (i.e., types of shares, capital, procedures and conditions to issue and sell shares, rights of the shareholders). However, other important consequences also result from the organization of the public sector in HC's and AC's by Law 203 and from the fact that the State is the main (or sole) shareholder with regard to the decision to issue and sell shares. These consequences are set forth below.

[46] Law 159, Executive Regulations, Article 96 to 102.

[47] For AC's, this function is exercised by the government Central Audit Agency. Provisions regarding this agency are detailed in Law 144 of 1988. The Central Audit Agency's power includes auditing of accounts and financial statements in accordance with recognized accounting principles. Any findings of the Central Audit Agency, including errors and violations of laws and regulations shall be noted by the Agency, and accounts will be correctly stated in accordance with the unified accounting system.

### 1.4.1 Decision to Issue New Shares

In a standard Law 159 private sector company, the decision to issue new shares belongs to the General Assembly of shareholders, or the Board of Directors if the Board has been so authorized by shareholders. In a Law 203 Affiliate Company (the one to be privatized), the decision will be made on the same basis. [48] However, the main shareholder will be the HC and, thus, the decision belongs to the representative of this company. Article 17 of Law 203 specifically gives power to the Board of the HC to decide on such matters. The Board of the HC can also decide to form an AC or a Joint Stock Company of a different status. The Board of the HC naturally answers to the General Assembly of the HC. Members of the General Assembly of the HC are designated in the Articles of Incorporation of the company, after approval by the Government. The law requires that they must be chosen preferably among representative of the Finance Ministry. [49]

### 1.4.2 Decision to Sell Existing Shares

The consequences of the HC's/AC's organization are the same as above. The decision to sell shares of the AC's is made by the Boards of their respective HC's. Article 17 of Law 203 specifically gives the right to make such a decision to the Boards of the HC's. It should be noted, however, that the sale of shares of an AC, which would result in a reduction of public ownership below 51% must be decided by the Extraordinary General Assembly of the HC. [50]

## 1.5 SPECIFIC ASPECTS FOR COMPANIES WITH PUBLIC SUBSCRIPTION

Regarding public offering of shares, Egyptian corporate law contains two types of specific provisions:

- Provisions specifically directed to the issue of new shares by companies ("public subscription"), either at the time of the company's formation or at the time of an increase in capital;

- More general provisions address the sale of existing shares to the public and related situations, and these concern mainly companies traded on the stock exchange.

These two types of provisions are discussed below.

### 1.5.1 Provisions Related to the Offering of New Shares to the Public

#### (a) Definition of Public Offering of New Shares

[48] Law 203, Executive Regulations, Articles 62 to 65.

[49] Law 203, Executive Regulations, Articles 18 to 22.

[50] Law 203, Executive Regulations, Article 25.

Public offering of new shares is a very regulated operation in Egyptian law and the concept itself is legally defined. In Egyptian corporate law (as well as in French law), strangely enough public offering of new shares is defined at the time of the formation of the company. In fact, the law assumes that Joint Stock Companies are formed with public offering of shares, and the situation where the company is privately formed is considered the exception. Legal provisions for formation of Joint Stock Companies are thus organized to address first procedures and requirements applicable when shares are offered to the public. In practice, by far most of the companies are formed with private subscription and then go public.

Shares are considered offered to the public when non-specifically designated persons are invited to subscribe or when the number of subscribers is over 100. [51] When there is such a public offering, either at the time of the formation of the company or at the time of an increase in capital, specific numerous and detailed requirements must be met. [52] Of particular note are the consequences discussed below.

### (b) Consequences of the Public Offering of New Shares

Consequences on the Issued Capital

Minimum capital for Joint Stock Companies offering shares to the public is raised from 250,000 to 1,000,000 Egyptian Pounds. [53] There is no minimum to the number or value of shares to be offered to the public for subscription. [54]

Compulsory Subscription Prospectus

No stocks/securities of any company, including Public Sector companies, should be floated for public subscription without the issuance of a subscription prospectus to be published in two daily newspapers, one of them at least in Arabic language. This prospectus cannot be published before the prior approval by the CMA discussed subsequently. [55]

---

[51] Law 159, Executive Regulations, Article 10.

[52] Law 159, Executive Regulations, Articles 10 to 36 and article 102 (where not superseded by Law 92); Law 95, Executive Regulations, Part 1, Articles 1 to 7 and Articles 40 to 58.

[53] Although a minimum of 500,000 was set by Law 159 in case of public subscription, this amount is raised by Law 95 (Executive Regulations, Article 41).

[54] Such limit existed in law 159; no less than 25 % of the shares were to be offered to the public. This condition appears to have been superseded by Law 95 (Law 95, Executive Regulations, Article 40).

[55] Law 95, Article 4.

When the subscription of shares is offered at the time of the formation of the company, the prospectus should include, inter alia: the purpose of the company, the indication of the issued capital, a description of the types of shares and eventual privileges, a statement concerning shares issued for property, the names of the promoters and the amount of their contribution to the capital, information regarding the planned use of the funds collected through public subscription. For subscriptions offered to the public after the formation of the company, additional data must be provided, in particular: names of Board Members and related qualifications, names of shareholders owning nominal shares for more than 5% of the capital with the indication of the exact percentage, and a summary of financial statements, certified by the auditor, for the past three years. [56]

Compulsory Intervention of the Capital Market Authority

Any company offering public subscription of new shares must first notify the CMA of its plans. If the CMA does not object within three weeks from the date of notification, the company is entitled to proceed with the procedures for issuing securities. The notification to the CMA should include, inter alia:[57]

- For public offering at the time of the formation of the company: a copy of the Articles of Incorporation of the Company, proof of the payment of the fees required for issuing securities, and the indication of the total number of shares with a specification of those offered to public subscription.

- For public subscription at the time of an increase in capital: a copy of the resolution of the General Assembly of shareholders or Board of directors deciding the capital increase, a study as to the valuation of the price of the shares to be issued with the appropriate statement by the auditor, the method chosen to increase the capital and supporting documentation, and a statement as to the existing distribution of the capital and whether the company is registered with the stock exchange.

Subscription Period

The subscription period should be no less than 10 days and no more than two months. This period can be extended by two more months with the approval of the CMA. If all shares offered are not subscribed.
If the demand for shares exceeds the offer, a pro rata allocation should be made among subscribers.[58]

Handling of the Subscription through Specialized Institutions

[56] Law 95, Article 5. In addition, the Executive Regulations require complementary information and supporting documents (Executive Regulations, articles 42 to 46).

[57] Law 95, Executive Regulations, Article 7.

[58] Law 95, Executive Regulations, Article 54.

The offering of shares to the public must be handled by banks or other institutions specifically authorized by the government. [59]

Special Requirements for General Assembly Meetings of Shareholders

When the company is formed with public subscription of shares, a special General Assembly meeting of shareholders must be held; this meeting is called the "Constitutive General Assembly Meeting." Specific rules apply to this type of General Assembly. Also, when there is public subscription of shares, the general rules applying to the shareholders' convocation for General Assembly meetings are more stringent. [60]

Contractual Provisions Affecting the Free Transferability of Shares

Companies offering shares for public subscription are not allowed to use contractual provisions affecting the free transferability of shares. Such provisions have been discussed above in Section IB2c.

Special Information Requirements

Companies offering shares for public subscription are subject to particular requirements regarding publication of financial data and other general information. [61]

They must provide the CMA with semi-annual reports on their operations and also their financial statements and other documents required by the law prior to a General Assembly meeting of shareholders. Such companies must also publish adequate summaries of their semi-annual reports and financial statements in daily newspapers. And -- an interesting feature of Egyptian law -- companies facing unforeseen circumstances affecting their operations or financial situation must announce them to the public and publish appropriate summaries to this effect.

Also, financial statements of companies offering shares for public subscription must be presented according to specific accounting and audit principles. [62]

Compulsory Recording of Shares with the Stock Exchange

[59] Law 159, Article 36.

[60] Law 159, Executive Regulations, Article 200 and others.

[61] Law 95, Article 6, completed by the Executive Regulations, Article 58.

[62] To be determined or referred to in the Executive Regulations of Law 92. These principles do not appear in the Executive Regulations.

Shares issued through public subscription must be recorded in the Stock Exchange within the six months following the closing of the subscription period. Companies whose shares have not all been offered to the public have a three-year delay for such recording. [63]

### 1.5.2 Provisions Related to Publicly Traded Companies

In addition to the provisions discussed above for the issuance of new shares, special rules apply to companies publicly traded, particularly with regard to the sale of existing shares. These rules are very similar to the ones found in countries with a well-developed stock market.

Compulsory Notice by Shareholders Prior to Their Acquiring of a Majority Interest

Any shareholder who wants to conclude an operation resulting in his owning more than 10% of the shares of a company with public subscription must notify the company of his intentions at least two weeks prior to the undertaking of the operation. The company, in turn, must advise all shareholders owning at least 1% of the capital of the company of such notice. For Board Members or workers of the company, the requirement applies as soon as the percentage reaches 5%. [64]

Compulsory Take-Over Bid

If a shareholder wants to conclude an operation resulting in his owning 20% of the shares of a company with public subscription, he must, in addition to the preliminary notice discussed above, offer to buy the shares from all other shareholders and indicate the price he is willing to pay. A pro rata allocation must be made if the amount of shares offered for sale exceeds the number the buying shareholder wants to acquire. For Board Members and workers of the company, the requirement applies in case of 15% percent. [65]

Absence in the Law of Specific Procedure and Requirements for Public Offering of Existing Shares

Except for the obligation of trading through the stock exchange for publicly traded shares, and the consecutive application of the general rules of this institution, specific procedures and requirements for public offering of existing shares do not seem to exist in the law, as is the case for new shares. [66]

[63] Law 159, Executive Regulations, Article 127. The English translation of the Egyptian law is not very clear on this topic: provisions of Law 159 set a general delay of one year without any distinction regarding types of shares.

[64] Law 95, Article 8; also, Law 95, Executive Regulations, Article 59.

[65] Law 95, Executive Regulations, Article 61.

[66] Regulations regarding public offering on the secondary market in the US; "offres publiques de vente " procedures in France.

However, the English translation of Egyptian laws is sometimes confusing and, in practice, it appears that public offering of existing shares of Public Sector companies has closely followed procedures and requirements set for public offering of new shares. Specific procedures and requirements may also be set in regulations issued by the CMA or the Stock Exchange that we do not know about.

Compulsory Trading through the Stock Exchange

Shares of companies registered with the stock exchange must be traded through this stock exchange, otherwise the transaction will be null. Regulations applying to such trading and the functioning of the stock exchange are further discussed in the Regulatory Framework Section below.

Insider's Trading Sanctions

Although not actually stated in the above terms, the Egyptian law contains provisions which could be used for the sanction of such trading. Law 95, in particular, provides in its Article 64 that anyone who divulges a secret obtained in connection with his work, or uses it to obtain personal benefits, can be subject to the penalties set by the law.

Tax Aspects

In order to encourage development of securities and their listing on the official table of the stock exchanges, Law 95 provides tax benefits for securities fulfilling legal requirements. [67] They are exempt from the proportional stamp duty on their issue and also from the yearly stamp duty. In addition, the income from such securities is exempt from the General Income Tax and the Movable Capital Revenue Tax (i.e., tax on dividends)[68]. They are still subject to a capital gains tax at a rate of 2%.

## 1.6 SPECIFIC ASPECTS FOR COMPANIES OPERATING UNDER THE INVESTMENT LAW (LAW 230)

Companies operating under the investment law are also concerned by the privatization process, although less directly than Law 203 companies. Their situation will, however, be discussed in order to provide a complete view of the provisions pertaining to the issue and sale of shares of companies operating in Egypt.

### 1.6.1 General Provisions of Law 230

[67] Law 95, Article 16. Securities recorded in the Official table include: (1) private sector companies with at least 30% of the shares held by the public and a minimum of 150 shareholders; (2) Public Business Sector companies.

[68] The Unified Tax Law, passed January 1994, has changed some of these rules and now exempts dividends from income tax, whether or not the shares are listed on the stock market.

Law 230 of 1989 is a successor to Law 43 of 1974 on "Investment of Arab and Foreign Funds and the Free Zone." The provisions of Law 230 regarding the corporate legal status of companies operating under its umbrella are not as clear as was the case for Laws 159 and 203. The reason lies partly in the fact that Law 230 is an investment law; that is, the law deals mainly with organizing specific procedures and status for investments in certain fields of activities and certain "free zones," particularly in terms of exemptions to tax and customs regulations, labor law, guarantees to foreign capital, and organization of a sole government supervisory agency for projects operated under the law (the General Authority for Investment (GAFI)).

Under Law 230, two different types of projects can be organized: the general "inland " project and the "free zone" project. While their tax, customs, and financial status differ, their corporate legal framework is apparently organized along the same lines, (i.e., the types of companies and provisions defined by Law 159). This is not very clear from the language of the law, since the law does not contain - as does Law 203 - a general provision stating that, unless otherwise provided, rules of Law 159 will apply. Instead, for projects other than those in free zones, Law 230 lists different articles of Law 159 which are not applicable[69], and for free zone projects the Law states that companies operating in these zones are not subject to the provisions of Law 159. [70] Compulsory model Articles of Incorporation, although distinct for "general" and "free zone" projects, show, however, that both are based on the provisions of Law 159. These statutes do contain specific rules; those affecting the issue and sale of shares are discussed below.

### 1.6.2 Specific Aspects Regarding Issue and Sale of Shares

One particular aspect of corporations operating under Law 230 must be underlined from the start-- these companies are considered private sector projects. Whatever the nature of Egyptian funds participating in these companies, they are not subject to the laws and the statutes of the public sector.[71]
A second important characteristic of Law 230 companies is that they are not subject to the requirement of 49% national ownership of shares set by Law 159. Capital of Law 230 companies can be subscribed entirely by foreign investors. As a result, the law even provides that the capital of Law 230 companies may be specified in foreign currency if the capital has been paid in such a currency. This rule applies to "free zone" companies and "inland companies" as well. [72]

---

[69] Article 20 of Law 230 lists the provisions of Law 159 which do not apply.

[70] The law states in its article 39 that companies operating in the free zones are not subject to the provisions of Law 159.

[71] Law 230, Article 7.

[72] Law 230, Executive Regulations, Articles 49 and 49 bis.



135

A third characteristic of these companies is that they are subject to a much stricter control by the supervisory government agency, the GAFI, than is the case for Law 159 companies under the general agency for companies. This stricter control is normal considering the various exemptions granted to Law 230 companies and, therefore, the need to ensure that these exemptions and privileges are not abusively used. However, this results in restrictive rules applying to these companies regarding financial and operating matters but also corporate law and, more specifically, issuance and transfer of shares:

- The Articles of Incorporation of Law 230 company must be approved by the GAFI prior to their signature by shareholders and this rule applies to all modifications to the statutes of the company, including capital increases. [73] All shares should be in a "nominal" form. Bearer shares apparently are not allowed under Law 230 status. [74]

- In addition to standard restrictions of Law 159, shares cannot be transferred during the first two years of existence of Law 230 company without the approval of the GAFI. After the first two years, the GAFI must simply be notified of the transfer.

Interestingly, the two last rules result from the provisions of the model act of incorporation for Joint Stock Companies (as set by a Decree signed by the Prime Minister and the Chairman of the GAFI) and not from the text of Law 230 or its Executive Regulations.

All other rules discussed under Law 159 regarding the issue and sale of shares, the rights of the shareholders and the requirement for an independent auditor appear to apply to Law 230 companies.

[73] Law 230, Executive Regulations, Articles 50 to 53.

[74] The English translation of model statutes is not very clear on this point and bearers' shares might be allowed.



\36

# SECTION II

## THE REGULATORY FRAMEWORK

Two key areas will be discussed under this section:

- The regulations issued by the Government of Egypt specifically for the offering of shares of public companies in view of their privatization; and

- The role of the different institutions and Government agencies directly concerned by the process for the offering of shares.

## 2.1 THE REGULATIONS ISSUED BY THE GOVERNMENT OF EGYPT FOR THE OFFERING OF SHARES OF PUBLIC COMPANIES

As stated above, these regulations result mainly from the "General Procedures and Guidelines for the Government Program of Privatization, Restructuring and Award System" (also known as the "Blue Book"), issued February 1993 by the PEO.

While it is not in the scope of this study to fully detail the Government strategy or institutional arrangements in the implementation of the privatization program, some of the principles guiding this program, as stated by the Government in the above document, are of relevance to the subject of this study. The specific directives issued in the same document for the sale of shares of Law 230 and Law 203 companies are also an important part of the regulatory framework. Equally of interest are the regulations issued in the "Blue Book" concerning the use of sales proceeds.

### 2.1.1 Privatization Principles Affecting the Offering of Shares

These principles are as follows:

- For public enterprises operating in commercially-oriented sectors, purchasers will not obtain monopolies nor will they be accorded special protection or privileges;

- Purchasers will be accorded all rights and freedom of operation normal in private commercial companies. Specifically, no requirements will be imposed on new owners regarding future production, sales in local and foreign sectors, except in the public utilities sectors;

- In cases where the Government retains a minority shareholder interest, it will not be entitled to any special or extraordinary voting rights, except in certain cases in the strategic non-tradeable sector. Any special government voting rights will be subject to agreement among the shareholders.



131

- The consideration received by the Government in a privatization transaction shall be cash or assumption of public debt. Where shares are to be transferred to the workforce and are to be paid over time, the government should receive payment in full at the time the ownership is transferred. The ultimate beneficiaries will have to finance their purchase from the financial markets as they may arrange;

- There will be no restrictions on purchasers (local or international), either as owner, manager, shareholder or otherwise in the privatization process;

- All transactions will be conducted in an open and transparent manner consistent with standards of commercial discretion and will be open to local and foreign investors. Subject only to existing legal obligations, such as preemptive rights of existing shareholders, no direct sale or negotiation with a single party shall occur, except after publicly solicited bids have been obtained. All divestitures must be done by competitive bidding or through the stock exchange. At the completion of the sale, all aspects of the transaction will be made available to the public.

## 2.2 SPECIFIC DIRECTIVES FOR THE SALE OF SHARES OF LAW 230 AND LAW 203 COMPANIES

### (a) Law 230 Companies

According to the guidelines issued by the Government in the "Blue Book," sale of Government shareholder interests in joint-venture companies created under Law 43, or its successor Law 230, should parallel, in most operational aspects, the partial or full divestiture of Law 203 companies. The sale process will be the responsibility of the AC's as they are the owners of the shares and will require the approval of the Board of Directors and General Assemblies of the AC's. An emphasis will be put on transparent procedures for the sale: public bids or use of the stock exchange.

Measures will be taken to encourage buying by the public, the employees, the management and technically experienced buyers. Each Law 230/43 company should make a public announcement about its interest in selling the government shares and invite expression of interest from the private sector.

### (b) Law 203 Companies

Regarding Law 203 companies, as a result of the concern of the Government that the market might not be able to absorb a large volume of shares in a short period of time, irrespective of their expected value, the approach and sequencing of the privatization transactions should be done carefully. The companies for which there is a demand from the market or affiliated companies would be privatized



\3A

in the first place. In the second place selected batches of companies would be privatized based on criteria defined by the Government. [75] A list of privatization candidates is to be published each year.

**(c) Use of Sales Proceeds**

Sale proceeds for each transaction must be deposited in separate accounts at the Central Bank of Egypt or one of the public sector banks. The proceeds should be used to repay the companies' debts to the banks and to finance the restructuring of companies before their divestiture. The surplus should be transferred to the Treasury.

**(d) The Role of the Different Institutions and Government Agencies Directly Concerned by the Process for the Offering of Shares**

This section will not discuss the role of the main Government institutions participating in the privatization process (the Public sector Ministry, the PEO, the HC's) as they have been the subject of other studies, but instead will focus on some lesser-known participants: the Capital Market Authority (CMA), the Stock Exchange (SE), the companies operating in the field of securities -- Brokerage Firms and Investment Funds -- and also the "Unions of Shareholders Workers." The main aspects relating to the offering of shares are considered below.

### 2.2.1 The Capital Market Authority

An equivalent to the U.S. Securities Exchange Commission (SEC) or the French "Commission des Operations de Bourse" (COB) in its role of overseeing the stock market, the CMA has an important part to play in the privatization process and, more specifically, in the offering of shares of publicly traded companies. The organization and the role of the CMA are detailed in Law 95, Part 4, Articles 42 to 49. Also, other attributes of this institution regarding public offering of shares are stated in Law 95 and its Executive Regulations. In addition to its functions in public offering of shares and control of publicly traded companies as discussed above in this study, the CMA has the following prerogatives:

(1) The CMA must be informed of all transactions regarding securities. Daily, semi-monthly, monthly and yearly reports on securities transactions must be prepared by the stock exchange and be submitted to the CMA. [76]

(2) The Board of Directors of the CMA has the power to override the resolutions of the General Assembly of a publicly traded company, based on a request by minority shareholders who own

[75] These criteria are listed in the "Blue Book."

[76] Law 95, Executive Regulations, Article 101.

at least 5% of the shares that such resolutions favor certain shareholders or Board Members, or prejudice minority shareholders. [77]

(3) The Chairman of the CMA can intervene in transactions aimed at price manipulation and can decide, "in serious circumstances," to set minimum and maximum prices for listing of securities.[78]

(4) For companies operating in the field of securities, (i.e., banks, brokers, investment funds, the CMA can even demote the Board of Directors of such companies "in case of a danger threatening the stability of the capital market or the interests of the company's shareholders.")[79]

### 2.2.2 The Stock Exchange

As the functioning of the stock exchange and its technical aspects are the subjects of a separate study, the following discussion will be brief.

Two stock exchanges presently exist in Egypt: the Cairo Stock Exchange and the Alexandria Stock Exchange. Most of the companies are in fact listed on the Cairo Stock Exchange. The general provisions governing these stock exchanges are defined by Law 95 and its Executive Regulations. In addition, internal rules and regulations are set by the management of the stock exchanges.

Securities can be recorded in the stock exchanges in two different types of tables: [80] the official table for the recording of securities fulfilling minimum requirements set by the law, and the unofficial table for other securities. Dealing in securities recorded on a stock exchange must be done through companies authorized to perform such transactions, otherwise the transaction will be nullified. The Chairman of a stock exchange is empowered with considerable prerogatives. In particular, he can stop transactions aimed at price manipulation, cancel transactions concluded in violation of the law or "at an unjustifiable price," and halt transactions in any security in case of "harm to the market" or potential prejudice to interested parties.

A particular aspect of the functioning of the stock market should be noted with regard to the need for issuance of a new certificate in case of a transfer of shares, previously discussed in this study: at present, there is no central clearing company [81] and this delays considerably the recording of stock

[77] Law 95, Article 10.

[78] Law 95, Article 21.

[79] Law 95, Article 31,

[80] Law 95, Article 16. Securities recorded in the Official table include: (1) private sector companies with at least 30% of the shares held by the public and a minimum of 150 shareholders; (2) Public Business Sector companies.

[81] Like the "Depository Trust Company " in the US or the "SICOVAM" in France.

transactions. Law 95, however, allows for such an entity and the main Egyptian firms dealing in securities have already started to work on the formation of a clearing company.

### 2.2.3 Companies Operating in the Field of Securities

Law 95 contains specific provisions applying to companies operating in the field of securities. [82] The companies concerned by these provisions are those which provide services in connection with the subscription of securities, their selling, trading or clearing, i.e., investment banks, brokerage firms and investment funds.

While many of the provisions applying to companies operating in the field of securities have relevance to the public offering of shares, they are not discussed in detail herein as the separate study on the stock exchange will necessarily discuss the functioning of these institutions. In summary, however, detailed and precise rules exist regarding these organizations to ensure that they are established and function in conditions maintaining the safety of the market and investors' funds. To this end, they are subject to control by the CMA regarding their formation and financial and technical capabilities. **Brokers**[83], in particular, must adopt a corporate form (Joint Stock Company or Commandite With Shares) and must obtain a professional license to practice. At present, over twenty brokerage firms operate in Egypt. **Investment Funds**[84] are also regulated by Law 95 and subject to the control of the CMA for their formation, license to practice, management procedures, financial requirements and all prospectus and investing documents. In order to ensure safety of individual investors, the CMA can even demote any member of the Board of such funds. At present, there is only one Egyptian Investment Fund that is formed under Egyptian law and operating mainly on Egyptian securities. Law 95 also provides that a special fund should be established for insurance of companies dealing with securities against non trading risks.

### 2.2.4 Employee Shareholders Unions

Employee Shareholders Unions (ESU) are an interesting feature of Egyptian law, along the line of the ESOP's in the U.S. They are organized by the Law 95 and its Executive Regulations. [85] Studies

[82] Law 95, Articles 27 to 41; Executive Regulations, Articles 120 to 139.

[83] Brokerage activities are also subject to specific provisions of the Commercial Code (in particular articles 66 to 75).

[84] Law 952, Executive Regulations, Articles 140 to 183.

[85] law 92, Articles 74 and 75; Executive Regulations, Articles 184 to 204.

have already been done on these organizations[86] and, thus, they will not be analyzed in detail herein. However, their main features are as follows:

- ESU can be formed in any Joint Stock Company, (or Commandite With shares), operating either under Law 159 status or Law 230 or Law 203;

- They are established by a decision of the CMA;

- They have a legal personality of their own and can buy shares of their company on behalf of the employees; the employee's right is restricted to the dividend; [87]

- They can sell the shares they bought by a decision of the Extraordinary Assembly of the employees, such assembly being the "highest authority" of the Union; and

- The management of the Union is exercised by a Board of Directors; the way these Directors are elected and their powers are set by the Articles of Association of the Union.

- ESU's can certainly be useful tools for the government privatization program. As of today, more than 70 companies have established ESU's.[88]

### 2.2.5 Arbitration

A final aspect of the regulatory framework relates to arbitration. Law 95, Article 52, states that all disputes resulting from the execution of its provisions between parties dealing in the field of securities should be solved through compulsory arbitration. [89] Other articles of the law provide complementary rules and regulations as to the organization of the arbitration body and procedures to be followed. It is worth noting that this arbitration process applies for disputes related to securities between private sector parties as well as to disputes with Government authorities.

[86] In particular, "Egypt's ESOP's, The ESOP's as a Privatization Tool" by Counselor Mahmoud Fahmy in Business Monthly, August 1994.

[87] Law 95, Executive Regulations, Article 194: " The right of the workers who are members of the Union shall be restricted to the income yielded by the shares."

[88] Mahmoud Fahmy, op.cit.

[89] Law 95, Article 52.

# SECTION III

## ASSESSMENT OF THE LEGAL AND REGULATORY FRAMEWORK

Comments on the legal and regulatory framework discussed above will be presented around two main lines:

- The content of the law; and
- The administration of the law.

Insufficiencies, constraints, and possible remedies and improvements will be analyzed in view of possible assistance by USAID.

## 3.1 THE CONTENT OF THE LAW

In short, the legal and regulatory framework pertaining to the issue and sale of shares has a strong and sound basis, but needs to be improved.

### 3.1.1 The Positive Basis

As demonstrated above in this study, Egypt has a well-developed body of corporate law. Many legal provisions and also features of institutions which are major instruments in the legal framework are just as modern and recent as in other developed countries. For example, shareholder rights are very well protected in the law, including those of minority shareholders; the auditor's role and his importance are recognized; the procedures for issuing shares with public offering are precise and comprehensive; and regarding the stock market, some of the requirements for companies publicly traded are exactly the same as those of well-developed markets.

This strong basis of Egyptian corporate law is not a surprise for two reasons. First, Egypt's corporate laws are quite recent, which means that they have incorporated in a natural way many features and trends of modern corporate law. The main law, Law 159, dates back only to 1981, and even this law has ben amended regularly--lately, in a major manner, by Law 95 of 1992. Second, Egyptian corporate law is built on many years of experience and practice. As previously mentioned, there has been a considerable influence of European laws in Egypt for a long time, with an openness to the West which began in the 19th century. Thus, for over a hundred years, Egypt's legal system has been one with a comprehensive system of codes and laws governing numerous financial and commercial subjects, including corporate law.



\4B

However, probably due to its twenty-year period of socialized economy, Egypt's legal framework in general and corporate law as well, needs serious improvements to facilitate the privatization program and encourage private sector development and foreign and national investment.

## 3.2 The Needs for Improvement

Need for Unification and Reorganization of the Laws

This need for improvement of the legal and regulatory framework is clear. As evidenced by this study, at present, more than six separate main laws define the organization and functioning of Joint Stock Companies. And, not only are the legal provisions pertaining to a single issue disseminated into those six distinct laws, but the corporate status of Joint Stock Companies can be one of several types. It can be the type of a private sector company under Law 159, or the type of a public sector company(ies) ruled by Law 203, or the one of an investment company operating under Law 230. Even publicly traded companies under Law 95, although not really a separate category, have very distinct features. As a result of these separate statuses and their intermingling in the laws, a precise and clear understanding of the legal aspects of the organization and functioning of a Joint Stock Company is not easy to obtain.

Another important point is that the laws need serious reorganization in terms of what types of issues are addressed. At present, the main laws contain minor features of legal provisions, which should be in the executive regulations, and vice versa. Sometimes, the same provisions are stated with a different wording both in the law and the executive regulations, which creates an unclear and ambiguous situation. Sometimes also--as is the case in other countries--legal provisions are not sufficiently precise and clear. For example, regarding ESUs, Article 194 of the Executive Regulations of Law 95 states that the right of the employee is restricted to the income yielded by the share. What does that mean? That the employee has no right to vote his share? That he is not entitled to his portion of the assets of the company in case of dissolution? That he has no information rights like standard shareholders? Who votes the shares? Other provisions in Law 95 or its Executive Regulations do not allow for precise and definite answers. Considering the importance ESUs could have for the privatization program, this is a serious impediment.

The result of the three points stated above is a definite complexity of Egyptian corporate law. This complexity is well known by the Egyptian legal community, and steps have already been taken to revise and unify corporate legal provisions. A draft of a new law has been prepared and is being circulated among interested parties before submission and approval by appropriate authorities.

Other factors also aggravate the complexity of Egyptian law.

The Need for a Proper Translation of the Law

If Egypt wants foreign investors to participate in the privatization program, and more generally, in the private sector development, the main laws defining the legal framework must be well translated



١٤٤

in the English language, commonly spoken in the business world. At present, the available English translation of the law is such that legal provisions would make sense only to a lawyer with a strong background in a corporate law similar to Egypt's.

The Need for Simplification and Flexibility of the Law

As evidenced by the developments necessitated by this study, Egypt's corporate legal framework is very detailed and comprehensive. While the point here is not to discuss the merits of code-based systems versus other systems of law--each having their own requirements and benefits--comprehensiveness almost always ends in complexity, prohibitions and interdictions. That is the case in Egypt: corporate law is not permissive nor flexible. This results in many cumbersome procedures and formalities which generate a waste of precious resources. In any country, this is a serious constraint to private sector development and foreign investment. Furthermore, by their very existence, complex procedures and regulations motivate even more authorities in charge of the administration of the law to act in prohibitive and restrictive ways, and thus aggravate the situation. While deregulation and minimum legal requirements are not answers that can be used indifferently in any country, without consideration of the economic and social context--and general understanding of the law--undoubtedly some benefits could be gained in Egypt from a liberalization of the corporate legal framework. Incorporation of companies should be easier, formalities and procedures for the issue of shares in closed corporation should be simplified, statutes of companies should be flexible, modern techniques for evidence of shareholders' ownership should be considered. It can be said, in general, that Egyptian corporate law--and thus, the country's economic development--would gain from looking at other legislation with less stringent requirements for company operations. Legislation of different countries should be compared, analyzed and their appropriate features considered by Egyptian lawyers for possible use in Egypt.

The Need for Updating of Some Legal Provisions

While some features of Egyptian corporate law are impressive in terms of reflecting modern trends and thinking--for example, rights of minority shareholders or control of transactions in publicly traded stocks--some aspects need serious updating.

Three main points will be underlined. One is that new types of financial instruments need to be introduced. At present, only shares and bonds are recognized in Egyptian law. New instruments and techniques have been developed in many countries in the past twenty years which have completely changed corporate financing. They go far beyond the two classical instruments represented by shares and bonds and could be very useful in the privatization program. However, **bonds**[90] and even **convertible bonds** [91] are known in Egyptian law. The problem is that the legal provisions do not

[90] Law 95, Executive Regulations, Articles 34 to 39.

[91] Law 95, Executive Regulations, Article 22.



145

really allow for the development of these instruments. They concentrate on minor details like the signatures or stamp of the certificates instead of providing useful technical provisions which would facilitate the understanding of these instruments and their use.

This leads to another aspect of the question: legal provisions alone are not enough. There is a very important need at all levels for a transfer of knowledge and know-how in new financing techniques and not only in the writing of legal provisions. This has been evidenced by the Hoescht bond issue in 1994, which was the first bond issue by a private company in Egypt in the last thirty years. Although bonds have been in Egyptian law for many years and the country had the fifth more active stock market in the world in 1955, this issue was not easy to organize after most years of socialized economy.

A second point where legal provisions could be completed is with regard to public offering of existing shares. As stated above, there are no provisions in the law to this end, like for public offering of new shares. Regulations on this topic may, however, have been issued by the CMA that we do not know about.

A final point regarding the need for the revision of Egyptian legal provisions concerns the general legal framework. Without any question, the Commercial Code, which dates back to 1883, and which is the basis of economic law, needs urgent updating. The subject of the revision and updating of the general legal framework, including the judicial institutions, goes however far beyond the scope of this study.

Specific Provisions Concerning the Privatization Process

From a legal point of view, few comments can be aimed directly at the provisions issued for the privatization process relating specifically to the issue and sale of shares of public companies. These provisions build on the existing corporate legal framework and necessarily they will suffer from the insufficiencies and constraints of this framework. However, both the organization of the public sector as defined by Law 203 and the regulations issued through the "Blue Book" should allow for the issue and sale of shares of public companies in reliable conditions. Problems will necessarily arise from the present situation where different status are applicable to companies--in particular regarding the switch from public sector to private sector if more than 51% of the shares are privatized--but these are the consequences of the existing basic legal framework.

One feature of the Egyptian legal framework of great importance to the success of the privatization program lies with the rights of the shareholders, particularly minority shareholders. Under the law, as previously discussed in detail above, shareholders are well protected. However, the reality of this protection, like the reality of any legal rights, depends very much on the actual administration of the law.

## 3.3 THE ADMINISTRATION OF THE LAW

As the time in country was short, it was not possible to personally assess the functioning of the various institutions involved in the issue and sale of shares or the general administration of the law. It appears, however, from various comments by well-informed members of the legal, banking and securities communities that, in fact, discrepancies exist between some legal provisions and their actual execution. This appears to be the case particularly with regard to shareholders information rights.[92] Legal provisions pertaining to the functioning of the stock market and the control of the CMA on financial institutions seem to be applied with some flexibility. [93] Flexibility in the administration of the law, however, is unavoidable when the content of the law is too rigid for the context.

In summary, comments received from practitioners show that three types of action might be useful for improvement in the execution of the legal provisions discussed in this study:

The Need to Change the Thinking of the People

More than twenty years of socialized economy left a profound impact on Egypt. This socialist philosophy and economic policy first affected the content of the law, and some consequences are still visible today, as evidenced in this study. Perhaps more importantly, this philosophy also had a major impact on the thinking of the people, and the consequences there will take a longer time to correct. The term "people" is used intentionally because a private sector economy is not only the concern of government officials and employees and entrepreneurs but depends on the general acceptance and understanding of concepts and instruments which create private sector development. Companies, bonds, shares, markets are some of the concepts which need to be disseminated and accepted at all levels. The primary target of such action should obviously be government employees who will understandably be reluctant to relinquish the powers they possess in a centralized and bureaucratic economy, but the action should not stop there. Workers and employees in the private sector and public sector as well should be informed of the benefits they can obtain from a well-developed private sector and liberalization of enterprises and companies. In short, corporate law, just like any other law, needs to be explained and well known. Numerous actions could be taken in this field, particularly regarding rights under the law, from better dissemination of legal provisions to actions in the media and professional organizations.

The Need for Technical Assistance and Know-How

A good administration of the law is not limited to the actions discussed above. Technical assistance in understanding new techniques or concepts and provision of know-how are important keys to a

[92] It does not seem easy to obtain any financial information on a publicly traded company, except through the personal contacts of a broker.

[93] During our stay in Egypt, the information notice published in local newspapers by an investment fund had to be amended, following the intervention of the CMA.

change of thinking. Most of the comments we received emphasized both the need for technical assistance and the willingness to learn. Seminars, training, dissemination and explanation of legal and financial concepts at many levels would be very useful in facilitating the implementing of modern legal provisions and the success of the privatization program. A primary target for such action should be government employees and members of technical assistance teams concerned with the privatization program. Local law firms as well as international legal experts should have an important part in providing a better knowledge of legal concepts.

The Need for Equipment

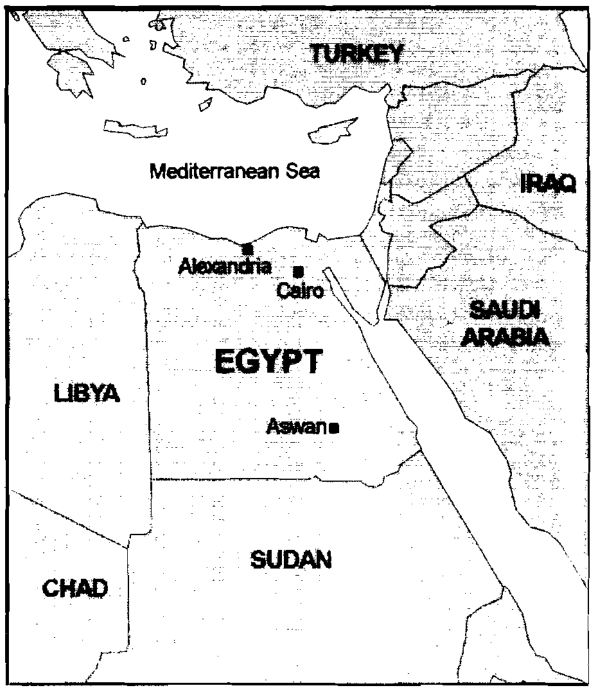
Modern corporate law provisions rely heavily on new techniques and equipment for processing and distributing data, especially for publicly traded securities. The needs in this field are certainly huge. While Egypt has incorporated within its legal framework modern requirements for information of shareholders and publication of data and information on securities transactions, obviously these requirements can be fulfilled only if the technical means and equipment are available. Specialized studies should be undertaken to assess the specific needs of the different institutions involved in the execution of corporate law and regulations and the privatization program. The Commercial Registry, the government agencies in charge of supervising companies, the stock exchanges, the CMA, the PEO should be the main beneficiaries of such assistance.

# Section 10

## Special Study 2: Organizing for Privatization

# EGYPT
# SPECIAL STUDY 2

## ORGANIZING FOR PRIVATIZATION
*- FINAL REPORT -*




**INTERNATIONAL BUSINESS & TECHNICAL CONSULTANTS, INC.**
45150 Russell Branch Parkway · Ashburn, Virginia 22011
Telephone: 703-589-1900 · Fax: 703-729-2088

February 15, 1995

## SPECIAL REPORT

Organizing for Privatization, an assessment of organizational effectiveness of the Egyptian Privatization Program and the associated impact on the USAID Privatization Support program and structure.

## CONDUCTED BY

John M. Bolton and Francois Quinson, representatives of IBTCI conducted for USAID/Cairo Privatization Office, under provision of Contract # 263-0238-C-00-5016-00 .

## ABSTRACT

This report addresses the tasks assigned IBTCI to analyze the current and previous organizational structure used by the Government of Egypt (GOE) to carry out the privatization of State Owned Enterprise (GOE) and to recommend to USAID issues or the position it should pursue with the GOE and others in the donor community.

## DISCLAIMER AND CLASSIFICATION

This report represents the professional opinion of IBTCI. It does not represent or reflect the official position of the U.S. Government, USAID, or reflect the opinions of any official of the U.S.

This report does contain opinions of officers and officials of the GOE given in confidence and without authority for attribution. This report should be treated CONFIDENTIAL, restricted to use by USAID and IBTCI.

151

# TABLE OF CONTENTS

This draft report contains all relevant material pertaining to this study. Reference material is presented in the attachment without specific reference in the summary report.



152

# I EXECUTIVE SUMMARY

Privatization in Egypt has gone through a series of organization structures since the momentum of the government program has picked up since the early 1990's with the first USAID technical assistance contract. The Public Enterprise Office was created in 1991 followed by the portfolio of the Ministry of Public Enterprise being given to Dr. Atef Ebeid in late 1993. There have been swings from centralization and decentralization in carrying out the Government of Egypt's privatization program.

The current methodology being used is decentralized through Privatization Units (PU's) in individual Holding Companies. Since the inception of the PU's in June 1994, they have slowly begun the rapport-building process with Holding Company Chairmen. In most cases, this process has led to a positive working environment where the chairman turns to the Team Leaders of the PU's for advice and assistance in certain areas of the privatization process. In some cases, Chairmen see the PU's role constrained by the inability of the PU's to aid them in areas such as restructuring. Other PU's have less firm relationships with the Holding Companies that needs to be reevaluated.

While the PEO was the dominant privatization body, it is now seen in many ways as defunct organization without a *raison d'etre*. Some of its brightest faces are leaving. It is now serving as an advisory entity to the MPE. It is there that its functions may best be brought, as the Minister is in need of more advisory staff to enable him to run the privatization program more efficiently. In addition, Minister Ebeid, himself is occupied with three different portfolios.

Although some donors have expressed interest in the "18th Holding Company" - a way to recentralize the system much as it is in Eastern Europe and other privatizing countries - other donors have been looking at privatization unit-like structures to provide technical assistance. Substantial donor coordination effort is needed to resolve these organizational issues.

The Privatization Units have just started making real progress both in confidence building with chairmen as well as giving extensive advice and assistance in readying companies for sale. There are certain advantages in keeping the current structure and making in more effective rather than beginning again from scratch an losing the momentum that has been gained in the last few months.



157

# II PURPOSE AND METHODOLOGY

International Business & Technical Consultants, Inc. (IBTCI) was selected by the United States Agency for International Development (USAID) to:

- Analyze the organizational structures used by the Government of Egypt (GOE) to carry out the privatization of state owned enterprises,

- Examine previous organizational structures used by the GOE, and

- Recommend to USAID the position it should take in discussions with the GOE and within the donor community.

The objective is to recommend a politically realistic structure within the GOE to achieve a maximum amount of privatization at the national level. Four elements need to be considered: (1) political will, (2) the privatization process, (3) the decision making process and finally, (4) the organizational structure most suitable to the successful application of the others to the task at hand.

Background

The USAID mission in Egypt has been forcefully promoting privatization since the late 1980's. The initial effort of the Egyptian government was to transfer governorate-owned projects to the citizenry, under the guidance of a committee at the national level with representation from the Ministry of Local Government, the Ministry of Finance, the Capital Markets Authority and USAID. USAID then sponsored a project to assist in the development and implementation of privatization activities for governorate and state-owned enterprises, with a steering committee formed in February 1990, and the Ministry of Agriculture and Land Reclamation as the primary implementing agency.[1]

The GOE established a Ministry of Public Enterprise, to implement Public Sector Law Number 203, enacted in October 1991. This Law transferred control of public enterprises from their parent ministries to 27 Holding Companies, later reduced to 17. These Holding Companies manage the approximately 300 public enterprises or affiliated companies. Both Holding Companies and affiliated companies have Boards of Directors which report to General Assemblies of private business and labor leaders.

In December 1991 the GOE created the Public Enterprise Office (PEO) to act as a technical advisor

[1] For a general discussion of the Egyptian Privatization Program, see American Chamber of Commerce in Egypt Report: *Privatization in Egypt: Problems and Recommendations.* A more official description can be found in GOE publication: *General Provisions and Guidelines for the Government Programs of Privatization, Restructuring and Reward System* dated February 14, 1993.

to the government and to assume the responsibility for implementing the government's privatization program. The activities of the steering committee were all transferred to the PEO which also become the implementing agency, replacing the Ministry of Agriculture and Land Reclamation.

The public enterprise sector was initially part of the Prime Minister's portfolio, and the director of the PEO reported directly to the Prime Minister's Office. In December 1993, the Ministry of Public Enterprise (MPE) and the associated privatization program was transferred to Dr. Atef Mohammed Ebeid, in addition to his duties for the Ministries of Administration and the Environment.

USAID's support for the Egyptian Privatization Program began in 1991 and provided technical support the PEO. However in June 1994, at USAID's suggestion, Privatization Units were instituted in six Holding Companies, selected because of the high likelihood of timely and successful privatization of their affiliated companies. The charter of the Privatization Units is to assist the Holding Company chairmen to privatize their affiliated companies. The staff of each of these Privatization Units, funded by USAID and provided by Bechtel, typically include three senior professionals: a team leader and two assistant team leaders, and junior professionals. Three Team Leaders are Americans, two Egyptian; all junior professionals are Egyptians. The same Privatization Unit is shared by the Holding Companies for Chemical Industries and Metallurgical Industries.

## Approach

Given this background, the organizational effectiveness should be assessed before and after the change in structure of the MPE. Also, the organizational effectiveness of USAID support to the Ministry should also be addressed before and after the structural change.

A structured interview program was developed to address these two issues. To examine the MPE organization effectiveness, interviews were held with officials of the PEO, USAID, and to the extent possible individuals that could reflect the reasoning of the GOE during the 1991 - 1994 period as well as the 1994 - to date period. Unfortunately, interviews with knowledgeable individuals in the Prime Minister's Office or in the Ministry of Public Enterprise could not be arranged during the field visit.

Interviews with Holding Company Chairman, PU team members, PEO and USAID officials led to the organizational assessment of USAID's Privatization Support Program. Interviews with the World Bank/Washington, and UNDP representatives in Cairo supported the overall assessment. A list of interviews is shown in Exhibit A.



155

Exhibit A

## INTERVIEWS

IBTCI consultants conducted in-depth interviews with:

- The Chairmen of the six Holding Companies with Privatization Units, i.e.:

  **Eng. M.A. Abdel-Karim Sabek**, Chairman, Minint & Refractories Holding Company
  **Dr. Hamed Fahmy**, Chairman, Housing, Tourism & Cinema Holding Company
  **Eng. Abdel-Ghani Hassan**, Chairman, Public Works & Land Reclamation Holding Company
  **Mr. Abdel A. Danaf**, Chairman, Holding Company for Metallurgical Industries
  **Mr. Abdel A. El-Habbak**, Chairman, Engineering Industry Holding Company

- The Team Leaders of the Privatization Units, i.e.:

  **Ms. Hala El Barkouky**, Banking Consultant & Team Leader of the Privatization Unit for the Holding Company for Mining & Refractories
  **Mr. Omar El Sayeh**, Team Leader of the Privatization Unit for the Housing, Tourism & Cinema Holding Company, **Mr. Mostafa Bakry**, Consultant
  **Ms. Fatma Khattab**, Director-Corporate Finance, Farid S. Mansour & Co. and Team Leader of the Privatization Unit for the Public Works & Land Reclamation Holding Company
  **Mr. Andy O'Neill**, Investment Manager and Team Leader for the Privatization Unites of the Holding Company for Chemical Industries and the Holding Company for Metallurgical Industries, **Mr. Salah Deif**, Assistant Team Leader, and **Mr. Mohsen Hassan**, Consultant
  **Mr. J. Thomas Nein**, Merchank Banking Consultant & Team Leader of the Privatization Unit of the Engineering Industries Holding Company, **Mr. Amr El Sharnoubi**, Assistant Team Leader and **Mr. Mahmoud Abdel Wahhab**.

- Executives of the PEO:

  The Director **Mr. Fouad Abd El Wahab Fahmy**, and **Professor Dr. Hisham A. Hasabou**, Financial Analysis & Performance Evaluation Specialist
  **Mr. Alaa Amer**, Privatization Specialist

Executives of the United Nations Development Program and the World Bank:

  **Ms. Laila Darwish (Said)** Program Officer & Chief Program Support Unit
  **Mr. Anil Sood**, Director Technical Services, **Ms. Barhara Katka**, former division Chief for Egypt (now regional private sector devlopment).



156

# III FINDINGS

## The Chairmen of the Holding Companies

The Chairmen of the six Holding Companies are all executives with considerable knowledge of their respective affiliated companies' industries. They evidence a commitment to privatization, which has been reinforced by their experience in working on the issue. This is coupled with a growing realization of the complexity involved in privatization and, more specific to the scope of this study, of the managerial and organizational difficulties peculiar to Egypt, i.e. the lack of legal and/or regulatory flexibility and adaptability in a society conditioned by years of socialism, the lack of management information to make informed and timely decisions, the lack of performance indicators, and the lack of information about affiliated companies.

Several chairmen stated that no one in Egypt had any experience in privatization when the process was initiated just a few years ago, and that they were learning from their mistakes. They have learned a great deal since they became accountable for privatization, and the ones who we interviewed have clearly warmed to the subject. They fully appreciate the need for better marketing of their affiliated companies' products and services and for financial soundness if the affiliated companies are to survive and succeed on their own. They can no longer expect to be bailed out by the state if they get in the red. They have a keen perception of what they themselves do not know and need to know to make informed decisions. They are not only receptive to appropriate guidance when offered, but often seek it out.

All the chairmen interviewed stressed the importance of training Egyptians in the various business disciplines needed to upgrade state owned enterprises and make them saleable and competitive on the open market.

The appointments of the Holding Company Chairmen expire in October 1995. Dr. Hassan, Chairman of Public Works and Land Reclamation, suggested that the performance of all chairmen be carefully reviewed before then; and that those chairmen who did not evidence the capability required for, and the commitment, to privatization be replaced. Dr. Hassan is planning to retire in June 1995.

## Privatization Units

The Chairmen of the Holding Companies see the Privatization Units as a positive development. The chairmen look upon the Privatization Units as a specialized staff that can provide them with knowledge on organizational matters, how to evaluate companies as going concerns, capital markets, management information systems to effectively monitor affiliated companies, and other pragmatic expertise. Neither they nor the staff of their Holding Companies and Affiliated Companies currently possess the knowledge, to the extent necessary, for them to successfully do the



191

privatization work alone.

Mr. Danaf, Chairman of the Holding Company for Metallurgical Industries, commenting on the contribution of his Privatization Unit, recalled that he had already been working on the privatization of a cement company when the Privatization Unit was set up. He had sought outside help with the tender offer from Bankers Trust and an Egyptian partner; found their $3MM fee too steep and decided to use Egyptians with the required skills. He found that they did a smooth and efficient job. His first assignment for the Privatization Unit was to have the Privatization Unit check this evaluation. He expressed his satisfaction with the results, which confirmed that the valuation had been right on track.

Mr. Danaf continues to use the Privatization Unit on valuations. Assiut Cement is deeply in debt and the National Investment Bank wanted to change the debt to equity. Mr. Danaf asked the Privatization Unit to study the matter, and advise him whether he should follow the advice of the National Investment Bank or reschedule the debt. The Privatization Unit concluded that due to tax implications it was better to reschedule the debt. Mr. Danaf followed that advice.

The chairmen clearly see the role of the Privatization Units as broader than was initially conceived by USAID. As the their horizon expands and they become more cognizant of what it will take to repackage their affiliated companies to make them attractive to potential buyers; they want to be able to turn to their Privatization Units for knowledgeable and reliable advice. They expect the Privatization Units to provide that advice directly or to tell them where to find the expertise needed to transform their affiliated companies into saleable entities. Both the chairmen and the Privatization Unit team leaders complained that the current Privatization Unit charter did not allow the Privatization Units to provide the chairmen with the broader support they needed and wanted.

The Privatization Units, with one possible exception, have earned the trust of the Holding Companies' Chairmen. The Chairmen look upon them as a valuable sources of expertise in an area where they now realize that their own considerable professional and managerial experience may be lacking and can even become counterproductive. The exception to this is the Privatization Unit for the Engineering Industries Holding Company. Bechtel had been asked to locate that Privatization Unit at the headquarter of the Holding Company, but declined because it did not believe the facilities were adequate. Mr. Abdel Wahab A. El-Habbak, the Chairman, said it would "definitely be better" if Bechtel had accepted his invitation, because it would be easier to speak to the Privatization Unit directly. This relationship is the least productive of the PU's. All other Privatization Units are physically in the same building as their chairmen, sometimes in the same suite of offices, and literally at their beck and call. Several chairmen and Privatization Unit team leaders cited this physical proximity and immediate availability as a large factor in the development of the good working relationship that has been achieved in a very short time.

The chairmen are quite realistic and appreciate that it takes the Privatization Units time to do their work and to provide them with expert guidance tailored specifically to their individual affiliated companies' requirements. The Privatization Units were instituted in June 1994 and have, in very short order, established themselves as an effective tool in the chairmen's privatization programs. The chairmen who were asked all said that they would like to not only retain their Privatization Units after Bechtel's contract expires in June 1995 but that, should Bechtel not be the next contractor, they would like the new contractor to hire their current Privatization Unit staffs to continue in the same role.

Public Enterprise Office

The opinions on the PEO are mixed at best. It is generally perceived by the Chairmen of the Holding Companies and by the staff of the Privatization Units as a bureaucratic entity which has lost its *raison d'être*. It seems that prior to the inception of the Privatization Units, the PEO demanded a constant stream of reports on historical data and blocked direct access to the Holding Companies. After Dr. Ebeid was made accountable for privatization, a few people on the PEO's staff saw this as an opportunity to make things happen, the most respected among them being Alaa Amer, Privatization Specialist. Unfortunately the leadership of the PEO remained as bureaucratic as ever and thwarted their efforts. The result has been the loss of the PEO's most capable people, including Alaa Amer.
This perception was unintentionally confirmed by the Director of the PEO, Mr. Fouad Abd El Wahab Fahmy, who emphasized that a major responsibility of the PEO is to prepare reports for the GOE and the World Bank on restructuring, privatization, training, rates of return, price of companies sold, etc. basically historical, after-the-fact data. He also explained that when the PEO decided on the interpretation of privatization as either (1) the offer of a company for sale, i.e. bringing it to the point of sale, or (2) consummation of the contract, i.e. actual sale. The PEO opted for the first definition. In other words, "as long as we go through the motions... cross the "t"s and dot the "I"s..." This is hardly the pro-active stance needed to make privatization happen, and which one would expect from the head of the agency presumably primarily accountable for its implementation.

There is general agreement among the chairmen of the six Holding Companies and the team leaders of the Privatization Units that the Minister of Public Enterprise needs a small staff to give him unbiased counsel on the various issues which pertain to privatization. Opinions are divided as to whether the existing PEO can be restructured to fulfill this role, or whether its credibility has been so compromised that it may be better to dissolve the existing PEO and institute a new agency.

Ministry of Public Enterprise

There is general agreement that privatization benefitted from the reassignment of the privatization portfolio from the Prime Minister to Dr. Atef Ebeid. Yet opinions are divided as to Dr. Ebeid's personal commitment to privatization. In any case, the pace of privatization has clearly picked up in the year that Dr. Ebeid has headed the ministry, and many credit him with this increased momentum.

There is agreement that the minister accountable for privatization should not be also accountable for two other ministries as is Dr. Ebeid. One chairman stated that "we need a full time minister for the next two to three years." A minister with the sole accountability for privatization would carry a strong symbolic value as to political will and commitment to privatization. However this signal may be too strong for some. This is clearly a national policy issue which can only be addressed at the highest levels.

The six chairmen interviewed differed in their comments on Dr. Ebeid's accessibility, from readily accessible to virtually inaccessible. This could conceivably be a personality issue. It is also an area which can be a real impediment in getting important decision-making on many politically charged issues.

Donors

Sharp criticism was expressed about the major donor agencies' lack of experience in precisely the kind of activities which they are now pressing Egypt to undertake, e.g. working in the stock market or even purchasing shares. The presumption that experiences in other countries can be transferred to Egypt where political, social, economic and market conditions are completely different was also criticized.

As already mentioned in this report, USAID is faulted for not keeping up with the pace of events; and for not encouraging the Privatization Units to broaden the scope of their support activities to the Holding Companies. The latter realize that they themselves and the staff of their Holding Companies and Affiliated Companies need more guidance than first realized to transform companies into saleable entities. USAID is seen as extremely bureaucratic and as taking far too long to make decisions.

A case in point, Mr. El-Habbak, the Chairman of the Engineering Industries Holding Company said that his Privatization Unit could help in restructuring affiliated companies for privatization. Unfortunately, USAID is not interested in restructuring, said Dr. El-Habbak, who added that there are two views on this matter. The first is not to undertake restructuring, but to sell a company "as is". The other is that restructuring is necessary, for at least some affiliated companies, to make them viable candidates for sale. Mr. El-Habbak believes that both alternatives "have their point of view" and that his Holding Company was prepared to go either way, depending on the specifics of each individual affiliated company. He said emphatically that USAID did not understand the difference between restructuring a company to make it more attractive to buyers, and restructuring to make it more efficient while maintaining public ownership. He was at a loss to explain why USAID did not grasp this distinction. Moreover he is now uncertain how to resolve this matter.

# IV PROCESS OF PRIVATIZATION

Dr. Hamed Fahmy, the Chairman of the Housing, Tourism & Cinema Holding Company thinks that Bechtel's approach to the promotion of companies to be privatized is too broad and is more appropriate to consumer sales. He believes buyers should be contacted directly, not through merchant banks. He further believes that in a subsequent phase of the privatization effort, foreign embassies and the commercial attachés in Egyptian embassies should be brought into the process.

In the initial phase the asking price for most companies offered for sale did not, in many cases, generate offers from potential buyers for one of two complementary reasons. The company was overpriced in its current state and no knowledgeable investor was willing to pay that price; however, the price would have been reasonable if the companies had been upgraded to be made competitive in the market.

Mr. Mostafa Bakry, a consultant with the Privatization Unit of the Housing, Tourism & Cinema, believes the tender process is too cumbersome and needs to be supplemented if not replaced by more direct negotiations with potential buyers. He noted that a French wine company had shown interest in the Egyptian Vineyards Company, but did not follow up. Mr. Bakry called the French company, and their executives came for a visit and started studying how they could integrate the Egyptian Vineyards Company into their operations. Meanwhile Mr. Bakry contacted a Greek wine company and has initiated discussions with their executives. Mr. Bakry pointed out that this kind of direct marketing and negotiating is not going to be initiated by the existing management of state owned enterprises. It is completely foreign to them. It requires hands-on negotiations to meet the potential buyer's specific requirements, without which the sale will not close. This is an example of the pragmatic approach which the Privatization Units' experienced senior professionals can contribute to the privatization process.

## Pace of Privatization

The pace of privatization is uneven across the six Holding Companies where interviews were conducted, but it is clearly gaining momentum. This can be attributed to several factors.

The first factor is the chairman of each Holding Company. The most progressive is Mr. Abdel-Ghani Hassan, Chairman of the Public Works and Land Reclamation, who is well on his way to privatizing all his affiliated companies by June 1995. Others were initially more cautious in their approach, have refrained from risky decision making until they had a better understanding of what privatization entailed and were reasonably certain they would not risk jeopardizing their careers in doing so.

Ms. Fatma Khattab, the team leader of the Privatization Unit of the Public Works and Land



161

Reclamation noted that Mr. Hassan had a clear vision, a clear strategy and a clear policy right from the beginning. He is a decision maker which is the *sine qua non* of success.

The second factor is the appointment of Dr. Ebeid as Minister of the Public Enterprise Sector, and added government emphasis on privatization. With continuing government announcements reiterating Egypt's commitment to the process and detailing what has been done to date and plans for the future, the pace will continue to gain momentum. Mr. M.A. Abdel-Karim Sabek, Chairman of the Mining & Refractories, noted that five years ago the union leadership would not even discuss privatization, and that today it accepts the idea. He further stated that he believes that eventually all state owned enterprises ought to be privatized, including the utilities: telephone, power and water. He conceded that the railroads with 150,000 employees on the payroll may offer too many practical and political obstacles to privatization in the foreseeable future.

Third, the six chairmen interviewed, as noted above, have become more knowledgeable about the intricacies of privatization, and have developed their own capabilities with the assistance of their Privatization Units. This has enabled them to become progressively more proactive during the second half of 1994. The pace has clearly picked up as the chairmen have become more proficient and confident in the quality of the assistance proffered by the Privatization Units.

Several other factors are also involved. Dr. Ebeid's specifically announced that the sale of shares would proceed every two weeks for the next several months. Companies in some industries are clearly easier to sell than others. International and domestic strategic investors contributed to the first round of sales with the Pepsi, Coke and Nasr Boiler privatizations. These types of conditions will also contribute to the varied pace of privatization in different Holding Companies.

## Summary of Findings

Privatization in Egypt was formalized on a national level in February 1990 and the organizational structure has undergone numerous changes since then. The overall trend has been to move from steering committees and national boards to more specialized agencies such as the PEO, and more recently to decentralize the process through the institution of Privatization Units in six selected Holding Companies. The GOE has at the same time ostensibly increased its commitment to the process of privatization of state owned enterprises by more frequent and specific public pronouncements and by the appointment of Dr. Ebeid as Minister of Public Enterprise Sector, removing that portfolio from the Prime Minister.

The process was begun in a society steeped in years of socialism, where the executives now accountable for privatization earned their place as members of Egypt's senior civil service without having to hone the skills which they are now called upon to exercise. They now must successfully transfer companies from state owned (and protected) enterprises to private entities expected to thrive, or at least survive, without the financial backing of the national treasury.

The pace of privatization has accelerated in the last five months, as the executives most closely associated with the implementation of individual privatizations, the chairmen of the Holding Companies, became more committed to the process because of the GOE's own commitment. They are also getting more experience and refining the skills needed to successfully privatize the companies entrusted to them.



163

# V RECOMMENDATIONS

As noted earlier in this report, the four elements which need to be considered, in order to recommend an optimal and politically realistic structure within the GOE to achieve a maximum amount of privatization at the national level, are: (1) political will, (2) the privatization process, (3) the decision making process and finally (4) the organizational structure most suitable to the successful application of the others to the task at hand.

## Political Will

USAID may consider recommending, through suitable diplomatic channels, that the GOE further reinforce the public perception of its commitment to privatization by making Dr. Ebeid, or some other suitable senior government executive, Minister of Public Enterprise Sector without the added responsibility of other ministries. This obviously needs to be balanced against the possibility that it may be politically preferable not to raise further the profile of privatization for domestic political reasons which are beyond the scope of this study.

Some individuals interviewed questioned Dr. Ebeid's commitment to privatization. It would be helpful for the Minister of Public Enterprise to take appropriate steps to clearly convey his wholehearted commitment to privatization, in a way which would convince all but the most prejudiced parties that the GOE is irrevocably committed to the privatization of state owned enterprises.

## Privatization Process

The privatization process in the six Holding Companies which have Privatization Units has developed its own momentum, as noted above. As also noted above, USAID is perceived, rightly or wrongly, as impeding this momentum by imposing procedural restrictions, e.g. limiting the role of the Privatization Units to the final steps in the privatization process. USAID can further enhance the accelerating momentum of privatization by backing the following policies:

- Negotiate clear terms of reference for PU advisors and try to rescind constraints that are inhibiting USAID-funded consultants from optimizing their contribution to effective privatization activities.

- Specifically expand the roles of USAID consultants to what the Privatization Units have in fact become trusted advisors to the chairmen of their Holding Companies on all privatization issues and facilitators who enable those chairmen to make better informed decisions. This expanded role should include among others:



164

  - Restructuring any facet of the companies to be sold, to enhance their appeal to potential buyers at an optimum price, i.e. management, labor, debt, legal status, etc.

  - Researching the market for and identifying potential buyers for each company to be sold, in Egypt and abroad, soliciting these potential buyers' interest in the company, and actively seeking their participation in bidding for that company. This will require discarding the existing overly rigid tender process, whenever it clearly impedes the effective marketing and sale of state owned enterprises.

- Contribute to the development of effective management information systems in state owned enterprises to be privatized, to enable the management of the Holding Companies to make informed and timely decisions.

- Enhance the existing contribution to the training of Egyptian professionals, in all the disciplines associated with packaging state owned enterprises for sale and managing them in a free enterprise economy.

- Train Egyptian management in the state owned enterprises, in effective marketing of their companies' products and services as private entities on the domestic and international markets.

Decision-Making Process

The decision-making process is already quite decentralized. The chairmen of the Holding Companies are the ones most directly involved in all the decisions pertaining to the privatization of the Affiliated Companies. None of those interviewed implied in any way that they lacked the authority to make any of the decisions they felt qualified to make. Neither did the members of the Privatization Units interviewed raise this issue.

The international donors, by the nature of things, each have their own agenda, even though they are addressing the same issues in Egypt. Better coordination should be sought when two or more donors are pursuing the same agenda to avoid duplication or even working at cross purposes.

Organizational Structure

The organizational structure for privatization includes a number of entities. Chief among them are the Ministry of Public Enterprise, the PEO, the Holding Companies and the consultants.

The key issue with respect with the Government of Egypt is political will. This has been addressed above. The other issue is accurate and timely information to enable Minister Ebeid to make informed decisions. The Minister needs a staff to give him unbiased counsel on legal, financial and other issues. The current cadre of advisors is seen as insufficient for this role. The PEO would be



165

the logical choice to continue in this role, if its credibility were not perceived by so many as having been compromised. A new and smaller agency, staffed with Egyptian professionals who have gained the appropriate experience in, and have demonstrated a commitment to privatization would be the ideal solution. The name of this staff group should include "privatization" in it, e.g. "Privatization Advisory Staff" to the Minister of the Public Enterprise.

Special Privatization Holding Company Option

There has been some suggestion that state owned enterprises to be privatized should be transferred to an "18th Holding Company." The other alternative is to keep the Holding Companies in their current organizational structure.

The current arrangement has a number of advantages over the proposed 18th Holding Company. The Affiliated Companies are grouped by and large on the basis of industry. This is an important consideration with respect to privatization, because of the similarities in terms of financing needs, labor, markets for products, prospective buyers, etc. The experience gained by the Chairman of a Holding Company in selling one affiliated company in a particular industry, e.g. cement, is more readily applicable to the sale of another company in the same industry than if the other company to be sold were in an entirely different industry, e.g. the hotel industry. Generic experience is less useful than specific experience.

In addition, the privatization cycle varies from company to company. As noted above, restructuring is necessary for at least some Affiliated Companies to make them viable candidates for sale. The knowledge and experience required is industry specific and is more likely to be found in the Holding Company where companies from that industry are held. Timing is another issue and with it the judgement call of which company is a candidate for privatization and when the process should be initiated; i.e. analyze the company, do a valuation, decide whether restructuring is in order and carry it out, identify potential buyers, seek them out, negotiate with them, etc. Again, management familiar with the industry and which has experience with the process is going to be more efficient and successful.

This raises the issue of who would decide which companies ought to be transferred to the 18th Holding Company and when. The expertise is being developed in the six Holding Companies with Privatization Units and whose chairmen were interviewed. They are now best qualified to make that judgment. It is logical to keep them wholly accountable for the entire process. The alternative would be to have the chairman of the proposed 18th company or some third party make that decision. Neither of these would be as qualified as the six chairmen, or have as good access to the information required as do the chairmen of the Holding Companies now. In addition accountability would be split.

Three other factors should be taken into account. First, the chairmen of the six Holding Companies have acquired a good deal of valuable experience and have developed good working relationships



166

with their respective Privatization Units, relying heavily on them as their personal privatization staffs. This is something on which to build. Should an 18th Holding Company be added, assuming it were given to one of the six chairmen, the privatization skills acquired by the five others would not be put to as good a use. The benefits of decentralization would be lost. Instead of six smoothly working entities there would be one at best with at least six times the work. The second factor is that the institution of the Privatization Units is a very recent one. The plain fact is that this approach is working better than any other approach tried before. Why go to something different at the very point when the work of the Privatization Units is beginning to pay off?

**This leads to the conclusion that the current organizational structure is working reasonably well, and should be maintained.** This includes the Privatization Units. As noted above, the chairmen would like to retain them and their current staff. The chairmen should be consulted individually on this issue before any change is considered, much less implemented with respect to the Privatization Units.

An important factor to consider in evaluating the 18th Holding Company is the work of other donors. The World Bank is currently examining the 18th Holding Company idea as a viable reorganization option. In addition to that, there is increased activity among the Germans, Japanese and EU. The EU is in the procurement stage for a contract very similar to the Privatization Unit scheme except that their technical assistance would be focused on restructuring as well as privatization. The Germans are examining more industry and company specific ways to provide aid and specifically targeting those industries which would easily hook up with German counterparts. With the EU and AID pursuing the PU's, the Japanese and Germans looking at specific companies or industries and the World Bank examining the 18th Holding Company; there is a significant likelihood that the donors will end up working at cross purposes.

This study is limited to the six Holding Companies with Privatization Units, and whose chairmen were selected to have Privatization Units because of the high likelihood of timely and successful privatization of their affiliated companies and because of their personal commitment to privatization.
Should this successful experiment be extended to the remaining eleven Holding Companies? Probably, at least to some of them, after certain conditions have been met. First, give this current experiment another six months to June 1995, when the new contract will start. Second, USAID should suggest to the GOE that the performance of all chairmen be carefully reviewed before their current assignment expires in October 1995; and that those chairmen who do not evidence the capability required for or the commitment to privatization be replaced. Privatization Units can then be gradually introduced into additional Holding Companies selected because of the high likelihood of timely and successful privatization of their affiliated companies.

Looking Forward

This study highlights how dynamic the privatization process is. The processes and organizational structures recommended above are suited to the privatization process in Egypt for the first half of 1995. They need to be monitored as the situation evolves so that they may be adjusted, as needed, to keep up with the dynamics of the situation in Egypt. A follow-up study by June 1995 is advisable to confirm, or adjust as needed, this first study's conclusions and recommendations and help set the framework for continuing effective privatization for the second half of 1995 and beyond.

The issue of funding for the PU's must also be addressed as they are not provided for under the next technical assistance contract. Although this aspect was not within the scope of this study, some preliminary ideas are the following: have the junior be staff paid by the Holding Company or take current junior staff from the HC's and train them in the methods of privatizing companies; and phase-in contributions from the GOE through the Holding Companies over a two year period beginning in June 1995. Ideally, by June 1997, the only people left on the TA contractor payroll would be the team leaders. By this time, the staff should be sufficiently trained, and/or the Affiliated Companies sufficiently sold.. This issue needs further examination and is an advisable subject for a future study.

# ANNEX 1

# SPECIAL STUDY NUMBER 2
# STATEMENT OF WORK

## Organizing For Privatization

**January 1, 1995**

1. **BACKGROUND:** The Government of Egypt (GOE) has tried a number of different bureaucratic structures in its efforts to facilitate the process of privatization. The earliest efforts in the mid- to late- 1980's were characterized be a serious lack of coordination. To remedy this confusion, the GOE (assisted by the United States Agency for International Development, (USAID) established a "Steering Committee" chaired by the Deputy Prime Minister, who was also the Minister of Agriculture and Land Reclamation. The Committee's other members were three additional ministers, and four prominent individuals from the private sector.

   Although the Steering Committee produced some positive results in identifying obstacles to privatization and in establishing a framework for privatizing some companies, its mandate was not sufficiently broad to be politically effective. Accordingly, and as part of an overall economic restructuring effort, the People's Assembly adopted the Public Sector Business Law Number 203 (October, 1991). This statute transferred control of public enterprises from their parent Ministries, and vested them in 27 Holding Companies (HC's), which were later reduced to 17. These HC's supervised the work of the approximately 314 public enterprises (now called Affiliated Companies or AC's) so transferred. Both HC's and AC's are governed by Boards of Directors reporting to General Assemblies composed of private business and labor leaders.

   To implement Law 203, the GOE established a Ministry of Public Business Sector, operating separately from the Office of the Prime Minister. In addition, in November 1991, the GOE created a Public Enterprise Office (PEO) to act as a technical advisory body to the Minister of Public Business Sector to assist in implementing privatization, and to serve as the conduit between the HC's and the GOE. All functions of the Steering Committee were transferred to the PEO in December 1991.

   Unfortunately, the new structure has not performed up to expectations. There was continuing confusion of the roles of various key governmental actors after the delegation of substantial authority directly to the HC's in February 1993 (at the time of the consolidation of HC's to 17). The PEO has urged the HC's to increase the pace of privatization, which the HC's see as an attempt to interfere with their managerial judgments. Moreover, the conflicting mandates of the HC Chairmen -- both to maximize aggregate HC profits and to privatize the AC's under their control -- has lead to still further confusion and hesitancy. The result, until recently, has been only marginal progress in actually implementing privatization.



170

In response to these continuing difficulties, a number of organizational alternatives have been suggested. Some have urged that the PEO's mandate be clarified and strengthened, and its analytical and operational capabilities enhanced, to allow it to perform as originally envisaged. Others believe that the PEO's role should be restricted to a purely advisory capacity to the Minister with new "privatization units" charged with actually implementing privatization established with each AC. Still others believe that an eighteenth HC should be established, to which would be transferred ownership of those AC's considered most ready to be privatized. Underlying all of these organizational questions, of course, is the basic issue of the extent to which the GOE has truly made a political commitment -- backed by sufficient political will -- to engage in a broad campaign of privatization.

2. **OBJECTIVE:** To recommend an optimal, and politically realistic structure within the GOE to achieve a maximum amount of privatization at the national level.

3. **SCOPE OF WORK:** International Business & Technical Consultants, Inc. (IBTCI) will conduct a Special Study, on an expedited basis, to analyze previous organizational structures employed by the GOE, evaluate pending suggestions for organizational reform, and make recommendations to AID on the position which it should take in discussions with the GOE and within the donor community.

   The work will consist of the following components:

   A. Interviews with Major Donors. In consultation with AID, IBTCI will conduct in-depth, individual interviews with in-country representatives of the major donors such as the World Bank, UNDP, EU and important bilateral donors. These interviews would seek to elicit the views of these officials on experiences to date and suggestions for the future. Both organizational and political matters would be covered.

   B. Interviews with GOE Officials. Similarly, private interviews must be conducted with the Ministry of Public Business Sector officals, with responsibilities for the six HC's of particular concern to AID, key staffers of the PEO, and all of the Chairmen of the six pertinent HC's. In all cases, IBTCI would review relevant documentation.

   C. Preparation of Special Study. Upon conclusion of the foregoing interviews, IBTCI would promptly draft the Special Study, and seek to receive feedback on its recommendations from those previously interviewed. These comments would be taken into account in drafting the final Study, which would then be submitted to AID/Cairo.

   D. Briefing Key Audiences. Once AID/Cairo has concurred, IBTCI would be prepared to brief target audiences -- especially GOE officials and donor representatives previously interviewed -- on the Special Study's conclusions. The purpose of these briefings would be to help ensure that the Study is actually implemented.

4. **TECHNICAL SKILLS REQUIRED:** Mr. Francois Quinson, Organizational Specialist, will help conduct interviews and draft the Special Study. IBTCI's legal counsel, John R. Bolton, will have final responsibility for the draft and will oversee the entire task.

5. **LEVEL OF EFFORT:** 10 Weeks

6. **BUDGET:** See Attached

7. **ESTIMATED DATE OF COMPLETION:** January 31, 1995

# ANNEX 2

# ORGANIZING FOR PRIVATIZATION
# -PRESENTATION TO USAID/Egypt-

## BACKGROUND

Privatization follows mark different courses, depending on the history, political traditions, institutions and level of economic development of the county involved. Countries which were 100% socialist adopt different approaches than those where only critical industries were nationalized. The issues in Britain and France are different from those m Lithuania and Hungary.

The organizational models which are being user in the last decade of the 20th Century are just as varied. The key issue here is not so much the organizational structure itself, but rather who has the authority to manage the privatization process and most important of all the political will to make it succeed.

Sketches of the privatization organization charts are attached for Bangladesh, Hungary, Pakistan and Russia. While the organization charts look quite similar, the process varies, as does the political will.

In Bangladesh and Pakistan the Privatization Board/Commission has full authority for privatization, but ownership resides in the Administrative Ministries. In Hungary, as well as in the Czech Republic, Poland and Turkey, the Agency which owns the state owned enterprise selected to be privatized has the authority to dispose of them. In Russia the Privatization Center does not own the enterprises to be privatized, but has the authority to do so.

The authority to privatize resides in the Council of Ministries in Canada, Jamaica, Morocco and Tunisia. In France and Mexico it resides in the Cabinet, and in the United Kingdom with the Ministry of Privatization. These are just a few of the many other organizational structures and decision making processes currently in existence.

**What lessons we can draw for Egypt:**

Poland, the Czech Republic and Hungary are recognized as among the countries which have been the most successful in privatizing state owned enterprises. All three were satellites of the former Soviet Union. In all three counties the agency accountable for privatization owns the enterprises to be privatized.

The most important factor always remains the political will, to not only design and implement the organizational structure and the process required to carry out privatization as effectively as possible, but most importantly to actually implement it. In Hungary, the Czech Republic and Poland the nationalization of the economy came with their forced integration into the Soviet

Union's empire, against national aspirations and the popular will. Undoing what was imposed by the Soviet Union strikes a responsive cord. The status quo ante of private property is seen positively.

The situation in Egypt is admittedly different from that of former satellites. The nationalization of the Egyptian economy was initiated by the Egyptians themselves and was welcomed by the vast majority of Egyptians. They saw nationalization as the rightful claim of the Egyptian people to its national patrimony. Most probably still do. Privatization in Egypt is advocated by foreigners and is even seen by some as an unwelcome intrusion to restore a state of affair with strong negative historical connotations.

Each country presents its own challenges and opportunities when it comes to privatization. In Egypt a critical challenge is a lack of motivation, if not a fundamental reluctance, to change the status quo to what is probably seen in the popular mind as a return to the status quo ante and abdication of the national interest under foreign pressure. This leads to the lack of political will to carry out privatization in a timely and effects fashion. This is not an organizational or process issue, although the organizational structure and processes can play an important role in overcoming this challenge.

As already noted, privatization is implemented more effectively when the agency accountable for privatization has both authority and ownership. A third element needs to be added: focus. In Egypt the holding companies currently own the enterprises to be privatized and they each have a privatization unit, but privatization on is only one accountability among many. Privatization is not seen as a priority.

The agency accountable for privatization needs to own the enterprises to be privatized and the privatization should be its primary if not it only accountability.

**Proposed Organization and Process**

The following is a very preliminary proposal, not a recommendations. The agency accountable for privatization or Privatization Authority will have two roles:

- It will identify the state owned enterprises which will be privatized and establish the priority of their privatization.

- The ownership of the enterprises to be privatized will be transferred to the Pawn Unit. The enterprises which will eventually be privatized will not all be answered to the Privatization Unit immediately upon its inception or when they are identified, other the Privatization Unit will find itself in the role of managing their performance as going concerns. This is the role of the existing Holding Companies and they will retain it. The Privatization Unit



175

will include those enterprises which are high on the list of those to be privatized and only as many as the staff of the Privatization Unit can actively work with at any one time.

The Privatization Authority will tailor an individual program for each candidate for privatization in its portfolio around the following guidelines:

- Identify critical events
- Identify who will address critical events
- Schedule critical events
- Reward System(s)

The selection of the staff of the Privatization Authority is critical. The staff has to be committed to privatization. As already noted the climate for privatization in Egypt is tepid at best, and some inducement must be given to the staff of the Privatization Authority to enlist its commitment. The same is true for the management and the labor force of the candidates for privatization. This is why reward systems are listed under guidelines above. The reward system for the Privatization Authority needs to be addressed early, preferably before its members are selected, to focus their attention and reinforce their commitment.

Reward Systems for the management and labor force of the privatized enterprises are a critical element of the privatization process. Reward and motivation go together. The privatization of each enterprise will proceed much more efficiently if each members of management and the labor force derives individual benefit from it. Equitable and effectively communicated individual rewards for the employees of the enterprises which are privatized earlier will facilitate the privatization of those privatized later, when the employees of the latter are apprised of the experience of the former. The award of equity for successful privatization is an obvious inducement. Significant awards to the work force as well as to management should appeal to national consciousness and help to counter the perception of a sell out to foreign interests. The stork force's share cannot be a token if it is to have the desired effect.

## ORGANIZING FOR PRIVATIZATION

Privatization Board/Commission has full authority for privatization, but ownership resides in the administrative ministries:

- Bangladesh
- Pakistan

Agency which has ownership has authority to privatize:

- Czech Republic
- Hungary
- Poland
- Turkey



176

In Russia the Privatization Center does not own the enterprises it has authority to privatize. Authority to privatize resides in the Council of Ministers:

- Canada
- Jamaica
- Morocco
- Tunisia

Authority to privatize resides in the Cabinet:

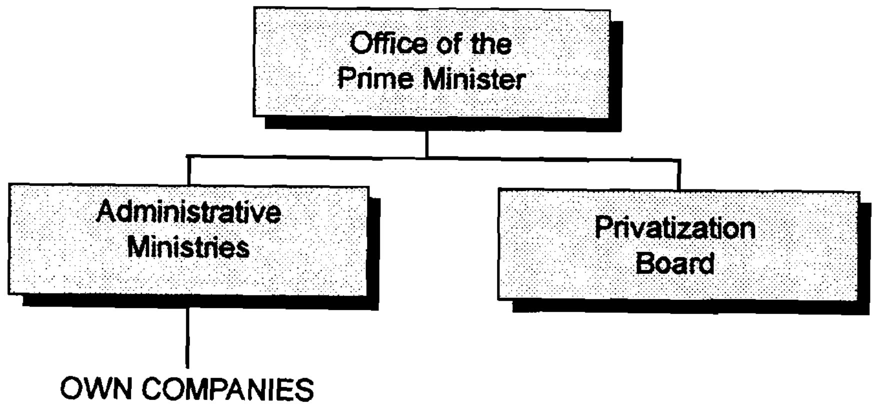
- France
- Mexico

Authority to privatize resides in the Ministry of Privatization:

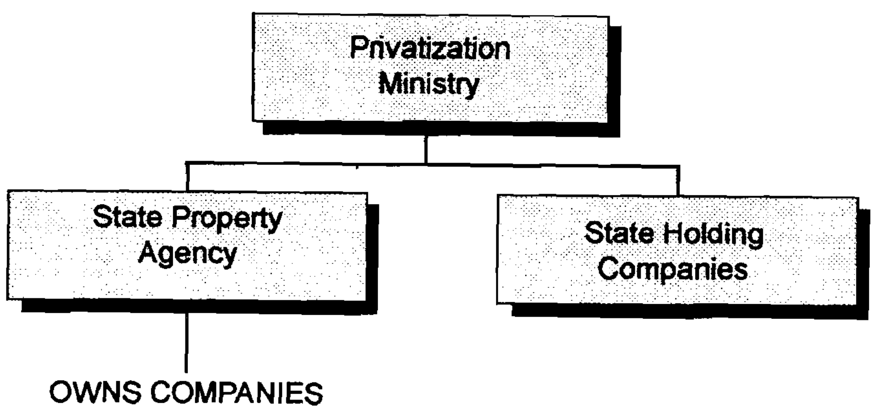
- United Kingdom

(See following organizational charts)

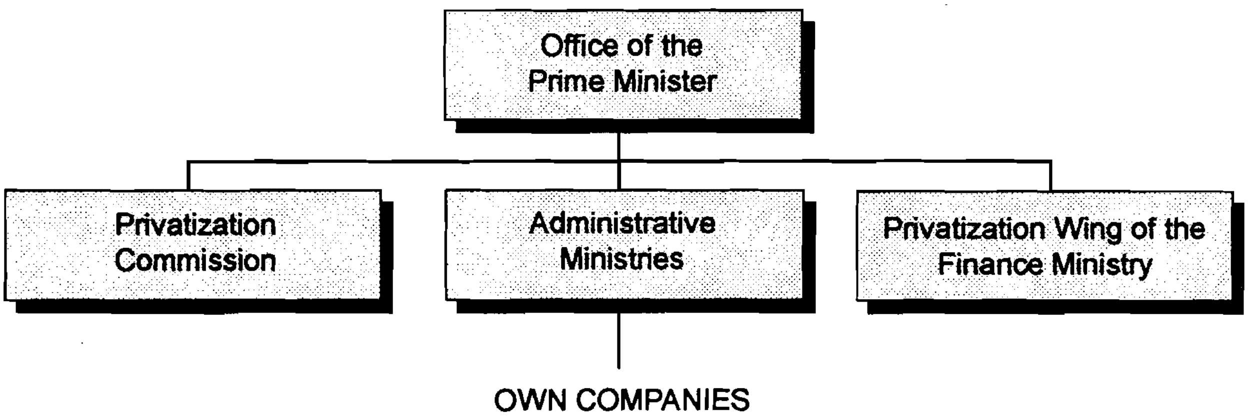
## BANGLADESH



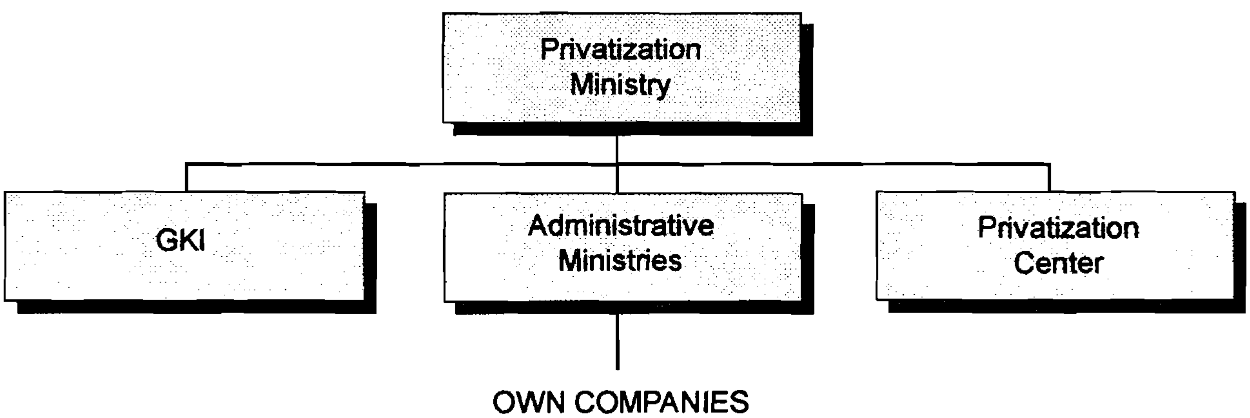

## HUNGARY



## PAKISTAN




## RUSSIA



# ANNEX 3

180

Meeting with M.A. Abdel-Karim Sabek, Chairman Mining & Refractories Holding Company

Kariman M.K. El Sayegh Expert/International Affairs, Foreign Trade & Marketing,

Bharat Bhargava
Francois L. Quinson

5 December 1994

The holding company has three companies with consumer products for export.

Egypt has opportunities in land reclamation, mining and tourism . There are opportunities in the Sinai and the western desert for land reclamation, gold mining, emeralds, aluminum and phosphates. Mr. Karim is a mining engineer and attuned to those opportunities.

Egypt has to balance people and development issues as well as privatization to optimize resources. It is a hard balance to maintain, which calls for slow and careful moves when it comes to privatization.

Bechtel acts as the holding company's advisor (privatization unit).

Each affiliated company is a different case.

Phosphates are a difficult situation: low grade ore, low quality phosphate vs. Israel and Jordan. One underground and one open pit mine; narrow 70cm seam, difficult to mine - heavy overburden. There exists an as-yet undeveloped deposit of phosphates in the Western Desert where the seam is from 3 to 15 meters, some underground, some which could be mine from an open pit. It is a huge deposit, with good opportunity to produce triple phosphate.

The phosphate company is not under current consideration for privatization.

Two cement companies are: Tourah and Helwan

- Glass Co.
- Ceramic Co.
- Tobacco Co.
- 1 Fertilizer Co.

Mr. Karim liquidated one company which was losing 60MM L.E./year. Worked with the union (450 employees).

5 years ago the union leadership would not even discuss privatization - today they accept the idea.



181

Workers can subscribe individually to 5% of the shares, subscribed to in one day. Shares are allocated in proportion to salary.. In addition, 5% of shares sold to union cannot be resold. There are currently 4 union representatives on the Board of Directors. The structure of the Board will change gradually.

Egypt concentrated on production, i.e. volume for the past 30 years, under pressure from donor nations. The debt burden increases lead to loss. Companies had to make room for university graduates, whether needed or not; could not cut staff.

Changes started under Sadat, he encouraged repatriation of Egyptian money.

Mr. Karim sees the Privatization Unit as a positive element. He feels the need for a specialist in marketing. He mentioned marketing as an area that needs strengthening several times during our meeting.

Mr. Karim believes that eventually all state owned enterprise ought to be privatized, including the utilities: telephone, power, water. The railroad with 150,000 on the payroll may not be feasible practically/politically.

Mr. Karim is a mining engineer with a strong background as an operating manager and a pragmatic performance orientation.

Meeting with Dr. Hamed Fahmy, Chairman - Housing, Tourism & Cinema Holding Company

Bharat Bhargava
Francois L. Quinson

6 December 1994

The holding company has identified 8 candidates for privatization in the first batch.
India expressed an interest in a management contract with the vineyard company

Privatization to date
Bechtel's approach to promotion of the companies to be privatized is too broad, more appropriate for consumer sales. There is a problem in the contract with Bechtel.

Contact the buyer directly, not through merchant banks. In phase 2, should contact foreign embassies and the commercial attaché in Egyptian embassies.

The Heineken people visited the brewery facilities, did not bid. 22 entities expressed an interest, but the only bid came from an Egyptian.

The big cats are waiting until the candidates for privatization are listed on the stock exchange.

The Sheraton was listed at 137 LE, failed to sell. The stock market is flourishing. Did a projection of earnings, etc... Price of Sheraton went down. The only bidder was a Libyan. Because of sanctions he cannot be sold a controlling interest, has to be <50%. Have to go to stock market. have to revise evaluation. The initial one is already 2 years old. Contact foreign investors. Nobody wants to invest; more interested in contract management. Most companies need to be restructured first: management, labor, etc.

Privatization Units
Privatization unit has no people. Dr. Fahmy told Gary Fullerton they need Egyptians from the affiliated companies on the PU staff. Gave USAID the name of 2 professors from American University, no action...

PUs need people with knowledge in:

- organizational structure
- evaluating companies
- knowledge of stock market
- information systems to monitor activities of affiliated cos.



183

Need for management information

Neither the holding companies nor the affiliated companies have the capability of generating the information needed to manage effectively. Each request for information is a one-of-a-kind; it is a constant reinvention of the wheel.

Dr. Fahmy does not have the information needed to make rapid decisions, particularly when it comes to evaluations.

Egyptian know how is mainly financial, there is a real need to develop capabilities in:

- marketing
- restructuring decision-making process
- performance indicators

The minister wants:

- monthly P&L
- cash flow
- inventory status
- debt and interest payments

Information now is not consistent (generated as one of a kind, upon request).

Need information about company as an asset and as a going concern.

Bechtel

Bechtel is slow; no people; language problem expects Egyptians to translate everything form Arabic to English (Bechtel is there to help, not to make more work for others).

Pace of Privatization

The evaluation of 21 companies is to be submitted by June 95. Obliged to go to Egyptian consultants, because of lack of support from Bechtel. The expertise is not in Egypt.

Need time to restructure companies; e.g. Egyptian Vineyards were put on the market for 170MM L.E., nobody came. The company needs to be upgraded.

The tempo of privatization needs to be relaxed to accommodate the Egyptian economy, Egyptian labor. Attract investors to create jobs to absorb the labor force which privatized companies will have to lay off to become attractive to investors, e.g. Al Ahram brewery has 2700 employees; Heineken can run it with 300, start new breweries to absorb the 2400 redundant workers from Al Ahram.

Sell shares of profitable companies to clear debt and restructure losers.

PEO

The minister needs the PEO in ministry to give him unbiased counsel on legal, financial issues among others, on everything he needs to approve.

Meeting with Dr. Abdel-Ghani Hassan, Chairman - Public Works & Land Reclamation Holding Company

Bharat Bhargava
Francois Quinson

December 7, 1994

- 1 company is being liquidated by June 95, 3/4 done, labor dismissed and equipment sold
- 1 company is being restructured
- 11 companies to be privatized - evaluation work has been completed
  - 5 have been registered on the stock exchange
  - 1 in the final stage
  - 2 have been submitted
  - 3 will be submitted this month

Privatization Unit
The role of the PU is:
#1 chose consultants to evaluate candidates for privatization
#2 provide guidance.

No one has experience in privatization. Learning from their mistakes.

Wish list
General guidance
Group all candidates for privatization under one head, whose sole accountability is to privatize. Current structure means that the holding companies have 2 conflicting roles: grow and restructure (long term) and privatize/sell (short term). The other companies can stay under their current chairman whose sole accountability will be to restructure them to be privatized.

Privatization
Primary restructuring is financial. Debt was assumed for political reasons, not business. Privatization makes sense from business point of view. State owned enterprises are saddled with political/social baggage, which weigh them down.

Things have started to move since Dr. Atef Ebeid was named Minister of Public Enterprise, a year ago. He gave it momentum.

The minister needs the PEO in the ministry to give him unbiased counsel on legal, publicity and training issue primarily. The existing staff is trained and knowledgeable.

Need to evaluate chairmen of HCs and separate the wheat from the chaff.



185

Performance factors
Dr. Hassan is receptive to tracking the performance of privatized companies.
Dr. Hassan believes that good data is available on affiliated companies.

ESOPS
ESOPS in all companies up to 90%, except one up to 40%, for political reasons.
Public Works & Land Reclamation Holding Company has invited a Hungarian expert to review ESOP approach it is following. Part of the issue is the % to the individual vs. Employee stock Association (ESA). The first 10% is paid from the Social Fund, allocation is made to the employees, but not the distribution. Individual employees have 10 years to pay; and the shares are distributed upon payment. Upon the employee's death, the shares are purchased by the ESA and recirculated.

Continuous education of the workers on ESOP.

Other issues

Need to chose the privatization road suitable for each company.

Meeting with Mr. Adel A. Danaf, Chairman, Holding Company for Metallurgical Industries

Francois L. Quinson

14 December, 1994

This holding company includes 17 affiliated companies, mostly in the metal industry, both ferrous and non-ferrous. Mr. Danaf remarked that at the beginning of the privatization process, President Mubarak stated that Egyptian Iron & Steel Co. and Aluminum Company of Egypt, both very large and considered strategic to Egypt, would not be privatized. Since then there has been a debate as to whether they should be privatized, and consideration is being given to bringing in a minority partner from the West or from Japan, for an infusion of capital and technology, both of which are needed. Mr. Danaf has had experience with a state owned company where a number of shares were held by private parties.

The other 15 companies are medium size and include:

- an integrated steel company in the Western Desert whose operation range from mining to flat rolled sheet with annual production of 1.2MM tons;
- a scrap metal company;
- a non-ferrous metal company;
- a company which produces steel pipe, and
- another which produces ductile pipe and all fittings as well to meet the need for infrastructure products;
- four companies in production/engineering, i.e. steel structures, transmission towers, etc...
- a company which produces railroad cars and is going into the production of locomotives, in a joint venture with the same French company which helped with the Metro;
- two cement companies, one in Alexandria and one in Upper Egypt;
- two companies in river transport, which service most of the other companies.

Mr. Danaf then discussed technological issues. The Aluminum Company of Egypt, which exports 100,000 tons worldwide is building a hot and cold rolling facility to expand capacity from 166,000 to 180,000 tons. It is also moving to pre-baked anodes, which would allow an expansion of an additional 70,000 tons without increasing the power requirements. It is still in the pilot stage. The company is up-to-date technologically and financially strong as well. Mr. Danaf believes it is a good candidate for privatization.

Privatization Unit. Mr. Danaf had already been working on the privatization of a cement company when the PU came on the scene. He had sought outside help with the tender offer from Bankers Trust and an Egyptian partner. He found their $3MM fee too steep and decided to use Egyptians with the needed skills; and found that they did a smooth and efficient job. His first assignment for the PU was to have the PU check this evaluation. He expressed his satisfaction with the results, which found that the valuation had been right on track. He keeps using the PU on valuations.

Assiut Cement is deeply in debt. The National Investment Bank wanted to change the debt to equity. Mr, Danaf asked the PU to study the matter, and advise him whether he should follow the advice of the National Investment Bank or reschedule the debt. The PU concluded that due to tax implications it was better to reschedule the debt.

The PU is doing a total evaluation of the Aluminum Company of Egypt, finance, technology, all aspects.

Mr. Danaf has asked the PU to study the debt structure of all 17 companies, and is thinking about issuing bonds.

He contrasted the PU with the PEO, which was not going deep enough, although he did mention that some people such as Alaa Amer did excellent work. He noted with regret that Alaa Amer is leaving the PEO.

Expectations. Mr. Danaf needs help to restructure. Several companies suffer from financial distortions, some are serious cases, e.g. the ductile pipe company which has debts of 800/900MM L.E. and only 24MM LE. in equity. In the past all investment was to be done by the government; they are now charged interest by the National Investment Bank. The initial investment was interest free, then the National Investment Bank charged a rate below the commercial rate, which has now crept up close to the commercial rate. Mr. Danaf is thinking about splitting the company between its two main plants and selling them separately.

USAID does not want the PU to work on these issues. Mr. Danaf would like to use the PU at any stage of privatization. He would also like to keep the same people in his PU at the end of the current contract.

Mr. Danaf has ready access to Dr. Ebeid; but agreed it would be better if the Minister had only one ministry to manage.

Labor is an issue, but not an insurmountable one; it takes some ingenuity to resolve individual cases, e.g. El Nasr Casting had 1600 workers and needed to shrink that work force. Management met with the union and it was agreed that the people over 55 would be compensated and leave, that a part of the land where the foundry was located would be subdivided to provide workshops for some of the workers to work as outside suppliers and that part of the land would be sold and the proceeds distributed to the dismissed workers.



188

Meeting with Ms. Hala El Barkouky, Team Leader Privatization Unit - Mining & Refractory Co.

Bharat Bhargaza
Francois L. Quinson

Hala El Barkouky graduated from American University and has a strong background in commercial lending (eight years with Chase). She confirmed what Mr. Karim had told us that he uses the Privatization Unit in an advisory capacity and that it is a good productive relationship. There is some apprehension on the part of the management of the candidates for privatization. It is a matter of introducing the senior management of those companies to the priorities and thinking required to succeed in the real world. She noted that the Management Information System which IBTCI was proposing to use to track the performance of privatized would collect the same information which companies registered on the stock exchange are required by lay to publish information annually. She suggested a push to get the information quarterly as a simpler and more effective approach.

Meeting with the Privatization Unit of the Housing, Tourism & Cinema Holding Company

Omar El Sayeh - Team Leader
Mostafa Bakry - Consultant
Francois L. Quinson

8 December, 1994

Omar El Sayeh is a man in his thirties who started with Bechtel and with the PU on December 1. He was with City Bank for a number of years, all in Egypt, as a branch manager and then in auditing.

Mostafa Bakry is in his fifties, and has been with the PU since the beginning. His career was spent in the hospitality industry. He was trained at the Swiss "Ecole des Hoteliers". Messrs. El Sayeh and Bakry were with the Chairman when I arrived, and our interview started 45 minutes late. They stated that Dr. Fahmy, the Chairman, calls on them regularly for advice and counsel.

Mr. Bakry did most of the talking. The PU has contributed to the privatization of :

- Al Ahram Beverages Company
- Egyptian Vineyards Company
- Egyptian Free Shops Company

The PU planned the privatization campaign, newspapers, information manuals in Arabic and English, due diligence - good show - brought in all the information needed by a potential investor. It could not have been done without the PU. The whole area is a big unknown in Egypt. It is important to work next door to the Chairman, work as the Chairman's right hand. The PU gets all the information from the Chairman of the Company to be privatized. The latter needs to be persuaded to give that information. The Company often does not have the data and the PU has to teach the Company's staff how to get it and present it. The PU gives the Chairman the help he needs when it is not available to him.

The PU reviews the options with the Chairman, when there are no bids.

Assessment of current status (Mr. Bakry)
Close to Chairman; available for day to day counsel and decision. The first six months were spent building a new relationship with the Chairman. The now expects more, mainly help in restructuring. The PU needs a green light from USAID and Bechtel. The help sought is mainly in management and finance as well as marketing.

FINANCE: bank debt is the issue; it is different from company to company; and should be addressed by the holding company with government contribution. The banks need the approval of the government.

MARKETING: the companies need to investigate new markets for their products. they are not up to date on marketing techniques. They need to coordinate marketing and production.

LABOR: over staffed - low efficiency - cannot lay off staff.

COMPETITION: the issues are overhead, quality control and consistency, where the public sector is weak.

Have to import a lot of components, e.g. packaging materials. Require more advanced technology.

The PU needs special permission to restructure company, which would make it more saleable on the stock market. The PU can draw on the resources of Bechtel's central office for specialized talent.

ANECDOTE: A French wine company showed some interest in the vineyard, and then dropped it. Mr. Bakry called them and they came for a visit, and started studying how they could integrate the vineyard into their operations. Meanwhile Mr. Bakry contacted a Greek wine company and has initiated discussions. This kind of marketing/negotiations is not going to be initiated or continued by the existing management of state owned enterprises. It completely foreign to them This is the an example of the kind of special help with the PU can contribute to the privatization process.

TRAINING: Bechtel involves the holding company's staff in training through workshops on communications, ESOP, other issues.

PEO: it is all political, depends on how the Minister wants to use PEO staff.

MARKETING: most companies do not have a proper marketing department. This is true in private as well as in the state owned enterprises.

PUBLIC RELATIONS: There is a need for generic public relations for privatization, within and outside Egypt. Need for a consistent image and message.

MANAGEMENT INFORMATION SYSTEMS: capabilities exist, not making use of them. Need for training. State owned enterprises are not computerized yet.

Meeting with Fatma Khattab - Team Leader - Privatization Unit of the Public Works and Land Reclamation Holding Company

John Bolton
Francois L. Quinson

13 December, 1994

Ms. Khattab joined the project in March 1992, as a Coopers and Lybrand employee. She is the only team leader not on Bechtel's payroll. Her PU was the first one installed. The experience has been most positive. Dr. Hassan, the Chairman had a clear vision, a clear strategy and a clear policy from the very beginning. He is a decision maker. This is the sine qua non of success. Ms. Khattab commented that other PUs get conflicting messages, the vision of their chairmen is not so clear, rumors abound; and people wait for the next signal from the policy maker. Ms. Khattab made it very clear that she is a believer in privatization and thoroughly enjoys the opportunity to play a role in the process.

Egypt's privatization set-up does not encourage privatization. Ms. Khattab was in Hungary, where privatization is proceeding at a much faster pace because: (1) the law is clear as to what is to happen and (2) provides the administrative system to carry it out, with three government bodies, each with its own board. Hungary communicated the message and did a thorough education of the public and did not make the mistakes which Egypt did with the PEO. (COMMENT: Ms. Khattab has a very low opinion of the plodding, by the book, cover your backside ways of the PEO).

Ms. Khattab believes that PUs are good tools. Her PU is perceived as an agent of change by Dr. Hassan: #1 The PU established its credibility and build a good rapport with Dr. Hassan; #2 Dr. Hassan perceives that the PU adds value to him. Dr. Hassan had a vision of ESOP. The PU contributed to his vision by the addition of processes to actualize that vision.

The Public Works and Land Reclamation Holding Company started the process with 13 companies; 2 of which were restructured and liquidated. The other 11 went through the following phases: (1) prepare evaluation review until contract; (2) 1/ legal implementation 2/ administration 3/ communication and training for Employee Stock Associations (ESAs). As of today 6 companies have registered shares on the stock exchange, 2 are in the process of doing so. and 1 has had its general assembly meeting. Ms Khattab expects that all 11 will have been converted by the end of January 1995.

Ms. Khattab is now concentrating on communication and training with the ESAs re: Law 95, under which the ESA buys the shares of the privatized company. The employees have virtual shares, i.e. they receive dividends and vote the shares, but they do not have title and cannot sell the shares..

Ms. Khattab anticipates that she will work very closely with the ESAs until June 1995 on communication and training. USAID's instructions are that the PUs role comes to an immediate halt after privatization is achieved and does not provide for follow up. Nevertheless the privatized companies need two types of implementation assistance: (1) communication and training for ESA board members and (2) communication and training for a representative sample of all employees, e.g. Ms. Khattab is doing such training for 50 employees of a 1000 employees affiliated company on 14 December.

Ms. Khattab kept emphasizing the importance of doing everything to ensure that the employees are thoroughly briefed on the benefits they derive from their ESOPs. Between now and June 1995 she plans to: (1) conduct duplicate workshops to train other trainers, add new elements and keep enhancing them; (2) help ESAs to formulate internal systems and explore alternatives, i.e. vesting rights, voting, restrictions, etc...; (3) explore the possibility of having a national conference on ESOPs to explain the law and promote the project; (4) work with the PEO on the ESA Foundation to pool resources and help the ESAs go through the transition; and (5) research the feasibility of establishing a leasing company to buy their assets from the privatized companies and lease them back. In addition Ms. Khattab has been requested by other PU team leaders to conduct workshops on ESAs.

Other PU team leaders. All team leaders meet every Sunday for 2 hours in a forum to exchange information and share experiences. They also meet on Tuesdays to allow junior team members the opportunity to make presentation on their activities.

PEO Prior to the inception of PUs, the PEO demanded a constant stream of reports, and blocked anybody's access to the holding companies. After Dr. Ebeid was appointed Minister of Privatization a few people at the PEO saw this as an opportunity to make things happen, the most respected among them being Alaa Amer, but the leadership of the PEO remained as bureaucratic as ever and thwarted their efforts. The results has been the loss of the PEO's best people, including Alaa Amer.

What needs to be done. Ms. Khattab believes Dr. Ebeid needs a decision making body to lead privatization. She stated that he does not appear to be personally committed to privatization.

She sees the PUs as an excellent tool, but in need of restructuring. She believes their role should be to: (1) do public review first; do nothing else until this is done, and then (2) when the chairman gets a clear vision, advise him on the steps he needs to take.

She noted that there is no system in place to have direct sales, share flotation. There is a need to put a system in place to protect the chairmen from being blamed when they take reasonable risks to encourage them to do so, as needed.

USAID extremely bureaucratic, takes forever to take any decision, which is catastrophic when it comes to compensation, e.g. Ms. Khattab asked for a raise for an employee in March 1994, still no answer in December 1994.

Ms. Khattab does not believe that USAID has a clear understanding of what the privatization criteria are.

Meeting with Engineering Industries Holding Company ("Eng.") Privatization Unit

John Bolton
Francois Quinson
J. Thomas Nein (Team Leader, Merchant Banker)
Amr El Sharnoubi (Assistant Team Leader)
Mahmoud Abdel Wahhab

December 11, 1994

Introduction

After explaining the nature and program of the Special Study, we invited Nein to compare the experience of the PU's and the Ministry's Private Enterprise Office. Nein said that "by comparison, the [PU's] were a lot better than the PEO." He said that the PEO had acted "as a human barrier" to AID's efforts to advance privatization because the PEO, when it was established, saw itself as "controlling everything" connected with privatization. The PEO insisted that all communications on privatization be to it. As a consequence, Bechtel rarely had contact with the Holding Company or Affiliated Company Chairmen, i.e., the very people actually responsible for selling the AC's. "How could Bechtel privatize anything?" within those two years, Nein asked rhetorically.

Nein said that AID had tolerated this situation because the AID Project Officer, Jerry Barth (David Jesse's predecessor) was "just happy to talk with anyone" within the Government of Egypt ("GOE"). At that point, said Nein, "the PEO was the only game in town" for AID, which "grasped at what was available." AID repeatedly asked Bechtel to write long reports for the PEO, which no one ended up reading. During this period, AID was groping for a better way to proceed, and things evolved toward the creation of the PU's.

Privatization Units

He said that AID's decision to establish PU's at less than all of the seventeen HC's was because AID understood that it could not handle them all at once. The six HC's that were selected (a rough judgment by AID, and on a kind of pilot project basis) were the ones that needed immediate help, i.e., those that had AC's ready for sale. For that reason, the PU Team Leaders all had backgrounds in mergers and acquisitions, and had actually sold companies before. The attitudes of the respective HC Chairmen was a second factor. Some HC's (e.g., the food industry HC) were expressly rejected because the Chairmen simply did not seem to believe in privatization, or were not willing to provide the PU's with broad-enough mandates.

Nein, unlike some other Team Leaders, thought that his PU's mandate and work plan were broad enough to provide assistance to the HC(Eng.) anywhere the HC wanted it, and where the PU had expertise to offer. Indeed, he believed that the "charters" of all of the PU Team Leaders were essentially the same. When his PU was established, it fell to work on the immediate task of preparing



194

for sale those AC's scheduled to be offered within the next year. The PU was doing the work it needed to do. It had not been blocked from doing additional work, but the PU simply had not had the time to do more than was already on its plate. The AC's possess considerable information, but they need technical assistance

Nein also said that they had been "educating" some of the AC's on marketing their products (as opposed to marketing the companies themselves). Many of the AC's simply lacked information on marketing techniques, and this gap made it difficult to write the "Information Memos" (essentially, prospectuses) needed to offer the AC's for sale. Nein hired three local marketing firms to write marketing plans for three AC's each (a total of nine) at a cost of approximately 100,000 Egyptian pounds. The HC (Eng.) Chairman were very satisfied with the results, which helped make their AC's more attractive to prospective buyers. Nein noted that the "squeaky wheel" principle certainly applied to his HC (Eng.), often coming from Minister Ebeid.

Nein asserted that his Team's relationships with the HC and AC Chairmen were excellent, and often on a first-name basis. His HC Chairman is personally committed to privatization, but feels constrained by the approximate 70 % level of overstaffing. Labor costs as a percentage of revenues for the 10 AC's ready for sale were approximately 15%, or about three times the estimated optimal labor cost of about 5% of total revenues. They estimated that the AC's could be sold for 40-50% more than their likely sales prices if they did not bear the excess labor costs, which involved roughly 4-5 years of compensation per employee. Nein was not aware of the basis for HC Chairmen's compensation, nor was he aware of whether there were any motivational programs in place to convince sellers to want to sell. He was also unaware of what factors were being used, if any, to motivate AC Chairmen.

Generally, the first group of AC Chairmen were introduced to the PU because these AC's were already scheduled for tender at the point when Bechtel started. Subsequently, additional AC Chairmen were introduced when they needed PU assistance. In addition, Nein personally visited 8 or 9 of the approximately 20 AC's in the HC (Eng.), just to be sure he could "make things happen." The PU tries to work as a "team" with the AC's, to help ensure the maximum impact.

To date, none of the their AC's have been sold, but one (Nasr Boilers) is about to go. Other offers for parts of other AC's have been made, and the HC (Eng.) is planning to re-tender on one NASCO (an automobile manufacturing company). NASCO was also cited as an example of the PU assisting the AC in packaging the information in its "Information Memo." Nein cited the NASCO retender as an example, even in his HC, of a decision by the Chairman and the Board that was less than optimal. One of the offers received had come in outside of the original tender process, and neither had been for the entire AC. Rather than negotiating with the two offerors, which Nein would have preferred, the HC (Eng.) had decided to retender to avoid "transparency problems." This decision had slowed the privatization process unnecessarily, Nein believed, because the transparency issues were "solvable."

Nein also cited the example of El Tramco, where the AC Chairman strongly believes in privatization. There, the real issue was what vehicle to use to accomplish the goal for a company which urgently



195

needed better technology. To obtain this technology, the PU had focused its sales effort on potential American or European investors, since neither potential Egyptian buyers nor the firm's employees were in a position to deliver it. Indeed, this was true for many of the AC's in this HC, although Nein believed that at least some could be floated as IPOs in the local stock market. Thus, his HC (Eng.) had very different privatization assistance needs than an HC whose AC's might be amenable to employee buy-outs.

Nein recognizes that the PU has no direct authority over the HC(Eng.) or its AC's. The PU can recommend, but it cannot be guaranteed to prevail. The PU would like to be more involved in decision making, and it would hope that HC (Eng.) would be faster and more flexible. He would like to be utilized more by the HC (Eng.) Chairman, but he also recognizes that his PU can be of service only to the extent that the Chairman wants to rely on its advice.

Nein's PU (Eng.) has had basically no interaction with the Social Fund for Development ("SFD"). The SFD was generally considered to be inept, and not doing its job. He knew nothing else about SFD.

The five PU Team Leaders, until recently, had only informal exchanges of views and information. Now, however, they meet weekly on Sundays for 30-to-45 minutes to discuss events of the past week. They also now meet each Tuesday, with one Team Leader a week making a presentation and answering questions about an individual project. Nein believes it is too early to tell whether this more formal coordination will be effective, but the mere fact it is happening indicates that the Team Leaders felt a need for it. They considered inviting representatives from AID and the PEO, but, at least for the moment, have decided against it. The Team Leaders were responsible for selling the AC's, they had experience selling companies, and they wanted to move at their own speed, unburdened by government bureaucrats.

Nein does not look to AID for any assistance at present, and he sees no role for AID assistance at higher levels. He thought AID was even more "cooperative" with the GOE than the World Bank, and didn't "lecture" the GOE enough now. Nein was asked in several different ways how AID might be useful to the PU's, and he had no real answer.

PEO

As for the PEO, Nein said emphatically that it should either be headed by an experienced, no-nonsense businessman (rather than a bureaucrat), or it should be closed down and eliminated. PEO carries too much baggage to be effective, and his PU does not make any use of PEO resources or personnel. Indeed, he is even unaware what the PEO has to offer. Nein said that he introduced Peter Young of the Adam Smith Institute to the PEO, and yet neither he, nor any of the other Team Leaders, nor any of the PU Egyptian employees to the two-day conference on privatization which the PEO is sponsoring.



196

Minister of Public Enterprise

When asked whether the PEO could be made an advisory staff to the Minister, Nein wondered whether Ebeid would want it. El Sharnoubi said that PEO could staff the Minister on general issues like AC debt and labor issues, which could only be addressed at the Ministerial level. Nein gave an example of one AC trying to decide how to resolve its own debt question, proposing that the Central Bank of Egypt would assume all debt over a "reasonable" level a private company would likely be carrying, and finance it by issuing long-term bonds to postpone immediate fiscal pressures on the Bank. If this were a sensible approach, a businessman at PEO should be able to get Ebeid to announce a general policy that debt should be handled in this fashion. Such a policy would be far superior to an AC-by-AC approach. Nein noted that some HC's were thinking of issuing bonds to cover AC debts, which he thought was a very poor solution.

Nein said that the AC Chairmen were generally frustrated by the lack of top-down guidance and motivation from Ebeid. The PU people did not think that Ebeid's problem was the time demands imposed by his other two ministerial portfolios, but rather the government's general reluctance to face such broad problems as labor and debt. Nein said that he was generally "ambivalent" about Ebeid's performance over the past year, but agreed that the "environment" and "mentality" for privatization were better than before Ebeid assumed his position. Nonetheless, Nein thought that things were still going slowly, although activity had picked up somewhat and the mechanics of selling the AC's were now better understood.

Meeting with Public Enterprise Office (PEO) executives:

Fouad Abd El Wahab Fahmy - Director & Prof. Dr. Hisham A. Hasabou
John Bolton
Francois L. Quinson

13 December, 1994

Mr. Fouad Abd El Wahab Fahmy opened the meeting by offering to give us a history of the PEO, as a backdrop for our interview. We readily agreed.

The PEO was organized in December 1991, with Mr. Fouad as Director, to monitor the holding companies (H/C) in certain areas relative to review and control of the implementation of Law 203, as well as business strategy, finance, training, human resources development, etc....

An agreement was reached with the World Bank (WB), under which 25 candidates for privatization were to be privatized every year, either a company under Law 203, or shares of a company under Law 159 or 203, or a major asset or leasing (which has not happened). This effort benefited from an agreement with USAID which introduced a committee, under the chairmanship of Dr. Youssef Wally, Minister of Agriculture and Land Reclamation, to evaluate the companies to be privatized. This initiated the process of evaluation, a foundation stone of the program..

The initial group of 25 companies was actually 22. Unfortunately they included 7 hotels and 4 boats (floating hotels), whose attractiveness to potential buyers was crippled by an upsurge of terrorism in Upper Egypt. The decision was taken to postpone the sale; although WB insisted on the sale of 25 companies. This was clearly not the time to sell this type of asset.

Mr. Fouad said they learned their lesson and that it was better not to have a fixed and too specific deal with WB. The PEO adopted a matrix approach, with amount rather than #, as targets for privatization, using book value as of 30 June 1991 as the base year. Egypt and WB agreed to 10% a year out of 71B L.E.

Mr. Fouad explained that they had to decide on the interpretation which had to be put on privatization, either (1) the offer of a company for sale, i.e. bringing it to the point of sale, or (2) consummation of the contract, i.e. actual sale. The PEO opted for (1)... Another issue which was discussed was whether privatization meant transferring a majority interest to the private sector, or whether privatization was achieved when the private sector acquired title to a minority share.

Mr. Fouad emphasized that a major responsibility of the PEO is to report regularly to the government and to WB (every three months) on restructuring, privatization, training, rates of return, price of companies sold, etc...

Mr. Fouad stated that Dr. Ebeid changed the modus operandi when he assumed his current responsibility of Minister of Privatization. Dr. Ebeid asked USAID to help in a number of areas, including the establishment of small PEOs, i.e. privatization units (PUs) in a number of HCs, with the aim of helping those HC chairmen to verify their portfolio, decide what companies can be offered for sale, as well as helping the HCs to evaluate the companies, selecting those to be sold and the most effective way of doing so, e.g. public tenders, selling companies as a unit or in slices, etc... Mr. Fouad emphasized that Dr. Ebeid asked for the inclusion of junior Egyptian professionals to be trained as members of the PUs, to develop Egyptian capabilities and self sufficiency.

Mr. Fouad reminded us that the HC chairmen and their people began privatization with no concept of the whole process, while PEO has specialists in performance measurement, financial analysis and all the other skills needed to navigate the waters of privatization. Now with the advent of the PUs, the PEO has 2 roles: (1) to monitor the work of the PUs with Bechtel, and (2) to play the same monitoring role with the 10 HCs without PUs. In addition, it is still accountable to consolidate the data needed to assess the progress of the privatization effort in toto, and at the same time, Mr. Fouad emphasized, to implement the policy of the government and the preparation of reports for the government and WB.

Mr. Fouad expressed the hope that the European Community (EC) will also play a role, specifically to finance restructuring, training and other privatization activities with 43MM ECU. the EC representatives involved have mentioned that they will start with one or two HCs to provide the support currently provided by the PEO (sounds like EC sponsored PUs).

Mr. Fouad also mentioned an agreement with WIKFW of Germany which will contribute 8MM D.M. to assist in the restructuring of a number of companies with an eye to privatization. Mr. Fouad named Aboukir and Coper(?) as potential candidates.

Mr. Fouad then mentioned the USAID contract for $35MM from July 1994 to December 1999. According to Mr. Fouad under this contract the PUs send their reports to the PEO for its review and approval. The PEO acts as a head office with overall responsibility of knowing what is going on and of coordinating all privatization activities.

Mr. Fouad then addressed the issue of the motivation of the members of the Boards of Directors of the companies which are candidates for privatization to privatize. He identified 2 factors:

(1) the policy of the government
(2) monetary reward.

One of the main components at 6% of the performance matrix. In addition the profit on the sale of the affiliated company goes toward the 80% of the matrix reflecting the profitability of the affiliated companies in the H/. The profit on the sale of an affiliated company is allocated as follows:



199

- 5% legal reserve
- 10% statutory reserve
- 5% to owners and employees, with 10% ( at least) of the 5% to the employees to a maximum of their salaries for one year.
- 5% (as a maximum) for the Board of Directors, at the discretion of the General Assembly. This can reach 2MM L.E. for 11 people; a nice piece of change!
- 75% this balance can be distributed to the employees, at the discretion of the General Assembly.

Mr. Fouad noted that Dr. Ebeid has the authority to change the HC chairmen. He could have done so when he became Minister of Privatization; however was it reasonable to expect to find 27 executives (the # of HCs at the time) knowledgeable enough about the private sector to manage those HCs? Mr. Fouad believes this has to be done gradually. The same thing is true of executives in the affiliated companies. Some boards of directors have been replaced in the affiliated companies, strictly for not meeting performance standards, according to Mr. Fouad.

The holding company chairmen's contracts expire in September of 1995.

In concluding Mr. Fouad noted that the PUs need to be continued. Privatization is new to Egypt and demands skills which did not exist in the country when the process was started.

## Section 11

**IBTCI proposed scheme for nationwide Business Units Identification Codes (BUIC).**

201

## BUSINESS UNIT IDENTIFICATION CODES (BUIC)

### LAW 203 COMPANIES

### 01 00 Spinning & Weaving & Ready-Made Clothes

01 01 Arab Carpet & Upholstery Company
01 02 Cairo Dyeing & Finish Company
01 03 Dakahila Spinning & Weaving Company
01 04 Damietta Spinning & Weaving Company
01 05 Delta Cotton Ginning Company
01 06 Delta Spinning & Weaving Company
01 07 The Egyptian Products Sales Company
01 08 Fashion Wear Home Company (HANNAUX, PONTRIMOLI)
01 09 Al Kahira Cotton Company
01 10 Misr Holwan Spinning & Weaving Company
01 11 Misr Company for Manufacturing Textile & Clothing Equipment
01 12 Misr Spinning & Weaving Company (Mehalia Kobra)
01 13 El Nasr Clothing & Textiles Company (KABO)
01 14 Orient Linen & Cotton Company
01 15 El Sharkia Spinning & Weaving Company
01 16 Societe Misr Pour La Rayonne
01 17 United Company for Trade & Distribution

### 02 00 Textile Manufacturing and Trade

02 01 Alexandria Spinning & Weaving Company
02 02 Consumption Good & Clothes Company (SEDNAWI)
02 03 Egyptian Company for Wool Spinning & Weaving (Wooltex)
02 04 Misr Beida Dyers Company
02 05 Misr Fine Spinning & Weaving Company (Kafr ElDawar)
02 06 Misr Shebin ElKom Spinning & Weaving Company
02 07 The Modern Textiles Company
02 08 Modern Wearing Company (BENSAION, ADDS, RIVOLI)
02 09 El Nasr Spinning, Weaving & Dyeing Company (Mehalia Kobra)
02 10 El Nasr Wool & Selected Textile Company (STIA)
02 11 National Spinning & Weaving Company (Kafr El Dawar)
02 12 Omar Effendi Shops Company
02 13 Port Said Cotton Export Company
02 14 Port Said Spinning & Weaving Company
02 15 El Solf Spinning & Weaving Company
02 16 Uniarab Spinning & Weaving Company

## 03 00 Cotton and Foreign Trade

03 01 Alexandria Commercial Company
03 02 Arab Cotton Ginning Company
03 03 Arab Foreign Trade Company
03 04 Cairo Clothing & Hosiery Company (TRICONA)
03 05 Cairo Silk Textiles Company
03 06 The Cotton Trading & Export Company
03 07 Eastern Cotton Company
03 08 Egyptian Company for Chemical Trading & SEGAL
03 09 Egyptian Company for Electricity Installation (SHAHER & ROMNY)
03 10 Establishment Industries Pour La Bale et Le Cotton
03 11 General Company for Engineering Works
03 12 The General Jute Products Company
03 13 Middle Egypt Spinning & Weaving Company
03 14 Misr Car Trading Company
03 15 Misr Cotton Ginning Company
03 16 Misr Import & Export Company
03 17 El Nasr Import & Export Company
03 18 Nasr for Spinning, Weaving & Knotting Company (Shourbagy)
03 19 The Nile Cotton Ginning Company
03 20 Societe Commerciale Du Bois
03 21 Societe Misr Pour L'Exportation Du Cotton
03 22 Upper Egypt Spinning & Weaving Company

## 04 00 Engineering Industries

04 01 Abuqir Fertilizer & Chemical Industries Company
04 02 Alexandria Metal Products
04 03 Arab Company for Transistor Radio & Electrical Equipment
04 04 Cairo Metal Products Company
04 05 The Delta Industrial Company (IDEAL)
04 06 The Egyptian Cement & Pipes Company (SIEGWART)
04 07 Egyptian Copper Factory Company
04 08 Egyptian Electro Cable Company
04 09 The Egyptian Light Transport Manufacturing Company
04 10 Egyptian Mechanical Precision Industry Company (SABI)
04 11 Misr Engineering & Tool Company (MICAR)
04 12 El Nasr Automotive Manufacturing Company
04 13 Nasr Boiler & Pressure Vessel Manufacturing Company
04 14 Nasr Engineering & Refrigeration (KOLDAIR)
04 15 Nasr Forging Industry Company

04 16 El Nasr Company for Rubber Products
04 17 El Nasr Company for Television & Electronics
04 18 El Nasr Company for General Engineering
04 19 PHILLIPS
04 20 Springs & Transport Needs Manufacturing Company
04 21 The Tractor & Engineering Company
04 22 The Transport & Engineering Company

## 05 00 Metallurgical Industries

05 01 El Ameria Cement
05 02 Asslut Cement Company
05 03 Delta Steel Mill Company
05 04 Egyptian Fero Alloys Company
05 05 Egyptian Iron & Steel Company
05 06 Egyptian Company for Metallic Cons. (METALCO)
05 07 Erection & Industrial Services Company
05 08 General Egyptian Company for Railway Wagons
05 09 Generalo Metals Company
05 10 The General Nile Company for River Transportation
05 11 The General Nile Company for Water Transportation
05 12 Misr Aluminum Company
05 13 El Nasr Castings Company
05 14 El Nasr Company for Coke & Chemicals
05 15 El Nasr Steel Pipes & Fittings
05 16 The National Metal Industries

## 06 00 Mining & Refractories

06 01 Abu Zaabal Fertilizer & Chemical Company
06 02 Eastern for Tobacco & Cigarette Company
06 03 Egyptian Company for Refractories
06 04 Egyptian Gypsum, Marble & Quarries Company (GYMCO)
06 05 General Company for Mineral Wealth
06 06 Helwan Portland Cement Company
06 07 El Nasr Glass & Crystal Company
06 08 El Nasr Hardboard Company (FARADCOUR)
06 09 El Nasr Particle Board & Resins (MANSURA)
06 10 El Nasr Phosphate Company
06 11 El Nasr Company for Refractories & Ceramics (SORNAGA)
06 12 El Nasr Salines Company
06 13 National Cement Company (AL KAWMEYA)
06 14 Porcelain Dinner Ware & Utility Ware

06 15 Red Sea Phosphate Company
06 16 Samd Bricks Company
06 17 Sinai Manganese Company
06 18 Societe Financiers et Industrielle Egyptian
06 19 Tourah Portland Cement Company

## 07 00 Chemical Industries

07 01 Alexandria Portland Cement Company
07 02 Canaltex Flooring Company
07 03 Dyestuffs & Chemicals Company
07 04 Egyptian Chemical Industries (KIMA)
07 05 Egyptian Leather Manufacturing Company
07 06 Egyptian Plastics & Electrical Industries
07 07 Egyptian Company for Shoes (BATA)
07 08 The General Company for Batteries (Liq.)
07 09 General Company for Trade & Chemicals
07 10 Industrial Gases Company
07 11 Kafr Elzayat Insecticides & Chemicals Company
07 12 Misr Chemical Industries Company
07 13 El Nasr Company for Fertilizers
07 14 El Nasr Company for Leather Tanning
07 15 El Nasr Company for Pencil Manufacturing & Graphite Products
07 16 The Nile Match Company
07 17 Paints & Chemical Industries Company
07 18 Paper Converting Company (VERTA)
07 19 Societe du Papier du Moven Orient ( SIMO)
07 20 Societe Generation d'Industrial du Papier (RAKTA)
07 21 Societe Industrielle Moharram Press
07 22 Societe Nationale de Matiers Plastiques
07 24 Tanta Flax & Oil Company

## 08 00 Pharmaceuticals

08 01 Alexandria Company for Pharmaceutical & Chemicals Industry
08 02 Arab Drug Company (ADCO)
08 03 Chemical Industries Development (CID)
08 04 Egyptian Pharmaceutical Trading Company
08 05 El Gomhoria for Pharmaceutical & Medical Appliances
08 06 Kahira Pharmaceutical & Chemical Industries
08 07 Medical Packing Company
08 08 Memphis Chemical Company (MEMOC)
08 09 Misr Company for Pharmaceutical Industries

## 09 00 Food Industry

09 01 Alexandria Confectionery & Chocolate Company
09 02 Alexandria Oil & Soap Company
09 03 Cairo Oil & Soap Company
09 04 Edfina Company for Preserved Foods
09 05 Egyptian Bottling Company (PEPSI COLA)
09 06 The Egyptian Company for Fish Marketing
09 07 The Egyptian Company for Foods (BISCO MISR)
09 08 Egyptian Company Packing & Distributing Foodstuff
09 09 The Egyptian Salt & Soda Company
09 10 Egyptian Company for Starch & Glucose
09 11 Egyptian Starch, Yeast & Detergents Company
09 12 The Egyptian Sugar & Distillation Company
09 13 The Egyptian Company for Wholesale Trade
09 14 Extracted Oils Company
09 15 The General Company for Wholesale Trade
09 16 Middle Egypt Flour Mills Company
09 17 Misr Dairies & Food Company
09 18 Misr Oil & Soap Company
09 19 El Nasr Bottling Company (COCA COLA)
09 20 El Nasr Company for Dehydrating Agricultural Products
09 21 El Nasr Company for Preserved Foods (KAHA)
09 22 The Nile Oil & Soaps Company
09 23 North Cairo Flour Mills Company
09 24 Tanta Oil & Soap Company

## 10 00 Mills & Silos

10 01 Al Ahram Company for Consumption Outlets
10 02 Alexandria Company for Consumption Outlets
10 03 Alexandria Rice Mills Company
10 04 Behera Rice Mills Company
10 05 Dakahila Rice Mills Company
10 06 Damietta & Belkas Rice Mills Company
10 07 East Delta Flour Mills Company
10 08 General Company for Greater Cairo Bakeries
10 09 General Company for Silos & Storage
10 10 Gharbiah Rice Mills Company
10 11 Kafr ElSheik Rice Mills Company
10 12 Nile Company for Consumption Outlets
10 13 North Alexandria Flour Mills Company
10 14 Rachid Rice Mills Company

10 15 Rice Marketing Company
10 16 Sharkiah Rice Mills Company
10 17 South Alexandria Flour Mills Company
10 18 South Cairo Flour Mills Company
10 19 Upper Egypt Flour Mills Company
10 20 West & Middle Delta Flour Mills Company

## 11 00 Agricultural Development

11 01 Alexandria Company for Ice & Cooling
11 02 Egyptian Agricultural Company
11 03 The Egyptian Cotton Pressing Company
11 04 Egyptian Company for Meat & Milk Production
11 05 Egyptian Company for Meat, Poultry & Foodstuff Supply
11 06 Mariut Agricultural Company
11 07 Middle Delta Agricultural Company
11 08 El Nahda Agricultural Company
11 09 The Nile Company for Export Agricultural Crops
11 10 North Tahrir Agricultural Company
11 11 El Bubariya Company for Export of Agricultural Products
11 12 Nubariya Seed Production Company (NOBASID)
11 13 Production & Agricultural Services Company
11 14 Ramsis Agricultural Services Company
11 15 San El Hagar Agricultural Company
11 16 South Tahrir Agricultural Company
11 17 United Company for Poultry Production
11 18 Upper Egypt Company for Agriculture
11 19 El Wady Company for Export of Agricultural Products
11 20 West Nubariya Agricultural Company

## 12 00 Public Works & Land Reclamation

12 01 Arab Bureau for Design & Engineering Consultation
12 02 The Arab Company for Land Reclamation
12 03 Egyptian Akaraia Company
12 04 The Egyptian Dredgine Company
12 05 Egyptian Irrigation Drainage & Civil Construction Company
12 06 Engineering Designs & Irrigation Projects Consulting Company
12 07 The General Company for Land Reclamation
12 08 General Company for Resources & Ground Water (REGWA)
12 09 The General Mechanical Excavation Company
12 10 High Dam Company for Civil Works
12 11 Societe Anonyme De Hahara

12 12 Upper Egypt Dredging Company
12 13 Wady Kom Ombo for Land Reclamation

## 13 00 National Construction

13 01 Alexandria General Company for Contracting
13 02 Arab Company for Foundation (VIBRO)
13 03 Atlas General Company for Contracting
13 04 Cairo Company Public Building & Preferable Houses
13 05 Egyptian Contracting Company (ELABD)
13 06 General Arab Company for Contracting
13 07 General Egyptian Company for Buildings
13 08 General Company for Foundation
13 09 General Contracting Company for Sanitary Installation
13 10 El Giza General Company for Contracting
13 11 El Maadi Company for Development & Reconstruction
13 12 Madinat Nasr Company for Housing & Development
13 13 El Mahmoudia Company for Contracting
13 14 Misr Concrete Development Company
13 15 Misr ElGadida Company for Housing & Development
13 16 El Nasr for Building & Construction Company (EGYCO)
13 17 Nasr General Contracting Company
13 18 El Nasr Public Utilities & Installation Company
13 19 The Nile General Company for Bridges
13 20 The Nile General Company for Construction
13 21 Nile for Reinforced Concrete Company (SPECO)
13 22 Prefabricated Houses Company
13 23 Red Sea General Company for Contracting
13 24 El Saeed General Company for Contracting
13 25 El Shams Company for Housing & Development
13 26 Societe Egyptian D'Enterprise (Moukhtar Ibrahim)
13 27 El Wady General Company for Contracting

## 14 00 Housing, Tourism & Cinema

14 01 El Ahram for Beverages Company
14 02 Cairo Company for Housing & Development
14 03 The Canal General Company for Contracting
14 04 The Delta General Company for Contracting
14 05 Development & Popular Houses Company
14 06 Egyptian General Company for Tourism & Hotels (EGOTH)
14 07 Egyptian Hotels Company
14 08 Egyptian Company for Prefabricated Building

14 09 Egyptian Vineyards Company
14 10 The Egyptian Wood Working Company
14 11 El Gomhoria General Contracting Company
14 12 Grand Hotels of Egypt Company
14 13 El Maamoura Company for Housing & Development
14 14 Misr Company for Sound & Light
14 15 Misr Company for Studios & Film Production
14 16 Misr Company for Theatre & Movies Distribution
14 17 Misr Free Shops Company
14 18 Misr Hotels Company
14 19 Misr Travel Company
14 20 El Nasr Company for Housing & Development
14 21 United Housing

## 15 00 Construction & Electricity Distribution

15 01 Alexandria Electricity Distribution Company
15 02 Behira Electricity Distribution Company
15 03 Cairo Electricity Distribution Company
15 04 Cairo General Company for Contracting
15 05 Canal Electricity Distribution Company
15 06 The General Company for Construction (ROULAN)
15 07 The General Company for Electrical Projects
15 08 High Dam Electricity & Industrial Projects Company (HIDELCO)
15 09 Industrial & Engineering Projects Company
15 10 Misr Mechanical & Electrical Project (KAHROMICA)
15 11 El Nasr for Civil Works Company
15 12 El Nsr Transformers & Electric Industries
15 13 North Delta Electricity Distribution Company
15 14 North Upper Egypt Electricity Distribution Company
15 15 South Delta Electricity Distribution Company
15 16 South Upper Egypt Electricity Distribution Company

## 16 00 Egyptian Transport, Trade & Services

16 01 Canal Company for Shipping Agencies
16 02 Damietta Containers Handling Company
16 03 The General Nile Company for Auto Repairs
16 04 The General Nile East Delta Bus Company
16 05 The General Nile Middle Delta Bus Company
16 06 The General Nile Upper Delta Bus Company
16 07 The General Nile West Delta Bus Company
16 08 Misr Foreign Trade Company

16 09 The Nile Company for Direct Transport
16 10 The Nile Company for Transport Works

## 17 00 Maritime Transport

17 01 Alexandria Containers Handling Company
17 02 Alexandria Company for Shipping Agencies
17 03 Alexandria Shipyard
17 04 The Egyptian General Warehouse Company
17 05 Egyptian Marine Supply & Contracting Company
17 06 Egyptian Company for Maritime Transport
17 07 The Egyptian Navigation Company
17 08 Egyptian Ship Building & Repairs Company
17 09 General Egyptian Irrigation Workshops Company
17 10 The Nile Company for Goods Transport
17 11 The Nile Company for Heavy Transport
17 12 The Nile Company for Inland Transport
17 13 United Arab Stevedaring Company

## JOINT VENTURES GROUP

## 21 00 Agricultural Sector

21 01 Aswan El Watania Agricultural Engines Company
21 02 El Watnia Seed Production & Agricultural Products
21 03 Egyptian Agricultural Seed Production
21 04 El Suez Food Security Company
21 05 El Fayoum Food Security Company
21 06 Kafr El Sheikh El Watnia Food Security Company
21 07 El Menia Food Security Company
21 08 El Menia Food Security Company
21 09 El Gharbia Agricultural Development & Food Security
21 10 El Sharkia Food Security
21 11 Cairo Aswan El Watnia Poultry & Egg Production
21 12 Asiout El Watnia Poultry & Egg Production
21 13 El Ismailia Misr Poultry
21 14 El Ismailia El Watnia Animal Production Development
21 15 Port Said Poultry & Egg Production
21 16 El Fayoum Cattle Fodders
21 17 Cairo Poultry Company
21 18 N/A
21 19 El Islamia Animal Prod. Company
21 20 El Sharki El Watnia Table Egg Production

21 21 Misr Aswan Fishing & Fish Industry Company
21 22 El Ismailia Fish & Suck Farms Company
21 23 Qena Engines & Agricultural Development Company
21 24 El Canah Food Industry
21 25 Misr Urbanization Engines Irrig. & Land Reclamation
21 26 El Senbelween El Watnia Food Security Projects
21 27 Misr Pioneer Seed Company
21 28 Asiout El Watnia Food Security Company
21 29 N/A
21 30 Port Said Agricultural Projects
21 31 Alexandria Foods
21 32 El Mansoura Poultry

## 22 00 Housing Construction & Build Materials Sector

22 01 Egyptian Italian Engineering & Construction Company
22 02 El Watnia Housing & Prof. Syndicates Company
22 03 Mechanical Foundations & Construction Company
22 04 Egyptian Pre Stressed Concrete Company
22 05 El Sharki El Watnia Contracting Company
22 06 Arabian Construction Consulting Company
22 07 Egyptian Kuwaiti Real Estate Development Company
22 08 Misr Construction Company
22 09 Zahraa El Maadi Investment & Construction Company
22 10 Schendler Egypt Elevators
22 11 El Kuwaiti Egyptian Building Materials Company
22 12 Arabian Wood Products Company
22 13 Misr Iran Furniture Company
22 14 Misr Aswan Marble & Granite Company
22 15 Middle East Glass Industries
22 16 Akro Misr Company
22 17 Misr Brick Production Company
22 18 Arabian Building Material Production & Assembly
22 19 Arabian Building Materials
22 20 Egyptian Spanish Asbestos Products
22 21 Ismailia Bricks and Building Materials
22 22 Joint Wood Industries
22 23 Egyptian American Sanitary Products
22 24 Suez Cement Company
22 25 Misr Iran Building Materials
22 26 El Behyra Bricks & Building Materials Company
22 27 Beny Suef Bricks & Building Materials Company
22 28 10th of Ramadan Investment in Building Materials

22 29 Misr El Fayoum Building Material
22 30 International Pipes Porcelain and Ceramics
22 31 Otis Elevators Company
22 32 10th of Ramadan Constr.
22 33 El Watnia Glass & Crystal
22 34 Port Said Constion & Building Materials
22 35 Constructional, Urbanization & Building Engineering
22 36 Domlat El Watnia Wood Imports & Manufacturing
22 37 Qena El Watnia Brick & Building Materials

**<u>23 00</u>** **<u>Industry Sector</u>**

23 01 Egyptian German Metallic Construction Company
23 02 Toyota Egypt
23 03 Egyptian German Dyes
23 04 Johnson Wax
23 05 Egyptian Aluminum Products
23 06 Wilkon Industrial Development
23 07 Chloride Egypt
23 08 Ismailia El Watnia ReadyMade Cloth
23 09 Egyptian French Rubber Company
23 10 Alexandria Cutting Tool
23 11 Misr Cooling & Air Conditioning (Miraco)
23 12 Narden Misr International
23 13 Ismailia Misr Cooling Company
23 14 Delta Sugar Company
23 15 Arabian German Cloth
23 16 Misr Iran Spinning & Weaving
23 17 Misr France Sewing
23 18 Vestia Ready Made Cloth
23 19 El Wayler Alfred Pumps
23 20 Misr Cooling & Storing
23 21 El Mohandes El Watnia Macron Industry
23 22 Misr Food Company
23 23 Egyptian German Electrical Products
23 24 El Alamia Gums and Sweets
23 25 Arab Contractors Electrical Industries
23 26 Arabian Porcelain
23 27 Arabian Medical Glass
23 28 Egyptian International Medical Industries
23 29 Misr El Amyra Spin & Weave
23 30 N/A
23 31 Misr Carbonated Beverages

23 32 El Mohandes Uton Painting & Dyes
23 33 N/A
23 34 Alexandria El Watnia Iron & Steel
23 35 Misr Austria Plastiques
23 36 Samenood Textiles & Threads
23 37 Misr Golf Oil Manufacturing
23 38 Saudi Egyptian Industrial
23 39 Egyptian Valves
23 40 El Mansoura Espania Ready-Made Cloth
23 41 Swiss Farma
23 42 El Shakia Hokset
23 43 El Watnia Corn Products

## 24 00 Power Sector

24 01 Petroleum Air Services
24 02 Natural Gas Projects
24 03 Egyptian Digging
24 04 Petroleum Projects & Technical Investments
24 05 Petroleum Projects & Chemical Industries (Enpi)
24 06 Egyptian French Renewable Energy Products
24 07 Egyptian Power Engineering
24 08 Electric Power Contracting

## 25 00 Transport Sector

25 01 Misr EDKO Marine Transport
25 02 El Watnia Navigation
25 03 Misr Marine Transport
25 04 El Pharonic Navigation
25 05 Egyptian American Transport, Shipping & Uploading
25 06 Egyptian French Railroad Renewals and Maintenance
25 07 Egyptian German Railroad Renewals and Maintenance
25 08 Port Said El Watnia Auto Transport
25 09 El Ismailia El Watnia Transport
25 10 Egyptian Car Services & Maintenance
25 11 Iranian Egyptian Navigation

## 26 00 Service Sector

26 01 Arabian Consultancy Home
26 02 Dar Mayo Printing and Publication
26 03 Real Estate Management

26 04 Real Estate Management
26 05 Medical Professional Investment
26 06 El Mahandes El Watnia Information
26 07 Arabian Swiss Engineering
26 08 Suez Electronics Company
26 09 Penta Suez
26 10 Microfilm & Infomation Technology
26 11 Egyptian Money Transport Securities
26 12 Misr International Hospital
26 13 Small Projects Credit Risk Insurance
26 14 Medical Prof. Medical

## 27 00 Internal & External Trade Sector

27 01 Arabian Joint Investment Company
27 02 Misr Investment & Development
27 03 Kuwaiti Egyptian Investment
27 04 El Nasr El Fatim Investment
27 05 Multi Trade Parties
27 06 Sohag Investment & Development
27 07 Saudi Egyptian Investment & Finance
27 08 Port Said Trade & Development
27 09 El Ahila Investment & Construction
27 10 Arab Contractors Investment
27 11 Suez Canal Investment
27 12 Egyptian Abroad Investment & Development
27 13 El Nasr El Fatim Trade
27 14 Arabian Investment Company
27 15 El Ismailia El Watnia Real Estate Development
27 16 Misr Financial Investment
27 17 Qaroun Investment & Development
27 18 Egyptian Italian Investment & Development
27 19 Misr Investment
27 20 El Ahlia Real Estate & Investment

## 28 00 Tourism Sector

28 01 Arabian International Hotel & Tourism
28 02 Misr Real Estate & Touristic Investment
28 03 Misr Iran Administrative & Touristic Establishment
28 04 El Temsah Touristic Projects
28 05 Misr Sinai Tourism
28 06 El Ismailia Tourism

28 07 Misr Golf Hotels & Tourism
28 08 El Gexirah Hotels & Tourism
28 09 Touristic Supplies
28 10 Arabian Touristic Hotels Investment
28 11 Touristic Urbanization
28 12 Triad Misr Hotels
28 13 El Montazeh Investment & Tourism
28 14 Sinai Hotels & Diving Clubs
28 15 Arab World/Egypt Air Hotels
28 16 Misr Transport & Touristic Services
28 17 El Ismailia Gedidah Investment & Tourism
28 18 Misr Aswan Tourism
28 19 Elgoth Oberol Hotel Management
28 20 Arabian Joint Hotels & Tourism
28 21 Simeramis Hotels
28 22 Misr Touristic Villages
28 23 Port Said Touristic Development
28 24 El Mokatem Hotels & Touristic Establishments
28 25 Markia Development & Tourtistic Management
28 26 Misr International Towers
28 27 Abo Dabhi Touristic Inv.

**50 00 STATE BANKS**

51 00 Bank of Alexandria
52 00 Banque Du Caire
53 00 National Bank of Egypt
54 00 Banque Misr

**60 00 JOINT VENTURE BANKS**

61 00 Alexandria Commercial & Maritime Bank
62 00 Alexandria Kuwait Bank
63 00 Banque Du Caire et De Paris
64 00 Cairo Barclays International Bank
65 00 Cairo Far East Bank
66 00 Commercial International Bank
67 00 Credit International D'Egypte
68 00 Egypt Arab African Bank
69 00 Egyptian American Bank
70 00 Egyptian Gulf Bank
71 00 Egyptian Saudi Finance Bank
72 00 Export Development Bank of Egypt

| | |
|---|---|
| 73 00 | Housing and Development Bank |
| 74 00 | Islamic Bank of Development |
| 75 00 | Misr America International Bank |
| 76 00 | Misr Exterior Bank |
| 77 00 | Misr International Bank |
| 78 00 | Misr Iran Development Bank |
| 79 00 | Misr Romanian Bank |
| 80 00 | National Bank of Development |
| 81 00 | National Societe Generale Bank |
| 82 00 | Suez Canal Bank |
| 83 00 | El Togarioun Bank |