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***SEGIR Privatization
Investment Banking Unit Project***

Final Report

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**SEGIR Privatization
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Table of Contents

- I. Project Overview and Scope
- II. Project Implementation
 - A. Public Enterprise Office
 - B. Ministry of Trade and Supply

SEGIR Investment Banking Unit

I. Project Overview and Scope

The United States Agency for International Development (USAID)-funded project entitled "SEGIR Privatization: Investment Banking Unit" (the Project) managed by Barents Group LLC began its performance period on November 10, 1998 and was completed on June 7, 1999. The overall objective of the project was to provide investment banking technical assistance to accelerate Egypt's privatization program. The project was to have two beneficiaries, the Ministry of Public Enterprise/Public Enterprise Office (PEO) and the Ministry of Trade and Supply (MoTS).

The program was initiated by USAID, the PEO and MoTS to serve as a bridge between the previous phase of USAID funding to the Government of Egypt on Privatization and the anticipated new funding under the SEGIR contact. The project was to serve as an advisory center to companies and the ministries on Privatization related issues.

For many reasons, including the possibility of the project being considered a conflict of interest and therefore precluding Barents from bidding on future privatization work in Egypt, the scope of work for the contract was substantially modified just before the start of the contract. The scope of work became less transaction oriented, in fact, the contract disallowed the team to work on specific transactions. Instead the project focused on providing advice on international standards for the tendering and privatization processes. A new scope of work was never formally developed, but the project moved forward with the basic understanding that the project would assist with advising the PEO, Holding Companies and the MoTS on international standards for tendering procedures and privatization.

II. Project Implementation

A. Public Enterprise Office

During the Fall of 1998, the Minister of Public Enterprises announced that the policy of the Government of Egypt would be to utilize investment advisors in conducting future privatizations of Egyptian enterprises and that the preference would be to choose in favor of strategic investors/anchor investors over public offerings. Following this policy shift, and during the first few months of our project, the Minister also transferred the responsibility for privatizing enterprises and tendering for investment advisors from the PEO to the Holding Companies. This meant that the PEO's responsibility was no longer to conduct the tender, but to help establish international norms within Egypt, disseminate this information to the Holding Companies and the market at large, as well as to train the Holding Company staff to ascertain that they had the necessary knowledge and skills to carry out the privatization process according to these norms.

Barents Group worked closely with the PEO to assist them in meeting these requirements. Assistance was provided in the following areas:

- ◆ developed generic contract documents for privatization;
- ◆ trained the staff from the PEO and Holding Companies on privatization-related issues;
- ◆ advised the PEO on international standards for tendering;
- ◆ assisted the PEO in developing seminars to disseminate information to the Holding Companies; and
- ◆ provided direct assistance directly to Holding Companies on international standards for tendering.

Generic Contracts and Documents

The team developed several sample documents for use by the Holding Companies in the privatization process that were provided to the PEO and USAID. The documents provided sample contracts, as well as descriptions of the contract's components and their importance. The contracts also include several clause options that show how the contract could be modified to meet the needs of specific situations.

A Manual for Holding Companies, Tender Documents Draft – Completed in December 1998. This document is meant for use by Holding Companies when privatizing companies and includes:

- ◆ Draft Financial Advisory Agreement
- ◆ Draft Model Contract for Best Efforts Sale to the Public of Shares Represented by Global Depository Receipts
- ◆ A sample request for tenders

Draft Business Operation and Management Agreement – January 1999

This agreement is the business lease agreement discussed in the Scope of Work for the project. We chose a different title to avoid any possible legal misunderstandings between this contract and what is traditionally understood as a lease contract.

Share Purchase Agreement for Sale of Shares to International Investors – February 1999

This agreement covers the sale of shares to international investors. In addition to providing a sample contract, the document explains the most important parts of the document and why they are included. It discusses international standards and how a Share Purchase Agreement is used to regulate the terms and conditions of the share sale and to eliminate uncertainty where no common standard exists or where several different standards could apply.

Management Buy-Out Agreements for Privatization Programs – February 1999

This agreement covers the sale of a controlling interest of the company (via shares) to a group composed of some or all of the managers of that business. The document includes a sample contract, as well as definitions of specific terms in the contract and suggests why certain clauses should be used in certain cases.

Manual on Concession Agreements -- April 1999

Due to the inherent nature of Concession Agreements, developing a generic or sample agreement was just not possible. The agreement is inextricably linked to the law that

governs the industry and concessions. Therefore, with the approval of USAID, our Legal Advisor prepared a document that provides information on what a concession agreement is, the types of activities commonly dealt with by concessions, the different types of concession agreements, other similar agreements, BOOT, payments by the operator of a concession, the process of awarding a concession, some typical topics covered in a concession agreement, monopoly and competition issues, and tariffs. In addition the document covers approaches to regulations, regulatory authorities and agencies, and provides a sample law on concessions.

Information Memorandum Check List – April 1999

Provides a discussion on the general purpose and reasons for creating an Information Memorandum and a list of items, including definitions of what should be included in an Information Memorandum.

With the exception of the Information Memorandum Check List and the Concessions paper, all of the above documents were translated into Arabic over the course of the project.

Formal Training

A training needs assessment was completed by the Project Team in early February. During the needs assessment, 30 individuals (19 Egyptian, 11 Expatriate) were interviewed in order to identify areas with the PEO and Holding Companies where training was needed as well as how best to conduct the training in order for it to have the greatest impact.

Due to some situations that occurred in the market, the training plan was not implemented in its original form. Modifications were made in order to address more immediate needs as they arose. For example, the second Legal Seminar and the Search by Anchor Investor course were never carried out. Instead the Team developed and ran a two-day seminar called Tendering for an Investment Advisor.

Seminar on Tendering Procedures for Anchor Investor

Barents and the PEO held a two-day seminar on May 5 and 6, 1999 on Tendering Procedures for an Investment Advisor/Promoter.

The first day of the seminar was dedicated to the Senior Management of the Holding Companies and covered the nuts and bolts of international standards for tendering procedures for an investment advisor. Presentations were made on subjects ranging from why a company may want to hire an investment advisor to assist in finding an Anchor Investor, to the detailed procedures of issuing and reviewing a tender, to the legal aspects of the tendering procedures. One of the most pressing areas covered concerned the different ways to price a contract.

For the second day the audience was expanded to include not only Holding Companies, but representatives of the Investment Advisors and others involved in the privatization process in Egypt. The purpose of the day was to provide an open forum for discussion to address gaps of understanding and procedures that exist between the Holding Companies and the Investment Advisors. The afternoon was devoted to

offering a “market place” where Investment Advisors and Holding Company representatives could meet to talk about pending deals and the possibility of working together.

Legal Seminars

15 March 1999 – A seminar was held at the Semiramis Hotel for legal advisors from the Holding Companies, the PEO and other legal specialists. The seminar covered in detail the Share Purchase Agreement. Over 52 people attended the seminar which was given by Mr. Brian Hoyes and Dr. Ibrahim Ali Hassan, Vice President of the State Council. Attendees included representatives from the PEO, USAID, the EU, Capital Markets Authority, DAI-APRP, The Cairo Stock Exchange and the following Holding Companies: Metallurgical, Marine Transport, Construction, Mining & Refractories, Chemicals, Cotton & Internal Trade, Transportation, Engineering, Food Industries, Spinning and Weaving, Flower & Rice Mills and Pharmaceuticals.

A second legal seminar was scheduled to take place at the end of April. However, the PEO decided to postpone the seminar and instead focus its efforts on the seminar on Tendering Procedures that was to take place in early May.

Using the Internet to conduct Industry Research and Information on Anchor Investors.

In March and April, Barents contracted with RITSEC to hold three training programs for the staff of the Holding Companies, the PEO, and the Ministry of Trade and Supply. Each three-day course was attended by 20 participants. The seminar covered the basics of how to use the Internet to conduct a targeted search and gather information. The purpose of the course was to provide the Holding Companies with a reliable resource for gathering information that would be useful in the privatization process as well as day-to-day business.

Search by Anchor Investor

The Team developed a course entitled “Search by Anchor Investor” and presented it to the PEO. However, due to the late notice and the priority given to the Tendering for an Anchor Investor seminar, it was never offered. The course addresses the methodology the management of an Anchor Investor uses in evaluating different investment opportunities. It includes a lecture as well as an in-depth case study.

Advisory and Informal Training with the PEO

The Barents Team provided continuous advice to the PEO on international standards for tendering and privatization, as well as conducting informal meetings and training programs for the PEO staff on the documents being developed. Often times they were asked to provide an opinion on an idea or to answer general questions regarding a transaction taking place in the marketplace. The Team also made several attempts to meet with Holding Companies directly to answer questions they may have with regards to the tendering process. The Team attempted to keep an open-door policy, always prepared and willing to help the PEO or the Holding Companies whenever requested.

Assistance provided to the PEO and Holding Companies included:

- ◆ November 1998 – Conducted a small seminar for Senior and junior staff of the PEO on Tendering Process.
- ◆ December 1998 -- *File for Short List of Promoters & Underwriters for the Public Enterprise Sector*

The PEO decided to develop a short list of investment advisors that could be used by the 16 Holding Companies in tendering for Anchor Investors. Barents was asked to help review submissions from the investment advisors/promoters, design a spreadsheet to record all of the responses, sort the submissions in order of size and interests, and provide the results to the PEO. The Team completed this task and in December presented the PEO with a File for the Short List of Promoters & Underwriters for the Public Enterprise Sector. Copies of the manual were sent to the Holding Companies for their review and comment.
- ◆ December 1998 – Conducted a small seminar with the junior staff of the PEO on batching methodologies.
- ◆ January 1999 – Conducted a small seminar with the PEO staff on the methodology used for direct privatization sales and the use of information sheets. Addressed the handling of information flows, recording and controlling exchanged information, confidentiality issues and identified steps to be taken during the negotiation process.
- ◆ January 1999 – Provided comments on the methodology for the direct privatization of five companies by the Cotton & Internal Trade and Spinning & Weaving Holding Companies.
- ◆ February 1999 – Conducted a small seminar with DAI for the Spinning and Weaving Holding Company on Management and Leasing Contracts.
- ◆ February 1999 – Advised the Textiles, Manufacturing and Trade Holding Company on Leasing Issues.
- ◆ February 1999 – Advised the PEO staff on Information Packages and Information Memorandum.
- ◆ March 1999 – Participated in a seminar conducted by DAI in Alexandria presenting the Management and Leasing Contract.
- ◆ March 1999 – On the request of the PEO, rendered an opinion on international standards for fee rates and structures for paying an investment advisor to carry out an anchor/strategic investor search.
- ◆ March 1999 – Advice to senior and junior staff of the PEO on the specifics of the tendering process. Answered numerous questions posed to the PEO from the Holding Companies. Provided the PEO with international norms for the process and structure of such tenders.
- ◆ April 1999 – Advised the Mining and Refractory Holding Company on international standards for tendering procedures, specifically addressing the different pricing options for such transactions.

B. Ministry of Trade and Supply

In November 1998, USAID started to provide assistance for supporting the privatization of joint-venture companies owned by the Ministry of Trade and Supply (MoTS). With such new responsibility, MoTS required assistance in developing a strategy for privatizing the 324 joint venture companies in its portfolio.

Barents provided assistance to the MoTS in organizing its portfolio, gathering necessary information from the companies and beginning the task of valuing companies and transferring its financials to international standards. In addition, the advisors provided needed assistance in developing a privatization strategy for the Ministry.

The Team began by compiling vital information for each company. Initially, the only information on the companies was their names and a few other assorted pieces of information. The inventory now includes the location, activity, joint venture partners, the partners nationality, the ownership breakdown between the Government of Egypt and the private sector, annual sales/revenues, annual profit after tax, number of employees, total bank debt, total equity, and the debt/worth ration.

The Team then analyzed the information gathered to batch the companies in order of priority for privatization. In accomplishing this task, such factors were considered as whether a company was publicly traded, if it had a current investor with substantial financial resources, and if it was substantially privately held. Other considerations included size (was it of sufficient size to attract a strategic investor?) and industry sector (was it in a sector that would be attractive to foreign investors?).

The Team then began gathering financial and non-financial data on several of the highest priority companies in order to conduct a company valuation and begin the process of converting the financials into either International Accounting Standards (IAS) or GAAP accounting standards. By the close of the project, assistance had been provided to the MoTS in valuing three companies, and the financials of approximately 35 top priority companies had been converted to IAS or GAAP.

Obviously, the Ministry of Trade and Supply needs substantial additional assistance. Within the six months of this project, the Team was able to begin this process by performing inventories of the companies and developing preliminary company profiles.

Training

The project provided more limited training to the MoTS. The Training Needs Assessment showed that the area of most need for MoTS was financial analysis training for the key privatization staff. Therefore, the Team developed and delivered two one-day courses on financial analysis.

Financial Analysis

Two financial analysis courses were held for the staff of the Ministry of Trade and Supply. The courses were attended by five members of the MoTS staff responsible for the Privatization activities of MoTS and covered such issues as International Accounting Standards, US GAP, and financial statement analysis. The courses were held in April 1998. In addition to the formal training courses, on-the-job training was carried out while completing the valuations.

Other Courses

Members of the MoTS staff were invited to attend all of the training courses offered as part of the Public Enterprise Office program.

Lessons Learned

The following provides a brief summary of the lessons learned during this project with the PEO and MOTS.

PEO

The authorization of the Holding Companies to sell their affiliated companies clearly changes the role of the PEO from intermediary to advisor. It is our observation that they are willing to provide advice to the Holding Companies but must have confidence in the capabilities and competence of the advisors. Based on our experience, we view the Holding Companies as likely to be requiring assistance in developing their own investment memorandum; tendering and negotiating with investment intermediaries; understanding requirements of strategic investors; initiating financial and operational restructuring; and, managing the implementation of organizational change in restructured enterprises or within the Holding Companies.

MOTS

The MOTS is very determined to sell the shares it holds in joint venture companies on behalf of the Government of Egypt. The current staffing levels are insufficient and significant training and assistance is necessary. The MOTS will require assistance in developing the capabilities of local professionals in the area of financial analysis, valuation, understanding capital markets, developing privatization strategies and negotiating transactions. Although MOTS is very supportive, considerable delays are encountered in obtaining any company information. These delays are likely to increase in the future. We recommend that any future assistance provided to MOTS consider these delays in obtaining information both in the design and execution of any project. One recommendation is for any future advisors to initiate gathering of company data in parallel to provide a continuous stream of company information for

the project team. Such an approach will require good project management and the monitoring of work among the teams. In addition, it is recommended that any future advisors meet with the CAA to better understand their needs and expectations of a valuation and privatization strategy for MOTS joint venture companies.