TECHNICAL ASSISTANCE TO SUPPORT THE REFORM ACTIVITIES OF THE GOVERNMENT OF EGYPT AND PROVIDE MANAGEMENT ACTIVITIES

Final Report

September 2004

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Technical Assistance to Support the Reform Activities of the Government of Egypt and Provide Management Activities (TAPR)

Final Report

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Executive Summary

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A. Introduction

The Technical Assistance to Support the Reform Activities of the Government of Egypt and to Provide Management Services (TAPR) project was a seven-year economic policy reform project funded by the U.S. Agency for International Development (USAID) and implemented by Chemonics International as prime contractor in partnership with the private sector and various ministries and departments of the government of Egypt. TAPR program activities promoted policy reform in Egypt by assisting the government of Egypt (GOE) and USAID in the development and implementation of the Development Support Programs, which sought to create a more favorable economic environment that stimulates increased investment and enables Egypt to meet the challenges of economic globalization.

The program contributed directly to USAID/Egypt's Strategic Objective No.16: Strengthening the environment for trade and investment. This objective was supported by three intermediate results for the TAPR project:

1. To provide technical assistance services to support the reform activities of the GOE aimed at improving the economic policy framework

2. To assist the Sector Policy Division of the Economic Growth Directorate (SP/EG) of USAID in supporting GOE reforms

3. To provide short-term quick response technical assistance services to USAID/Egypt in legal advice and services

TAPR accomplished these goals by working in the following primary areas:

- **Development Support Programs (DSP I and II).** TAPR provided ongoing technical advice for the design and analytical underpinning of a cash grant policy reform activity, Development Support Program (DSP I). In addition to drafting documentation for DSP I's approval, monitoring, and verification processes, the project prepared several reports on the status of DSP implementation that outlined the status of the indicators, problems in their implementation, and possible remedies. We also prepared the initial DSP II matrix and monitoring plan and completed the Activity Description Package and Monitoring and Evaluation Report.

- **Short-term technical assistance to support the government of Eygpt's efforts to implement policy reforms that support DSP I and II.** Activities included efforts aimed at:

    - Reforming the social insurance system

    - Strengthening the foundations for establishing real estate and mortgage finance laws
    - Iscreasing dialogue among members of academia and the public and private sectors on important economic issues
    - Strengthening the World Trade Organization Unit of the Ministry of Foreign Trade
    - Streamlining customs processes for imports and exports

- **Support for USAID/Egypt's Sector Policy Division of the Economic Growth Directorate.** TAPR provided economic reviews and assessments and translations of economic laws and decrees governing DSP policy areas.

B. Project Impact

Overall, the TAPR project demonstrated a significant positive impact, both directly and indirectly, on the economy, the people, and the government of Egypt. This conclusion is supported mainly by the considerable positive quantitative impacts to date of DSP I, in particular, and by the successful workshops and conferences highlighting key economic issues, to which TAPR has contributed considerably. Other positive effects of the project, including the mortgage and customs policy reform efforts, are still in their early stages and are likely to increase in the near term.

While many other factors have played a role, and Egypt may well have achieved many of these goals on its own, activities undertaken by the TAPR project have helped accelerate the process by providing advice on best practices and by supporting institutions dedicated to implementing them. This acceleration is an additional valuable benefit of the project. Competing successfully in the global business environment is a major challenge for many countries. With TAPR's assistance, Egypt is well on its way toward building the policies, skills, and competitive outlook necessary for successful entry into the multilateral trading system and the global economy.

SECTION I

Project Overview

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A. Introduction

Under the TAPR indefinite quantity contract, USAID issued 12 task orders encompassing a wide range of activities related to sector policy reform, including financial markets, trade liberalization, transition to a market economy, and investment and savings. This section provides a brief overview of each task order objectives and accomplishments,

B. Task Order #1: 1997-2004

A core staff composed of one long term expatriate and 10 Egyptian professional and support staff was mobilized to fulfill the key objectives of the project. Short-term consultants were recruited for specific technical assignments to support activities at the request of USAID.

The TAPR core team provided the monitoring and verification function for DSP I and II through the first six years of the project. TAPR also provided the Sector Policy Division of USAID's Economic Growth Directorate with economic data and analyses, as well as translations and assessments of relevant laws and decrees.

In addition, TAPR supported several workshops, roundtables, seminars, and conferences on key economic issues including social insurance, competition, customs, trade, banking, and mortgage reform.

C. Task Orders #2-13: 1997-2001

Besides its core activities under Task Order #1, TAPR provided further support in a variety of areas through separate task orders under the contract. This section summarizes the work performed under these task orders

C1. Task Order #2: Policy Reform

The TAPR team was asked to support the Technical Support for Sector Policy Reform (TSSPR) project by editing the annual debt report submitted by USAID/Cairo to Congress on economic activity in Egypt and its current status. We also assisted the Sector Policy Division of USAID/Cairo to improve the legal framework for policy reform; supported the Partnership for Economic Growth; and analyzed policy reform issues.

C2. Task Order #3: Technical Assistance to Prepare an Activity Paper to Assist the Government of Egypt in Modernizing its National Accounts

TAPR provided a two-person team to review the International Management and Communications Corporation (IMCC) report on how to modernize the national accounts of Egypt. In consultation with key GOE counterparts, the team drafted the principal sections of the activity paper, *A Data Access and Transmission Activity (DATA): Modernization of the National Accounts of Egypt*.

C3. Task Order #4: Amun Oracle

To track the progress of Egypt's economic reform program, TAPR's local conference coordinator provided an information-gathering forum for prominent Egyptian academicians, private sector businessmen, and members of USAID's Economic Growth Sector Policy Division. Round table discussions were carried out twice yearly in which participants analyzed the effects of the economic policy reforms on the Egyptian economy. Conference reports were published and presented to government ministries.

C4. Task Order #5. Policy Reform Activities

This task order was comprised of seven sub-tasks:

- For the first sub-task, the TAPR team examined the impact of USAID's policy reform programs.

- For the second sub-task, TAPR provided consultants to study the economic impact of the Luxor incident. The team collected data, assessed results, and analyzed the completed economic models. A report was prepared estimating the impact assessment and direct and indirect expenditure effects.

- The third sub-task involved assessing the cost-effectiveness of investment incentives by comparing laws and evaluating the degree to which procedures for establishing businesses have been streamlined. TAPR then submitted a report with their findings and recommendations to assist the government of Egypt in its transition to a market economy.

- For the fourth sub-task, the team examined trends in world trade and the implications for the government of Egypt's non-petroleum export strategy.

- The fifth sub-task involved a comprehensive review of the legal and regulatory framework pertaining to the social insurance system, including its structure, operations, solvency, manpower, and investments. The team prepared an overall time-phased action plan to reform the pension and social insurance sector's structure, operations, and administration. This plan suggested policy and institutional measures aimed at investing more funds in the private sector, improving actuarial soundness, and obtaining better returns to capital. The team worked closely with senior officials from the Ministry of Social Insurance (MOSI) as well as representatives from USAID to ensure that the plan was acceptable to both parties.

- TAPR was given a sixth sub-task to assess the significance of Egyptian subsidies. Available data on Egyptian direct and indirect subsidies were analyzed. The preliminary conclusion was that, after the reform of exchange rate levels, the most important areas remaining for policy reform attention were petroleum prices and household electricity tariffs. The other areas are either intractable in the short-term (redundant government employees); best approached in terms of better management and targeting (food subsidies, health care, transportation, and, although not examined in the assessment, probably urban water and wastewater); or very small (housing).

- TAPR was given a seventh sub-task to translate the Capital Market Authority's draft executive regulations from English to Arabic. We were also asked to translate some of the existing commercial laws into English. An Egyptian legal firm reviewed the results to assure accuracy.

- The eighth sub-task under this task order involved teaching actuarial science over a period of five semesters at Cairo University. The expatriate actuarial science professor taught two classes per semester and prepared the students to take the international exams allowing them to be employed as actuaries in the insurance industry.

C5. Task Order #6: Program and Project Design

TAPR's technical assistance helped bring to fruition a cash-transfer trade policy program with the government of Egypt by providing background analysis and documentation for the planned program.

C6. Task Order #7: Trade Remedies

The goal of this task order was to streamline procedures, eliminate barriers, and facilitate and enhance Egypt's international trade. The team provided the Foreign Trade Sector of the Ministry of Trade and Supply with technical assistance to handle anti-dumping measures, subsidies, safeguard cases, and WTO membership requirements.

C7. Task Order #8: President's Council

TAPR provided technical, administrative, and logistical assistance to the U.S.-Egyptian Presidents' Council. President Mubarak and Vice President Gore established the Council in 1995 to promote private sector business development in Egypt and to enhance bilateral commercial ties. The Council includes representatives from 15 private sector companies from each country and meets twice yearly, once in each country.

C8. Task Order #9: Seminar Support

TAPR provided assistance to the U.S. Treasury in conducting seminars for the Ministry of Economy, the Central Bank of Egypt, the Capital Market Authority, and the Ministry of Finance. Through this task order, TAPR handled the logistics and provided the necessary translation and documentation needed by the U.S. Treasury to successfully conduct the seminars: *Introduction to Trading* and *Sales and Market Simulation*.

C9. Task Order #10: Ministry of Social Insurance Training

Support was given to conduct a training program consisting of a series of workshops to equip the staff of the Ministry of Social Insurance with the understanding and skills to undertake a variety of tasks as a part of the overall effort to enhance Egypt's Social Insurance System (SIS). The workshops were given to policy makers, administrators, and financial managers from the Ministry of Social Insurance and other relevant ministries in two phases. The first phase focused on understanding and analyzing the challenges facing the SIS and developing strategies to enhance it through a multi-tier approach. The second phase emphasized the implementation of these strategies by focusing on the management of pension plans.

C10. Task Order #11

USAID did not issue Task Order #11.

C11. Task Order #12: Trade Bridge Activity

Over a period of eleven months, TAPR supported the Ministry of Foreign Trade (MOFT) in recruiting and training a group of 40 individuals to serve as a research unit for the ministry. We also assisted the ministry in establishing its WTO unit and provided expertise in the areas of anti-dumping, economic analysis, trade policy, and legal and regulatory reforms.

C12. Task Order #13: Customs Needs Assessment

TAPR provided a team of short-term experts to conduct a needs assessment study. The team conducted several site visits focusing on automation, organization and valuation as the core areas requiring reform. They produced a final needs assessment report, which was presented to the Minister of Finance.

SECTION II

Tools and Methodologies

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A. Development Support Programs I & II

A1. Introduction

The Development Support Programs(DSP I and DSP II) are policy reform programs designed to assist the government of Egypt in achieving its planned reform measures to improve the environment for trade and investment and increase productive private sector employment. The specific policy measures, or indicators, supported under this program were agreed to by the Egyptian government, as represented by the Ministry of International Cooperation (MIC), and USAID. When a specific policy reform measure has been achieved, the government of Egypt receives a cash disbursement from USAID.

A2. Designing, Monitoring and Verifying the Development Support Programs

Maximizing the effectiveness of a policy-oriented, cash grant program requires close integration with related technical assistance activities. Also, the policy reforms supported by the program should be important and achievable, and should not be reforms that the government would implement regardless of cash grant support. To support a developmentally important reform that has little or no support within the government and is highly unlikely to be achieved wastes leverage. Similarly, using cash grant funding to encourage a government to implement a reform that is likely to be put in place anyway wastes valuable resources. The objective is to focus on those reforms that are significant and have both support and opposition within the government, and then use the availability of cash grant financing to strengthen the ability of the reformers to move the policy change through the government.

Integration of policy reform supported by a cash grant program with technical assistance activities is essential for three reasons. First, consultants who provide technical assistance can bring valuable insights and relevant knowledge to the process of identifying key policy reforms in their areas of expertise. Second, focusing cash grant support on policy reform in areas supported by technical assistance projects enhances the prospects for the success of those projects. Third, because the specific elements of needed reforms often emerge and evolve over time, the presence of a technical assistance project helps to ensure that adjustments are made in cash grant supported policy reforms when they are justified.

Almost all of the reforms supported by DSP I and DSP II were in areas that were also supported by technical assistance activities. The only DSP reform areas that did not have complementary technical assistance projects were privatization of public sector banks, although there were technical assistance projects supporting privatization of public enterprises; enactment of a new labor law; control of budget deficits; and competition and law, although there were related short-term technical assistance activities.

In the reform areas of intellectual property rights (IPR), capital market development, insurance reform, trade and customs reform, mortgage reform, privatization, and public debt management, the development and implementation of DSP I and II were closely integrated with related technical assistance activities.

The impressive progress that was made in the areas of IPR, capital markets, the first phase of mortgage reform, and insurance reform, in particular, reflect the value of this approach. Progress in trade reform and privatization has been slower, reflecting the entrenched vested interests in these areas. The limited progress in controlling budget deficits, enacting a new labor law, and privatizing public sector banks may suggest that these reforms have limited support within the government, relative to the opposition, to be successfully supported by a cash grant program.

A3. The DSP Implementation Process

TAPR's role in supporting the above activities involved facilitating communication among USAID, the GOE, and relevant technical assistance contractors; developing specific suggestions regarding proposed policy measures and appropriate benchmarks of progress; and gathering relevant information for and coordinating the reviews of progress and discussions of possible program adjustments.

Typically, when a policy reform was to be supported by DSP, TAPR staff discussed USAID's sectoral policy objectives with technical assistance contractors to identify whether the reform in question was a high priority and whether it was achievable at the time. These discussions included determining the best strategy to achieve the desired change in policy.

Representatives from the GOE, generally the Ministry of International Cooperation or its successor, and from USAID would then review the results of these discussions, either in separate or joint meetings. Parallel to these discussions, the technical assistance contractor and USAID representatives would also have discussions with other concerned GOE ministries to further shape the policy proposal and its benchmarks.

In those policy areas that did not have a relevant technical assistance contractor, the TAPR team would either provide short-term consultants to develop specific, implementable policy reform proposals or would develop the proposals with its core staff and subcontractors, in consultation with USAID and GOE representatives.

In support of the monitoring and verification process for DSP, TAPR prepared frequent status reports on progress, or the lack thereof, toward achieving the agreed-upon policy benchmarks. Collecting this factual and financial information involved frequent discussions with the technical assistance contractors, developing specific requests for information from GOE agencies, reviewing the actions of the Egyptian People's Assembly and published GOE regulations, and, in some instances, carrying out surveys of the potential beneficiaries of specific policy reforms.

To make these status reports as operationally useful as possible, TAPR organized meetings between the USAID and GOE representatives. These meetings were used to identify particular issues in the achievement of agreed-upon policy reforms and to identify the steps that needed to be taken, and by whom, to move the process forward.

In some instances, during the review process and discussions of policy reforms, it became clear that a policy reform that had been agreed to needed to be revised to achieve the desired objective. In those instances, the TAPR team would develop revised language through discussions with all of the parties involved.

The TAPR team's interaction with technical assistance contractors was also important in protecting the working relationships of the technical assistance advisors with their Egyptian counterparts. The advisors' effectiveness is enhanced the more they are seen by the GOE as their resource rather than as an arm of the U.S. government. Although there is clearly a mutuality of ultimate objectives between USAID and the relevant GOE institutions, there are frequently differences of emphasis and timing. Through TAPR, it was possible for DSP to benefit from the contractors' expertise and on-the-ground knowledge without compromising their working relationships with their counterparts.

B. Technical Assistance

B1. Task Orders

Because TAPR was an indefinite quantity contract (IQC), USAID was able to issue separate task orders to respond to the requests for technical assistance from the Egyptian government. Upon USAID's receipt and assessment of a proposal from a government counterpart, a scope of work (SOW) for the activity was drafted and presented to TAPR for implementation. The proposal would then be prepared and submitted for each task order, which detailed the budget, personnel, duration, and level of effort for the activity. Proposals were evaluated by the contracting officer and cognizant technical officer for approval, and a separate task order was issued. Task orders varied in length from a period of two weeks of assistance to over one year of level of effort. The assistance provided through these task orders addressed areas falling under the broader SOW for the project.

B2. Short-Term Technical Assistance

In the fourth year of the contract, the technical assistance provided by TAPR was consolidated under Task Order 1. The areas for assistance were also more narrowly defined, and the SOW for the project was tailored to provide assistance in the policy areas defined by the Development Support Programs. Additional days for short-term expatriate and local professional level of effort were added to Task Order 1. Under this mechanism, USAID provided more targeted support to assist counterparts in achieving or implementing their benchmarks. Scopes of work were developed for these specific assignments, and the short-term experts were recruited by the TAPR field office and Chemonics International's home office. The ability to provide short term assistance in this manner helped to streamline the process and allowed a faster response to counterparts.

B3. Other Support Activities

TAPR provided ongoing translation of the most recent and relevant economic laws, decrees, newspaper articles, and reviews. Weekly press reviews were provided to USAID. Several assessments of laws and decrees were completed as part of TAPR's monitoring of economic indicators. At the request of USAID, TAPR also provided logistical and financial support in organizing workshops, seminars, and conferences for academics and the public and private sectors.

SECTION III

Impacts and Accomplishments

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A. Development Support Programs: Introduction

The Development Support Program I (DSP I) was a policy reform program designed to assist the Government of Egypt in achieving its planned reform measures. It followed three earlier sector policy reform programs (SPR I, II, & III) that began in the early 1990s. The accomplishments under these earlier programs are summarized in Annex A.

The specific policy measures supported under DSP I were termed *indicators* in the monitoring plan agreed to between the GOE and USAID. These performance measures were the means of achieving the specific objectives in the memorandum of understanding and served as the basis for disbursement of USAID funds.

In 1999, the GOE and USAID agreed on six DSP I general objectives, under which 23 specific indicators were identified. Each indicator was assigned a dollar value, which originally totaled $600 million. Subsequently, the government and USAID entered into discussions regarding the addition of several new policy reform initiatives to the original list of indicators. Eleven new indicators, totaling $220 million, were agreed to, and several original indicators were modified. All of these indicators are listed in Annex B. The government could choose among these reforms for implementation with a maximum disbursement of $400 million. For some of the indicators, pro rata disbursement was authorized as progress was made toward the objective.

The performance period for measuring GOE policy actions relevant to these indicators began on April 1, 1999. To be included in DSP I, actions to achieve the agreed upon objectives were to be completed as of June 30, 2002. As of that date, five disbursements had been made for a total of $369.1 million. In addition to the indicators accomplished and verified by that date, a new intellectual property rights law had been enacted. The review of the content of this law, its draft implementing regulations, and its compliance with the WTO Agreement was completed in February 2003.

Progress also continued to be made on several other DSP I indicators. The indicators that had not been fully achieved as of the end of DSP I, but on which further progress has been made include:

- Indicator 1b: New valuation methods are being used for Law 203 and JV companies proposed for privatization and several additional firms were privatized after June 30, 2002.

- Indicator 2: A revised draft of the new Labor Law was approved by the Shura Council.

- Indicator 3a: The Patent Cooperation Treaty was approved by the People's Assembly in September 2002.

- Indicator 5c: The objectives proposed for a new Capital Market Law in the DSP I indicator were achieved through regulatory reform and legal amendments rather than the enactment of a new law.

- Indicator 5f: Necessary regulations to establish and regulate margin trading were drafted.

- Indicator 5g: A revised draft Competition Law was submitted to the People's Assembly.

In addition, there had been discussion regarding the inclusion of the Basic Telecommunications Agreement (BTA) and the Information Technology Agreement (ITA) in DSP I as additional indicators, but it was finally decided to include them in DSP II. The BTA was signed prior to the end of DSP I, and a disbursement was made for it under DSP II.

The progress achieved for each of the indicators is summarized in the following sections.

B. Development Support Program I: Status of Indicators

B1. Indicator 1a: The government of Egypt shall privatize Law 203 and joint venture firms.

Background. This indicator is a revision and combination of the privatization indicators in the original DSP I monitoring plan. In the original monitoring plan, up to $140 million could be disbursed under DSP I for three types of privatizations. Through the first three monitoring and verification reports, $32.2 million was disbursed for Law 203 company privatizations and $0.1 million for lease purchases. The last revision of the monitoring plan allocated up to $40 million for privatizations ($1.5 million per transaction) of Law 203 or joint venture firms occurring after the third disbursement and prior to the end of DSP I.

Accomplishments. As of April 1, 1999, when DSP I began, 105 of the original 314 Law 203 affiliated companies (ACs) had been privatized and a number of others had been liquidated. Of the 105, 31 were privatized through public offerings, and 17 were privatized through anchor investor sales. The privatized ACs included agriculture, real estate and construction, food and beverages, milling, pharmaceutical, cement, chemicals and fertilizers, engineering, retail sale, and textile companies.

A total of 34 additional privatizations and two leases with options to buy were completed during DSP I. Total DSP I disbursements in support of privatization were $44.3 million.

B2. Indicator 1b: The government of Egypt shall improve the valuation process for its Law 203 public enterprises and joint venture firms.

Background. This new indicator was added to DSP I in early 2002. The privatization valuation process that existed at the time established reserve prices and expectations that often were significantly higher than the market perception or the prices that investors were willing to bid. The true value of potential bids that might bring significant increases in investment, debt reduction, or worker payment increases was not always given enough consideration. And, the discount rate used to assess the present value of projected cash flows was also too low. As a result, the pace of privatization slowed significantly. Since 1999 fewer than 20 percent of companies formally offered for sale were successfully privatized.

It was agreed that the government of Egypt would assemble a panel of accounting and valuation experts to prepare a study of valuation methodologies and procedures suitable for Egypt's privatization program. This panel was to provide recommendations on the appropriate valuation techniques for enterprises with partial or total public sector ownership, including those under Law 203 and joint venture firms. Pro rata disbursement was possible as progress was made in preparing, implementing, and using these recommendations.

Accomplishments. The Egyptian Public Enterprise Office convened a meeting of a committee that reviewed the valuation methods appropriate to use for privatizations and prepared recommendations for their strengthening. In keeping with the DSP I monitoring plan, a disbursement of $5 million was made in support of this action. Subsequently, elements of the revised approach were used in valuing firms being prepared for valuation.

B3. Indicator 1c: The government of Egypt authorizes BOOT or BOT contracts, which are successfully let.

Background. Because of the GOE's interest in new ways of involving the private sector in investing and developing infrastructure--including telecommunications, power, roads, ports and airports, and water/wastewater--new approaches such as build-own-operate-transfer (BOOT) and build-own-transfer (BOT) were included in DSP I. Several BOOT and BOT projects were awarded prior to and during DSP I.

Accomplishments. Three BOOT/BOT contracts valued at $714 million were signed in 1999 for the container terminals at Port Said, Ein El Sokhna, and the petroleum handling facility at El Dekheila Port. Two BOOT contracts totaling $680 million were signed in September 1999 for electrical generating plants. The GOE and USAID agreed that these two contracts would be counted toward the SPR III disbursement criteria, while the three container terminal contracts would be included in DSP I. DSP I disbursements in support of BOOT/BOT contracts totaled $2.8 million.

One of the key requirements for a successful BOOT/BOT project is an adequate cash flow from the investment. This is why electric power projects are frequently approached through this mechanism. Many of the other BOOT/BOT ideas that are being pursued may have problems in this regard. At present feasibility studies for most of these projects have not been carried out, so it is difficult to know their potential suitability.

Equally important, government decisions regarding private participation in utilities, infrastructure, power, telecommunications, and services appear to be determined by fundamental political and commercial factors. These factors and, consequently, government decisions do not appear to have been of a nature that could usefully be affected by DSP support.

B4. Indicator 1d: The government of Egypt continues to lease firms/units to the private sector on a long-term basis with an option to buy.

This original indicator was combined into the new indicator 1b, discussed above.

B5. Indicator 1e: The government of Egypt sells its shares in electricity and telecommunication companies to the private sector.

Background. In March 1998, Law 18 was issued, whereby the electricity sector was restructured. The Egyptian Electricity Authority's electricity generating stations, along with their high voltage networks, were merged with existing electricity distribution companies to form regional electricity companies (ECs). Law 18 allowed for the privatization of 49 percent of these companies. During the first quarter of 1999, EFG Hermes and Merrill Lynch were engaged as financial advisors to value the companies and to market the initial public offering (IPO) of the shares in the seven ECs.

Accomplishments. No telecommunications or electric power share sales occurred during DSP I. Consultants did prepare an IPO for telecom share sales, but the sales have been deferred because of expected weakness in the international market for telecom shares.

A draft telecommunications law was submitted by the government to the People's Assembly that will organize operations of the sector and set guidelines for the relationships between the government, the private sector, and service subscribers. A telecom regulatory authority is already in place.

For electric power, the government transformed the Egyptian Electricity Authority (EEA) into a holding company. The holding company owns the seven regional power generation and distribution companies. The government plans to separate the generating facilities from the distribution companies and eventually privatize the latter. A Presidential Decree has been issued establishing a power regulatory authority--a key step in proceeding with the privatization program. EFG Hermes and Merrill Lynch identified significant financial and policy issues that need to be resolved before proceeding with the planned IPOs. The Ministry of Electricity and Energy and the Cabinet continue to work towards the resolution of the identified issues and the planned privatization of the companies.

Steady progress is being made toward private participation in the electric sector. However, the DSP I time frame was too short to complete all of the necessary actions required prior to carrying out the initial sale of shares.

B6. Indicators 1f and 1g: Public Sector Insurance Company Privatization Indicators

- **1f: The government of Egypt performs valuations for the four public sector insurance companies.**
- **1g: The government of Egypt achieves progress in implementing its plan to privatize the public sector insurance companies.**

Background. To complement other privatization efforts, the GOE planned to restructure the insurance sector, which is the second key component of the financial sector. Through the enactment of Law 156/1998, the GOE set out to privatize the insurance sector. This law allowed private sector ownership in the four state-owned insurance companies. The law also removed all restrictions on majority foreign ownership of insurance companies and permitted non-Egyptians to manage insurance companies based in Egypt.

Insurance is identified as a key sector in expanding domestic savings for financing investment. Total insurance premiums are now barely 0.5 percent of GDP. The GOE expects that privatization of insurance companies will increase total insurance premiums to at least 4 percent of GDP.

Accomplishments. The first stage in the privatization of the four state-owned insurance companies was completed. Standard and Poor's and A. M. Best rated the four companies, and Flemming and Morgan Stanley carried out their valuation**.** With the completion of the valuation of the insurance companies and the acceptance of this valuation by the government, Indicator 1f was accomplished, and a disbursement of $10 million was made under DSP I. The additional actions necessary to achieve Indicator 1g, privatization of the insurance companies, did not occur during DSP I.

B7. Indicator 1h: The government of Egypt achieves progress in implementing its plan to privatize the public sector banks.

Background. In June 1998, the GOE issued Law 155/1998, which allowed for the privatization of state banks. The CBE took the initial steps towards privatizing the four public sector banks, and a Ministerial Committee was formed to ensure implementation and follow-up. The committee evaluated the four state banks: the National Bank of Egypt (NBE), Banque Misr, Banque du Caire and Bank of Alexandria. These four banks accounted for 60 percent of the total assets of Egypt's commercial banks, 66 percent of their deposits, and 75 percent of their branch offices in the mid 1990s. Since then, these percentages declined as the activities of the private sector banks increased. In February 1999, Standard and Poor's announced the rating of two of the public sector banks: Banque Misr and Bank of Alexandria. Subsequently, the remaining two banks were also rated.

Prospects and Issues. Government spokesmen have indicated that the government does not plan to proceed directly with the privatization of these banks. The banks hold a significant amount of debt and equity in state-owned enterprises and joint ventures. Until the consolidation of debt/equity positions among the state-owned enterprises, joint ventures, banks, and government can be rationalized and any issues of non-performing loans can be addressed, it will be difficult to proceed with full privatization. As an alternative approach, the government is putting bank managers with international experience in charge of these banks. The government is also seeking to move toward bank privatization by increasing the capitalization of these banks and the share held by the private sector by attracting private equity investors to them.

B8. Indicator 1i: The government of Egypt agrees to use the privatization proceeds primarily for: debt retirement/financial restructuring of public enterprises to be privatized; employee compensation relating to downsizing/liquidation; costs of selling public enterprises; and reduction of domestic public debt.

Background. When the privatization program started, holding companies (HC) that sold their shares in affiliated companies (AC) were free to deposit the sales proceeds in commercial banks and to spend those proceeds on the needs of the firms in their HC. The proceeds were mainly used for deposits with commercial banks and debt settlement. Other uses included: payment of capital taxes on the sales of assets; payment for workers' early retirement; and payment by the Holding Company for Mining and Refractory of living expenses to the mining workers, a compensation dictated by law, previously paid by the Ministry of Finance.

In August 1998, the Ministerial Committee on Privatization (MCP) restricted the use of privatization proceeds to transfers to the MOF, early retirement payments, and settlement of public enterprise debts. Funds transferred to the MOF represented additional revenue to the general budget, hence contributing to the reduction in the budget deficit.

Accomplishments. Prior to November 1999, the government directed two-thirds of the sales proceeds to the MOF and one-third was retained by the holding companies. In November 1999, the Prime Minister issued a decree establishing a special fund to support the privatization program that would receive 50 percent of sales proceeds. The remaining 50 percent went to the MOF. Having a central fund represents an improvement over the former practice of allowing the privatization funds generated to remain with the responsible holding company. A central fund permitted allocations to the firms that can make best use of them. During DSP I, all reported proceeds were used for agreed upon purposes, and DSP I disbursements of $10 million were made.

B9. Indicator 2: The government of Egypt enacts a new labor law.

Background. Labor Law 137/1981 governs the employer/employee relationship. Formal discussion of a new labor law began in October 1991, with the establishment of a committee consisting of representatives from the Egyptian Trade Union Federation (ETUF), business organizations, the Ministry of Labor, the local legal community, and the International Labor Organization (ILO). The ILO, which provided funding for the endeavor, was asked to ensure that the new law did not contradict Egypt's international agreements.

After prolonged negotiations among unions, business associations, and the government, the Egyptian government drafted a law to dramatically diminish the state's role in labor affairs. The draft law was hotly debated because it represented such a sharp departure from previous Egyptian social/economic philosophy. It signified a formal withdrawal from the Nasserist "moral economy," in which Egyptians came to expect the state to guarantee job security and a living wage in exchange for their contribution to national production. The new law reduced the job security enjoyed by the public sector workforce. At the same time, it also reduced the potential for informal and often arbitrary means of terminating employment.

To conform to the requirements of the DSP I agreement, the new law was to include at least the following elements:

- Give both private employers and public sector managers greater leeway to hire and fire
- Free labor unions from GOE control so that they can champion worker rights in a free market setting
- Allow private sector employers to use temporary contracts

Accomplishments. Following the debate of the labor law, a revised law was drafted and approved by the Cabinet in 2001. This draft law contained the key elements of the DSP I monitoring plan. The revised law was presented to the People's Assembly and approved by the Shura Council, and final discussion of the law began in the People's Assembly at the end of 2002. Partial disbursement of $42 million was made under DSP I when the Cabinet approved the new law.

B10. Indicator 3a: Egypt becomes a member of the Patent Cooperation Treaty.

Background. The Patent Cooperation Treaty (PCT) is an international agreement that provides an alternative procedure for obtaining patent protection in foreign countries. The PCT permits an applicant to apply for patents in member countries by filing a single international application in the applicant's own country and designating the countries in which patent protection is desired. At present, the only way for an Egyptian applicant to obtain foreign patents is to file an application directly in a foreign patent office. As a result, Egyptians often do not protect their inventions in countries with significant markets.

Progress. The European Union-Egypt Partnership Agreement signed in 2001 stipulates that the PCT will be enforced. Opponents of the treaty had argued earlier that the immediate signing of the treaty would reduce the volume of activity of Egyptian patent agents. Another argument was that examinations of patents will take place outside Egypt; therefore, there would be a lack of control on such matters. Nonetheless, the People's Assembly reviewed the issues and formally approved the treaty in September 2002. Although this final approval was after the terminal date for inclusion in DSP I disbursements and no disbursement was made, the objectives of this indicator have been accomplished.

B11. Indicators 3b, 3c, and 3d: Intellectual Property Rights Indicators

- **Indicator 3b: The government of Egypt amends the Trademark Law.**
- **Indicator 3c: The government of Egypt enacts a new Industrial Design Law.**
- **Indicator 3d: The government of Egypt issues a decree protecting undisclosed information and data exclusivity for pharmaceutical products. (This originally was Indicator 3f.)**

Background. All of the individual IPR laws that the government considered at the beginning of DSP I were combined into one law. The background on the separate portions of the law that were included as indicators in DSP I follows:

Trademarks. The Egyptian Trademark Law was first enacted in 1939. Minor changes were required for Egypt's Trademark Law to conform to WTO standards. The principal addition is a provision establishing protection for appellations of origin. Amendments were also needed to reduce administrative requirements to register a trademark and to permit the Trademark Office to exercise some flexibility to assist applicants in meeting the requirements for registration. Uniformity with the WTO agreement in trademark law and practice will enhance trade relations with other countries.

Industrial Design. Prior to the new IPR law, the Industrial Designs Office did not have the authority to reject an application, even when it clearly did not satisfy legal requirements. The Office also published a journal of registrations that included only bibliographic information and not a copy of the design itself, which was maintained in secrecy even after the design was registered.

Data Exclusivity. Under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Egypt was to have in place by January 1, 2000, the data protection provisions outlined in TRIPS Article 39.3, relating to the protection of test and other data submitted for marketing approval of pharmaceutical products.

Early in DSP I, the Ministry of Economy and Foreign Trade issued a decree that addressed data exclusivity objectives in a way consistent with the WTO Agreement. However, the government subsequently decided to include data exclusivity in the new IPR law.

Progress to Date. The initial draft of the IPR law included a section that addresses some of the concerns regarding trademarks that were included in the DSP monitoring plan. Although the revised trademark law made a number of improvements, it also introduced provisions that had not been part of the 1939 law and that may require amendment. As a result, several additional issues needed to be addressed before Egypt's Trademark law would be WTO TRIPS compliant. These remaining issues were considered during the review of the law by the People's Assembly, and several revisions were incorporated into the enacted law.

The new law requires the Industrial Designs Office to conduct searches and substantive examination for novelty, including publication for opposition, and publish registered designs. It also grants the Industrial Designs Office the legal authority to refuse the registration of industrial designs that do not meet the legal requirements for registration. The revisions agreed to in the DSP I indicator were included in the enacted law.

After extensive debate and public comment, the new revised IPR law was approved by the Cabinet and was enacted by the People's Assembly in the first half of 2002. The U.S government completed its review of the content of the new IPR law in regard to TRIPS compliance in February 2003. Based on that review, the elements of the new law pertaining to industrial design and trademarks were concluded to be in compliance with the undertakings included in the DSP I monitoring plan. However, the provisions regarding data exclusivity were not fully consistent with the reform objectives included in the DSP I monitoring plan. The reviewers recommended that the remaining issues relating to full TRIPS compliance should be addressed through the implementing regulations for the law.

The DSP I monitoring plan envisaged a maximum of $45 million could be disbursed in support of the three IPR related indicators: $20 million for trademarks; $15 million for industrial design; and $10 million for data exclusivity. On the basis of the review of the new law, a partial disbursement in support of the first two of these indicators was justified.

B12. Indicator 3e: The government of Egypt reduces tariff rates and/or fees on imports.

Background. One of the major components of the trade liberalization policy adopted by the GOE during the 1990s was the reduction in tariff rates and import fees. The maximum tariff rate was reduced from 80 percent to 70 percent in 1994, to 55 percent in 1996, and to 50 percent in 1997 (Decree No.229/1997). Brackets between the 30 percent rate and the maximum rate were reduced by ten percentage points, with the exception of the 40 percent rate which was reduced in July 1997 to 35 percent instead of 30 percent. In September 1998, the Ministerial Decree No.243/1998 was issued whereby the following changes in the tariff rates were made:

- The maximum tariff rate was reduced from 50 percent to 40 percent
- The 40 percent rate was reduced to 30 percent
- The 35 percent rate was reduced to 30 percent

These actions on the part of the Egyptian government to reduce tariff rates lowered the effective rate of protection (ERP) across the sub-sectors of the economy. The simple average ERP fell from 43.5 percent in 1994, to 32.9 percent in 1996, and to 31 percent in 1997. Similarly, the weighted-average ERP (using as weights the share of each sector in GDP) was reduced from 26.6 percent in 1994, to 21 percent in 1996, and to 20 percent in 1997.

Regarding import fees, there are two types: a service fee and a surcharge fee. The service fee is one percent and is levied on all types of imports. The surcharge is two percent for commodities subject to a tariff rate of 30 percent or less, and three percent for commodities subject to tariff rates greater than 30 percent.

Prospects and Issues. In spite of the considerable reduction in tariffs in the 1990s, Egypt remains one of the more highly protected developing countries. There are no further specific GOE plans for future tariff reductions at this time. There are concerns within the government regarding the negative impact on government revenues in the short term that could result from further tariff reductions. Nonetheless, the Ministries of Foreign Trade and Finance have expressed interest in assessing the impact of further tariff reductions on revenues, employment, production, and trade. (Although completed after the end of DSP I, substantial reductions in tariff levels were implemented during 2004 as a result of this review and further consideration by the government. While no DSP I disbursements were made, the reduction represents significant progress toward a DSP I reform objective.)

B13. Indicator 3f: The government of Egypt adopts a new method of customs valuation. (Originally indicator 3e.)

Background. When Egypt ratified its membership in the WTO in 1995, it became obligated to adopt the GATT/WTO Customs Valuation Agreement by June 30, 2000. The WTO extended the deadline for compliance until June 30, 2001.

Developments. Because of the importance of the customs valuation issue, the sections of a new customs law concerning valuation were submitted separately to the People's Assembly and were enacted as amendments to the existing Customs Law. The new amendments establish the price paid or payable as the basis for customs valuation. However, the articles on valuation were very summary in nature and, for implementation to be effective, the drafting of the executive regulations and the development of operating procedures were particularly important.

The executive regulations for the new law were issued by the Ministry of Finance in June 2001. The executive regulations are broadly consistent with the WTO Agreement, although several specific elements are not. The government is planning on a major reform of the operations of the customs service to address this issue and others relating to customs. This work will continue beyond the end of DSP I.

B14. Indicator 3g: The government of Egypt establishes a system that simplifies import inspection and sampling procedures as an important step toward compliance with WTO Technical Barriers to Trade and Sanitary and Phytosanitary Agreements.

Background. In the past, several ministries in several different locations carried out import inspection procedures. Testing was done for quality as well as health and safety. The tests were often slow and criteria frequently changed, creating a considerable obstacle to trade.

Accomplishments. As an important step toward dealing with these issues, President Mubarak issued Decree 106, "Concerning Facilitation of Inspection and Control Procedures for Exports and Imports" on February 2, 2000. This decree directs personnel from the various inspection agencies to be detailed to the branch offices of the Government Organization for Export Import Control (GOEIC) "where a joint headquarters shall be equipped with the necessary laboratories." It indicates that these personnel will be under the administrative supervision of GOEIC and shall be authorized to assume inspection and certification functions without referral to higher authority.

The government of Egypt took an important step toward implementing Decree 106 with the issuance of Decrees 346 and 524 that provide the executive regulations to simplify import inspection and sampling procedures. These decrees specify sampling quantities, time allowed for testing, and procedures for handling the samples. In keeping with the DSP I monitoring plan, $20 million was disbursed in support of these actions.

Initial discussions with importers indicated that the decrees were being implemented and had simplified the import process considerably. Subsequently, however, there were reports that the overall difficulty of customs inspection had reverted to much the same level of difficulty as earlier. The Ministries of Finance and Foreign Trade have indicated that they intend to take further steps to address these issues and other related problems.

B15. Indicators 4a and 4b: The budget deficit is less than 1.4 percent of GDP in FY 1999 and FY 2000.

Background. The measures taken by the government under the economic reform program resulted in a substantial reduction in the budget deficit to 3.5 percent of GDP in 1992/93; 2.1 percent in 1993/94; 1.3 percent in 1995/96; and 0.9 percent in 1996/97. The budget deficit reached one percent in 1997/98, which exceeded the planned target by less than 0.1 percent of GDP. This small deviation from the target was the result of declining revenues from tourism after the Luxor incident and the decline in oil export prices.

Developments. The deficit of 1.3 percent of GDP in 1998/99 initially reported by the government did not include a significant amount of extra budgetary expenditures on infrastructure projects that are now understood to have been made by the National Investment Bank. With the inclusion of these expenditures, the 1998/99 deficit increased to 4.2 percent. The deficits for 1999/00, 2000/01, and 2001/02 were 3.9 percent, 5.5 percent, and 5.7 percent respectively. These higher deficits are a reflection of the costs associated with continuing the projects for which the extra budgetary expenditures were initially made in 1998/99 as well as the government's subsequent decisions to increase social welfare expenditures and public sector salaries to partially deal with the overall downturn in economic activity. The budget deficits prior to FY 1998/99 remain as previously reported.

The DSP I monitoring plan noted that "a number of studies have concluded that deficits greater than 2 percent of GDP are destabilizing and can significantly retard the country's progress. Hence, partial disbursement will not be considered (for the budget deficit indicator) if the deficit exceeds 2 percent of GDP." Higher deficits either lead to inflation or, if overall credit expansion is controlled, to crowding out of private sector activity by the government. The general picture of economic performance beginning in 1999 supports a view that there were liquidity and credit difficulties affecting the economic performance of the private sector. The data also show a downturn occurred in production and sales beginning in 1999. Although the optimum deficit level for Egypt cannot be estimated with precision, the available evidence strongly suggests that the higher deficits beginning in 1998/99 and the way in which they were financed were not good for the economy.

B16. Indicator 5a: The government of Egypt drafts, approves, and begins to implement a plan for reforming the insurance industry.

Background. The GOE issued Law 156 in June 1998 to amend the insurance laws 10/1981 and 91/1995 and allow for the privatization of public sector insurance companies and the operation of foreign insurers in the domestic market. Foreign competition was expected to benefit consumers and the industry since it would reduce the price of insurance policies and introduce updated technology. Reforming insurance regulation was considered necessary to ensure fair competition among all insurance market players.

The GOE took positive steps towards a liberalized insurance market through tariff deregulation for most classes of insurance activities, privatization of most joint venture insurance companies, and authorization of foreign competition in the market. However, some of the insurance rules and regulations needed to be amended and others needed to be created and implemented. More transparency and disclosure were needed among market players, and better trade practices were to be ensured and closely monitored by the Egyptian Insurance Supervisory Authority (EISA) to protect consumers.

Accomplishments. Several issues were agreed to in the DSP I monitoring plan as examples of what might be included in an insurance sector reform plan. The following were considered as minimum components of an effective reform plan:

1. Monitoring trade practices, advertising, and sales materials by EISA

2. Effective dispute resolution between insurance companies

3. Allowing both local and foreign insurance and reinsurance brokers to participate equally in the market

4. Effective regulation of private pension funds

EISA completed a draft reform plan for the insurance industry that was approved by the MOEFT in September 2000. The plan contained the four key elements mentioned above, as well as many others that were important for the development of the insurance industry in Egypt. The government implemented by decree the element of the reform plan concerning the regulation of trade practices. The actions agreed to in the DSP I monitoring plan were fully accomplished, and $20 million was disbursed in support of this accomplishment. The government is continuing to implement the elements of the time-phased reform plan.

B17. Indicator 5b: The government of Egypt reduces the percentage of re-insurance that must be placed with Egypt-Re.

Background. The private insurance sector in Egypt comprises twelve insurance companies: four state companies, six private sector companies, and two free zone companies that operate exclusively in the free zones. Egypt-Re, which is a state company, is the only local re-insurer. Since all insurance companies use re-insurance to spread risk and to avoid over-concentration in certain types of insurance, re-insurance is a vital sub-sector in the insurance market.

Insurance companies working in the Egyptian insurance market were required to reinsure part of their insurance transactions carried out in Egypt with Egypt-Re. Each insurance company was required to purchase reinsurance from Egypt-Re for an average of 30 percent of their revenues. Cessions for life insurance were fixed at 50 percent of risk premiums for the amounts above the company's own retention. Cessions for non-life business, except transportation, motor, and some miscellaneous branches, were fixed at 30 percent. Cessions for transportation, motor, and some miscellaneous branches were 25 percent. The compulsory cessions to Egypt-Re imposed a burden on insurance companies since it increased the retention they had to keep and affected their investment portfolios. It also discouraged foreign reinsurance companies from participating in the Egyptian insurance market.

In recognition of this, in early 1999 a decree was issued that established a plan for reducing these mandatory levels of reinsurance at Egypt-Re.

Accomplishments. The percentage of reinsurance that must be placed with Egypt-Re was reduced as agreed to in the DSP I monitoring plan, and $20 million was disbursed.

B18. Indicator 5c: The government of Egypt amends the Capital Market Law.

Background. In 1992, the GOE issued the Capital Market Law 95 (to revitalize the Egyptian securities markets. The law empowers the Capital Market Authority (CMA) to act as the regulator of the market. The CML provided the framework for the establishment of capital market intermediaries including: brokerage firms, mutual funds, mutual fund management companies, portfolio managers, underwriting institutions, and venture capital firms. Provisions within the law also facilitated the issuing of corporate bonds. Furthermore, the law allowed foreign ownership of Egyptian securities.

The Egyptian capital market has developed significantly since the Capital Market Law was issued in 1992. This development has resulted in several amendments and enhancements to the law or its executive regulations, including: the elimination of the capital gains tax; the introduction of other securities and activities not originally included in the executive regulations; and the introduction of mandatory periodic filings of financial statements of listed companies.

The government has been working on the legal and regulatory revisions and additions required by the increasing complexity and sophistication of the Egyptian capital market. Originally it was thought that this would best be accomplished through the enactment of a new capital market law, and this benchmark was based on that understanding. However, the government subsequently decided that it was preferable at this time to introduce many of the needed reforms through amendments of existing laws and the issuance of new regulations and listing requirements for the stock market.

Accomplishments. Of the seven proposed elements of a new capital market law that were included in the DSP I monitoring plan, two (dematerialized shares and beneficial ownership) were accomplished through the Central Securities Depository and Registry Law. Three of the others have been partially accomplished through significant additions to the listing rules for the Cairo and Alexandria Stock Exchanges (CASE). These elements are: additional enforcement powers against fraudulent, manipulative conduct, price manipulation, and insider trading; clear definitions of prohibited conduct; and improved methods of dispute resolution.

The listing rules address and prohibit insider trading. Although only courts can levy fines for prohibited conduct, the CMA can take actions, comparable to imposing fines, against prohibited practices. For disputes over the denial of a listing application through CASE, listing rules were established that provide for an appeal to the Board of Directors by an issuer. To achieve the benchmark of a statutory basis for self-regulatory organizations, CASE must first establish itself as a private sector entity.

The final benchmark, objective standards for issuing securities ratings, may not have been an appropriate objective for DSP I. Consultants working with the CMA have advised that regulators do not set criteria or standards for ratings. Ratings are the opinions of rating agencies and they alone determine their standards. Thus, it is not anticipated that this should be a responsibility of the Capital Market Authority. However, the executive regulations do license rating agencies. Two credit rating agencies have been licensed in Egypt and are operating currently.

B19. Indicator 5d: The government of Egypt enacts a new stock market depository law.

Background. Misr Clearing, Settlement, and Central Depository (MCSD) is a shareholding company acting as a central clearing house and depository. It started providing clearing and settlement services for both physical shares and dematerialized/immobilized shares in October 1996. As of April 1999, 158 securities (75 percent of actively traded shares) were either immobilized or dematerialized and were traded through the clearing, settlement, and depository facilities.

Accomplishments. No legislation was in place to regulate these activities at the beginning of DSP I. The GOE identified the need to establish a clearing, settlement, and depository law. The then Ministry of Economy, CMA, and MCSD drafted a law with the assistance of a U.S. law firm and the Capital Markets Development Project. The new law covers legal and operational issues related to securities, settlement, depository, and registry activities. This law was enacted by the People's Assembly.

The elements relevant to the law in the DSP I monitoring plan are:

1. Recognize dematerialized shares. (Included in the new law.)

2. Change legal transfer of title from trade date to settlement date. (Included in the new law.)

3. Grant MCSD self-regulatory organization (SRO) status. (The new law did not grant MCSD SRO status. According to the consultants to the CMA, it was never intended that the law would include this provision.)

4. Recognize concepts of nominee ownership and beneficial ownership. (Included in the new law.)

5. Misconduct and penalties clearly defined. (The law introduces fines as penalties, rather than suspending companies' operations, as the latter type of penalties could have adverse effects on investors.)

The law also recognizes the settlement guarantee fund established by a CMA decree to protect investors from the risk of settlement failure. A disbursement of $20 million was made under DSP I as a result of the achievement of this benchmark.

B20. Indicator 5e: The government of Egypt enacts a new law governing mortgages.

Background. In Egypt, the mortgage market is underdeveloped. Only three percent of total credit and investment portfolios of the banking sector is allocated to real estate. A mortgage market, meaning the market for financing real estate assets, is an essential component of the development of an efficient financial sector. Given the importance of real estate's share of all the tangible capital in a country and the potential for real estate collateral to secure large amounts of debt, the real estate finance system should become an engine of innovation for the rest of the financial sector.

Accomplishments. In 1999, a draft law was prepared on which the government solicited extensive comments from the private sector. Following the review process, the government revised the draft law to reflect the concerns of the private sector. The Cabinet approved the law, and it was enacted by the People's Assembly.

The law provides for the basic regulatory structure for a mortgage market, introduces an effective foreclosure procedure, and lays the basis for primary and secondary mortgage markets. The executive regulations for this law were issued and the Real Estate Finance Authority was established to provide support to the new system. Although further work is underway to establish all the elements of the system needed for a functioning mortgage market and to permit efficient securitization of mortgages, the new law satisfied the objectives of the DSP I monitoring plan, and $20 million was disbursed under DSP I.

B21. Indicator 5f: The government of Egypt issues regulations required to regulate margin trading.

Background. Margin trading in equities presently takes place in Egypt but without regulatory oversight. The current practice puts both customers and brokers at risk. It also creates risks to the banking community and for the trading of stocks in general.

Margin trading increases the volume and consequently the liquidity of capital market transactions. It allows investors to more fully participate in the capital markets and, by increasing their ability to invest, it increases the amount of capital available for private investment. Regulating margin trading will protect the investors; limit the exposure of the broker/dealers; and define and limit the credit risk to the banking system. Appropriate regulation of current trading practices is desirable not only to protect all market participants, but also to support the orderly functioning of the stock market itself.

Accomplishments. Draft regulations for margin trading were prepared. There are plans for establishing an electronic reporting system. CMA guidelines for brokers regarding what information must be provided to clients who wish to do margin trading have been drafted. The content of the documentation that will be required for margin trading has also been prepared. Several workshops for participants are to be held. The CMA is also concerned that not all of the currently licensed brokers have the necessary experience and qualifications to be involved in margin trading. Thus, although a great deal of the work needed to put margin trading on a sound basis was finished, the system itself did not become operational by the end of DSP I.

B22. Indicator 5g: The government of Egypt enacts a competition law.

Background. The importance of this legislation relates to several factors. On the domestic level, the increasing role of the private sector and foreign investment requires a framework to protect consumers and improve the efficiency of the economic sectors through competition. Within the domestic market certain monopolistic practices occur in sectors like building materials, agriculture products, and financial services, which need to be addressed. On the international level, both the WTO agreement and the free trade agreement between Egypt and the European Union require the existence of national anti-trust and competition policies.

The law should provide for an equitable competition regime in which there is a commitment to remove as many barriers to entry and other bureaucratic barriers as possible. It should provide a clear set of objectives and lay out a suitable framework in which markets can function efficiently and in the public's interest. It should provide for deregulation where appropriate and for a regulatory and arbitration regime that is compatible with available technical and administrative capacity.

Progress. The GOE completed a draft competition and anti-trust law, which was reviewed by different interested parties in the private sector and modified on the basis of these and other recommendations. The government requested that this draft law be reviewed and commented on by U.S. agencies. The GOE plans to establish an independent body that would be responsible for the enforcement of the law once the People's Assembly enacts it. It is planned that the law and the implementing body will be complemented by other legislation related to privatization, foreign trade policies, and consumer protection. However, the work on this legislation and institutional establishment was not completed by the end of DSP I.

B23. Indicator 5h: The government of Egypt issues a decree that removes restrictions on broker fees.

Background. The GOE set maximum charges for certain small transactions in the capital market. MOE Decree 1994/478 set broker fees at a maximum of one-half of one percent for stock transactions less than LE 10,000 and one-fifth of one percent for all other market transactions less than LE 10,000. This restriction discouraged brokers from engaging in small transactions, which limited the access of small investors to the stock market. It is important that the Egyptian capital market evolve over time into one in which such fees are set competitively and facilitate, transactions rather than restrict them. The market should develop so that fees for these transactions are set both to cover costs and to facilitate transactions. Doing so will contribute to a broader and more effective market.

Accomplishments. The Minister of Economy and Foreign Trade issued a decree that eliminated government restrictions on broker fees, and $5 million was disbursed under DSP I.

B24. Indicator 5i: The government of Egypt issues a decree that establishes a code of good practices for bond rating agencies.

Background. The GOE agreed that it would establish a code of good practices and basic requirements for accreditation for bond rating agencies. The intent was to enhance transparency, to ensure the quality of ratings, and to make certain that rating agencies operate professionally, independently, and objectively.

Accomplishments. It was agreed that information submitted to rating agencies be kept confidential; that the Capital Market Authority would be the accrediting authority; that there should be no conflict of interest on the part of rating agency board members, owners, or staff with respect to firms that they rate; and that any issuer must provide accurate and complete information to the rating agency. The Minister of Economy and Foreign Trade issued a decree that established a code of good practices for bond rating agencies. It includes the elements agreed to in the DSP I monitoring plan, and $5 million was disbursed.

B25. Indicator 6a: The government of Egypt issues a decree to advance the development of domestic debt markets.

Background. The CBE uses T-bills to transact repurchase agreements (repos) on a buy/sell back basis. With these transactions between the CBE and the owners of the T-bills, the CBE repurchases the bills from customers and then sells back to that customer at an agreed upon price and stated time. Repos are used as a monetary tool. The CBE intends to expand the use of repos for T-bonds and use reverse repos for T-bills and T-bonds to develop a capacity to drain excess reserves from the system. To expand the use of repos and reverse repos, the CBE has to develop standard practices and procedures for such transactions.

Another important component to enhance the distribution of government securities in the primary market and to stimulate secondary market trading was the establishment of a primary dealer system. Primary dealers are banks and investment dealers authorized to buy and sell government securities in direct dealings with the CBE. Such dealers must be qualified in terms of reputation, capacity, and adequacy of capital, staff, and facilities. The primary dealer system coupled with an open auction system will provide a fair pricing mechanism by opening the market for investors and supplying a reliable liquidity source.

The Capital Market Development Project assisted the CBE in the following areas:

1. Development of standard practices and documentation for repos and reverse repos for both T-bills and T-bonds

2. Design of procedures allowing the establishment of a primary dealer system and setting the criteria for dealer selection to activate a secondary debt market. The U.S. Treasury also assisted in this area.

Accomplishments. Ministerial Decrees 43/2000 and 44/2000 allowing the establishment of dealers for secondary market trading in fixed income securities were issued in January 2000. The government issued Decree 480/2002 in April 2002 that established the procedures for the selection and regulation of primary dealers. This set of decrees satisfies the objective of this indicator, and $25 million was disbursed.

B26. Indicator 6b: The government of Egypt passes legislation to facilitate the operation of competitive, well-ordered primary and secondary debt markets.

Background. An appropriate public debt law and regulations are important for the development of primary and secondary markets for government debt instruments. The legislation should define responsibilities in debt issuance and trading and supervisory regulation of these activities. The U.S. Treasury, with USAID financing, provided assistance to the Ministry of Economy in drafting a public debt law.

Developments. The U.S. Treasury with USAID financing assisted in drafting a new debt law. The U.S. Treasury also provided the government with an advisor on debt management. According to the Ministerial Cabinet's Counselors Committee, the draft law has been sent to the Ministry of Justice for review. However, because of other legislative priorities, the law was not submitted to the People's Assembly during DSP I.

B27. Indicator 6c: The government of Egypt establishes a book-entry registry for government securities.

Background. It is important to strengthen the domestic debt market to foster stabilization efforts and enhance private investment through facilitating the dematerialization of government debt. This should help increase liquidity in the market, simplify transfer of ownership, ensure safety of transactions, reduce time and expenses of the transfer of ownership of securities, and help encourage portfolio investment through establishing international best practices.

If Egypt is to achieve its ambitious growth targets, it must develop a debt securities market that can efficiently intermediate fixed-rate capital and provide the CBE with the means of conducting indirect monetary policy. At the beginning of DSP I, T-bills were issued in paper form and could be transferred only by endorsing the certificate. This made clearing and transfer of secondary trades too expensive and time-consuming to accommodate the volume and speed of trading necessary for indirect monetary policy.

A government debt book-entry system will replace the traditional paper certificate registry of securities ownership with a computerized system that actively maintains the securities outstanding and makes coupon and principal payments. A government securities book-entry system also has the capacity to track transfers of ownership and to facilitate their settlement. Eventually there should be such a system for both government bills and bonds. However, the first phase focused on treasury bills only.

Accomplishments. The establishment of a book entry system was successfully accomplished. The government procured the necessary hardware, trained the staff, and purchased the software required for this system. In June 2002, the CBE instructed all banks to hand over their T-bill certificates to be replaced with statements of account from the electronic book-entry system. A $10 million DSP I disbursement was made in support of this accomplishment.

B28. Indicator 6d: The government establishes a public debt management unit in the Ministry of Finance.

Background. One of the prime roles of ministries of finance worldwide is the management of debt, which needs to be issued to fund the government. The debt management department makes the decisions about how that debt is to be issued.

In a country with emerging bond and money markets, it is essential that sovereign debt issuance be planned to help develop stable and viable primary and secondary markets in government debt. (Indicator 6a in the DSP I agreement.) This is especially important since sovereign debt issuance and trading plays a special role in establishing the viability for all private debt issuance and trading. The GOE issued a decree to establish MOF/Central Bank recognized primary dealers to underwrite and maintain secondary markets in GOE debt. The GOE also is working toward enacting a new public debt law to enhance the operation of a competitive, well-ordered primary and secondary GOE debt market. (Indicator 6b in the current DSP I agreement.) To support both these measures, the Ministry of Finance agreed to establish and staff a public debt management unit.

Accomplishments. The Ministry of Finance established a debt management unit and recruited and hired the core staff required. A $10 million DSP I disbursement was made.

B29. Indicator 7: The government of Egypt adopts a comprehensive macroeconomic policy reform plan.

Background. The worldwide economic downturn that occurred after the events of September 11, 2001, had a significant adverse impact on an already slowing Egyptian economy. Egypt's foreign exchange receipts dropped dramatically due to significant decreases in tourism, lower oil revenues, and reduced receipts from the Suez Canal. These economic factors put pressure on the Egyptian pound, adversely affected Egypt's ability to import needed commodities, dampened private sector activity and investments, reduced domestic revenues, and may have increased unemployment.

To address the economic crisis Egypt took a strategic look at its macroeconomic policies and drafted a document that summarizes their planned reform program that was intended to enable Egypt to emerge from the situation stronger and better able to withstand economic shocks. The development by the GOE of a comprehensive plan to address its economic challenges constituted this benchmark.

Developments. The GOE developed a comprehensive macroeconomic reform plan that addressed the issues of policy consistency across the GOE's exchange rate and monetary and fiscal policies. The plan also described the government's legislative agenda and provided an update of its sectoral reform plans. The plan served as a key element of the discussions at the Donors Conference on Egypt in January 2002. A disbursement of $100 million was made in support of this achievement, as agreed to between the Egyptian and U.S. governments.

C. Development Support Program II: Activities

C1. The government of Egypt shall enact effective anti-money laundering legislation.

Background. Egypt had a body of laws criminalizing many of the activities with which money laundering is associated. However, there was no specific law criminalizing money laundering itself. The OECD's Financial Action Task Force on Money Laundering identified Egypt as a country that needed to strengthen its legal system with respect to money laundering.

Progress to date. The People's Assembly enacted an anti-money laundering law (Law No. 80/2002) in May 2002. The specific requirements agreed to in the DSP II monitoring plan are outlined below. The content of the law in relation to these requirements follows each requirement:

a. The law should list the types of illegal activities and financial institutions covered by its provisions.

    - Article 1A and Article 2 list the types of illegal activities that are covered by the law.

    - Article 1C lists the financial institutions covered by the law's provisions.

b. The law should provide for the establishment of a government agency or unit (anti-money laundering unit or financial intelligence unit) with authority to collect and disseminate information from financial institutions on suspicious transactions; share that information with other government agencies and its equivalent units in foreign governments; pursue investigations; and recommend prosecution for money laundering offenses.

    - Article 3 provides for the establishment of an independent money laundering combat unit in the Central Bank of Egypt.

    - Article 4 assigns the unit responsibility for the collection of information and establishment of a database, with means for sharing this information with the judiciary authorities, other government control authorities, and concerned quarters in foreign countries and international organizations. Article 18 also specifies that Egyptian judicial authorities shall cooperate with foreign judicial authorities in regard to money laundering crimes.

    - Article 5 states the unit shall investigate suspected money laundering operations and report to the public prosecution the results of investigations that prove that crimes proscribed by the law were committed. This article also provides that the unit may request the public prosecutor to take preventive action with regard to certain specified articles of the Penal Procedures Law.

- Article 6 specifies that workers in the unit may be vested with the power of judicial officers concerning the crimes proscribed in the law.

c. The law shall require all financial institutions to keep adequate records of financial transactions and report suspicious transactions to the Financial Intelligence Unit. It should penalize the failure to report suspicious transactions.

    - Articles 7, 8, and 9 require that procedures be established to ensure that financial institutions keep adequate records and report financial operations suspected to involve money laundering to the FIU.

    - Article 15 specifies the penalties for a failure to keep adequate records or report suspicious transactions.

d. The law should prohibit the opening of anonymous accounts at financial institutions and require clear identification procedures for individuals and legal entities opening accounts.

    - Article 8 prohibits the opening of accounts or the acceptance of deposits of unknown origin or under fictitious or bogus names. This article and Article 9 also require financial institutions to establish systems to ensure the identification of both individuals and juridical persons and to maintain registers of this information.

In addition the government is currently preparing the executive statutes for the law and is taking the necessary steps for the establishment of the Money Laundering Combat Unit called for in the law. The enacted law is in keeping with the agreement reached between the GOE and USAID in the monitoring plan for DSP II.

C2. The government of Egypt shall sign and accede to the Information Technology Agreement and the Basic Telecommunication Agreement.

Background. The Basic Telecommunication Agreement (BTA) covers a wide range of telecommunication service sub-sectors including voice telephone, data transmission, telexes, telegraphs, faxes, and privately leased services. The number of telecommunication service sub-sectors covered in these agreements varies among the members of the BTA. The level of commitment made by the members in these sub-sectors also varies, as does the timing of when commitments come into force. When the level of commitment is greater, the effect on the development of the communications sector and the economy will be more positive.

The BTA also provides an opportunity to make a commitment to the pro-competitive Regulatory Principles reference paper in the agreement. The reference paper deals with issues such as interconnection rights and an independent regulatory authority. The member countries agree to market access, national treatment, and regulatory commitments to open their domestic and, in most cases, their international markets for basic telecommunication services to competition.

Progress to date. The GOE submitted their BTA proposal to the WTO in April 2002. The GOE submission to the WTO made a series of specific commitments on telecommunication and data services, Internet services, mobile, paging, and VSAT. The bulk of the commitments serve to eliminate restrictions on market access on the part of foreign and domestic firms and to formalize national treatment of all investors. In those instances where a transition period is proposed, the transition is to be completed by the end of 2005.

The submission included a government commitment to establish an independent regulatory agency that is to be separate from and not accountable to any supplier of basic telecommunication services. The government also committed itself to transparency, non-discrimination, and timeliness in the granting of licenses, allocation of frequencies, procedures for interconnections, and dispute resolution. The government stated it would take appropriate measures to prevent major suppliers from engaging in or continuing anti-competitive practices.

The government's commitment to the BTA was significant both because of the growing importance of efficient, competitive telecommunications to a modern economy and because of the model it provides to other areas of the economy, where transparency, timeliness, and competitive structures and practices for domestic and foreign investors need to be strengthened.

The WTO circulated the Egyptian government's proposal to member governments and received no objections to the GOE proposal. On this basis, the WTO informed the government that the Egyptian proposal was accepted as submitted.

The acceptance of the government of Egypt's BTA submission by the WTO satisfies the terms of this benchmark as agreed to by the government and the USAID in the monitoring plan for DSP II.

D. Technical Assistance: Accomplishments

Under the eleven separate task orders, as well as Task Order #1, TAPR provided several highly successful short-term technical assistance activities. Below are some of the main achievements over the life of the project.

D1. Economic Research and Support

Central Bank of Egypt (CBE). The TAPR project assessed the database support activity for the Department of Economic Research (DER) at CBE. The project also conducted an assessment for the need for computerization software upgrading and relevant training.

Economic Processing Zone (EPZs) Activity. For this activity, TAPR prepared two reports: *Issues Related to USAID support for an Egyptian EPZ* and *The Development of a Reformed Egyptian Economic Processing Zone.*

Evaluation of the Activity Assessment of the Economic Policy Initiative Consortium (EPIC). The TAPR team prepared an evaluation of EPIC, which is administered by the International Center for Economic Growth (ICEG).

Maintaining a Data Bank for USAID Performance Monitoring Plan. The project team reviewed available data on private sector exports to examine their appropriateness as a measure of private sector export performance.

Technical Assistance to Estimate the Economic Impact of the Luxor Incident. An analysis was carried out of the probable economic impact to the Luxor Incident.

Assistance to U.S.-Egyptian Presidents' Council. TAPR provided technical and other assistance to the U.S.-Egyptian Presidents' Council to further the objectives of the Council.

Reform Plan for Pension and Social Insurance. The TAPR team prepared an overall plan to reform the legal and regulatory framework of the pension and social insurance sector in terms of structure, operations, and administration. The team also developed a time-phased action plan for pension and social insurance investments.

Training Program for the Ministry of Insurance and Social Affairs. TAPR provided training to explore ways to enhance Egypt's Social Insurance System that would safeguard its positive aspects while preparing to meet the demographic challenges of the 21st century. A two-part training session was presented to 40 trainees per week and ran for two four-week segments.

Strengthening Actuarial Proficiency. TAPR provided support for a professor of actuary sciences to teach at Cairo University for three and a half years.

Technical Assistance on Mortgage and Real Estate Finance. The TAPR project conducted an in-depth analysis of the need for enacting the new mortgage and real estate finance law, and provided recommendations for the executive regulations. The assessment outlined the necessary steps for creating the legal and regulatory environment for real estate in Egypt. It also highlighted the need to address issues such as securitization and property valuation and appraisal.

D2. Customs and Trade Facilitation

Training for Egyptian Customs. The TAPR project organized three one-week training programs on customs valuation procedures presented by U.S. Treasury officials in February, April, and June 2001.

Customs Valuation Decree Assessment. The project team assessed the Customs Valuation Decree and submitted a final report suggesting modifications to the decree.

Customs Roundtables. The project prepared two roundtables in Cairo and Alexandria in January and February of 2002, and another in June 2004. The roundtables brought USAID representatives together with the private business sector to discuss ways to improve Egypt's customs policies and practices.

Customs Needs Assessment. TAPR assisted the GOE in its efforts to develop and enhance the Customs Administration to provide recommendations for administrative, procedural, regulatory, and policy reforms needed to fulfill the national and institutional purposes and requirements of Customs.

Technical Assistance for Customs and Trade Facilitation Reform. The project team prepared a detailed background report for USAID on the status of customs and trade facilitation reform in Egypt. The initial report was issued August 2002, and an additional report was prepared in June 2004 focusing only on the trade facilitation aspects of reform.

Customs Baseline Survey. TAPR conducted a baseline survey at the request of USAID to determine the time and cost of clearing goods in Egypt. Over 320 importers, exporters, and clearing agents provided feedback on the survey which found that the clearance time for goods in Egypt is significantly higher than those in other countries. USAID intends to replicate the survey on a yearly basis to establish what, if any, reform measures are being taken to lower the clearance time.

D3. WTO/Trade Related Support

WTO Follow-on Workshop. At a workshop in April 2001, TAPR provided logistics support to experts from the International Trade Center (ITC) who provided briefings to the GOE and private sector participants in a USAID-sponsored trip to the WTO in Geneva.

Commercial Diplomacy. In conjunction with the Ministry of Economy and Foreign Trade (MOEFT), TAPR provided support for a WTO specialist to present training in commercial diplomacy.

Assessment of the WTO/TBT and SPS Agreements. The project carried out a preliminary assessment of TBT and SPS application in Egypt to assess Egypt's compliance with WTO agreements.

Competition Policy. TAPR assessed competition policy for the health and wholesale retail sectors and prepared a review of the competition law introduced to parliament.

Technical Assistance in Trade Remedies Procedures. The project provided the Foreign Trade Sector (FTS) of the Ministry of Trade and Supply with technical assistance and on-the-job training in the principles of anti-dumping, subsidies, and safeguard measures.

Bridging Activity for the Foreign Trade Sector (FTS) of the Ministry of Economy and Foreign Trade. TAPR assisted the GOE in its efforts to develop and enhance FTS operations. The project provided on-the-job technical assistance and training to the FTS staff in the areas of trade policy formulation, trade agreements follow-up and implementation, economic research and analysis, and trade remedies in an effort to continue the reengineering process and institutional development at FTS.

D4. Conferences and Workshops

USAID/CEFRS Economic Conferences. TAPR facilitated the organization and logistics for three annual economic conferences held in 2002, 2003, and 2004. Prime Minister Atef Ebeid gave the opening address at the 2002 and 2003 conferences, and Minister of International Cooperation, Fayza Abul Naga, spoke at the conference in June 2004. In addition, the keynote speakers at the conference were world-renowned economists: Professor Arnold Harberger (2002), Professor Robert Mundell, Nobel Laureate (2003), and Professor T.N. Srinivasan. The conferences were highly successful in examining key economic issues facing Egypt. They presented a forum for candid discussion among members of academia, representatives of the private sector, and government officials.

Ministry of Manpower and Migration Workshops. In 2003 and 2004, TAPR assisted the MOMM in organizing four workshops regarding the enforcement of the new labor law. The workshops were intended for different levels of employees and MOMM staff to help them gain a better understanding of the new changes in the law in an effort to ensure better enforcement by its inspectors.

Banking Reform. In collaboration with the Egyptian Banking Institute and USAID, TAPR provided support for a two-day seminar in Alexandria which was held for the heads and chairmen of the major banks in Egypt. The seminar featured high-level speakers from both Pakistan and Spain who highlighted the similar banking reform experiences in their countries.

International Trade Center Workshops. TAPR handled logistics for two workshops, one on exporting services and the other on supply-chain management presented by the International Trade Center staff in March 2001.

Amun Oracle Roundtable. The TAPR team coordinated six roundtable meetings on a biannual basis which provided a forum for what knowledgeable Egyptians in the business community think of the progress of Egypt's Economic Reform and Structural Adjustment Program.

Supporting the U.S. Treasury in Conducting Seminars. TAPR assisted the U.S. Treasury conduct seminars on capital market development for the Ministry of Economy, the Central Bank of Egypt, the Capital Market Authority, and the Ministry of Finance. The seminars offered were *Introduction to Trading* and *Sales and Market Simulation*.

Commodity Import Program (CIP) Roundtable. TAPR assisted the CIP in organizing a roundtable discussion between USAID and 15 CIP importers. The purpose of the roundtable was to discuss the program and to assess the banking finance situation in Egypt. The Resident Representative from the International Monetary Fund, Nadeem Ul-Haq, gave the introductory remarks.

SECTION IV

Lessons and Recommendations

SECTION IV

Lessons and Recommendations

A. Project Design

A1. Egypt-based Indefinite Quantity Contract

Creating TAPR as an indefinite quantity contract based in Egypt allowed USAID the necessary flexibility to adjust to changing economic and social conditions, government imperatives and needs, and shifts in USAID priorities. The TAPR project's design focused on broad economic issues and expected outcomes, with the USAID and the contractor left to fill in the details as to how these outcomes would be achieved. Because TAPR was not restricted by a particular strategy or approach, it was able to shift gears dramatically during the course of the program to take advantage of new government priorities and initiatives as they arose.

Originally a two-year project, with four option years and a budget of $22 million, TAPR was eventually extended into a seven-year program, as the full option period was extended, and a no cost extension was approved for an additional year. The prime contractor, in this case, had to be flexible to respond to changing circumstances and priorities, organized to facilitate smooth transitions and quick start-ups, and experienced to pursue and maintain a long-term vision of development.

A2. Opportunities and Challenges

The IQC structure presented new opportunities and challenges to both USAID and TAPR. While the contract provided an opportunity to respond quickly to the needs of the GOE and USAID, it also presented a challenge to try to insure that the GOE did not solicit "piecemeal" assistance from USAID that strayed from the overall strategic objectives of the program. In the first four years of the project, TAPR was able to provide assistance through issuing task orders in various areas of economic assistance. In executing the fifth and sixth of the contract, it was determined that the technical assistance would be more focused. Rather than provide short-term technical assistance through individual task orders, all technical assistance would be provided under Task Order #1 and would focus primarily on supporting the policy areas that were outlined under DSP I and II.

As work on the project continued, an increased focus on economic seminars, workshops, and conferences developed. TAPR's original mandate included such work, but as the project was extended and expanded, the last three years of the project placed a great deal of emphasis on these activities as a form of open dialogue and exchange with between the GOE, USAID, Egyptian academia, and the private sector. In this case, TAPR made best use of its core staff resources by significantly expanding the impact of the program's activities on the private sector and academic communities. At the same time, due to certain political and strategic circumstances, during the final two years of the project, TAPR was not as actively engaged in the design, and monitoring and verification process related to DSP II.

The key lesson learned is that projects should not be static but dynamic organisms, able to adjust to — and take advantage of — changing circumstances. This is particularly true of the USAID program of assistance to Egypt, where the length and scope of assistance under a single contractor meant that program implementation had to be flexible, particularly in the face of changes in the strategic objectives or direction of the USAID mission.

B. Project Management

B1. Core Staff

As the TAPR program, particularly Task Order #1, expanded it became necessary to ensure that the core staff could provide the proper support needed by USAID. The chief of party supervised a team consisting of the project specialist, a senior economic advisor, two economists, an editor, an accountant, and an office manager, a translator, a receptionist, and office boys. The core team responded to the requests for assistance from USAID, in addition to the monitoring and verification functions on DSP. At the same time, the team supported the technical assistance short-term consultancies.

B2. Communication with USAID

The primary reason for the success of the TAPR program was the close working relationship fostered between TAPR staff and USAID. Early on, TAPR's chief of party set a tone of cooperation with and support for USAID at all levels of the program. TAPR's stated mission was to act as the "right arm" of USAID EG/SPP division and provide creative and innovative ways for the mission to fulfill its strategic objective.

This attitude permeated the staff's thinking and led to a close relationship between the mission and the prime contractor. This relationship was maintained by keeping the mission's requirements for information and performance in mind at all times and creating open and easy communication channels with USAID. Some recommendations for streamlining the communication process are as follows:

- Meet with the cognizant technical officer (CTO) and contracting officer (CO) to seek their explicit guidance on the level of information detail they want and comply with their guidelines. Revisit after six months to see if they are satisfied or need to alter the system.

- Request guidance from the mission guidance regarding whom to release information to in the government, the type of information to be provided, and the protocol for conveying this information.

- Determine which counterparts can be met without prior USAID concurrence. Establish whether there are senior figures with whom the mission wishes to limit contact, or for whom permission to contact must be granted by the mission director.

C. Project Implementation

C1. Leadership from the Counterparts

During the course of the TAPR program, certain institutions and organizations developed the leadership capacity and political will to undertake serious reforms. Wherever possible, TAPR supported those leaders with the technical assistance, commodities, and training they needed to implement change based on best practice principles. USAID was eager to use the project to provide assistance in the background to help a "champion of change" achieve success for his/her institution, while allowing that leader to shine publicly.

C2. Facilitate Public-Private Dialogue

The TAPR program provided technical assistance, training, and support to both the GOE, through DSP I and II, and the private sector and academia, through workshops and conferences. At times, relations between the public and private sector were tense and communications between them weak. This put the TAPR program in a position to encourage public-private dialogue and partnership. Moreover, changes in governments, ministers, and elected chairpersons of boards of directors all created elements of uncertainty. TAPR placed a high priority on earning the credibility, respect, and cooperation of the Egyptian government officials and members of the private sector during times of high change and uncertainty.

C3. Subcontractor Management

In cases where the relationship between the prime and subcontractors is new, or when the subcontractor has limited experience with USAID projects, establishing standard operating procedures reduces the possibility of misunderstandings. This applies to the way work is scoped and level of effort is defined, as well as the way invoicing is carried out and how allowable expenses are defined. A significant amount of time should be invested early on in training subcontractors in such policies and methods.

During TAPR's most active phase, the work flow increased dramatically and the methodology for keeping up with task orders and invoicing was stretched. The consolidation of short-term work under one task order allowed a great deal of flexibility and facilitated management.

ANNEX A

Accomplishments under SPR I, II, and III

ANNEX A

Accomplishments under Sector Policy Reform Programs I, II, and III

A. Trade Related Measures

SPR I: A review was conducted and recommendations made regarding removal of regulations and laws that ban private sector imports and exports of commodities produced by the public sector. In 1992 and 1993, the blanket ban on private imports of these commodities was replaced initially by two decrees that identified 130 specific commodity imports that were to continue to be banned (about 10 percent of total production). This was then reduced to 28 commodities (about 4.3 percent of production). Also, five of the nine special conditions that severely restricted the import of petroleum products were eliminated.

SPR I: A review was also conducted of all the decrees issued by various ministries that restrict or ban exports or imports. Subsequently, all bans and restrictions on exports (other than pharmaceuticals, scrap metal, and raw leather) were removed. Also the experts committee's role in determining prices and giving approvals was eliminated.

SPR II: In 1996 the Minister of Supply issued a decree that eliminated its taxes and fees on exports. Additional decrees were issued in 1997 that further eliminated fees and charges imposed on exports and their transportation that were not based on the cost of services.

SPR II: A one-stop shop was established for exporters at all ports. The provision of maritime services was opened to the private sector.

SPR I, II, & III: The maximum tariff rate, the number of different tariff levels, and the dispersion of tariffs were substantially reduced in the early 1990s. The maximum tariff rate (with a few exceptions such as alcoholic beverages) was reduced from 120 percent in 1991 to 40 percent in 1998. The trade weighted average effective rate of protection was reduced from 26.6 percent in 1994 to about 20 percent in 1998.

SPR III: Private companies were allowed to provide ground services at airports. In 1996 foreign owned companies and foreigners were allowed to export. Foreign airlines are now allowed to compete with Egypt Air.

B. Intellectual Property Rights

SPR I, SPR II, & III: A study of consolidating the various offices responsible for patents, trademarks, and industrial design was carried out, and an action plan for modernizing IPR functions was prepared. Agreement was reached between the Ministry of Trade and Supply and the Ministry of Scientific Research as to their specific responsibilities. The patent, trademark, and industrial design offices have been unified. Staff has been trained and IPR laws are being more strongly enforced with more significant penalties being applied.

C. Competition, Employment, and Information Technology

SPR I: The control by the Ministry of Tourism of the prices that can be charged by tourism related businesses was ended. Since 1995, market forces have been allowed to determine prices.

SPR II: Licensing for investments at the governorate level has been eliminated, and most security-related approvals have been dropped. Also procedures for registration in and obtaining information from the commercial register have been simplified.

SPR III: Elements of the Civil Code were reviewed and modernized through new laws and amendments enacted in 1999.

D. Privatization

SPR I: In the 1950s and 1960s, nearly all Egyptian businesses were nationalized. Beginning in the late 1970s, private investment began to be encouraged. In 1992 the Egyptian government prepared a plan and procedures for the privatization of the 314 public enterprises that were organized under Law 203/1991. By the end of the SPR, 185 of these companies had been either sold to the private sector, liquidated, leased, or major assets from them sold.

The sales proceeds from these privatizations enabled 160,000 redundant workers to be given early retirement. Privatization and the use of sales proceeds enabled bank debt of public enterprises to be reduced by LE 13 billion, saving the government LE 1 billion in annual interest costs.

SPR III: The GOE began to encourage private investments in infrastructure for ports, highways, airports, electric power, etc. through BOOT/BOT contracts.

E. Fiscal Policy – Taxes and Administration

SPR I & II: During the past ten years, the GOE steadily expanded the coverage of the general sales tax. It now covers producers, wholesalers, and retailers. The GOE also made substantial progress in reforming the personal income tax regime. Tax rates that varied depending on the source of income have largely been consolidated. The exempted minimum level of income has been increased and maximum tax rates were reduced from 65 percent to 48 percent.

SPR III: Corporate tax regulations were significantly improved. Differential treatment based on revenue source has been reduced and depreciation procedures rationalized.

SII & III: During the 1990s, the government substantially reduced the level of public sector expenditure as a portion of GDP. This fell from 43 percent of GDP in 1991/92 to 24.7 percent in 1998/99. During the same period, public capital expenditures fell from 13.3 percent of GDP to 5.3 percent. The budget deficit was also substantially reduced as a percentage of GDP. Subsequently, however, these percentages increased when previously off-budget items were integrated into the budget presentation.

F. Banking and Non-bank Financial Intermediaries

SPR I: In the early 1990s, the government assessed constraints to the more efficient functioning of the banking sector and central bank supervisory and bank inspection procedures. Following the completion of these assessments, controls on bank fees were eliminated, interest rate controls on corporate bonds were removed, and approval for the establishment of bank branches was expedited for banks meeting higher capital asset ratios. The central bank also revised its bank supervision procedures and bank inspection regulations were reformed. The government eliminated the tax on interest, which had previously been removed on other capital income. Foreign banks and insurance companies were once more allowed to operate in Egypt.

SPR II: Public ownership of joint venture banks began to be reduced in the mid 1990s. In 1992, 16 of the 23 joint venture banks had public sector ownership greater than 50 percent, and none had less than 20 percent public ownership. By the end of 2000, only 7 joint venture banks had public ownership above 50 percent, and 8 had public ownership less than 20 percent. At the same time, the portion of total deposits in the four state banks fell steadily.

SPR I: The government approved a reform plan for the insurance industry and began its implementation. The mandatory percentage of reinsurance that has to be placed with the public sector reinsurance company has been steadily reduced.

G. Capital Markets

SPR I & II: In 1992 the GOE enacted a new Capital Market Law that revitalized the Egyptian securities markets. In the mid 1990s, the government reviewed the Capital Market Law and carried out a study of the feasibility of introducing new financial instruments. Following this, restrictions on broker's fees were eliminated and the Capital Market Authority issued revised regulations permitting the issuance of new forms of securities.

SPR II: Regulations and enforcement procedures were established so that Egyptian companies will use international accounting and auditing standards.

SPR III: The Capital Market Authority issued numerous new prudential regulations for several areas of financial services. An investor protection fund was also established.

ANNEX B

DSP I Indicators and Disbursements

ANNEX B

DSP I Indicators and Disbursements (as of 12/31/2002)

	Value *millions*	**Disbursed** *millions*
Original DSP I Indicators		
1a. Privatization of Law 203 Companies* (included in new indicator 1a)	*95.00	44.20
1b. Divestiture of Joint Venture Firms* (included in new indicator 1a)	*30.00	0.00
1c. BOOT/BOT Contracts	15.00	2.80
1d. Leases With Option to Buy* (included in new indicator 1a)	*15.00	0.10
1e. Electricity and Telecommunication Share Sales	15.00	0.00
1f . Valuation of Public Insurance Companies	10.00	10.00
1g. Privatization of Public Insurance Companies	15.00	0.00
1h. Privatization of Public Sector Banks	15.00	0.00
1i. Use of Privatization Proceeds	10.00	10.00
2. Enactment of New Labor Law	70.00	42.00
3a. Patent Cooperation Treaty	10.00	0.00
3b. Trademark Law	20.00	TBD
3c. Industrial Design Law	15.00	TBD
3d. Reduction in Import Tariffs (Now indicator 3e)	65.00	0.00
4a. FY 1999 Budget Deficit	25.00	0.00
4b. FY 2000 Budget Deficit	25.00	0.00
5a. Insurance Industry Reform Plan	20.00	20.00
5b. Reduction in Mandatory Reinsurance with Egypt Re	20.00	20.00
5c. Capital Market Law	20.00	0.00
5d. Stock Market Depository Law	20.00	20.00
5e. Mortgage Law	20.00	20.00
6a. Development of Domestic Debt Markets	25.00	25.00
6b. Public Debt Law	25.00	0.00
Subtotal	**$600.00**	**$214.10**
Additional Indicators		
1a. Privatization Method Valuation	20.00	5.00
3d. Data Exclusivity	10.00	0.00
3f. Customs Valuation,	20.00	0.00
3g. Import Sampling Procedures,	20.00	20.00
5f. Margin Trading,	5.00	0.00
5g. Competition Law,	15.00	0.00
5h. Liberalized Broker Fees,	5.00	5.00
5i. Bond Rating Agencies,	5.00	5.00
6c. Book Entry Registry, and	10.00	10.00
6d. Debt Management Unit	10.00	10.00
7. Government Economic Reform Plan	100.00	100.00
Subtotal	**$220.00**	**$155.00**
Totals *(not including IPR Law disbursement)*	**$820.00**	**$369.10**

**The original Indicators 1a, 1b, and 1d were combined into the new indicator 1a, Privatization of Law 203 Companies, after the fourth disbursement. The value of this new indicator is $40.0 million, in addition to the $32.3 million that was previously disbursed for the original three indicators.*

ANNEX C

Selected Deliverables

ANNEX C

Selected Deliverables

Task Order 1: Core		
Activity	**Deliverable**	**Date**
DSP I Privatization Workshop	Logistics	November 1999
Training for Egyptian Customs by US Customs	Logistics	February, April, & June 2000
Productive Jobs Task Force	Report	March 2000
Assessment of the Oracle Database and Computer Network, Department of Economic Research, Central Bank of Egypt	Report	July 2000
Evaluation of the Activity Assessment of the Economic Policy Initiative consortium	Report	December 2000
Economic Processing Zones	Report	March 2001
WTO Follow-on Workshop	Logistics	April 2001
Competition Policy	Report	December 2001
Customs Valuation Decree Assessment	Report	December 2001
Assessment of Egypt's Compliance with the WTO Agreements on Technical Barriers to Trade and the Application of Sanitary and Phytosanitary Measures	Report	January 2002
Sector Policy Reform	Report	January 2002
Customs Roundtables	Logistics	January & February 2001
International Trade Center Workshops	Logistics	March & May 2002
Institutional and Policy Management of the Egyptian Economy (CEFRS Conference)	Logistics	May 2002
Technical Assistance for Customs and Trade Facilitation Reform	Report	July 2002
Mortgage and Real Estate Advisory Services to the Ministry of Housing	Report	September 2002
Competition Law Roundtable	Logistics	January 2003
Development Support Program DSP I	Final Monitoring and Verification Report	March 2003
Ministry of Foreign Trade's WTO Informal Ministerial Meeting	Logistics	June 2003
Rising to the Challenges of International Crisis and Economic Management in Egypt (CEFRS Conference)	Logistics	June 2003
Customs and Trade Facilitation Roundtable	Logistics	June 2004
Revisiting Egypt's Competitiveness: Building Leading Sectors (CEFRS Conference)	Logistics	June 2004
Trade Facilitation	Report	September 2004
Task Order 2: Policy Reform		
Technical Assistance by Economist to Support Policy Reform	Monthly Progress Reports	May 1998 - October 1998

Task Order 3: Modernizing National Accounts		
Activity	**Deliverable**	**Date**
National Income Accounts Activity Paper	Report	April 1998
Task Order 4: Amun Oracle		
Amun 7	Meeting Minutes and Report	March 1998
Amun 8	Meeting Minutes and Report	July 1998
Amun 9	Meeting Minutes and Report	January 1999
Amun 10	Meeting Minutes and Report	July 1999
Amun 11	Meeting Minutes and Report	February 2000
Amun 12	Meeting Minutes and Report	October 2000
	Completion Report	January 2001
Task Order 5: Policy Reform Activities		
Task Order 5-1		
The USAID Program and Its Impact on Egypt Policy Reform	Report	March 1999
Task Order 5-2		
Technical Assistance to Estimate the Economic Impact of the Luxor Incident	Report	March 1999
Task Order 5-3		
Monitoring Progress Under SPR and Assisting the GOE in Achieving the SPR	Report	December 1998
Task Order 5-4		
Global Trade Patterns, Foreign Direct Investment, and Egypt's Export Strategy	Report	February 1999
Task Order 5-5		
Reform Plan for Pension and Social Insurance	Report	September 1999
Task Order 5-6		
Translation of Executive Regulations of Capital Markets Authority	Translation from English to Arabic	October 1999
Translation of Commercial Laws	Translation from Arabic to English	October 1999
Task Order 5-7		
Actuarial Proficiency: Courses taught at Cairo University	Insurance Mathematics II for fourth grade	Spring 1999 - Spring 2001
	Survival Models II for third grade	Spring 1999 - Spring 2001

Task Order 6: Program and Project Design		
Activity	**Deliverable**	**Date**
Program Design: Design DSP I	Policy Matrix and Benchmarks	May 1999
	Results Package	August 1999
	Prototype Technical Assistance Plans for DSPs	August 1999
	Summary Concept Paper for DSP I	April 1999
	Model Verification Report, Including Baselines for DSP I	August 1999
	Review and Analysis of Old vs. New Labor Laws	August 1999
	Verification Matrix, Data Collection and Analysis, and Updating of Baseline Document	October 1999
	Completion Report	October 1999
Task Order 7: Trade Remedies		
Technical Assistance in Trade Remedies Procedures	Training for FTS Staff	July 2000 - October 2000
Task Order 8: Presidents' Council		
Assistance to US-Egyptian Presidents' Council	Completion Report	December 1999
Task Order 9: Seminar Support		
Supporting the U.S. Treasury in Conducting Seminars	Logistics	November 1999
	Completion Report	December 1999
Task Order 10: Ministry of Social Insurance Training		
Training Program for the Ministry of Social Insurance	Phase I	May - June 2000
	Phase II	September - October 2000
	Policy Workshop	February 2001
	Completion Report	March 2001
Task Order 12: Trade Bridge Activity		
Bridging Activity for the Foreign Trade Sector of the Ministry of Economy and Trade	Final Report	September 2001
Task Order 13: Customs Assessment		
Customs Needs Assessment	Final Report	August 2001
**USAID did not issue Task Order 11.*		