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REVIEW APPRAISAL OF THE TRAINING AND

TECHNICAL ASSISTANCE NEEDS OF THE

NATIONAL INVESTMENT BANK OF EGYPT

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INTRODUCTION

This report has been prepared for the Government of Egypt at the request of H.E. Dr. Abdel-Razzak Abdel Meguid, Deputy Prime Minister for Economic and Financial Affairs. Its purpose is to identify areas of operations of The National Investment Bank of Egypt ("NIB", the "Bank", the "Organization", the "Institution") where training or other technical assistance would be useful in assisting the Organization achieve its objectives.

The time horizon of this report is fundamentally limited to events that are projected to take place over the next two to three years although the impact of this report's implemented recommendations will have an important influence on the course of NIB's development over the longer term.

INSTITUTION AND OBJECTIVES

NIB's establishment was authorized by public law 119 on June 17, 1980. It is fully owned by the Government of Egypt and is an integral part of the Ministry of Planning. Its primary purpose is to assure implementation of the investment program of the Government by providing adequate term financing for all approved investments undertaken by the Government, and in time to participate in the financing of productive investments in the private sector. This centralization of the financing for all public sector projects, in view of the magnitude of such annual investments, should result in a better allocation of financial resources. Moreover, the experience and knowledge accumulated over time from this process should lead to more effective project evaluation and appraisal and in turn investment decision making. Importantly, the functioning of the Institution is designed to provide the required continuity between formulation of investment projects and programs and their orderly and continuous implementation, in marked contrast with Egypt's past experience. More specifically, the main functions of NIB can be summarized as follows:

1. To prepare the financial plan for investment projects approved in the Plan. These financial plans are based on technical and market appraisals prepared by the public sector companies and their respective Ministries, as well as the Ministry of Planning. NIB's responsibility lies in the preparation of the financial plans that would satisfy the capital requirements of the project and that at the same time would provide optimal use of financial resources of the Bank.

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2. To provide the financing for all projects approved in the Plan.
3. To monitor the implementation of the investments, particularly with respect to disbursements. NIB is responsible for ensuring that the funds withdrawn for any project match the financing approved by its Board.
4. To obtain foreign credits as required to finance the foreign exchange component of projects.
5. To mobilize domestic savings including the utilization of institutional savings for the purpose of investments; and
6. To ensure the effective linkage of available local currency and foreign assistance funds.

The Bank's general investment criteria, consistent with the project selection process, are technical feasibility, contributions to society and the economy, and commercial viability where appropriate. NIB's participation in the project selection process will be in the form of advisory opinions to its parent organization, the Planning Ministry, which is responsible for final project selection. To enhance its influence on project selection NIB will have to develop a highly respected project appraisal capacity so that its advisory opinions are taken effectively into account. In addition NIB should develop a more specific statement of investment and operational policies, especially with regard to public and private sector companies.

To carry out its functions NIB is authorized to make use of long-term loans, guarantees, participation in loans granted by other institutions, equity investments, discounting, underwriting, and promotion of financial syndicates as appropriate.

The Institution commenced operations in July of that year. During its first year of operations its emphasis has been on building a staff and on the disbursement of funds for Government investment projects included in the 1980/81 Investment Budget. While the establishment of a mechanism for the distribution of funds and the assembling of a basic core staff are important accomplishments, much remains to be done for NIB to improve the efficiency of its financing function and to achieve its broader mission. The pace at which NIB can achieve its broad goals will depend upon a combination of factors. Importantly among these factors are the expansion and development of its staff, and the development of a set of relations between itself and the entities it will finance, as well as present and potential sources of funds. All of this will take time and should not be excessively pressed. The development of these relations will accelerate progressively as NIB becomes increasingly perceived by its present and potential clients and funding sources as an effective and efficient financial intermediary, with professional project supervision, monitoring and management skills.

Against this background our recommendations for training and other technical assistance are designed to aid NIB to conduct its operations in a manner that is consistent with the achievement within a reasonable time of a permanent institutional base; more specifically, to improve its efficiency and effectiveness in project appraisal, funding, implementation and monitoring, and to enhance its capacity to promote and participate in a meaningful way in private sector activities that contribute to the country's economic development.

RESOURCES

To date, resources to fund the Investment Budget have been met through sources dedicated to NIB by law supplemented by loans and capital from the Government. At June 30, 1981 the Bank's assets amounted to L.E. 8.7 billion.

Although NIB is empowered by its enabling legislation to participate in the mobilization of its resources and to help promote the capital markets through the issuance of securities, it is unlikely that it will engage in such activities to a great extent in the near future. This is probable because at the present time the magnitude of the Investment Budget is derived by estimating available resources, rather than the required rate of investment necessary to obtain a targeted economic growth rate.

If NIB were to undertake any external financing under the present circumstances, such funding would have to benefit from a full Government guarantee. Although the volume of financing flowing through NIB is large (in excess of \$2.5 billion of disbursements per annum), NIB has little control over the choice of its portfolio. It is as yet a conduit for the Treasury which assures its solvency. Thus the credit of NIB must be backed by the credit of the country until such time as the Bank will have developed credibility, professional staff and an ability to cover its debt obligations in part or in total.

CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE

It was not practical to attempt to prescribe an appropriate capital structure for NIB for the medium term. This is because policy decisions must be made with regard to the exact nature of Government transfers to NIB as well as deposits to its account by its legally dedicated sources. Such decisions entail the determination of the extent to which these resources can be classified as loans, equity or quasi equity. It should be noted that an actuarial study will be needed to determine the net flows for the National Investment Fund (Social Security) over time so that an appropriate classification of these funds can be made.

We could not assess NIB's financial performance because the terms for NIB's lending have not been set by the Board, and the Government has not yet taken any firm decision with regard to the terms of its loans to NIB. These same factors made it impractical to prepare realistic sources and uses projections for the medium term.

To assist NIB in developing its capacity to project its sources of funds, it would be useful for it to develop the capability to appraise economic developments in both the domestic and the international economy, and the ability to translate these current and potential events into possible and probable effects on its ability to raise resources, and on the demand for financing emanating from its current and potential clients. This may require graduate study abroad for its staff in such broad areas, among others, as economics, international finance, and econometrics.

In light of the foregoing, with regard to resources, capital structure and financial performance, we would recommend that at the outset a firm with expertise in financing and financial planning be retained to assist the Bank in analyzing its dedicated sources of funds and its earning potential; this would include the development of a system to calculate the Bank's overall cost of borrowing and of lending, an analysis of the loan portfolio and classification system, lending policies and procedures, projections of balance sheet, income, and sources and uses of funds statements. This would help determine the Bank's future financial requirements, an appropriate capital structure, a financing plan and policies that NIB should undertake to be able to attract potential sources of funds, if needed. Such an analysis would also provide a basis for subsequent Government decisions on funding for NIB and Board action in investment/lending policies.

ORGANIZATION, MANAGEMENT AND STAFF

NIB is in the process of developing its internal institutional arrangements. We have reviewed the proposed organizational structure which we understand is to be discussed and possibly acted on by the Board of Directors in the near future. The proposed structure specifically addresses the strategic objectives of NIB in a functional manner and provides a basis that will easily accommodate anticipated expansion of the Institution in the investment process of the country. An additional commendable feature of the proposed internal organizational structure is that it gives a framework that will facilitate the spin-off of NIB's social overhead investment projects should this policy decision be taken at some later date. One major reservation we have with respect to the proposal is its identification of the technical and follow-up offices as secretariats rather than as line functions. A potential problem with such an arrangement is that the Managing Director may have to spend considerable time on technical details that might be avoided if the technical secretariats were line functions instead of staff.

The Chairman of NIB has at the present time vast responsibilities outside of his activities within the Organization and may thus be forced by the pressures of these responsibilities to limit his participation to broad issues of policy. Under these circumstances, and in any case, there needs to be a close working relationship between the Chairman of the Bank and the Managing Director. The Managing Director has extensive experience in planning and other areas that give

him the basis needed to undertake this task, although he has no direct experience in running a development bank. Our conversations with him clearly reflected his understanding of the role NIB can play in the economic and social development of the country. Moreover, he gave a relatively complete picture of how he perceived the Bank achieving its objectives and emphasized the additional staff and training required to do so. Nevertheless, he would benefit from an exposure to and discussions with officials holding similar positions in other development banks. In addition to a 2-3 week visit to the World Bank to hold discussions with department heads and other officials involved with development finance institutions around the world, visits to selected other development finance organizations would be helpful.

We also had the opportunity to have detailed discussions with three senior officials of NIB. All three had a good grasp of NIB's role and thus provide adequate experience to build on although here again direct experience in development banking is missing. These Officers could benefit also from exposure to other similar institutions and counterpart officials, and this again could be accomplished through short visits. All three were candid in their discussions of staff size, quality and training needs in their respective areas. We have taken their comments into account in making our recommendations for training and technical assistance.

Given the newness of the Organization and most of its officers, the desire to accelerate its development to international standards, and the relatively heavy schedule of its Chairman, we would recommend the immediate secondment of an adviser with considerable experience in development finance and banking as well as expertise in international finance.

NIB, we were informed, has a staff of approximately 200 persons, consisting of roughly 20 senior officers, 60 professionals, and 120 lower level personnel. Although, we are not in a position to comment in an exact manner on the magnitude of staff requirements, we were repeatedly informed of the need for additional staff. Based on our discussions, it appears that at least one hundred additional professional staff are required in the immediate future to effectively perform the disbursement and monitoring functions and to start to build up NIB's appraisal capacity. As the Institution expands its role, there will be a need for additional personnel at both the professional and support staff levels. It is therefore clear that select increases in professional staff in the areas of project appraisal, supervision and monitoring, accounting and management information systems are likely to be needed in the near future if NIB is to expand its role and increase its effectiveness. NIB will probably have to provide training for the professional and support staff to satisfy both the magnitude and quality of the staff it requires.

In order to provide this training, NIB will have to: first, exhaust the potential of local and in-house facilities, particularly for support and clerical staff; second, organize intensive courses utilizing local

and foreign experts to provide a broad group of the professional staff with the fundamentals in their respective areas; third, where more advanced training is needed in specific areas, and is not locally available, arrange for training abroad. An added benefit of training abroad would be that it could serve as an incentive for higher production in that only the most promising staff would be selected for participation in the program. Moreover, such study would broaden the horizons of the participants, and would provide opportunities for interchanges with their counterparts from institutions throughout the world.

APPRAISAL AND MONITORING

Given the newness of the Organization and an already completed Government Investment Budget for 1980/81 when it began operations, appraisal work by NIB has been largely restricted to an assessment of the reasonableness of the projected flow of financial resources required to move the projects smoothly along during the year. Moreover, the newness of its staff and the small core of trained appraisers would have in any case made it difficult to participate in project selection in a meaningful advisory process with the Ministry of Planning. This is a situation that should receive early attention. We have included a possible course of action in our recommendations, although we do not foresee NIB engaging in the project appraisal function in a significant manner over the next two years, given the lead time required to effectuate actual improvement in this regard.

NIB has not yet adopted an interest rate and terms policy. We understand that this issue is to be discussed by the Board of Directors at an upcoming meeting. The adoption of a general policy of terms to be applied to loans would do much to relieve the apprehension reportedly shown by some clients when asked to sign open ended loan agreements. On the other hand, NIB will have to be flexible in implementing any general policy adopted in this regard to assure that its net effect is within the financial capacity of the borrowers to repay. Differential rate and term structures may alleviate this possible problem, but not eliminate it. In such an event, NIB should take the occasion to become fully familiar with the operations and financial prospects of such clients. Such knowledge would serve the Bank as it broadened its role in the economy, possibly to that of acting as the State's ownership agent with regard to public companies. We understand a Bill is before the Council of Ministers at the present time to broaden the scope accordingly.

NIB's supervision has been restricted to receiving and evaluating reports from its borrowers. It has little means at its disposal to check the accuracy of these reports. It has not had the staff to allow project visitations and inspections except to a very limited degree. This is also an area that should receive early attention.

PROCUREMENT AND DISBURSEMENT PROCEDURES

As yet, it is our understanding that NIB relies on the procurement practices of its borrowers. We have not examined these practices, but understand that they make use of competitive bidding. If this is not the case NIB should include in its loan agreements procedures that are fundamentally consistent with standards usually required by most official multilateral financial institutions, particularly the World Bank. NIB should seek to ensure the use of a system that makes use of competitive bidding to a large extent.

While NIB's present system of disbursement permits rapid distribution of funds it does not specifically safeguard the quality of expenditures made with such funds. Disbursement against documentation would strengthen the system and bring it in line with procedures used by most development banks, particularly those associated for example with the World Bank and IDA. The prevalent reason for calling for early modification in the present systems is to bring them in line with international standards so that NIB, assuming a strengthening in its supervision function, will be perceived at an early date as an acceptable implementation institution by major foreign donors. Such development would permit NIB, in consultation with the Ministry of Planning, to offer such donors packages of specifically prepared projects for financing which would be acceptable even though they may not yet regard the Institution as eligible for a general use development loan. This is a financing mechanism that the World Bank has recently used with Turkey's State owned development bank (Turkiye Sinai Kalkinma Bankasi "TSKB") as a means of compensating for the dominance of the institution by the State Planning Organization in the selection of projects to be financed and the poor quality of its project appraisal. The World Bank thus appraised a set of projects which were submitted to it by TSKB and packaged those that it found acceptable and then used TSKB as the financing agent for its loan because it was fully satisfied with that organization's implementation and supervision performance.

NIB may need outside assistance in establishing these procedures, but it should be available locally.

MANAGEMENT INFORMATION SYSTEM (MIS)

It is our understanding that an MIS system is in the preliminary stages of development. The individual in charge was not in the country at the time of our visit and therefore we are unable to comment on the current efforts. Nonetheless, it is our opinion that the system should: first, be consistent with the organizational structure that is approved; second, that it be designed to fulfill the requirements over the near future as well as be capable of being expanded to accommodate future needs which would include the requirements associated with future activities NIB might engage in; third, make maximum use of existing facilities (e.g. data banks at Ministry of Planning, Central Bank, etc.); fourth, be compatible with NIB's ability to maintain and operate it; and fifth, it should seek to minimize unit cost.

In view of the importance of a well designed MIS to the efficient and effective functioning of the Bank, and to facilitate its dynamic leadership by providing it with the critical information on a timely basis, it is important that the requisite attention be devoted at the outset. We would therefore recommend that an expert in MIS and computer systems be retained to work with the group developing the organizational structure and the associated information flows, the senior Officers of the Bank, including those involved in developing the accounting system and an established computer firm in Egypt, with a broad line of products and good service capability.

ACCOUNTING SYSTEM

We were informed that a group of Officers of the Bank are working on the design of an accounting system for NIB. These senior officials we believe would benefit from a visit to the World Bank to review the efficiency and accuracy of accounting systems used by banks similar to NIB. Following such a review, visits to the institutions which have systems that are more appropriate for NIB should be arranged. It may be desirable also for NIB to retain an adviser with expertise in development bank accounting to assist in the design phase.

In any case an accounting system for NIB should have the capacity to produce on a regular and continuous basis the fundamental statements of accounts. These statements include actual and projected balance sheets, profit and loss and flow of funds statements. Underlying these statements there must be a system of accounts which permits the Institution to know on a regular basis the position of each project in its portfolio both in process and completed. In addition the system should provide on a timely basis for the financial information that is required for the Institution to manage its financial assets.

RECOMMENDATIONS

As stated throughout this report we believe that the efficiency with which NIB performs its functions and the pace at which it is able to broaden its role in the development process of Egypt can be materially assisted by a program of training and select technical assistance from experts to help the institution along the unfamiliar course that has been charted for it in its enabling legislation. Aside from the direct benefits from such programs they may also serve to enhance the "esprit de corps" among the staff and thus contribute to the building of the Institution.

Implementation of these recommendations should result in an overall strengthening of NIB as an institution. Through improved appraisal and supervision of projects capability it would be able to participate more meaningfully in the deliberation process before final decisions are made by the Ministry of Planning on the projects to be included in the Plan and thus to be financed by NIB. In addition, through improved disbursement and procurement procedures, and management and control systems, NIB's capacity to utilize external borrowings from donors and the domestic and international capital markets would be enhanced.

The program that we have designed to our understanding is compatible with the types of programs the United States through The Agency for International Development (U.S. AID) and other major donor countries through their respective foreign assistance programs have financed in the past. Furthermore, given the substantial size of U.S. AID's program in Egypt and its interest, as well as that of other donor countries, in bringing about more rapid implementation of investment projects that contribute to Egypt's economic development, it is likely that financing for this program might be provided for by U.S. AID or another country in the form of official development assistance.

In implementing the technical assistance programs NIB should identify the local and foreign experts to U.S. AID and/or other sources of donor funding so that a mutually agreeable selection can be made, scope of work agreed to and negotiations of employment contract negotiated.

1. TRAINING:

- A. SENIOR OFFICERS: Managing Director and all department heads, and select members of the technical secretariats should be eligible (per the new organization chart, the program should cover approximately 10 people).

In the light of the newness of the Organization and the fact that its senior Officers are undertaking new endeavours as measured against their previous experience, periodic visits of relatively short duration (1-2 weeks per institution) to the World Bank and other development finance organizations to review their methods of operation and to engage in discussions relative to their mutual interest could serve to broaden the perspective of these Officers and to provide them with examples of alternative arrangements which these institutions through experience have come to utilize in solving common problems. Such visits should be arranged at an early date. However, these visits should be scheduled so as not to disrupt NIB's operations. It would be advisable if perhaps no more than two Officers were absent from NIB at the same time. The benefits from such visits might be maximized were the two Officers to visit the same institution, while focusing on their respective interests, they would nevertheless have the opportunity to hold discussions between themselves and in this manner reinforce each other's perception of the institution visited. In order to maximize the benefits of such visits it might be helpful if the senior Officers of NIB were to engage in intensive English conversation before departure, since English is likely to be the common language.

Implementation: The assistance of U.S. AID or other donors should be sought to facilitate the arrangements for such visits, both to the World Bank and to other development finance institutions, the latter possibly with the assistance of the World Bank.

B. PROFESSIONAL STAFF: This group covers university graduates mostly who are assigned or expected to be assigned to project appraisal and/or project monitoring, finance, investment, management, accounting and management information systems activities. At the present time there are 60 professionals and it is anticipated that at least 100 professionals will be added probably in the next year.

The recommended program covers a two year period, with local and foreign components. The former, should be made available to 80-100 people and the latter to 40 people.

The recommended local program because of its relatively broad staff coverage, is designed to provide the professional staff with technical skills, a degree of homogeneity, and a common perspective of NIB which should facilitate management as well as create an "esprit de corps" which would help to strengthen the Institution. The foreign component of the program is designed to provide skills and training in specific areas that are not available locally. In order to build the in-house capability for training in the future, it might be advisable to have two of the more senior professional staff attend each of the local sessions, prior to going abroad for more specialized study.

1. IN COUNTRY GENERAL COURSE:

Subject: Project Appraisal, Management and Monitoring
Duration: 12 - 16 weeks
Prerequisite: English
No. of sessions: Four sessions in a two-year period
Size: 20 students per session
(to allow personal attention by experts)
Instructors/Experts: Local and foreign, as needed
Course coverage: -Financial analysis
-Project identification, design and preparation
-Economic cost/benefit analysis
-Shadow pricing and conversion factors
-Evaluation of alternate technologies
-Practices, tools and techniques of project implementation and post evaluation
WORKSHOP should be conducted with 3 case studies in each subject.

2. ABROAD, SPECIALIZED COURSE:

Subject: (i) PROJECT SELECTION, MANAGEMENT AND ECONOMIC DEVELOPMENT

OR
(ii) FINANCE, INVESTMENT AND MANAGEMENT
Duration: 12 - 15 months
Prerequisite: English and general in-country course outlined above with exceptions where warranted.
Size: 20 per year
Course coverage: To include:
- Macro/micro economics
- International finance
- Corporate finance
- Investment theory
- Management and control
- Administration
- And such other areas as NIB identifies

the staff attending either of these courses will be expected where it is feasible to earn a graduate or professional degree as well as spend 3-6 months in practical training, if this can be arranged. It is important that the candidates understand that participation in this program requires a commitment for future employment with NIB for a minimum period of three years following the termination of their NIB sponsored training. For this to be a realistic requirement, NIB's salary structure will have to be competitive.

Implementation

U.S. AID and other donors could be approached to locate and negotiate contracts in conjunction with NIB, potential foreign contractors who would be needed to conduct local courses. NIB on its own initiative could identify to U.S. AID or other official donors competent local and foreign potential contractors as well as for the same purpose.

With respect to the specialized courses of study abroad, NIB could ask U.S. AID to provide it with a list of potential universities and organizations who have conducted such programs as have been outlined in (i) and (ii).

C. SUPPORT STAFF:

Duration: Continuous basis, 2 hours a day

Size: All support staff eligible

Instructor: In-house, local expert where needed

Course coverage: - Procedures and methods relevant to their tasks
- Accounting
- Machine operations
- English and/or French

This program is intended to upgrade the quality of the Support Staff thereby releasing the professional staff to spend their time more effectively.

Implementation: NIB would identify to U.S. AID or other official sources of funds the in-house and local potential instructors, as well as the costs associated to implement such a program.

D. CLERICAL STAFF:

Duration: Continuous, one hour per day

Eligibility: See below

Instructor: Local, or university courses

Course coverage:

- English and French - conversation, writing, shorthand skill for senior Officers' secretaries
- Translation capability - select 10 most able
- Filing system - all
- Basic English and/or French - all

This program is designed to upgrade the clerical staff, and improve its productivity as well as provide greater job satisfaction.

II. TECHNICAL ASSISTANCE:

A. FINANCING:

1. Review NIB's sources and uses of funds over the planned period, with a view to outlining the alternatives for NIB with regard to the appropriate capital structure, ability and requirements of attracting multilateral and bilateral foreign assistance, medium and long term borrowings, both domestic and foreign, utilization of short term debt and guarantees. Where appropriate assist in developing tools of analysis for example overall cost of borrowing and of lending, cashflow projections, etc...
2. With respect to the funds received from the Social Security system, an actuarial study would be undertaken to determine the time pattern of the net flows.
3. The secondment of an advisor with development finance and banking experience as well as international finance expertise to assist the Chairman and Managing Director with financing decisions principally.

We believe that two firms would be needed to complete the tasks outlined in items 1 and 2 above, the first specializing in financing and financial consulting and the second in actuarial studies, in addition to the advisor.

B. PROJECTS:

1. Review existing project approval process and documentation and where appropriate assist NIB and Ministry of Planning in developing a manual which would set forth common procedures to be used in project evaluation and appraisal.
2. Review existing procedures and documentation and where appropriate assist NIB in developing a manual which would systematically set forth procedures to be followed in the monitoring and post evaluation of projects.
3. Review existing procurement and disbursement procedures and assist where appropriate in developing a manual that is consistent with the Government of Egypt's requirements as well as those of international financial institutions.

It is our belief that the Project's needs outlined in 1 and 2 above can be satisfied by one person. For Projects need 3 a different person should be obtained. Where local expertise is not available, a foreign consultant should be utilized. This should receive high priority attention.

C. MANAGEMENT INFORMATION SYSTEM (MIS)

1. An expert in MIS and computer systems should be engaged to work with the entity currently working on NIB's organizational structure, and NIB's Officers working on the design of a new accounting system. Once they have developed an appropriate MIS system, they will be in a position to work with a computer company that has an appropriate line of equipment, as well as the requisite support staff in Egypt would be able to promptly service the computer system that is selected.
2. An expert in accounting systems for development finance institutions would be helpful in the design of NIB's accounting system.

We believe that two individuals or organizations will be required to perform the above tasks in view of the different expertise.

D. ACCOUNTING SYSTEM

An expert in development banking accounting system should be retained to assist in the design of NIB's accounting system.

One individual should be required to perform this task.