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IBTCI

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LIST OF ABBREVIATIONS

AA	Arthur Andersen
AAW	Al Ahram Weekly
ABA	Alexandria Businessmen Association
AC	Affiliated Company
ACE	Agriculture Credit & Economics Office
ACPC	Anti-trust Competition Protection Council
ADRs	American Depository Receipts
AEB	American Express Bank
AOSCO	Alexandria Oil & Soap Company
AP	Associated Press
Approx.	Approximately
APRP	Agricultural Policy Reform Program
BOD	Board of Directors.
BODA	British Overseas Development Agency
BOT	Build Operate & Transfer
CBE	Central Bank of Egypt
CDS	Central Depository System
CEO	Chief Executive Officer
CG	Consultative Group
CIB	Commercial International Bank
CIDA	Canadian International Development Agency
CIIC	Commercial International Investment Company
CMA	Capital Market Authority
Co.	Company
COP	Cheif of Party
CTS	Cargill Technical Services
DA	Development Associates,Inc.
DAI/B	Development Alternatives, Inc./ Bethesda
DF	Direct Fund
EAB	Egyptian American Bank
EBA	Egyptian Businesmens' Association
EBB	Egyptian British Bank
EBBA	Egyptian-British Businessmen's Association
ECMA	Egyptian Capital Market Assocition
ECU	European Currency Unit
EDRs	European Depository Receipts
EEA	Egyptian Electricity Authority
EFG	Egyptian Financial Group
EFIC	Egyptian Financial & Industrial Co.
EGPC	Egyptian General Petroleum Corporation
EHDR	Egyptian Human Development Report
EJBG	Egyptian Junior Businessmen's Group
EPIC	Economic Policy Initiative Consortioum
EPS	Earning Per Share
ERSAP	Economic Reform and Structural Adjustment Program
ESAs	Employee Shareholder's Association
ESOPs	Employees Stock Ownership Program
EU	European Union
FDIC	Federal Deposit Insurance Corporation
FDIs	Foreign Direct Investments
FPIs	Foreign Portfolio Investments
FSRU	Food Security Research Unit
FT	Financial Times
GA	General Assembly
GAAP	Generally Auditing and Accounting Procedures
GAFI	Genaral Authority for Investment
GDP	Gross Domestic Product
GDRs	Global Depository Receipts
GOE	Government of Egypt
GOFI	General Organization For Industrialization
HC	Holding Company
HDI	Human Development Index
HHI	House Hold Income
HTC	Housing Tourism & Cinema

LIST OF ABBREVIATIONS

IAS	International Accounting Standards
IBTCI	International Business & Technical Consultants, Inc.
IBU	International Business Unit
IDA	International Development Association
IDSC	Information & Decision Support Center
IFC	International Finance Corporation
IIMI	International Irriegation Management Institute
ILO	International Labor Organization
IMF	International Monetary Fund
IPO	Initial Public Offering
IQC	Indefinite Quality Contract
IR	Intermediate Results
JCGP	Joint Consultative Group of Policy
JVBs	Joint Venture Banks
JVC	Joint Venture Companies
KFW	Kreditanstalt fur Wiederaufbau
LAN	Local Area Network
LOE	Level of Effort
LOI	Letter of Intent
MALR	Ministry of Agriculture & Land Reclamation
MCSD	Misr Clearance, Settlement and Depository Company
MEIC	Ministry of Economy & International Cooperation
MENA	Middle East North Africa
MIB	Misr International Bank
MIMW	Ministry of Industry & Mineral Wealth
MOFA	Ministry Of Foreign Affaris
MOTS	Ministry of Trade & Supply
MPC	Ministrial Privatization Committee
MPE	Ministry of Public Enterprise
MPWWR	Ministry of Public Works & Water Resources
MTS	Ministry of Trade & Supply
MVE	Monitoring , Verification & Evaluation Unit
NBE	National Bank of Egypt
NCF	National Consulting Firm
NGO	Non-Governmental Organization
NSGB	National Societe Generale Bank
OD	Organization Development
ODA	Organizational Development Association
ODT	Organization Development & Training
OSAF	Office for Studies & Finance
P&L	Privatization & Liberalization
P/E	Price Earning
PEO	Public Enterprise Office
PIDP	Partnership in Development Project
PMU	Project Management Unit
PO	Project Officer
PP	Privatization Project
PPC	Program Planning Committee
PR	Public Relation
PU	Purdue University
QR	Quarterly Report
RDI	Reform, Design & Implementation Unit
SAIB	Societe Arab Internationale de Banque
SCA	Suez Canal Authority
SE	Stock Exchange
SEC	Securities and Exchange Commission
SFD	Social Fund for Development
SIPC	Securities Investment Protection Corporation
SO	Strategic Objective
SOEs	State Owned Enterprises
STTA	Short Term Technical Assistance
T-Bills	Treasury Bills
TA	Technical Assistance
TAMIS	Technical & Administrative Management Information System

LIST OF ABBREVIATIONS

TAT	Technical Assistance Team
TF	Task Forces
TNA	Training Needs Assessment
TO	Training Officer
TOR	Terms Of Reference
TRG	Training Resources Group
TSG	The Services Group
UMD	University of Maryland
UNDP	United Nations Development Program
UP	United Press
USAID	United States Agency for International Development
VAR	Valuation Advisory Report
WB	World Bank

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Evaluation Services for the Privatization Program in Egypt
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SECTION I

Executive Summary of Quarterly Achievements & Issues During the Period January - June 1997

I. EXECUTIVE SUMMARY:

The GOE's privatization and divestiture program made significant progress during the first six months of 1997. Ten more Law 203 companies were privatized during this period for sales proceeds of LE 821 million. The privatized companies include Upper Egypt for Contracting, Nubaria, Kabo, Misr Free Shops, UNIRAB, Nile Ginning, Cairo From Construction, Bolvara, Simo and Kahromica. To date, 52 Law 203 companies have been privatized for total sale proceeds approximating LE 10.77 billion.

Law 203 Privatization By Method as of June 1997

Table 1

Method	1991	1992	1993	1994	1995	1996	March 1997	Total
IPOs						15	8	23
Liquidations	4	2	1	1	2	1		11
ESAs				10				10
Anchor Investors				3		3	2	8
Total	4	2	1	14	2	19	10	52
Percent of the Total	8%	4%	2%	27%	4%	37%	19%	100%

Source PEO, compilation and presentation by IBTCI.

Total Sale Proceeds by Method as of June 1997

Table 2

Method	Value (LE million)	Percent of the total
Majority IPOs	2,677	24.86%
Minority IPOs	2,377	22.07%
Liquidation	625	5.803%
Anchor Investors	1,382	12.83%
ESAs	245	2.27%
ESOPs	3	0.03%
Local Governates	300	2.79%
Sale of unutilized Assets	3,033	28.16%
Joint Venture Companies	128	1.19%
Total	10,770	100.00%

Source PEO, compilation and presentation by IBTCI.

Since the beginning of the program, observers have pointed out that the problems of Law 203 company debt and redundant workers were two major impediments to privatization. The Ministerial Privatization Committee and the Minister of Public Enterprise moved over the last six months to tackle these two problems. Responding to the initiative, banks and Law 203 affiliate companies have been meeting frequently to negotiate debt forgiveness or reschedulings, and it is reported that the process has already resulted in the rescheduling or forgiveness of over LE 1 billion in outstanding debt.

In the area of redundant workers, an Early Retirement Scheme was approved during this period which, along with the other initiatives, provides the GOE with more flexibility in reducing excess labor.

The Egyptian stock market, which by February had become overbought, experienced a healthy correction of some 25%. Despite this decrease the market is up 15.69% since the beginning of the year. The outflow of foreign portfolio investment into developed markets was a natural one given the bull market conditions in the U.S. and Europe. Emerging markets, like Egypt, frequently move inversely to developed markets. Given the continued decline in Egyptian interest rates and strong economic fundamentals, the Egyptian stock market should perform well in the future, provided that current corporate management take advantage of the positive economic environment to improve their efficiency and productivity. (See below for a discussion of our concerns on continued public sector management and the ability of private sector owners to obtain adequate representation on corporate Boards of Directors.)

A review of the press at this time, compared to press reviews of last year and the year before, indicates that the topic of privatization is now a regular feature of the news. There appears to be a more open and frank discussion of the poor condition of specific companies including the large "flagship" companies. The announcement of the decision to privatize a public sector bank and the intense discussion of the possible privatization of utilities shows that the media is now engaged in a far more broad coverage of the topic than was seen in the past. This is a further indication that the program has become an established part of the country's economic and social policy agenda. <u>These and other positive developments are discussed in Section I.A.</u>

However, some important problems and technical difficulties still confront the program. The Government continues to have problems accomplishing anchor sales, and neither the IPO process nor the anchor sales process is sufficiently transparent. The renewed interest in the use of ESAs as a privatization method raises serious concerns on protecting the rights of workers and the continued dominance of these companies by the Public Sector into the foreseeable future.

The CMA is still struggling with oversight and regulatory responsibilities. Allegations of serious improprieties in the capital markets (and on the stock exchange) are beginning to appear in the press and through announcements in official government publications.

Additionally, while the commitment of the Government to privatization should no longer be an issue given the program's progress and frequent supportive pronouncements by GOE officials, observers point out that international credibility could be enhanced by an initiative to privatize one of Egypt's large industrial concerns such as Egypt Air, Egypt Telecom, a State Owned Bank, or other prominent company.

There was also little progress by State Owned Banks to meet the goal of divesting their minority ownership of Joint Venture Banks as outlined by the Prime Minister in 1996. State Banks were instructed to sell off their stakes in Joint Venture Banks where they held less than 49%, to under 20% by the end of 1996. Only the National Bank of Egypt and Bank Misr having met the time schedule. While substantial progress was made in 1996 and the program is nearly finished, some State Banks continue to <u>resist</u> divestiture. No technical reasons have been offered as to why the other State Banks have not completed the task given to them by the Prime Minister.

Finally, while press announcements are coming more frequently and are more detailed, the number of press announcements from different sources, with different information, coupled with frequent changes in the schedule, are confusing the public. As one observer noted, "if Egypt privatized everything they have announced then the entire country would be privatized by now". These and other challenges are discussed in Section I. B. Busy executives may also wish to turn directly to the Recommendations in Section I.D.

In conclusion, as IBTCI has noted in previous semi-annual evaluations, privatizations cannot be viewed in isolation from the progress being made by the Government of Egypt (GOE) in those areas which are directly related to the program's success which broadly include additional macro economic reforms (especially tariff reductions), related legislation , developments in the financial services industry, as well as, expanded market regulation and oversight. In that regard, we mention below other achievements which have effected the program positively and additional challenges which are still in need of resolution. Clearly, the privatization program is a Government wide effort and the other Ministries involved can take pride in the success of the program to date. The privatization of 10 companies during the first half of the year puts the Government's program ahead of last year, and all indications point to an active second half.

As pointed out by Senior Economist, Dr. Paul O'Farrell, "Egypt's privatization program is well on its way and the pace of privatizing the remaining companies is now more dependent on the technical and organizational capacity of the program to deal with more difficult sales than on a simple political decision to go faster or slower."

I. A. POSITIVE DEVELOPMENTS IN THE FIRST SIX MONTHS OF 1997:

Financial Restructuring:

During this period, the MPE and the Ministerial Privatization Committee made a successful effort to get banks and affiliate companies to begin negotiations to reduce, restructure, and reschedule outstanding debt. These negotiations are now occurring on a regular basis. By all accounts, these negotiations are achieving significant success and will benefit the privatization program. An approximation by IBTCI of the level of financial restructurings puts the six month total at over LE 1 billion.

Banks are more willing to engage in these negotiations now, due to the realization that the amounts they would recover from the liquidation of specific companies would be less than the debt forgiveness worked out in a financial restructuring[1] . The effort is being carried out on a case by case basis. Given the size of the debt, there are limits to which this approach will be successful, since the public sector banks have limited capacity to write off debt and remain sound in terms of reserves and provisions. Ultimately, budgetary resources or a general revenue bond may have to be employed to resolve the debt problem, particularly for the strategic and other companies which will remain in the public sector for some time into

[1] Bank willingness to engage in debt negotiations indicates that they do not see the government willing to provide them with a general bail-out of their non-performing public sector debts. In addition, having sold a substantial portion of their profitable joint venture bank holdings the public sector banks are now taking a more active interest in improving the performance of the rest of their portfolio. This is an important prior step to their ultimate privatization.

the future. However, the present effort could be successful in permitting a continued stream of companies to become eligible for sale during the next 12 to 18 months.

The Pace Of Privatization:

Without exception, Egyptian interlocutors argue that Egypt's privatization program is now well under way. The summary view is that while the start up of the program was slow, the achievements since May 1996 are impressive. Furthermore, the privatization program is now an established part of government and country policy and its continuation is without doubt. Overall, there is a surprising degree of acceptance of the pace of the program. That is, interviewees do not argue that the government should move faster. However, a number did have suggestions on several aspects of the program which, if implemented by program management, would accelerate the pace of privatization. These suggestions centered on improving the process of anchor investor sales, greater flexibility in price negotiations in the sale of less profitable companies, and a more rapid release of the unsold portion of companies which have already been floated in the stock market.

In discussions with Egyptian intellectuals and academics, IBTCI was reminded on several occasions that the cornerstone of Egyptian government policy on economic reform is gradualism and that the citizenry do not really expect government announced plans and schedules to be carried out as stated. Gradualism not only implies that actions are spaced consistent with the government's perception of the political and social absorptive capacity of the population, but also that plans and schedules contain a certain degree of imprecision so that opposing coalitions can not easily form, and the government can change course without embarrassment should the plans and schedules produce a negative reaction among important constituencies. One well known intellectual stated that to be successful politically, the government's main reform task is "the management of ambiguity".

From mid-1995 through mid-1996, the relatively slow pace of privatization resulted in a situation in which the government was essentially alone in defending the pace of privatization and the private sector, intellectuals and donors were united in their criticism of the pace. Today, those who continue to urge for a more rapidly implemented program are relatively isolated from prevailing Egyptian views. The debate on the Egyptian side has shifted from the broad policy issue of pace to more specific policy and technical issues related to particular methods of sales. (However, there are still those who argue that Egypt's international credibility and ability to attract foreign investments would be enhanced through the privatization of one of its "flagship" companies.)

The Early Retirement Scheme:

The MPE and the Ministerial Privatization Committee also completed a new employee Early Retirement Scheme to address the problem of redundant workers. This was a noteworthy achievement given the political, social, and economic dimensions of the effort, and has in it the flexibility that allows workers to receive their pension and also work. The privatization program now has more flexibility to deal with the problem of redundant workers, consider the advisability of liquidations, and more successfully pursue anchor investor sales. (For a broader discussion of this topic see the sections on The New Labor Law and Public Sector Workers)

Labor Force Analysis:

The Ministerial Privatization Committee also required that Holding Companies produce analyses on the structure of the labor force in loss making companies. These reports, which are due in June, include the number of workers, their age, sex, occupations, and salary levels. In addition, the MPC required an analysis of the costs to the Government associated with keeping losing companies in operation versus their immediate closing. The purpose of these reports was to assist in the preparation of a list of those companies to be considered for liquidation.

Progress In The Development of Egypt's Capital Markets:

Many positive developments occurred in Egypt's Capital Markets and the Micro-financial institutions which are important for its success. While much remains to be accomplished, it is important to note the following activities during the first six months of 1997:

Dematerialization of Shares: Given the intimate relationship between progress in privatization and the development of the Egyptian Stock Exchange, the first dematerialization of shares for Misr Free Shops was an important milestone. The efficiency of this procedure, which reduces the time and expense involved in the trading of shares and the transfer of share ownership, was an important step for the stock exchange. Further, as more and more companies adopt this procedure the counterfeiting of shares (which occurred with shares of Madinet Nasr Housing) will be eliminated.

The Central Depository System: Progress was also made in the number of companies utilizing the Central Depository System. Six new companies were added during the period for a total of 31companies.

Stock Margin Requirements: In the area of margin requirements, the Central Bank moved quickly to instruct the State Owned Banks to be more conservative in margin requirements for stock purchases. The average margin requirement being allowed by State Banks prior to the Central Bank's warning to be more conservative was 20 to 30%. For some favored clients, the margin requirement was even lower. Extremely low margin requirements represent a high risk practice for banks and other financial institutions.

Raising New Capital: Unlike the utilization of the stock exchange for IPOs of State Owned Enterprises, wherein the proceeds are generally not retained by the issuing company, the use of IPOs by private companies to raise new capital is one of the principal purposes of a stock exchange. More Egyptian private companies are considering this option with the latest being the issue of shares in Oriental Weavers.

Global Depository Receipts (GDRs): Also during this period, three companies announced their intention to float Global Depository Receipts (GDRs) on the London Stock Exchange. Misr International Bank, Paints & Chemicals Company, and Abu Keir Fertilizer are in the process of developing GDRs. These efforts further expose Egypt to the international investment community and put additional pressure on companies to initiate internationally accepted accounting and auditing procedures, as well as, quarterly financial reports.

Expansion of the Privatization Program: The GOE also continues to broaden the privatization and divestiture program by announcing its intention to privatize Joint Venture companies owned in part by Law 203 companies, as well as, allow private sector participation and/or possible ownership in the fields of telecommunications (cellular phones), airports, railways, and port services.

Mutual Funds: More mutual funds are being approved. During this period American Express and Egyptian Gulf Bank started new mutual funds. Competition in the mutual fund field is beginning to have a positive impact with the best mutual funds beginning to reduce their fees and management charges to individual investors. When mutual funds first began, services charges and related fees were sometimes as high as 25%. While total fees and charges are still high by world standards, the emerging competition in this field will soon eliminate inefficient and costly funds leading to lower costs and better services to investors.

Financial Information: Of significant importance to the privatization program was the initiative by the Minister of State for Economic Affairs, Youssef Boutros Ghali, and the staff of the Information Development and Support Center to design and publish more economic data on Egypt's emerging capital market. Their development and publication of a financial tracking page for major news publications cannot be underemphasized in its importance. The page tracks the stock market, the bond market, and the mutual fund industry. This information is fundamental for an investor's ability to track the performance of the companies in which they have invested, is useful to international portfolio managers, and places additional pressure on companies to adopt international best practices in reporting their financial data.

The Stock Market: **It is especially important to note that the widespread concern that an outflow of Foreign Portfolio Investment would seriously damage the Egyptian stock market did not occur, even though February through May saw a large sell off by Foreign Portfolio Investors**. An erroneous report and analysis conducted by a local Chamber of Commerce, suggested that the Egyptian market had to be protected against Foreign Portfolio Investment to prevent a Mexico style crisis. The Mexican crisis was not precipitated by the exit of Foreign Portfolio Investment. Instead, it was related to erroneous fiscal policies by the Mexican government and the subsequent devaluation of the pesos because of those policies. Foreign Portfolio Investment then left Mexico as would any prudent investor at that time.

It should also be pointed out that Egypt has a higher sovereign debt rating than the Philippines. One of the principal reasons cited by Standard and Poors for the low rating given the Philippines was the existence of restrictions on foreign stock ownership. Egypt may jeopardize its rating if it adopts unwarranted restrictions on stock ownership by foreign investors.

Press Coverage:

The Print Media have also played a role in sustaining the progress of privatization by more frequent and accurate press coverage. Further, there are some signs that the more professional publications are beginning to discipline those reporters who were consistently incapable of reporting correct data and frequently misquoted public officials. More could be done if major publications such as Al Ahram and Al Youm expanded their training of journalists in order to upgrade the skills of key reporters covering business related news. Unfortunately, the electronic media (TV and Radio) has not given the privatization program's progress as much attention as it deserves.

Public Sector Workers

At the start of the privatization program, there was a detectable fear among leadership groups that the organized and politicized public sector work force could be provoked to start a civil disturbance if bold measures to privatize were taken. Today, there is a consensus that the interests of labor are an important factor to be considered in the privatization of companies, but that the public sector labor force is no longer a threat to the program.

Several factors have led to this environment. First, the President and senior officials have continued to reassure the workers that they will not be harmed by the program. This appears to be believed by the workers and is verified by the fact that the holding company overseeing the liquidation of the General Battery Company is continuing to pay the company's work force even though production at the company has stopped. Also, the new MPE guidance on privatization explicitly restates the law that no worker can be discharged against his or her will for economic reasons. In addition, the government has stressed that the new early retirement package will be completely voluntary.

Second, the Prime Minister has been carrying out a dialogue with labor leaders which has helped them to better understand the program and its importance. This has offered labor leaders an opportunity to register labors' interests with government decision makers. This type of dialogue was not happening to this extent in the past.

Finally, the program itself has been increasingly public about the financial status of companies. Workers in companies which are most in need of labor restructuring are coming to realize that their future may be quite bleak unless they seize opportunities to shift to alternative employment. This has changed the nature of the debate between labor and government from one which argued for continuing the status quo of the public sector, to one which is seeking to pressure the government for the best termination benefits package.

In this regard, non-government interviewees were generally pessimistic regarding the workers interest in the new early retirement package. The compensation was not seen to be sufficient to counter the severe reduction in the already small pensions which workers who retire before the age of 56 will receive.

It was pointed out that a more important source of anxiety for the government is the unorganized or "random" labor force and unemployed educated youth. Because of their relatively low skill level and the recessionary conditions which have prevailed throughout the period of economic stabilization, workers in the first group are barely at the subsistence level and have little expectations for the future. In addition, while they and their older relatives were always aware that they were poor, they are increasingly becoming aware of just how poor they are. The most frequently cited example of the visible disparity in wealth which could contribute to the alienation of this component of the labor force was First Residency, and the hundreds of true and false stores associated with this building. The appearance of Jaguars was the next most often cited example. The observers we talked with felt it was unlikely that privatization actions would trigger these workers since they are not part of the relatively privileged public sector work force. Rather, it would take a mistake like the 1977 bread price increase, or the 1986 rumor to extend police conscripts' tours of duty, to incite them to civil unrest.

Unemployed educated youth are also a problem since they are very susceptible to becoming politicized by the fundamentalist movement. Their frustration over being unemployed is substantial since they hold middle class expectations of marriage, their own apartment and a guaranteed job after graduation. These dreams are not seen as postponed, but rather as shattered. In 1993. the Cabinet Information and Decision Center estimated the unemployment rate to be 20 percent, with 75 percent of the unemployed in the age bracket of 16-25 years old, and with 84 percent of these youths holding a secondary school certificate or higher degree.[2]

As a final note on this issue, it would be premature to dismiss the possibility that the public sector work force will not emerge as a serious impediment to privatization in the future. Thus far, there have been only three full privatizations in which serious work force restructuring has taken place. This was possible because these 100 percent sales fully transferred corporate governance to the new private owners. In all three cases, the new owners reported that restructuring the work force was very difficult and produced substantial morale problems. One company experienced a wildcat strike. It should be noted that while the government has privatized additional companies (i.e. sold more than 51 percent of a company's shares), corporate governance and the responsibility to restructure the labor force continues to remain with the government's holding companies. Down sizing and labor force restructuring is occurring, but not at the pace carried out by the 3 companies which were 100 percent sold to the private sector. This more leisurely pace of work force restructuring contributes to assuaging labor's concerns. If all of these companies were currently undertaking labor force restructuring similar to that done in the first three privatizations, there is a substantial likelihood that the remaining public sector work force would mount a serious political battle to slow down or stop privatization.

The New Labor Law

The new labor law has been under development for the past three years. The effort was initiated with the assistance of the ILO in order to introduce a modern labor law supportive of Egypt's transition to a market economy and consistent with international standards of worker rights. The law would legalize the dismissal of workers for economic reasons and would provide the right to strike. In addition, it would change some of the rules related to women's employment such as reducing the number of unpaid maternity leaves from three to two. It would also eliminate the prohibition on the night time employment of women.

The draft has been approved by the State Council (judicial approval), but it has yet to be submitted to the Cabinet. If it passes the Cabinet, it would then be submitted to the People's Assembly for approval. The law has been discussed with labor representatives in the general Cairo area who, we were told, ultimately agreed to its provisions after it had been fully explained to them, although the views of this group should not be interpreted as representing the full endorsement of labor. Labor agreement to the concept of dismissal for economic reasons was said to be contingent on granting them the right to strike.

The business community was characterized as resistant to the legalization of the right to strike. Given salary levels in Egypt, it is likely that the private sector feels that it is cheaper to maintain redundant workers on the payroll or to create conditions which produce voluntary separation, than to suffer the high costs associated with strikes.

The view was expressed that the government was also resistant to legalizing the right to strike and a number of individuals in the government and the Peoples' Assembly would strongly resist changes in the labor law effecting women. The consensus was that the draft legislation would be shelved for a while and then possibly amended. If the key provisions

[2] Nassar, Heba. "The Employment Status of Women in Egypt", The Social Research Center, AUC, December 1996.

mentioned above were removed from the law, we were not given any indication of whether the new law would be an improvement over the existing law.

The New Privatization Guidance

The government has issued new guidance for the privatization program in early 1997. This revises guidance issued in early 1993. There does not appear to be any substantial policy shift, however, the new guidance is more detailed on the issue of restructuring.

The guidance continues the government's program of privatizing the profitable companies first, under the general policy that privatized companies should be those which have a reasonable chance to survive and grow in a private sector competitive environment. Thus, the first priority for sales remains the joint-venture companies. (Not followed in practice.) These are to be followed by the Law 203 companies which are profitable. The next priority are those companies which need only financial restructuring. The guidance states that technical restructuring for companies nominated for sale to the private sector will be the responsibility of the new buyers. Further, the government has stated explicitly that all new investment in these companies will be the responsibility of the new private sector owners. However, current management has the right and responsibility to carry out needed maintenance, including deferred maintenance, from its corporate sources of income. In some cases, correcting deferred maintenance problems may be indistinguishable from technical restructuring.

The guidance recognized that substantial assets will remain in the public sector for some time to come. These would including industries which are considered strategic (the government will retain 60 percent ownership) as well as companies in which the government is still seeking alternatives to liquidation. For the strategic industries, the guidance describes the procedures which the companies must go through for comprehensive restructuring in order to make them competitive within the industry. However, this guidance could be more broadly interpreted to also apply to the non-strategic companies which the government is not now prepared to offer to the market because of the seriousness of their financial and technical condition.

If any restructuring (financial or technical) requires the use of the proceeds of past divestitures and assets sales, withdrawals from the holding companies' special accounts require the signature of the Minister of Finance. The Minister of Finance will not agree to a withdrawal unless he has the approval of the Cabinet Committee on privatization.

The guidance clearly reaffirms the responsibility of the holding companies to sell their affiliated companies. While there have been some suggestions to the government to organize a specialized unit to manage anchor investor sales, these suggestions are not incorporated in the guidance. Holding companies, however, are permitted to obtain experienced consultants to help them.

Government officials continue to state firmly that the companies offered for sale will not undertake technical restructuring prior to privatization. However, the holding companies are actively seeking a negotiated settlement with the banks for financial restructuring. It was the view of the PEO that the banks were now prepared to discuss debt forgiveness because the potential compensation derived from a liquidation of the indebted company would result in a greater loss to the banks.

The PEO also stressed that the government now plans to be substantially more active in selling the shares in joint-ventures: the guidance's first priority companies. A list of the first group was presented to the donors at the Paris Consortium Meeting in early May.

Corporate Governance

As noted above under the subject of labor, the responsibility for corporate governance has not been significantly divested to the new private sector owners. We were told quite explicitly that the government now recognizes that this will not happen until 100 percent of the equity is sold. Until then, governance is being retained by the holding companies. However, we were not told that the government has made a decision to divest up the 100 percent level as a priority of the program this year.

Upon reflection, this finding is not surprising. One should expect that the holding companies which own 25 to 49 percent blocks of shares would act as the principal owners. Given the dispersion in the remaining ownership, the holding companies are the largest single owners and the only significant owners with past experience in the operations of the companies. Further, holding companies see themselves as responsible for the control of the work force and the avoidance of abrupt actions which could jeopardize the smooth transition to private ownership. Finally, the other large investors at this time are either elements of the government (the public sector banks) or closely allied with the government (the mutual funds and ESA's), and these owners appear willing at this time to continue the leadership role of the holding companies.

All of the above represent positive developments in the privatization program during the first half of 1997. <u>And, there are many indications that the program is prepared to move rapidly in the second half of the year</u>. However, the program still has many challenges before it.

<u>I. B. CHALLENGES FOR THE SECOND HALF OF 1997</u>

Anchor Investor Sales:

The privatization program is having extreme difficulty attracting and finalizing anchor investor sales. It is the firmly held view of many private sector observers that anchor sales will yield the most long term benefit to the Egyptian economy. Thus, it is incumbent on the Ministerial Privatization Committee to look closely at the possible problems affecting anchor sales. IBTCI believes there may be three interrelated problems which are negatively impacting the progress of anchor sales:

1. The Internal Management Process: Internally, the process is complicated, requires the attention of high level officials, requires the involvement and approval of too many organizations and groups for the valuation component, and is staff intensive for the MPE/PEO and Holding Companies. This results in delays, inattention to detail, and insufficient attention given to seriously interested buyers. The internal process is in need of simplification.

2. The international marketing effort to strategic buyers is not well developed or implemented. A well developed program of direct marketing approaches by senior Holding Company or Government representatives should be made to strategically selected potential buyers. Local sale agents lack the breadth of

experience, international marketing linkages or are unwilling to spend sufficient resources to effectively market the number of companies up for sale.

3. Short term considerations of profit maximization (utilizing IPO or ESA methodology) are receiving a higher priority than the long term benefits to the Egyptian economy that a well chosen anchor investor could provide. (See discussion below.)

Of the privatizations which occurred during this six month period, none were true sales to anchor investors. In fact, one anchor investor sale which occurred during 1996 was never finalized and failed due to a dispute over whether the new owner owed past sales tax which were uncollected. The issue was not resolved and the anchor investor pulled out of the purchase of El Nasr for Utilities. The company has since been purchased by Madinet Nasr for Housing which itself had just become private through an IPO. Subsequently, the Constitutional Courts ruled that contracting companies do not have to pay sale tax on services provided by contractors. IBTCI does not at this point know whether to record the purchase of El Nasr for Utilities as an anchor investor sale, a merger, or an acquisition. The financial structure of the deal between Madinet Nasr for Housing and El Nasr for Utilities has not been announced. This is a new phenomena in the Egyptian privatization program which requires further study. <u>This again points out the need for the types of briefing sessions which the Minister of Public Enterprises has repeatedly said were important.</u>

Several concerns are raised by this transaction. First, the sale was announced by the privatization program as having been completed when, in fact, the deal had not been finalized and the Government had not been paid. Second, the new owners of shares in Madinet Nasr for Housing now own a completely different company from the one in <u>which</u> they originally purchased shares. Coming before the new private sector owners had any chance of placing representation on the Board of Madinet Nasr for Housing, it is unclear whether the new owners will now be allowed to vote on whether they approve of the purchase of El Nasr for Utilities. Important issues of ownership and corporate governance are now at the forefront of the privatization program due to this purchase and a similar purchase of Bolvara by UNIRAB.

As mentioned above, one of the reasons for the inability to accomplish anchor sales is due to poor and ineffective international marketing efforts which can bring to the attention of foreign buyers, good companies for sale under the privatization program. While mass media advertising can have a positive impact, there is no substitute for direct marketing approaches to well qualified and strategically appropriate buyers.

Other explanations of why the MPE is placing a priority on IPOs rather than anchor sales relate to strong financial considerations which make the IPO process more attractive. These include:

--During bull markets, which Egypt experienced until February, IPOs tend to command premium prices on the stock exchange versus other methods of sale. Thus the amount of money the Government could expect from the sale of state owned enterprises would tend to be higher with the IPO process than through anchor sales. This process can continue until market conditions change or until the pool of quality IPOs begin to run out and lower quality IPOs begin to be rejected by the market.

--The method utilized for IPO sales results in income for other Egyptian financial institutions including brokerage firms, banks, and mutual funds. This results in further development of Egypt's micro-financial institutions, greater professional development, and increased employment in the industry.

--The collection of investor funds by banks for IPO allocation allows the banks to realize interest income and thus charge no fees for the IPO floatation to the Holding Company. Thus, as opposed to the marketing or sales agent expenses involved in an anchor sale, the IPO methodology is less expensive for Holding Companies to pursue.

--The IPO process also meets one of the major goals of the privatization program which is to increase the widespread ownership of financial assets by the Egyptian public.

While all of the above reasons argue for the IPO approach, the continued control of these companies by public sector management and public sector dominated Boards may not yield the types of increases in productivity, efficiency, and profitability that the Egyptian economy will require if it is to meet its targets for growth. Egypt's successful integration into the global economy argues for a greater attempt to attract anchor investors and multinational firms who bring with them the international marketing linkages, technology, and management skills which will be necessary for Egypt to gain a competitive edge on the world scene.

Valuations:

This area continues to be a significant problem for the privatization program. One Holding Company Chairman pointed out that what is needed is a methodology which is understood by everyone and widespread acceptance that some state owned enterprises will not command a top market price. Further, the long and complicated approval process for valuations needs to become more efficient. There are times when as many as 8 meetings are required for final approval of a single valuation.

Utilization and Tracking of Law 203 Company Assets and Sale Proceeds:

IBTCI has pointed out in previous reports that it is extremely difficult to track the utilization of sales proceeds. The ability of the GOE to account for the all of the assets of affiliate companies under the Holding Company structure is becoming more difficult as Holding Companies begin to pursue the sale of individual business units (IBUs). Holding Companies can now keep control of proceeds from the sale of affiliate companies unused land, other unutilized assets, cash in various categories on the balance sheet, and proceeds from the sale of stock or other financial assets, indefinitely. Significantly, the MPC recently required that "all assets" be included in valuations presented to the committee indicating that they aware of the difficulty. This problem, coupled with problems associated with the incentive structure of Law 203, (discussed by the World Bank, the IMF, and IBTCI in previous reports) may argue for a modification of Law 203 or perhaps a stand alone Privatization Law. The Budget Committee of the People's Assembly has called for amending Law 203 to place a priority on settling affiliated company debt instead of restructuring proposals and new investments.

Prudential Regulation and Oversight:

The Capital Markets Authority advised the adoption of several well considered initiatives in 1996 which have not yet been implemented. Most importantly, they advised Law 203 and 159 companies to begin using international best practices in auditing and accounting. State Owned Banks and Joint Venture Banks are in the process of adopting these practices and it is important that Law 203 and 159 companies do the same.

Further, the CMA raised capital adequacy requirements for new firms but was unable to require greater capital adequacy/liquidity requirements for already approved firms. They have also studied and advised on the development of a scheme similar to the self funded Security Investors Protection Corporation (SIPC) insurance for brokerage firms, which have not acted on their advice.

The CMA also advised Law 203 and 159 companies to adopt best international practices by submitting quarterly financial performance reports. These suggestions have also not yet been fully implemented.

Finally the CMA advised the brokerage firm industry to quickly adopt a code of ethics and substantially upgrade their training of existing brokers. The public places a special trust in financial institutions such as brokerage firms and mutual funds. It is therefore critical for the industry to develop the professional credentials and capabilities to warrant that public trust. The number of unsubstantiated reports of improper trading, front running, false trade reports, and a variety of other inappropriate practices suggests an immediate need for the industry to police itself and implement best international practices. **The CMA may await these self regulatory initiatives by the new Egypt Capital Markets Association and the new Board of the Stock Exchange but they should not wait long**. If the public's trust in the honesty, credibility, and safety of these institutions begins to diminish then the privatization program and Egypt's new financial services industry could suffer.

Economic Reforms:

The best cure for the existence of cartels, monopolies, and non-efficient firms is competition. Given the length of time it takes new companies to form and recently privatized firms to adopt new management, the best way to keep prices in check and force efficiency is through the lowering of tariff and non tariff barriers to trade. International competition would then compel greater competition in the local market. Consequently, further reductions in customs, tariffs, and quotas are needed. As stated by Muktar Khattab of the PEO, "most important for progress in privatization is to get the prices right".

The IPO Process:

The continued approval of IPOs, utilizing only an advertisement as a prospectus, and the non-availability of a prospectus to potential buyers, is a serious problem which can easily be solved. All that is required to solve this problem is a ruling from the MPC that no IPO will be approved until a prospectus has been presented which meets international standards, has been previously approved by the CMA, and enough copies are available for prospective buyers.

ESA Privatizations:

ESAs are controversial. In fact, because of corporate governance issues and the long time frame involved before employees actually own their shares, coupled with the question of whether the union like structure actually results in individual share ownership by employees, the IMF does not consider ESAs as privatizations. However, recent pronouncements by the Government are suggesting that this method of privatization will again be used for 16 rice mills, as well as, parts of Omar Effendi and Sednawi. If worker control of management in private sector firms was an efficient and profit maximizing approach, then many more companies in developed economies would be using this method. It is much more likely that worker participation in management does not yield the positive results which idealized views would suggest. This subject has been extensively studied, especially for Workers Councils in Poland and other forms of worker management schemes in Czechoslovakia, Hungary, Rumania and China.

Nevertheless, the concept feels good and one might argue that it would be difficult to manage these companies more poorly than current management. On the other hand, if the employees are required to borrow the money to pay for their shares and repay that money over a series of years it would hardly seem fair to them if in the second or third year they concluded that the company had no future, yet their debt remained. The issues raised above make it incumbent that this area be studied more closely.

I. C. CONCLUSIONS:

The privatization program is clearly maturing in terms of its general acceptance, the publicity surrounding it and the issues which are now being dealt with. One should expect this to result in an increase in the pace of the program. However, the strategic choice of selling the profitable companies first has left the holding companies with the more difficult sales for the future. Consequently the actual number of 100 percent government owned Law 203 companies which get privatized this year cannot be predicted. The conclusion is that the pace of privatizing these companies is now more dependent on the technical and organizational capacity of the program to deal with these more difficult sales, than on a simple political decision to go faster or slower.

There are few profitable companies remaining in the portfolio which would be attractive in the stock market. However, the ability of the program to meet or exceed privatization targets for 1997 is probably secure because the program can move to privatize what are now called "second tranche" companies and conduct a more aggressive sales program of the profitable joint venture companies. With less than 50 percent of their equity divested, the "second tranche" companies have not been counted against any donor target. Privatizing these would pose minimum technical and organizational problems. They have already shown themselves to be attractive in the market. Moreover, despite the guidance which has prevailed since 1993, the program has not focused its attention on the sale of the joint venture companies. There are at least a dozen or more which are well known and would be relatively easy to privatize.

There are a number of areas of the program which should cause concern. First, the program has not yet developed an efficient and transparent method of conducting anchor investor sales. Legal, policy, technical and organizational problems need to be solved before this method of sale can be relied on to make a substantial contribution to meeting the program's targets. Numerous suggestions have been made to improve the anchor investor sales process and the government should draw on these and new ideas in a focused effort to reform the process. Also, the program would be well served by a systematic analysis of the experience in anchor investor sales. This, however, may be a difficult task due to confidentiality requirements of this method of sale.

In the meantime, the program will be relying on the use of IPO's and the continued appetite for public company shares in the market. This, however, poses a second concern. With the dramatic increase in share values in the stock market, program management now sees a market for companies with higher P/E ratios than could be successfully floated six or ten months ago. However, if these sales go forward, the buying public may become very disappointed when the performance of these companies fails to satisfy growth expectations of investors who buy high P/E ratio stocks. Unlike the "hot" high tech companies in the U.S. or other developed markets which are expected to experience substantial and rapid corporate growth and profitability, the public sector companies with high P/E ratios are in a very precarious position in the market. They have little prospect for growth unless public sector management is replaced, substantial restructuring occurs, and they obtain an infusion of new capital and technology. The IPO method of sale is unlikely to result in this outcome in the near future.

The introduction of high P/E ratio shares into the market could be damaging to the stock exchange. In addition, there may be other factors related to technical and oversight problems of the exchange which could produce a dramatic and rapid decline in overall value of shares traded unrelated to privatization IPO's. This is the third concern. Should the market experience a fall which goes beyond that which could be termed "a correction", the IPO method of privatization would no longer be available to the program until the market recovers. The experience of other emerging markets suggests that it may take several years before investor confidence is restored in a market which experienced a severe fall. The restoration of investor confidence depends on how fast the exchange and oversight agencies can institute the new rules needed to prevent a repeat of the problems and how fast they can convince the investors that they are institutionally capable of enforcing the new rules.

As a final comment, while the privatization program is becoming more sophisticated in its operations and in its willingness to take on issues such as debt restructuring, the policies which guide the program are becoming more dependent on newly emerging market forces than ideology. For example, sale to anchor investors has always been the intellectually preferred method for program management. However, with an active stock market and profitable companies, the hard political decisions required to institute an effective process of anchor investor sales were postponed. Nevertheless, the program went forward.[3] In the fall of 1996 when the stock market would not accept high P/E ratio shares, the program became concerned with how it could improve anchor investor sales. Ideas were invited and analyses were carried out. But once again, the rise in prices in the stock market relieved pressures to reform the anchor investor sales process and continued privatizations occurred through IPO's. Should the stock market become unavailable to the program because of declines in expected P/E ratios, the program will then be forced to deal with the issues of reforming anchor investor sales processes. The conclusion is that one way or another, the government will continue to move the program, until it reduces to a manageable level, the burden that this corporate portfolio has placed on the budget, the banks and the economy at large.

[3] The decision to emphasize IPO's was not exclusively dependent on the political difficulty of structuring an efficient anchor investor process. The IPO approach offered a unique method of introducing the concept of privatization to a skeptical public, significantly increase popular participation and forge an important new constituency.

I.D. RECOMMENDATIONS:

1. Corporate Governance: There is concern that the IPO and ESA process will not provide sufficient private sector ownership to impact corporate governance and change current public sector management. If private sector ownership is divided and the public sector retains control of corporate governance, then the increase in efficiency, productivity, and employment which privatization is supposed to produce will not occur. **This argues for a change in the privatization strategy for IPOs to 100% privatizations or a new corporate governance law which facilitates the ability of share holder associations to impact corporate governance. Since one purpose of privatization was to transfer control to the private sector, the Government may also wish to consider a law which restricts the public sector from exercising their full voting rights until such time as they sell off their remaining holdings in Law 159 companies**

2. ESA Privatizations: Further study of ESA privatizations should be undertaken before additional companies are privatized utilizing this method.

3. IPO Floatations: **The current practice of approving an IPO for floatation on the stock exchange utilizing only an advertisement should be replaced in favor of a CMA approved prospectus which meets internationally accepted standards and is available to all investors who may wish to purchase the IPO before they are approved by the Ministerial Privatization Committee**.

4. Margin Requirements: Given the high level of risk in emerging markets, **the level of margin required for individuals to purchase stock should be raised to no less than 50%.**

5. Progress in Anchor Sales: **Greater emphasis needs to be given to international promotion and direct marketing to strategic investors for anchor sales**. Perhaps co-located with the public awareness/information office noted above, the anchor sales effort might also be supported by international donors. In addition, IBTCI believes that the MPE/PEO still needs a unit of highly qualified technical consultants to assist in the anchor sales process. This unit could be responsible for technical assistance to the MPE/PEO itself, to Holding Companies, to local Sales Agents, or in the identification, selection and coordination of International Investment Banks.

6. Professionalization of the Financial Services Industry: **The CMA, ECMA, and Board of the Stock Exchange should move forcefully to halt improper and inappropriate practices by firms or individual brokers**. The success of the entire industry is dependent on the trust placed in it by the public. Practices such as insider trading, front running, false trade reporting, and other inappropriate behavior should be grounds for immediate suspension, stiff fines for brokerage firms not practicing adequate supervision over their employees, (and if proven guilty) immediate license decertification for individual brokers for life.

7. Adoption of International Best Practices: **The Capital Markets Authority should consider a decree which requires any company traded on the stock exchange to adopt internationally accepted accounting and auditing standards**. In addition, the CMA should follow-up on its suggestion that financial reporting by companies listed on the exchange be on a quarterly rather than a yearly basis. Further, the CMA should continue its efforts to delist those companies which do not actively trade on the exchange

8. Transparency: The MPE, Dr. Atef Ebeid, has stated that he wants to give press briefings after each successful privatization. The office of the MPE/PEO could facilitate this effort and provide detailed data to the public after each successful privatization and on other major initiatives of the privatization program. The Office of MPE/PEO has been extremely helpful to the public throughout
1996 and the first half of 1997 while, at the same time, being swamped with work on the privatization program. **All international donors should consider a coordinated effort to assist these offices and their overworked staff. This could be facilitated by donor supported efforts for an office of public awareness and information dissemination.**

9. **The CMA may wish from time to time to re-test existing brokers to discern if they have the basic competency to retain their license**. A broker occupies a position of public trust and a license granted to a broker is a privilege granted to them by the Government not a right. When there is widespread knowledge that some brokers lack the basic knowledge of how to enter an order, not to mention their more complicated duties, then there is evidence that previous testing procedures were inadequate.

10. The Legal Underpinnings of a Financial Services Industry: This subject area is much too broad and complex to discuss in this report and needless to say much remains to be done. Previous studies have pointed to the backlog of court cases and the inability to enforce basic contracts. For example, it has been reported that there are no current laws relating to the discovery of assets. These and other areas affecting normal business practices continue to need assistance. **The CMA, ECMA, and the Board of the Stock Exchange may wish to establish sub-committees to prioritize those legal areas which need immediate attention.**

11. Tracking and Utilization of State Owned Assets: The number of areas where the affiliate Law 203 company or the Holding Companies now have control over State Owned Assets (including cash on the books, land, unutilized assets, stock holdings, interest payments from sales proceeds on deposit, etc.,) is growing due to successful affiliate company restructuring efforts and the beginning sale of Individual Business Units. These restructuring efforts are increasing the level of cash and other assets being transferred to Holding Companies for which there is no time table for their disposition or transfer to the Government. The initiative is rationalizing what assets belong in an affiliate company scheduled for privatization but are making it more and more difficult for the Ministerial Privatization Committee to track the level of financial liquidity and assets within Holding Companies. While this is providing much needed liquidity to Holding Companies, some are utilizing their excess liquidity to make new investments which runs counter to the spirit of the privatization program. **This issue coupled with the problem of the incentive structure underlying Law 203 (commented on by the World Bank and others) may argue for a new set of Guidelines underpinning the privatization program or perhaps a separate Privatization Law.**

II . GOE's Privatization and Divestiture Program

1) Law 203 Companies Privatized During This Period

The pace of Egypt's privatization program became more rapid during this quarter compared to the first quarter of 1997. There were four IPOs during this period (Kabo, Upper Egypt contracting, Nubaria for Agriculture and Simo). The GOE also privatized 3 companies through anchor investor sales (Kahromica, Boulivara and El Nasr for Utilities). El Nasr for Utilities Company was reported to be privatized in December of 1996, but due to a sales tax dispute, the sale was canceled and the company was bought by Madinet Nasr for Housing (a Law 203 company privatized in 1996). IBTCI is not recording the sale of this company during this quarter because it was already reported in the previous report. It is worth mentioning that Boulivara was also sold to a recently privatized Law 203 company "United Arab" in January 1997. This is a new phenomena in the privatization program work watching closely.

It should be noted that Electro Cables Company offered a second tranche that would have enabled the company to be privatized through the stock market. The sale failed with only 3% of the offered amount sold.

Privatization Activity from March till June 1997

Table (3)

Company Name	Holding Company Name	Date of Announc.		Planned/ Managed	Planned %	Actual Distribution					Total Actual Sale Value
		Annc	Sell			Anchor %	Indv. %	Inv. Fund %	ESA %	Total %	LE million
Kaha for preserved food	HC for Food Industries	4/24	6/23	Anchor	90%						Not Yet
Development & Engineering Consultancy	HC Housing, Tourism & Cinema	4/15	4/22	IPO Triple A Sherouk Brokers	10%						30%
KABO	HC for Spinning & Weaving & Ready-made Garments	5/20	6/5	Anchor CHC CIB	63%						93%
Electro Cables	HC for Engineering Industries	4/30	5/13	IPO NBE Ahli Brokerage Al Rowad Brokerage	10%						3%
Noharreya Co.	HC for Agricultural Development	5/13	5/19 5/31	IPO NBE	20% to 80%						89%
Middle East Paper Co. (SIMO)	HC for Chemical Industries	6/8	6/15	IPO EFG-Hermes Banque Du Caire NIB	10% may rise to 75%				10%		82%
Upper Egypt Contracting	National HC for Construction & Housing	11/6			10% may rise to 75%						85%
Kafr El Sheikh	HC for mills		extended to 6/7	Anchor							Not Yet

Company Name	Holding Company Name	Date of Announc.		Planned/ Managed	Planned %	Actual Distribution					Total Actual Sale Value
		Annc	Sell			Anchor %	Indv. %	Inv. Fund %	ESA %	Total %	LE million
Mill	& Silos										
Alexandria Mills	HC for Mills & Silos	6/22	6/29	IPO NBE CHC	10% may rise to 30%				10%		Not Yet
El Shams Housing & Dev.	HC for Construction & Developmen t	5/29	6/2	IPO Internatl Grp. OKAZ	10%						Not Yet
Boulivara				Anchor							90%
Kahromica				Anchor							61%

Source: PEO.

2) Sale of Assets

During this period, the GOE offered a large number of assets for sale. The revenue (proceeds) generated from these sales is used in many forms, such as debt settlement, and financial restructuring for the losing companies. It should be noted that the proceeds from the sale of assets are huge and can easily exceed proceeds realized from the sale of companies. Yet, it is very difficult to track the value of asset sale proceeds.

GOE Sale of Assets from April 1997 to June 1997.

Table (4)

Company Name	Holding Company Name	Date of Announcement			Assets Offered for Sale
		Announce.	Sellin		
North Mills	HC for rice mills & silos	4/7	4/24	Sale of Assets	Abul Fotouh Rice mill at Dakahleya Sector Mahmoudeya Rice mill at Rashid Sector
National Plastics Co.		4/9	4/12 4/14	Sale of Assets	Land at Shoubral Kheima 1225 m^2
Alex. Cooling Co.	HC for Agricultural Development	4/9	4/14 4/24	Sale of Assets	AUCTION: Shop 140 m^2 Port Said Port Fouad Outlet 25 m^2 Port Fouad Saeedeya Outlet 15m^2 Port Said Panama Outlet Port Said Show room 220 m^2 Alex. Land 355 m^2 Alex. Ice Plant & Refrigerator 2486 m^2 Marsa Matrouh
Alex. Cooling Co.	HC for Agricultural Development	5/16	5/18	Sale of Assets	AUCTION: Assiut Ice Plant + Refrigerator Sohag Refrigerator

Company Name	Holding Company Name	Date of Announcement			Assets Offered for Sale
		Announce.	Sellin		
					Kena Ice Plant + Refrigerator
			5/19		Menya Ice Plant + Refrigerator Beni Sweif Ice Plant + Refrigerator
			5/31		Kom Ombo Ice Plant Aswan Ice Plant
El Nasr Spinning, Weaving & Knitting (Shourbagi/ Tricona)		4/9	5/3	Sale of Assets	LEASE: Sogat Unit Hadayek El Kobba 14700 m^2 Haraky Unit Hadayek El Kobba
Upper Egypt Spinning & Weaving	International Trade & Cotton	4/11	4/30	Sale of Assets	Land 1700 m^2 Assiut
Alex. Mills	HC for Rice, Mills & Silos	4/11	5/8	Sale of Assets	Closed Bids: Smouha Mill 96 tons/day - Alex. Boiled Rice Unit 48 tons/day - Alex.
			6/12		Amereya Fodder Plant 480 tons/day - Alex.
Omar Effendi	HC for Textile Manufacturing & Trade	4/22	5/14	Sale of Assets	
Arab Textile Wholesale	HC for Spinning & Weaving & Ready-made Cloth	4/30	5/20	Sale of Assets	Closed Bids: Using some of its branches and storage houses in Alex./ Cairo/ Upper Egypt Governorates.
Nasr Agricultural Products Dehydration	HC for Food Industries	5/2	5/11	Sale of Assets	AUCTION: Land & Constructions of Plant 2946 m^2 - Alex.
Egyptian Company for Maritime Transport	HC for Maritime Transport	5/3	5/18	Sale of Assets	6 October Ship Mansoura Ship
Maryout Agriculture Co.	HC for Agricultural Development	5/10	5/26	Sale of Assets	Land for Cultivation (from 5 to 500 feddans) along Moustafa Kamel Canal Animal Production Stations Land for Construction Buildings
Benzayon, Adss. Rivoli		5/10	6/10	Sale of Assets	Closed Bids: Mallawi Branch
			6/11		Dayrout Branch
Sidnawi	HC for Textile Manufacture & Trade	5/14	7/1	Sale of Assets	Sealed Envelopes: Bassyoun Branch
			7/3		Hadeyek El Kobba Branch
El Nassr for Housing &	HC for Housing.	5/16	5/25	Sale of Assets	Land near Maadi Satellite Land near Mokkattam

Company Name	Holding Company Name	Date of Announcement			Assets Offered for Sale
		Announce.	Sellin		
Develop.	Tourism & Cinema				Trade Shops at beginning of Pyramids Road Trade Shops at Mokkattam
Sabi	HC for Engineering Industries	5/17		Sale of Assets	Closed Bids: Utilization of Factory at Mostorod
Woodco	HC Housing Tourism & Cinema	5/18	6/8	Sale of Assets	Material Elements of Shoubral Kheima Factory at Kalyoubeya
El Nasr for Manufacting	Mining & Refractories	05/20	06/22	Sale of Assets	AUCTION: Lease of wood products factory
North Mills	HC for Mills & Silos	5/27	6/15	Sale of Assets NBE CIB	Closed Bids: Mahmoudeya Mill
Misr for Oils & Soap		5/29	6/15	Sale of Assets	Land 920 m^2 at Damietta City
Misr Al Gadida for Housing & Develop.	National HC for Construction & Development	5/30		Sale of Assets	Special Housing Units Land 1440 - 1488 m^2
Maadi for Develop. & Housing	National HC for Construction & Development	5/30	6/15	Sale of Assets	Building at New Maadi
Commercial Company for Woods	Cotton & Internal. Trade	31/5	6/22	Sale of Assets	Closed Bids: Land & Constructions at Corniche El Nil Road El Farag 3865m^2
IDEAL	Engineering Industries	6/4	6/15	Sale of Assets	Closed Bids: Equipment & New Spare Parts
Alex. Portland Cement	HC for Chemical Industries	6/7	6/8	Sale of Assets	Auction: 3 Cars 4 Buses
El Nil for Heavy Transport	HC for Maritime Transport	6/10	6/22	Sale of Assets	Closed Bids: New Spare Parts for Cars & Tractors
	HC for Textile Manufacture & Trade	6/17	7/19	Sale of Assets	Closed Bids: Lease: Kom Hamada Spinning Factory - Beheira Governorate Mahmoudeya Spinning Factory - Beheira Governorate
Helwan Portland Cement		6/21	7/8	Sale of Assets	Closed Bids: Sale of used tires
Cotton & Internatl. Trade		6/19	7/3	Sale of Assets	Closed Bids: Lands & Constructions at Shoubra El Kheima

Source : PEO

The below table (7) presents the names, number, market value and the percent offered for sale of companies which were to be sold through second tranche flotations in the stock market, from May 1997 to June 1997.

Companies Selling Tranches Through the Stock Market from May 1997 to July 1997

Table (7)

Company Name	Line of Business	Total Market Value (LE million)	% offered for sale	Market Value for the % Offered for Sale (LE million)
Kafr El Zayat Insecticides	Chemicals	213	25%	54
Nile Matches & Prefabricated Houses	Chemicals	58	45%	26
Telemisr	Engineering	87	35%	30
Financial & Industrial	Fertilizers	704	25%	176
El Nasr for Dehydrating Agricultural Products	Food	53	39%	21
Misr Oil & Soap	Food	171	39%	67
Starch & Glucose	Food	198	39%	77
Arabia Cotton Ginning	Ginning	124	38%	47
Nile Cotton Ginning	Ginning	347	39%	135
Cairo Housing	Housing	145	35%	51
United Arab Spinning & Weaving	Spinning & Weaving	183	37%	68
Misr Free Shops	Trade	156	33%	51
Kabo	Textile	306	51%	156
Electro Cables	Engineering	371	51%	189
Extracted Oils	Food	145	51%	74
Alexandria Spinning & Weaving	Spinning & Weaving	81	51%	41
Total		3,342		1,263

Source : PEO

The below table (8) presents the announced names, number, market value and the percent offered for sale of joint venture companies to be sold through the stock market from May 1997 to June 1997.

Joint Venture Companies Offered Through the Stock Market from May 1997 to June 1997

Table (8)

Company Name	Line of Business	Total Market Value (LE million)	% offered for sale	Market Value for the % Offered for Sale (LE million)
Egypt-Gulf for Oil Manufacturing	Food	204	51%	104
Chloride	Chemicals	90	38%	35
Aracemco	Refractories	49	10%	5
Alexandria Iron & Steel	Metallurgical	213	50%	106
Cairo Poultry Co.	Food	231	4%	10
Egyptian Engineers for Real Estate Consultancy	Consultant	77	40%	31
Egypt Urbanization	Housing	137	10%	14
Suez Canal Bank	Banking	376	10%	38
Egyptian American Bank	Banking	1,500	10%	150

Company Name	Line of Business	Total Market Value (LE million)	% offered for sale	Market Value for the % Offered for Sale (LE million)
Egyptian Saudi Financial Bank	Banking	395	10%	39
Alexandria Commercial & Maritime Bank	Banking	337	20%	67
National Development Bank	Banking	318	28%	90
Tourism Development Co.	Tourism	45	45%	20
Semiramis Hotels Co.	Hotels	896	8%	72
Al Esmailia Tourism Co.	Tourism	12	25%	3
Total		4,880		784

Source : PEO

The below table (9) presents the announced names, number, market value and the percent offered for sale of joint venture companies to be sold through anchor investor sales from May 1997 to June 1997.

Companies To be Offered to Anchor Investors
from May 1997 to July 1997

Table (9)

Company Name	Line of Business	Market Value of the Company (LE million)	% Offered for sale
Shebein Al Kom Spinning & Weaving	Spinning & Weaving	628	100%
STIA	Textile	494	100%
ESCO	Textile	245	100%
Delta Spinning & Weaving	Spinning & Weaving	198	100%
Damietta Spinning & Weaving	Spinning & Weaving	507	100%
RAKTA	Chemicals	470	100%
National Co. for Porcelain & Dinner Ware	Refractories	143	100%
Al Nasr for Glass & Crystal	Refractories	161	100%
Al Nasr Automotive Co.	Engineering	298	100%
Delta Industrial Co.- IDEAL	Engineering	453	100%
Transport & Engineering Co.	Engineering	560	100%
Narobin	Chemicals	126	100%
Sornaga	Refractories	58	100%
Misr Refractories Co.	Refractories	306	100%
Misr for Imports & Exports	Trade	206	100%
Arabia for Internal Trade Co.	Trade	45	100%
Al Nasr for Imports & Exports Co.	Trade	150	100%
Total Market Value*		5,048	

Source : PEO

Needless to say, the GOE is behind the announced schedule.

Company Name	Line of Business	Total Market Value (LE million)	% offered for sale	Market Value for the % Offered for Sale (LE million)
Egyptian Saudi Financial Bank	Banking	395	10%	39
Alexandria Commercial & Maritime Bank	Banking	337	20%	67
National Development Bank	Banking	318	28%	90
Tourism Development Co.	Tourism	45	45%	20
Semiramis Hotels Co.	Hotels	896	8%	72
Al Esmailia Tourism Co.	Tourism	12	25%	3
Total		4,880		784

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Transport & Engineering Co.	Engineering	560	100%
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Sornaga	Refractories	58	100%
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Misr for Imports & Exports	Trade	206	100%
Arabia for Internal Trade Co.	Trade	45	100%
Al Nasr for Imports & Exports Co.	Trade	150	100%
Total Market Value*		5,048	

Source : PEO

Needless to say, the GOE is behind the announced schedule.

4) Privatization Activity in the Banking Sector

4.A. Privatization of State Owned Banks

During this six month period under review, the GOE reportedly agreed with the IMF to privatize one State Owned Bank by the end of 1997. It is now reported that the Government of Egypt is concerned with this time table and may be seeking to delay the planned privatization until the end of 1998. According to the Deputy and the Governor of the CBE, the privatization of public sector banks would require amendments to the current legal framework organizing the operations of these banks, and that a legal committee has been formed to study this matter.

The first official statement regarding the privatization of a State Owned Bank was made by Dr. Faika El Refaie, the Deputy Governor of the Central Bank, during the conference held on February 1997, by the Egyptian Center for Economic Studies. Dr. Refaie stated that the CBE intends to privatize one of the four state owned banks before the end of 1997, but that no decision has been made regarding which bank will be offered for sale. She also mentioned that this sale transaction would require an anchor investor.

To date, no activity has been announced regarding this matter.

4.B. Privatization of JVBs

During the first six months of 1997, the four state owned banks continued to divest their shares in JVBs, since the divestiture target set by the government was not met in 1996. This target was announced by Prime Minister Ganzouri in early 1996, when he requested the four public sector banks with ownership of 49% or less in JVBs, to dilute their ownership to no more than 20% of JVBs total capital before the end of 1996. Setting the 20% as the maximum ownership by the four state banks in JVBs, came at the request of the foreign bank shareholder who desired to keep the state banks as partners.

However, despite all the successful privatization activities that took place during the first six months of 1997 and full year 1996, the government's target was not met by a number of public sector banks. Only the National Bank of Egypt and Banque Misr met the timetable through the gradual sale of their holdings in JVBs where they have minority ownership. Banque du Caire still holds 29% of Cairo Far East Bank and 32.8% of Misr America International Bank; and Bank of Alexandria still holds 37.5% of Misr Iran Development Bank. In addition, Banque du Caire still has majority ownership in two joint venture banks. It still holds 51% in both Cairo Barclays International Bank and Banque du Caire et de Paris (See table 19 for the four state banks' holdings in JVBs).

Although, this formal government plan for selling the shares of the four state owned banks in JVBs was not met in 1996, the privatization pace was even slower during the first quarter of 1997, but by the end of the first six months of 1997 the privatization of joint venture banks started to speed up. Following the announcement of two sale transactions for the shares of the four state owned banks in both the Housing and Development and the Suez Canal Bank during the first quarter of 1997, four other sale transactions were announced during the second quarter of 1997 (For details see privatization activity of the four State Banks section below). These sale transactions resulted in the privatization of the joint venture banks.

To date, there are 15 JVBs where the four state owned banks and other public authorities ownership is below 51%. There are 20 JVBs where the public banks met their target to reduce their holdings below 51% (in 11 of these 20 JVBs, the public banks' ownership is between 20%-49%, while in the other 9 JVBs the public banks' ownership is below 20%). See Annex (7) for the percentage share of the four state owned banks in JVBs.

However, it should be noted as we have mentioned in our previous quarterly reports, that the public versus private share of ownership percentages in JVBs changes on a day to day basis. There are a number of reasons which make tracking of ownership percentages difficult, if not impossible, to pin down.

- The shares of most JVBs are continuously traded and changing hands on the stock exchange. Bank shares are one of the most actively traded sectors on the exchange.
- The non - restriction on various public sector entities, other than the four state banks, to buy shares in these JVBs. According to the privatization program for the banking sector, Prime Minister El Ganzouri stated clearly in early 1996, that public sector banks with ownership of 49% or less in JVBs are required to dilute their ownership to less than 20% of JVBs total capital. However, he did not restrict other types of public sector ownership.
- JVBs include in their ownership structure, other specialized banks whose ownership structure is unknown, entities whose ownership structure also varies because they are actively traded on the stock exchange and other public sector entities that might be holding shares for the benefit of individuals (such as pension funds, retirement accounts, etc.,) which may, from a policy perspective, be a necessary and beneficial holding.

Consequently, keeping in mind the difficulties in following on a consistent basis the ownership structure of these JVBs, IBTCI's rationale in reporting that as to date, 15 JVBs were privatized is based on the fact that other public entities besides public sector banks, insurance companies and other major public agencies, that have minor shares in these JVBs, are lumped with the "other" ownership category holding shares in JVBs.

The following are the holdings of the four state owned banks in JVBs, and the privatization activities and sale transactions carried out by each of the four state owned banks during the first six months of 1997.

4.B.1 National Bank of Egypt (NBE)

Table (10) shows comparative percentage Figures for the NBE holdings in JVBs for the year 1995 compared to June 1997.

NBE percentage ownership in Egypt JVBs for the years 1995 and 1997

Table (10)

No	JVBs	% share of the NBE as of August 1995	% share of the NBE as of June 1997	% Sold as of June 1997
1	Alexandria Commercial & Maritime Bank	9.520%	0.003%	9.520%
2	CIB	42.610%	22.610%	20.000%
3	Credit Internationale D'Egypte	51.000%	19.500%	31.500%
4	Egyptian Saudi Finance Bank	8.590%	8.590%	-

No	JVBs	% share of the NBE as of August 1995	% share of the NBE as of June 1997	% Sold as of June 1997
5	El Togarioun Bank	16.998%	16.998%	-
6	Export Development Bank of Egypt	15.050%	11.457%	3.593%
7	Housing and Development Bank	6.940%	0.01%	6.93%
8	Islamic Bank for Investment and Development	19.960%	19.960%	-
9	National Bank for Development	1.870%	0.00%	1.870%
10	National Societe Generale Bank	30.400%	18.000%	12.40%
11	Suez Canal Bank	19.134%	5.81%	13.324%

According to the above table, the only two sale transactions that were carried out by the NBE, were the two transactions announced during the first quarter of 1997. Noting the fact that the NBE was one of the four state owned banks that met their target in reducing their holdings in JVBs to a maximum of a 20% in all JVBs with the exception of CIB where NBE still maintain 22% of the bank's total capital, no activity has been announced during the second quarter of 1997, regarding the divestiture of NBE minority holdings in JVBs. Following are the details of the two sale transactions that were conducted by the NBE during the first half of 1997.

- **Housing and Development Bank**

In January 1997, as part of the privatization wave, it was announced that the four State owned banks had sold their stakes in the Housing and Development Joint Venture Bank. This sale transaction was a private placement, by which the four public sector banks sold their shares, representing 26% of the bank's total capital, to their local funds and a number of Egyptian investors. The sale was effected at a share price of LE 55, with a nominal value of LE 10 per share.

NBE sold almost all of its stake in the Housing and Development Bank, reducing its share to only 0.01% of the Housing and Development Bank's total capital. After this sale transaction, the total ownership of the public sector banks in the Housing and Development Bank is reduced to almost 1% (Table 19). See Table (11) for the new ownership structure as of June 1997.

The below Table (11) shows the share holding structure of the Housing and Development Bank before and after this sale transaction:

Housing and Development Bank ownership structure as of June 1997

Table (11)

Banks	Pre the sale Transaction (as of October 96)	Post the sale transactio n (as of June 97)
National Bank of Egypt (NBE)	6.94%	0.01%
Banque Misr	6.94%	0.00%
Banque du Caire	6.94%	0.00%
Bank of Alexandria	5.56%	0.00%

Banks	Pre the sale Transaction (as of October 96)	Post the sale transaction (as of June 97)
Egypt Reinsurance Company	5.56%	11.11%
Arab Investment Bank	11.11%	11.11%
Arab Land Bank	1.38%	1.38%
New Urban Communities organization	16.67%	16.67%
Misr Development Company	5.56%	5.56%
Housing Finance Fund	16.67%	16.67%
Egyptian Waqf Authority	11.11%	11.11%
Egyptian Construction Bank	5.56%	5.56%
Others Individual Investors (including the local funds)		20.82%
Total	100%	100%

From the above table, we notice that pursuant to the completion of this sale transaction, the holdings of the four state owned banks in the Housing and Development Bank were diluted from 26.38% to approximately 1% of the bank's total capital.

Although the share of the state owned banks in the Housing and Development Bank was minimized, the bank's ownership structure continued to include; other specialized banks whose ownership is unknown, entities whose ownership structure also varies, and other public sector entities that might be holding shares for the benefit of individuals but are managed by the public sector. Thus it is difficult for the time being, to consider whether this Bank has been privatized or not.

- **Suez Canal Bank**

During the first quarter of 1997, the three state owned banks - NBE, Bank of Alexandria and Banque du Caire continued to divest their holdings in the Suez Canal Bank. They reduced their total holdings from 11.15% to 5.91% of the Suez Canal Bank's total capital. The National Bank of Egypt (NBE) sold 3.2% of its holding, to reduce its holding from 9.1% to 5.8 % out of the bank's total capital. Table (12) shows the ownership structure of Suez Canal Bank as of June, 1997.

Suez Canal Bank Ownership Structure
as of June 1997

Table (12)

	Pre the Sale Transactions	Post the Sale Transaction
National Bank of Egypt (NBE)	19.13%	5.81%
Banque Misr	11.22%	0.01%
Banque Du Caire	11.13%	0.07%
Bank of Alexandria	10.89%	0.03%
Libyan Foreign Bank	-	20%
Arab International Bank	6.07%	6.07%
Suez Canal Authority Fund (staff)	5.71	10.01%
Green Valley Company for Investment	-	5.91%
Arab World for Investment	-	10.04%
Misr Insurance	11.73%	11.73%

	Pre the Sale Transactions	Post the Sale Transaction
El Mohandes Insurance Company	-	1.07%
El Shark Insurance	-	0.43%
Reinsurance Company	-	0.17%
Others	24.12%	28.65%
Total	100%	100%

4.B.2 Banque Misr

The following Table (13) shows comparative percentage Figures of Banque Misr's holdings in Egyptian JVBs for the year 1995 compared to June 1997.

Banque Misr Percentage Ownership in Egyptian JVBs for the years 1995 and 1997

Table (13)

No	JVBs	Banque Misr as of Aug. 1995	Banque Misr as of June 1997	% Sold as of June 1997
1	Egyptian Saudi Finance Bank	8.200%	0.000%	8.200%
2	El Togarioun Bank	10.000%	10.000%	-
3	Export Development Bank of Egypt	15.000%	11.457%	3.593%
4	Housing and Development Bank	6.940%	0.00%	6.94%
5	Islamic Bank for Investment and Development	20.000%	20.000%	-
6	Misr Exterior Bank	40.000%	19.50%	20.50%
7	Misr International Bank (MIB)	64.786%	24.8%	39.986%
8	Misr Romanian Bank	51.000%	34.000%	17.00%
9	National Bank for Development	2.760%	0.000%	2.760%
10	Suez Canal Bank	11.220%	0.01%	11.21%

From the above table, Banque Misr has executed three sale transactions during the first six months of 1997. In addition to the sale transactions for its holdings in the Housing and Development Bank that took place during the first quarter of 1997, Banque Misr announced two other major sale transactions during the second quarter of 1997. First was the sale of its share in Misr Romanian bank, this sale transaction attributed to the privatization of the bank. Second was the GDR offering on the London Stock Exchange for 20% of its share in Misr International Bank. Following are the details of each of these sale transactions:

- **Misr International Bank**

On June 23rd, 1997, Banque Misr sold 800 thousand shares, representing approximately 45% of its holding in Misr International Bank (MIB) to decrease its stake to only 24.8% of the bank's total capital. Banque Misr shares were offered on the London Stock exchange thereby becoming the second Egyptian Bank to approach international markets via a GDR offering. These shares, offered in the form of Global Depository receipts, represent 20% of the bank's total capital.

According to the Chairman of Banque Misr and MIBank, this GDR offering was managed and coordinated by a number of large international corporations, such as Merrill Lynch International, Nomura International, Salomon Brothers Inc. and Concord International Partners.

By all accounts, the MIBank GDR offering was a success. Despite the high value of the GDRs offered, \$126.4 million, the GDRs were 6 times oversubscribed. This increase in demand resulted in an increase in the price of the GDR from \$15.8 to \$16.3 per GDR. MIBank was also successful in opening new markets for Egyptian equities. New sources of demand for Egyptian shares participated for the first time in this transaction. 25% of the total demand for these GDRs was from the Japanese and Asian market, 31% from the U.K., 25% from other European countries, and 19% from the USA market.

Although MIBank operates as a private entity, following this GDR offering, MIBank will become a truly private bank. Following is a table that shows the detailed ownership structure of MIBank after this sale transaction.

Misr International Bank Ownership Structure
as of June 1997

Table (14)

	Pre the GDR Offering	Post the GDR offering
Banque Misr	44.8%	24.8%
Free Float	22.20%	42.2%
Banca di Roma	10%	10%
British Arab Commercial Bank	8.5%	8.5%
Europartners (Commerzbank & Banco Central Hispano)	7.9%	7.9%
Misr Insurance Company	4%	4%
Sakura Bank	2.6%	2.6%
Total	100%	100%

- **Misr Romanian Bank**

During this quarter, Banque Misr announced the sale of 17% of its share in Misr Romanian Bank, in order to dilute its holding from 51%, to 34% of the bank's total capital. This 17% was sold in two tranches. First, Banque Misr sold 3% to one of the local mutual funds, this tranche was sold at a price of LE 650 per share. Second was the sale of 14% at LE 750 per share. Pursuant to this sale transaction, the private sector's ownership of this bank now exceeds 51% . Following is a table that shows the ownership structure of the bank as of June 1997.

Misr Romanian Bank Ownership Structure
as of June 1997

Table (15)

	Pre the GDR Offering	Post the GDR offering
Banque Misr	51%	33%
Mutual Funds		3%
Bank Romania for External Trade	19%	19%
Bank Romania for Agriculture	15%	15%
Bank Romania for External Trade	15%	15%
Others		14%
Total	100%	100%

- **Housing and Development Bank**

During the first Quarter of 1997, Banque Misr sold its total stake in the Housing and Development Bank. This stake was sold to local mutual funds and other private investors. Pursuant to this sale transaction, Banque Misr's holding in the Housing and development Bank was reduced from 6.94% to 0.00% of the bank's total capital. Table (11) shows the ownership structure of the Housing and Development Bank as of June 1997:

4.B.3 Bank of Alexandria

Table (16) shows comparative percentage figures for the Bank of Alexandria's holdings in JVBs for the year 1995 compared to June 1997.

Bank of Alexandria percentage ownership in Egyptian JVBs for the years 1995 and 1997

Table (16)

No.	JVBs	Bank of Alexandria as of August 1995	Bank of Alexandria as of June 1997	% Sold as of June 1997
1	Alexandria Commercial & Maritime Bank	9.720%	0.00%	9.720%
2	Alexandria Kuwait International Bank	71.680%	9.75%	61.25%
3	Egypt Arab African Bank	8.300%	0.23%	8.07%
4	Egyptian American Bank (EAB)	51.000%	32.500%	18.500%
5	Egyptian Saudi Finance Bank	8.400%	8.400%	-
6	Togarioun Bank	10.000%	10.000%	-
7	Export Development Bank of Egypt	13.200%	10.08%	3.12%
8	Housing and Development Bank	5.560%	0.00%	5.56%
9	Islamic Bank for Investment and Development	20.000%	20.000%	-
10	Misr Iran Development Bank	37.500%	37.500%	-
11	National Bank for Development	3.040%	0.01%	3.03%
12	Suez Canal Bank	10.890%	0..890%	10%

From the above table, three sale transactions were carried out and finalized by the Bank of Alexandria during the first six months of 1997. Following are the details of these three transactions:

- **Egyptian American Bank (EAB)**

  In June 1997, the Bank of Alexandria announced the sale of 1.2 million shares from its stake in the Egyptian American Bank, to dilute its holding from 42.5%, to 32.5% of the bank's total capital. This 10% will be offered to the public on July 2nd, 1997. The minimum share subscription is set at 100 shares per applicant. In the event of over subscription to the shares offered to the public, the allocation will be done on a pro rata basis. Following is a table that shows the ownership structure of the Egyptian American Bank as of June 1997.

Egyptian American Bank Ownership Structure as of June 1997

Table (17)

	Pre the GDR Offering	Post the GDR offering
Bank of Alexandria	42.5%	32.5%
American Express Bank Ltd.	40.8%	40.8%
Free float (EAB employees and public)	16.7%	26.7%
Total	100%	100%

The Egyptian American Bank (EAB) Board of Directors approved the distribution of a LE 6 coupon per share for the year 1996. New shareholders will have the advantage of receiving this coupon.

- **Housing and Development Bank**

During this quarter, the Bank of Alexandria sold its entire stake in the Housing and Development Bank. This stake was sold to local mutual funds and other private investors. Pursuant to this sale transaction, the Bank of Alexandria's holding in the Housing and Development Bank was reduced from 5.56%, to almost 0% of the bank's total capital. Table (11) shows the ownership structure of Housing and Development Bank as of March 1997:

- **Suez Canal Bank**

During the first quarter of 1997, the Bank of Alexandria sold almost all its stake in the Suez Canal Bank. It reduced its holding in the Suez Bank's total capital to only 0.03%. See table (12) for the new ownership structure of Suez Canal Bank as of April 1st., 1997.

4.B.4 Banque du Caire

The following Table (18) shows comparative percentage figures for Banque du Caire's holdings in JVBs for the year 1995 compared to June 1997.

Banque du Caire Percentage Ownership in Egyptian JVBs for the Years 1995 and 1997

Table (18)

No	JVBs	Banque du Caire as of Aug. 1995	Banque du Caire as of June 1997	% Sold as of June 1997
1	Banque du Caire et de Paris	51.000%	51.000%	-
2	Cairo Barclays International Bank	51.000%	51.000%	-
3	Cairo Far East Bank	29.000%	29.000%	-
4	Egypt Arab African Bank	8.300%	8.300%	-
5	Egyptian Gulf Bank	14.000%	0.00%	14%
6	Egyptian Saudi Finance Bank	8.500%	8.500%	-
7	El Togarioun Bank	10.000%	10.000%	-
8	Export Development Bank of Egypt	15.000%	11.457%	3.593%
9	Housing and Development Bank	6.940%	0.00%	6.94%

No	JVBs	Banque du Caire as of Aug. 1995	Banque du Caire as of June 1997	% Sold as of June 1997
10	Islamic Bank for Investment and Development	20.000%	20.000%	-
11	Misr America International Bank	32.800%	32.800%	-
12	National Bank for Development	1.910%	-	1.91%
13	Suez Canal Bank	11.130%	0.07%	11.06%

From the above table, the sale transactions carried out by Banque du Caire during the first six months of 1997, were as follows:

- **Housing and Development Bank**

During this quarter, Banque du Caire sold its total stake in the Housing and Development Bank. This stake was sold to local mutual funds and other private investors. The Bank of Alexandria's holding in the Housing and Development Bank was reduced from 6.94%, to almost 0% of the bank's total capital. Table (11) shows the ownership structure of Housing and Development Bank as of June 1997.

- **Suez Canal Bank**

Banque du Caire sold almost 94% of its remaining stake in Suez Canal Bank, reducing its share to only 0.07% of the Suez Canal Bank's total capital. After this sale transaction, the total ownership of public banks in the Suez Canal Bank was reduced to only 5.9% (Table 19). See Table (12) for the new ownership structure of Suez Canal Bank as of April 1st., 1997.

4.C. Total Holdings of the Four State Owned Commercial Banks in JVBs

All privatization activities that took place during the year 1996, and the first six months of 1997 were successful, characterized by high demand for JVBs shares. The following Table (19) shows a comprehensive summary of the four public banks' percentage holdings in JVBs as of the first six months of 1997:

Percentage Holdings of the Four State Banks in JVBs as of June 1997

Table (19)

No	Joint Venture Banks	National Bank of Egypt	Banque Misr	Banque due Caire	Bank of Alexandria	Total Public Banks Share
1	Alexandria Commercial & Maritime	0.003%			0.00%	0.003%
2	Alexandria Kuwait International Bank				9.75%	9.750%
3	Banque du Caire et de Paris			51.00%		51.000%
4	Cairo Barclays International Bank			51.00%		51.000%
5	Cairo Far East Bank			29.00%		29.000%
6	Commercial International Bank (CIB)	22.160%				22.160%
7	Credit Internationale D'Egypte	19.500%				19.500%
8	Egypt Arab African Bank			8.30%	0.23%	8.530%
9	Egyptian American Bank (EAB)				32.50%	42.500%
10	Egyptian Gulf Bank			0.00%		0.000%
11	Egyptian Saudi Finance Bank	8.590%	0.00%	8.50%	8.40%	25.490%
12	El Togarioun Bank (Bank of	16.998%	10.00%	10.00%	10.00%	46.998%
13	Export Development Bank of Egypt	11.460%	11.460%	11.460%	10.080%	44.460%
14	Housing and Development Bank	0.01%	0.00%	0.00%	0.00%	0.01%
15	Islamic Bank for Investment and	19.960%	20.00%	20.00%	20.00%	79.960%
16	Misr America International Bank			32.80%		32.800%
17	Misr Exterior Bank		20.14%			20.140%
18	Misr International Bank		24.8%			24.800%
19	Misr Iran Development Bank				37.50%	37.500%
20	Misr Romanian Bank		33.00%			33.000%
21	National Bank for Development	0.000%	0.00%	0.00%	0.01%	0.010%
22	National Societe Generale Bank	18.000%				18.000%
23	Suez Canal Bank	5.81%	0.019%	0.07%	0.03%	5.929%

From the above table, the four state owned commercial banks continued to divest their holdings in Misr International Bank, Misr Romanian Bank, Housing and Development Bank and Suez Canal Bank to reach 24.8%, 33%, 0.01% and 5.93 % respectively. Furthermore, state owned banks' share in the EAB will be diluted to 32.5%, following the execution of the sale transaction that is planned to take place in early July 1997. We also notice that the one of the four state owned banks still has majority ownership in a number of JVBs. Banque du Caire still holds a 51% stake in both Cairo Barclays International Bank and Banque du Caire et de Paris.

4.D . National Investment Bank

During this first six months of 1997, as part of the privatization wave, the National Investment Bank started to divest a percentage of its holdings in a number of JVBs. Following are the sale transactions that were carried by the National Investment Bank.

- **Alexandria Commercial and Maritime Bank**

In addition to the above sale transactions that were conducted by the four state owned commercial banks to dilute their holdings in JVBs during the first six months of 1997, on April 7th, 1997, the National Investment Bank, Misr Insurance Company, the Holding Company for Maritime Transport and the Suez Canal Agency offered for sale a percentage of their holdings in Alexandria Commercial and Maritime Bank. A total of 300,000 shares were sold, representing 26.6% of the bank's total capital.

This sale transaction was subject to investigations, as a result of the complaints raised by investors in the market and the press. The share's exploratory share price was raised from LE 140 to LE 301, representing a 115% increase. Also, the Stock Exchange Price Committee did not cap trading at 5% for the day. With the lack of any reasonable justification for this tremendous increase in the share price, investors criticized the Stock Market and the CMA Price Committee for failing to intervene to stop this massive speculation on the exploratory share price, especially since the Price Committee had previously intervened to reduce the exploratory share price of a number of companies. However, within a few days from launching these shares on the stock exchange, the share price fell from LE 300 to LE 200, which has caused heavy losses for many investors, and consequently caused many problems between brokers and their clients. A number of brokerage firms involved in the purchase of the Alexandria Commercial and Maritime Bank are in a difficult position that may threaten them with bankruptcy. Clients of these firms have refused to pay the share price differential following the drop in the share value. Brokerage firms bought the Alexandria Commercial Bank shares for their clients at a price of LE 301 per share, whereas the Alexandria Commercial Bank share price dropped from LE 301 to LE 162, with 240,000 shares on hold, as they were only sold on paper. This problem was considered the main reason behind the delay in finalizing this sale transaction. In addition, investors also complained that the CMA approved advertisement for this sale transaction mentioned that only 20,400 shares would be offered for sale, with no mention that these shares would be liable to increase. In reality, the offered amount increased from 20,400 shares to 300,000 shares, representing a 750% increase.

However, pursuant to this sale transaction, the private sector will have majority ownership in the Alexandria Commercial and Maritime Bank. The public sector's ownership will be reduced to only 33% of the bank's total capital, the remaining 67% will be privately owned. Following is a table that shows the detailed ownership structure of the Alexandria Commercial and Maritime Bank, before the completion of this sale transaction.

Alexandria Commercial and Maritime Bank Ownership Structure
Prior to the above mentioned Sale Transaction

Table (20)

	prior the above mentioned sale Transaction
National Investment Bank	10.00%
Misr Insurance Company	8.83%
Other Public Entities	33.35%
Others	47.817%
Total	100%

- **National Development Bank**

As part of the Egyptian government's privatization program, in early May 1997, the National Investment Bank had offered for sale on the stock exchange, part of its stake in the National Development Bank. Six hundred thousand shares were offered, representing 3.98% of the bank's total capital.

In an unprecedented event for the banking sector, public subscription to the shares of the National Development Bank failed to cover the full amount of shares offered on the stock exchange. Public subscription to these shares reached only 29.6% of the offered amount. Investors subscribed to approximately 177.8 thousand shares at a price of LE 28 per share. The National Development Bank's share is currently traded on the stock market at LE 22.1. Pursuant to the finalization of this sale transaction, the share of the National Investment Bank will be diluted to 6.7% of the bank's total capital. Following is a table that shows the detailed ownership structure of the National Development Bank, before and after the completion of this sale transaction.

National Development Bank Ownership Structure as of June 1997

Table (21)

	As of August 1995	As of Sept. 1996	Post this sale Transaction as of June 1997
National Bank of Egypt	1.87%	0.00%	0.00%
Banque Misr	2.76%	0.00%	0.00%
Banque du Caire	1.91%	0.00%	0.00%
Bank of Alexandria	3.04%	0.01%	0.01%
National Investment Bank	10.07%	10.07%	6.7%
Misr Insurance Company	1.01%	1.01%	1.01%
El Shark Insurance Company	0.92%	0.92%	0.92%
Egypt Reinsurance	0.23%	0.23%	0.23%
Other Public Entities	3.06%	3.06%	3.06%
Others	75.13%	84.7%	88.07%
Total	100%	100%	100%

4.E. Privatization and the Egyptian Banking Sector Law

During the second quarter of 1997, the Deputy Governor of the Egyptian Central Bank and the Head of the Banking Sector Privatization Committee " Mr. Mohamed El Barbary", announced that a legal committee had been formed to study the possibility of carrying out the privatization of the public sector banks under the umbrella of the current banking law, and whether any legislative amendments are required to carry out the privatization of these public banks.

In early 1996, amendments to the banking and credit law, allowing foreigners to own more than 49% of the JVBs total capital, were finalized and approved by the People's Assembly. As a result, during 1996 two of the foreign banks that had a minority stake in two of the JVBs have increased their holding so as to play a more dominant role in the banks' management. Societe Generale Bank, the foreign partner in National Societe Generale Bank, increased its holding in the National Societe Generale Bank to 51%. Credit Commercial de France Bank, the foreign partners in the Credit Internationale d'Egypte Bank, bought 11.5% of the NBE's stake in the Credit Internationale d'Egypte Bank, to increase its holding to 50.5% and thereby gain majority ownership. In addition to these transactions, during this quarter, the American Express Bank which presently holds 49% of the Egyptian American Bank's (EAB) total capital, has expressed its strong interest in consolidating both banks together in order to expand their activity in the Egyptian market.

In addition, the Deputy Governor of the CBE stated that in the event of privatization, the Central Bank will continue to supervise the activities of the banking apparatus, and will maintain its right to object to the selection of members of the board, as well as the selection of individuals to the position of bank general manager, investment manager, credit manager and international operations manager. It should be noticed that the amendments to the banking and credit law that took place in early 1996, allowed foreigners to own more than 49% of the bank's capital, but no individual could take possession of more than 10% of the issued capital of any bank without the approval of the Central Bank.

5. INTERNATIONAL DONOR PROGRAMS

Bilateral Donor Agencies

A. United States Agency For International Development (USAID)

The United States Agency for International Development (USAID) has agreed to provide privatization support to Egypt through local and international experts to assist the GOE during this process. The Partnership in Development Project (PIDP) is a consortium of Egyptian and International companies, led by the business and financial advisory firm, Arthur Andersen.

PIDP mission:

- Actively promote, participate and assist in the execution of individual transactions that transfer government-owned assets to private ownership.
- Accelerate Egypt's efforts to privatize by providing assistance, creating favorable public opinion, organizational policies and a legal framework as a means towards overall economic reform. (as part of overall economic reform).
- PIDP works in close coordination with its "customer group,: which includes Egypt's Public Enterprise Office (PEO), government holding companies, affiliated companies and specific units targeted for privatization, other GOE institutions and USAID.

PIDP has completed and submitted valuations for 7 companies which are: El Wady for Exported Agricultural Goods, Nubariya Seed Production Company, San El Hagar Agricultural, Egyptian Shoes Company (BATA), Nasr Engineering & Refrigeration Company (Koldair), Industrial Services Company (ARISCOM), El Nasr Glass & Crystal Company, Sheeni Company.

The following company valuations are still underway : Delta Cotton Ginning Company, Consumption Goods and Other (SIDNAWY), El Nasr Wool & Selected Textiles (STIA), Omar Effendi, Misr Studios.

PIDP has been assigned five new companies to prepare for valuation: Maamoura Co. for Housing & Development, Al Nasr Co. For Housing, Construction & Building Maintenance, El Nasr Particle Board Resins, and El Nasr Co. for Refractories Ceramic (SORNAGA).

B. Agricultural Policy Reform Project (APRP)

Reform Design and Implementation Unit

The goal of the Agricultural Policy Reform Project (APRP) is to increase production, productivity and incomes in the agricultural sector, including agribusiness. The purpose of APRP is to remove remaining policy barriers to private enterprise in agriculture, thereby creating a liberal, competitive marketing system and stimulating sustainable agricultural growth.

The role of the RDI Unit is to provide "assistance with the design and implementation of reforms" in the agricultural sector.

The RDI Unit contract is implemented by Development Alternatives, Inc (DAI) of Bethesda, Maryland, supported by a strong group of sub-contractors.

Project Structure - RDI within APRP

The RDI Unit is one of four APRP Units working together on the 15th Floor of the MALR Companies building in Dokki. The Program Management Unit (PMU) provides overall coordination and logistics support; the Monitoring, Verification and Evaluation (MVE) Unit tracks Government of Egypt performance on Policy Benchmarks (BMM see below); and the Food Security Research Unit (FSRU) carries out a program of long-term research *on food subsidies* and supply *trends*.

In addition, several other APRP Units will soon begin working with the Ministry of Public Works and Water Resources (MPWWR): The Water Policy Advisory Unit, the Main Systems Management Unit, the Nile Waters Monitoring Unit; the Water Communications Unit, and the Water Policy Technical Assistance Unit.

RDI works closely with all of these entities. A weekly meeting organized by the PMU brings all the units together to discuss on-going activities and present problems which require joint action. Monthly PPC meetings, chaired by the Director of APRP, Dr. Saad Nassar, deal with higher level issues of policy decisions and advice to be delivered to APRP's Ministerial Committee.

This latter Committee brings together the five Ministries to which APRP and RDI are responsible: Agriculture and Land reclamation (MALR), MP , Ministry of Trade and Supply (MTS), The Ministry of Public Enterprises (MPE), and the Ministry of the Economy and of International Cooperation (MEIC).

Project Structure - The RDI Unit

The RDI Unit is managed by a Chief of Party (COP) who works closely with the heads of the other APRP entities (PMU, MVE, FSRU, water groups) and who reports to the Office of Agricultural Policy within USAID's Strategic Objective 1 Team. The RDI Unit Contracting Officer's Technical Representative is Dr. Tom Olson, Agricultural Economist, and Eng. Ali Kamal, Agricultural Economist and Project Management Specialist.

The four technical components of RDI report to the COP:

1. Resource Economics
2. Privatization
3. Marketing and Agribusiness
4. Institutional Reform and Public Administration.

Each RDI component is staffed by a team of specialists: one Egyptian and one expatriate. In addition to these eight professionals, the RDI Unit employs an office manager, an executive assistant, a financial controller, a translator/interpreter and three drivers. RDI will hire a training coordinator during the next quarter.

RDI Unit Tasks

The RDI Unit works to satisfy three separate, but linked and coordinated, sets of requirements:

i. The Contract between USAID and DAI to implement this activity calls on the RDI Unit to carry out 9 tasks. In addition, the contract includes 9 special notes - additional tasks drawn from the DAI technical proposal. The RDI Unit work-plan is organized in terms of these nine tasks and this Quarterly Report will note progress and problems in carrying them out. We will also report on the 9 special notes until they have been completed.

ii. USAID and the GOE agree periodically on a set of agricultural policy benchmarks. If the GOE carries out the measures defined in the benchmarks, it receives grants of program funds, in addition to the Technical Assistance funds provided by USAID. RDI has been working to help the GOE satisfy the terms of the 62 Tranche I Benchmarks which were agreed to in September 1995. The RDI Unit's studies and implementation activities this year are all directed at these 62 benchmarks. Tranche I ends on December 31, 1997.

iii. USAID's Strategic Objective 1 has established a set of intermediate results and progress indicators. The RDI Unit works to help achieve these results and tries to report in terms of a sub-set of these indicators. Strategic Objective 1 (SO1) calls for *Accelerated Private Sector-Led Export-Oriented Economic Growth* under USAID's Sub-Goal *1: Accelerated Economic Growth.* APRP/RDI contributes to achieving all three intermediate results of SO1:

- Increased Private Sector Exports;
- Increased Productivity of Private Enterprise; and
- Accelerated Privatization and Improved GOE Support for Competitive Markets.

The Sub-Intermediate Results to which APRP/RDI contribute include:

- Liberalized Trade;
- Increased Access to Market Information;
- Liberalized Markets;
- Improved Allocation of Water Resources;
- Increased Privatization Incentives; and
- Increased Private Participation in Policy Dialogue

Major Accomplishments

During the first quarter of RDI Unit operations, the Technical Assistance Team, working in close collaboration with the PW and with USAID's Agricultural Credit and Economics (ACE) Office has been able to achieve the following:

1. Office systems and staff established and installed, including Local Area Network (LAN) and Notes Mail Communications.
2. Technical Assistance Team entirely mobilized.
3. All procurement carried out, all equipment installed and in use.
4. USAID Contract Special Notes:

   i. Morocco Cereals Marketing Reform Approach: this process has been launched for <u>sub-sectoral mapping</u> analyses of the cotton and rice sub-sectors;

   ii. <u>Road-Map methodology:</u> Road Map analyses successfully conducted for procedural and regulatory issues in the rice and cotton sub-sectors.

   iii. Mobilize long-term expatriate team: Three long-term expatriates arrived within 30 days of signature of contract. Fourth member of team arrived two weeks later.

premier source of information on these markets. This decision which made by the IFC is an acknowledgment of the tremendous changes in the Egyptian economy. It brings information about the Egyptian market to a wide group of investors and will help to encourage more foreign investment in the coming months

In the coming months, and assuming that macroeconomic and structural policies continue to be sound, IFC sees significant opportunities for foreign investors in many areas of the Egyptian economy, including textiles, tourism, other industry, infrastructure and financial services. IFC has approved seven new investments in fiscal year 96, and expects to approve a further seven before the end of June. When fully disbursed, these investments will total $355mn; through catalyzing resources from other lenders, IFC's investments will enable the financing of projects totaling $ 910 million. IFC has focused on job-creating investments, which are particularly important in the context of Egypt.

The GOE will start opening up new infrastructure investment to the private sector. Two operations are in the bidding phase, investment under the BOT model for a 650-megawatt power generation project in the Nile Delta region, and bids for Addabiya Port, in Suez. Other sectors, including airports, are also under consideration. IFC's experience is that the involvement of the private sector in infrastructure financing brings benefits in greater efficiency and lower costs, besides easing the burden on public finances. IFC stands ready to support future transactions in this area.

Given the Government's firm commitment to continuing macroeconomic reforms, and assuming that structural reforms continue, IFC expects to have many opportunities to support private sector investment in Egypt and to continue to expand its investment program from the healthy base it has established in recent years. Over the next two to three years, IFC expects to invest US$150-200 million a year.

World Bank Group Assistance Strategy

A central objective for the World Bank Group is to help Egypt achieve sustainable growth in order to reduce unemployment and poverty. Toward this end, the Bank Group would focus on four priorities, which it shares with the Government and in which the World Bank has a comparative advantage. They are: (A) creating a strong export push; (B) encouraging growth through private sector development; (C) promoting human resources development; (D) developing rural infrastructure and protecting natural resources. These four areas constitute the pillars of the Bank Group assistance strategy.

(A) Export Push. The Bank Group will address the impediments faced by the export sector by focusing on a number of key areas, including:

- developing trade-related infrastructure such as domestic transportation, seaports and airports;
- modernizing customs procedures and management;
- forging a strong link between foreign direct investment and exports through improving services and regulatory procedures for FDI; and
- facilitating export finance.

The Bank has started to explore the possibility of an investment project to be possibly funded jointly with donors in support of private sector export development.

iii. Update IFPRL University of Cairo GAMS model: will complete planning in Q2, start work in Q3

iv. Private Seed Producers and Traders Association: study completed. Will begin implementation in Q2.

v. Textile sector Rehabilitation Fund: planning begun. Will initiate study in Q3.

7. Training: TNA and first draft training plan completed. No overseas training planned or carried out. Policy seminars and workshops carried out as needed: Floor Prices and Stabilization Funds; Training Needs Workshop, Rice Road Map, Cotton Road Map, Annual Work-Plan Workshop.

Problems Encountered:

1. The Task Forces had not begun to operate by the end of the quarter. Though nominations have been made for all the proposed TFF, they have not been formally constituted, and thus, have not begun to play their appointed role.
2. The RDI contract was awarded without taking into account the separate technical assistance granted under APRP to the MPWWR. RDI's Terms of Reference included some tasks related to water management, to water institutions and to water policy. USAID, the MPWWR and APRP (PMU and RDI) have been working hard to ensure that collaboration among the various groups charged with delivering TA to the MP under APRP runs smoothly.
3. The USAID direct hire staff supporting APRP/RDI will leave, with one exception, during Q2. This may cause some momentary problems. However, the USAID Egyptian professional staff remains, as will one key member of the USDH staff. Continuity should be assured.

C. British Overseas Development Agency (BODA)

BODA is exploring the possibility of providing CMA with Technical Assistance and Training. BODA is awaiting the Chairman's comments and approval on this project.
The Training program will focus on:

- Strengthening the stock market;
- Promoting public awareness;
- Advice on the introduction of new financial instrument;
- Special English language training;
- Related training awards giving Egyptian nationals opportunity to go to the United Kingdom and get their training.

D. World Bank

The International Finance Corporation (IFC), an affiliate of the World Bank, promotes the economic development of its member countries through investment in the private sector. It is the world's largest multilateral organization providing financial assistance directly in the form of loans and equity to private enterprises in developing countries.

This year IFC is, for the first time, including Egypt in its investable stock market indices, which tracks the activity of the key emerging stock markets, and is recognized as the world's premier source of information on these markets. This decision which made by the IFC is an acknowledgment of the tremendous changes in the Egyptian economy. It brings information about the Egyptian market to a wide group of investors and will help to encourage more foreign investment in the coming months

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(B) Private-Sector-Led Growth. Increasing private investment from its present low level of less than 10 percent of GNP must lie at the heart of Egypt's growth strategy. The Bank Group will focus its assistance on private sector investment in infrastructure, and development of the financial markets.

Over the next ten years, Egypt's infrastructure investment needs may be in the region of over $120 billion. The scale of this requirement, combined with pressure on Government finances, underlines both the role which the Bank Group could play in catalyzing financing, and the potential for private investment. In this respect, the Government decision to encourage private sector investment in the power sector, in the Nile Delta region, in several private airports, toll roads and in river transport and container ports, is very encouraging, and would receive strong support from the Bank Group.

Further development of the financial sector will also be important, particularly for developing new investment instruments and improving the availability of financing on appropriate terms for both large projects and smaller enterprises. The addition of Egypt to the IFC Emerging Market Indices has added to the interest and enhanced activity within Egypt's Stock Exchange. The Bank Group will continue to support the deepening of financial markets in Egypt. IFC will seek opportunities to strengthen brokerage firms and market-making entities and further develop the local debt markets, including the creation of new specialized financial intermediaries. The Bank will also explore the scope for using backstop facilities and guarantees to give comfort to lenders for terms over five years and to familiarize the capital market with project finance techniques.

(C) Human Resource Development. Long term economic and social development will depend on the Government's ability to build human resources. In the short term, however, the Government's ability to meet rising demands for social services will be strained by the pressures of a growing population coupled with the difficulties imposed by the transition to a market based economy. In response to this situation, the Bank is pursuing a two-track approach. First, it will continue to support Government efforts to improve the social safety net. Second, it will address underlying structural problems in the social sectors which threaten long term development.

The Bank's strategy for supporting the development and improvement of the social safety net system will focus on:

- supporting better targeting expenditure policies through analytic work on poverty;
- expanding the role of non-Governmental and community initiatives in the safety net through continued operational support to the Social Fund for Development; and
- given the close relationship between rural development and poverty alleviation, intersectoral collaboration will be emphasized in sector analysis and project lending.

The longer-term development agenda in human resource sectors include: assisting the Government of Egypt to formulate a health sector strategy, focusing on policy and institutional capacity, the establishment of a decentralized financing and delivery system at the Governorate level, and reforms of the health finance and insurance systems. In the education sector, the Bank's strategy will continue to focus on improvement of basic education while expanding its dialogue and activities into new areas such as increasing the market orientation of technical education and vocational training; and de-linking university admission from general secondary school completion.

(D) Natural Resources, Environment, and Rural Development. The Bank's assistance will be focused on two main areas: rural development and implementation of the National Environment Action Plan. In promoting rural development, the Bank will continue its lending and nonlending services to support investment in land, water/waste water and irrigation management. Investing in agriculture and water infrastructure is a principal vehicle for Egypt to encourage rural development and to tackle rural poverty. Particular emphasis will be placed on encouraging a strategic shift from self-sufficiency in food production to diversified agriculture production based on efficient use of land and water resources.

In support of the National Environment Action Plan, the Bank will focus its assistance in three areas: preservation of the cultural and historic heritage; reduction of urban and industrial pollution; and monitoring and enforcement of the environment protection law and its executive regulations. If growth accelerates and further stress is exerted on the environment, the Bank would help the Government to update and strengthen the National Environment Action Plan to focus primarily on macro and micro policies, cross sectoral management tools and issue-specific actions.

Implementation of the Assistance Strategy

Implementing the assistance strategy just outlined would require financial assistance and advisory services, and close coordination among the donors.

In the next three years, the Bank Group would like to maintain its role as a central participant in Egypt's development efforts. The World Bank is prepared to maintain a mixed lending program on both IDA and non-concessional terms, and expand non-concessional lending if the sector investment conditions are appropriate, and if there is demand for Bank's financial services. The Bank's financial services will be carefully leveraged with donor co-financing to support the development priorities outlined above.

The Bank will participate actively in donor coordinating groups that meet both locally and externally. At the local level, the Bank provides, in particular, economic updates to the donor coordination groups which meet monthly in Cairo to exchange information on the activities of their members (both bilateral and multilateral). At the external level, the Bank will continue to chair Consultative Group (CG) meetings at the request of the Government.

E. Kreditanstalt fur Wiederaufbau (KFW)

Egypt is one of the main recipients of German assistance, the volume of which totals about DM 7.5 billion at this point. Not least due to its importance for regional politics, not only with a view to the Middle East peace process, Egypt has a central role to play. In order to enable Egypt to continue successfully playing this positive role, and since the population of Egypt has a right to improved living conditions, the country's economic development must be put on a solid basis that will be sustainable in the long term. This is why Minister Spranger assured the Egyptian side that Germany supports both the economic reform process and implementation of reform policies that is as socially and environmentally compatible as possible. The German Government is planning to provide DM 140.0 million for this purpose this year.

KFW has committed DM 4,987 million and DM 4.2 million has been disbursed out of a DM 8 million grant fund. In addition DM 2.5 million grant has been provided to Misr Chemical

Industries Co. and El Nasr Castings Co. directly for studies and advisory services related to privatization.

Following are updates on KFW privatization studies and advisory services:

1. Food Industries Holding Company

- *Alexandria Oil & Soap Co. (AOSCO)* - Total cost of study and advisory services DM 790,000. Study has been completed by the Consultant Booze Allen & Hamilton. The Consultant recommends restructuring of the company, reduction of number of products and closure of some of the six plants, and the public oil and detergent sector. No further follow up by Food Industries Holding Company. AOSCO has been included in the labor mobility program of the SFD.

2. Chemical Industries Holding Company

- *Industrial Gases Co.* Total cost of study and advisory services DM 1.144.000. Study is still ongoing by the Consultant KPMG. KPMG recommends sale of the company to strategic investor. After negotiations with one strategic investor were nearly finalized, a decision was taken to tender. Contract for KPMG tendering support signed November 1996. Bids under evaluation since 6 months.

- *Egyptian Plastics and Electrical Industries Co.* - Total cost of study and advisory services DM 1,235.000. Study is till ongoing by the Consultant Booze Allen & Hamilton. The Consultant recommends division of the company into separate units, relocation and privatization. Decision has been taken in late 1996 to relocate and privatize.

- *Misr Chemical Industries* - The study is still ongoing by the Consultant Booze Allen & Hamilton. The Consultant recommended the introduction of marketing, functional and human resources restructuring, introduction of information systems and preventive maintenance systems. The Chemical Holding Company and several Public Sector Banks continue to hold the majority of shares (49%), the remainder of the shares if held by private individuals. The transfer of the company from law 203 to law 159 has been initiated. After completion of two large scale technical modernization projects in 1996 and mid 1997, further shares could be sold in the stock market.

3. Engineering Industries Holding Company

- *Alexandria Metal Products* - Total cost of study and advisory services DM 454.000. Study has been completed by Consultant Cooper & Lybrand (Farid Mansour). The Consultant recommends restructuring or liquidation. No follow up by Holding Company. Company has been included in the labor mobility program of the SFD.

- *Abu Qir Fertilizer Co.* - Total cost of study and advisory services DM 706,000. Study has been completed by the Consultant KPMG. The Consultant recommends further privatization. The Company was shifted from Law 203 to Law 159. Ministry decided further privatization steps.

- *Egyptian Copper Co.* - Total cost of study and advisory services DM 658,000. Study has been completed by the Consultant KPMG. KPMG's report dated January 1997 recommends closure of steel division, restructuring modernization and privatization of other divisions, but no further action has been taken.

4. Metallurgical Industries Holding Company

- *El Nasr Castings Co.* - Study has been completed by the Consultant KPMG. KPMG recommended a debt equity swap and other financial restructuring measures. The debt equity swap has already been implemented. Majority of the company now held by public sector banks. Additional financial restructuring required. The Company is currently being transferred from law 203 to law 159.

F. European Community (EU)

The Project Management Unit (PMU) is a contractor who will be responsible for assisting the PEO in procuring Technical Assistance to ensure that the project objectives are achieved

Water and River Transport Companies

PMU is providing Technical Assistance to General Nile Co. for Water Transport and General Nile Co. for River Transport, affiliates for the Metallurgical Holding Company.

The contracts for these projects were signed on April 9, 1997. European independents, who were awarded the contract, mobilized by early May. The process of this contract may cause some delay due to the loss of one of their lead consultants "Kienbaum".

5 Upper Nile Hotels

PMU is still awaiting approval on valuations and recommendations on the following Hotels: Etap Luxor Hotel, Egotel Luxor, Sultana Land Project Luxor, Aamoon Island Hotel Aswan, Kalabsha Hotel Aswan, affiliates for the Housing, Tourism and Cinema Holding Company.

6 Metals Companies

The Consultant Booze Allen Hamilton have commenced Phase I in January 1997, on the six 6 affiliates of the Metallurgical Industries Holding Company: General Metal Co., Egyptian Ferro Alloys Co., Egyptian Iron & Steel Co., Delta Steel Mill Co., National Metal Ind. Co., El Nasr Steel Pipes and Fitting Co., and. The value of contracts for these companies amounts to 1,500,000 ECU. Booz Allen Hamilton noted that there are some wide-ranging political issues to be settled from their initial findings, specifically on labor redeployment.

Narubin and Trenco

The winning consortium was agreed by the Evaluation Committee in early May, and a full report on the Committee's proceedings and recommendations was sent to the EU Delegation in Cairo, for onward transmission to Brussels for their approval. This approval had not been received at the end of May, but is expected during June. At that time the winning bidder will be invited to Cairo to sign the contract, for commencement of their operations in early July.

The Alexandria Shipyard

PMU has not received up to the end of May the required information on the Ship Repair Yard to begin amending the Terms of Reference for this project. PMU has been informed that they are in the process of renegotiating their debt and that upon the completion of this exercise they will supply all the relevant updated information. At that time the nature of this project will be agreed on, since currently there is still uncertainty on the extent of the detail of the proposed preliminary study.

NASCO and El Tramco

During May the Engineering Holding Company agreed that the inclusion of YAYAT would be appropriate for these automotive industry companies, and consequently, the project now consists of five companies which are: NASCO, EL TRAMCO MICAR, YAYAT and El Nasr Forging Company. The finalization of the Terms of Reference for this project can now be done, once the details for YAYAT are received. Documentation should be ready for dispatch during June, for tender receipt in early August.

Nasr TV and Tractor & Engineering Company

Following discussions with the Engineering Industries Holding company during the month, this group may now be expanded to three companies, with the inclusion of SABI. It should be noted that the rationale for grouping these three companies together is based solely on the fact that they have a common Holding Company, but other wise there is no commercial reason. It is hoped that the agreement to this suggestion will be received during June and that draft documentation will be available towards the end of the month.

Planned Activity Schedule

A basic change has been made to all projects shown on this schedule this month. Due to the time taken so far for the approval of the Hotels project, all projects now have a time lag of two months for government approval as opposed to one. As more is found out about the procedures required, this figure may be reduced back to one month, but current experience indicates that at least two months will be required for this part of the process.

The 5 Upper Nile Hotels have been moved back by another month to reflect the fact that the Phase I Report is still being finalized. Significantly, the scheduled finishing date for this project has now slipped to January 1998. Since this project was first proposed in February 1996, it is hoped that the process for other privatization projects will not take quite so long. Certainly, the time for agreeing Terms of Reference has been reduced as experience on all sides builds up.

PMU is still hopeful that the approval for some or all of these hotels will be forthcoming soon, as the government is still keen to see some movement in the privatization in this sector.

The River and Water Transport project has been put back by one month to reflect the somewhat slower than usual evaluation process.

The Tender documentation preparation phase for the Alexandria shipyard project has been put back by a further one month, owing to the addition of the Ship Repair Yard and the wait for the relevant information.

The Automotive companies project has been put back one month, to reflect the fact that there are now more companies in this project. The potential addition of a fifth company would tend to delay the project even further, but this would be balanced by the fact that this would then become a really significant project.

Nasr TV and Tractor and Engineering have been put back by one month due to the delays in other projects and the possible addition of further companies to the project.

The Hotels 2nd Tranche has been put back by a further month reflecting the continuing delay in approval of the Phase I Report of Pannel Kerr Forster.

G. United Nation Development Program (UNDP)

UNDP had assigned an international expert to evaluate the PEO's operations and performance. This expert reaffirmed the importance of the task being performed by the PEO and the necessity for its continued operation. PEO is currently using the GOE's unutilized funds. Funding for the past five years ended on December 31, 1996. The PEO will continue to carry out its duties up till October, relying on its resources generated by its operations. New funding is expected to start next November.

UNDP stands ready to continue to provide services to the Government of Egypt and to the donor community and it is available to utilize the flexibility of its program for the benefit of improved delivery of programs and projects.

Communications had been made with the European Union requesting funding of the PEO's operations, but the EU was willing to pay only 20% of total amount. The justification given by the EU was that the Union funds serious projects, and does not accept the funding of salaries for employees and experts.

Dr. Atef Ebeid, Minister of Public Enterprise, stated that there was no intent to diminish the role of the PEO, and pointed out the importance of this role, which includes supervision over Holding Companies, restructuring of affiliated public enterprise companies, training of employees, and evaluation of affiliated companies.

UNDP Proposed Strategy And Thematic Areas

The UN assistance, representing 6% of total ODA i.e. US $6 million, is directed towards addressing areas of critical concern such as human development and environment with 41% of the total available resources. In its 5th Cycle, UNDP has played an active role in supporting national capacity building under two main areas: economic and management development and sustainable human development. Concentration on these two areas follows an extensive policy dialogue, as well as consultations with the Government and the International Donor Community on priority areas of intervention, and within the framework of ERSAP and the Third Five Year National Development Plan.

UNDP has been instrumental in supporting the government in preparation for a number of global events including Private Sector Development Conference in October 1994. Economic Reform, Privatization and Civil Service Reform have also greatly benefited from UNDP technical assistance. Relations were established with new partners including, for the first time, with NGOs. UNDP gained a prominent place among the donor community particularly through its capacity building activities at three levels: policy level through think tanks; program level through technical secretariats; process management level through operational units.

The analysis of the current development situation in Egypt and its trends, which is in line with UNDP corporate mission purpose, led UNDP to propose to support the government efforts to improve the well being of the Egyptian people through focusing on the following three thematic areas:

a. Poverty Eradication and Sustainable Livelihoods
b. Environment and Natural Resources Sustainability
c. Promotion of Sound Governance

In developing activities in these thematic areas, UNDP aims at shifting from a sector emphasis to a catalytic and thematic/issue-based strategic approach. For example, careful assessment of poverty indicators have been undertaken as a guide for identifying UNDP's areas of intervention. These interventions include participatory strategies that link public services to those currently unserved, as well as strategies which foster strengths and capacities of individuals and communities for sustaining their own livelihood system. Two major programs are identified for UNDP's intervention:

A: Promotion and Advocacy for the Development of a National Strategy to Eradicate Poverty:

UNDP's efforts in this area will concentrate on providing quality inputs for the preparation of a Human Development Strategy in Egypt and the key elements and measurements for monitoring progress and detecting problem areas, as well as national capacities in ministries, institutions and centers, that undertake strategic studies on SHD to improve the planning capacity and ability to manage human resource development programs. The Human Development Profile and Strategy for Egypt is guided by UNDP's Human Development Report and has produced a Country report which provides for the first time, a reliable and useable Human Development Index (HDI) for the 26 Governorates in Egypt. The outcome of such efforts will be to provide sufficient indicators aligning information and analysis that can be instrumental in decision making for targeting assistance and other information, political commitment, resources and action towards satisfying basic needs and eliminating geographic socioeconomic disparities, and thereby reducing poverty and gender gaps. The success and usefulness of the HDI has gained international recognition and has encouraged the Joint Consultative Group on Policy (JCGP) members of the United Nations to cooperate in supporting and producing the Egypt Human Development Report (EHDR).

Thus, UNDP's assistance will help in achieving sufficient reliable indicators and information to improve the analysis required for aligning resources and actions towards satisfying basic human needs, eliminating geographic socioeconomic disparities and reducing poverty and gender gaps.

B: Support to Key Initiatives Aiming at Satisfying Basic Needs and Eliminating Social and Economic Disparities

The program aims at achieving balanced growth and development and to empower individuals to maximize their potential to lead a healthy and productive life and to enjoy a decent standard of living. This will have three main dimensions: achieving universal primary school enrollment; improving the quality of education; improvement in the quality of all social services; and support for a nation wide program of self-employment.

UNDP will continue to support institutions which provide a safety net for the poor, such as the Social Fund for Development, and it will support Small and Medium Enterprise Service Centers that specifically target the poor and most vulnerable groups to create jobs, in partnership with NGOs and local groups. This will also include strengthening national capacities for improved management of development to enable efficient delivery of programs and to strengthen the capacity of Egypt's 26 Governorates. These interventions aim to generate action by poor communities towards empowerment and progress. This will be coupled and complemented by UNDP's efforts in basic education. Interventions will target improving the planning capacity and the ability of the education sector to manage resources and to effectively implement a Human Resources Development Program, with emphasis on providing policy incentives. Special attention should be placed on helping increase women's access to education.

Moreover, this cycle will witness a major shift and a new role for UNDP in development in remote areas in order to correct the country's unbalanced human settlement situation, and spatial economy, and reducing the pressures of overpopulation near the Nile. The objective is to improve the quality of life for the people on a sustainable basis, through exploitation of hitherto unutilized natural resources and their management, without compromising the environment. UNDP's efforts will focus on promoting new settlements by broadening the economic base in the target area, providing additional means of livelihood which would lead to an overall improvement in living conditions and engage human resources in development-related activities, through people's participation. The targeted groups are young graduates and low-income groups with special emphasis on establishing means for helping women overcome economic barriers to their full participation in these development efforts. Pilot initiatives will be carried out in Sinai, Luxor, New Valley, Siwa and Upper Egypt. UNDP is committed to move its activities as much as possible away from the Nile Valley to create the conditions for a more balanced development.

UNDP's efforts will contribute to alleviate poverty through creating job opportunities and providing access to an improved standard of living. UNDP interventions will directly assist the poor in accessing credit, capital and technology, building the capacities of individuals and local communities to participate and manage matters related to improving their standard of living.

A new activity within this thematic area, is building national capacity for international negotiations through strengthening the capability of the Egyptian Ministry of Foreign Affairs (MOFA) staff to conduct and conclude international negotiations, in particular, the Partnership Agreement with the European Union. Focus will be placed on analytical and reporting capacity in dealing with priority issues on the development agenda; training officials in negotiation techniques, as well as providing logistical and administrative assistance in data collection, analysis and dissemination to the Egyptian team supporting the negotiators.

UNDP assistance, thus, will help strengthen key institutions, improve capacities for managing development at the national and sub-national levels and expand capacities for the formulation, implementation, evaluation and monitoring of SHD policies and programs.

The proposed approach for the above activities will pay particular attention to design programs and projects which: (a) are people centered; (b) improve development levels and reduce socioeconomic disparities; (c) provide assistance to vulnerable groups such as women, youth and the disabled; (d) enhance the capacity of government agencies to design and implement poverty eradication strategies; (e) strengthen the partnership between the State, the Civil Society and the private sector.

UNDP central resources and SPR funding will continue to be sought to complement activities initiated by UNDP core funds.

CONCLUSION

UNDP's focus on poverty alleviation is shared by the entire UN System in Egypt. Effective co-ordination of UN Agencies among themselves and with its counterparts, at the country level, and UNDPs partnership with the donor community remains the main tool of program implementation and the realization of their common goals.

H. Italy

Italy and Egypt have been traditionally linked by strong political, economic and cultural ties. As a result, Egypt has constantly been the first beneficiary of Italian Development Aid in the region. In the course of 1996, Italy has approved a soft-loan of about US$ 20 million for the support of small and medium enterprises and the creation of Italian-Egyptian joint ventures. The administrative procedures for the loan disbursement are now well advanced and Italy believes that the funding mechanism should be operational soon. Other relevant initiatives approved last year are an integrated program for environment protection and a job-creation program for selected groups of the population, financed by two grants of respectively US$ 6 million and US$ 4 million. Still on the grants side, Italy's biggest on-going program in terms of financing is a US$ 40 million "Commodity Program" for the import of goods and services identified by the recipient Government, which is fully operational.

For the current and future years, Italy has repeatedly indicated to the Government of Egypt its intention to finance development initiatives in mutually agreed priority sectors (management of natural resources and protection of the environment. promotion of the private sector, introduction of new technologies, promotion of economic social development of the poor) using predominantly, the financial instrument of the soft-loan.

In particular, while discussions are in progress to identify new infrastructure projects for financing, Italy has confirmed it's commitment to fund the establishment of a Vessel Traffic System in the Gulf of Suez and the extension of the Waste Water Plant in Hamul.

I. International Monetary Fund (IMF)

Egypt embarked upon a new and decisive phase of adjustment and economic reform. This involves building on the successful macroeconomic stabilization of recent years by intensifying structural reforms. The goals are to achieve a higher and sustained rate of growth and a gradual decline in unemployment, in combination with a further lowering of inflation and maintenance of a strong external reserve position.

The medium-term program is being supported by the Fund under a two year stand by arrangement, approved on October 11, 1996 for the equivalent of 40 percent of quota. Given Egypt's strong external reserve position, the arrangement is precautionary in nature, and no drawings are anticipated. The first review of the program was completed by the Fund's Executive Board on April 4, 1997.

As for privatization, during the six months ended December 1996, the government divested about one sixth of the total net worth of state owned enterprises. This generated proceeds in excess of LE 4 billion - the equivalent of about 3 1/2 percent of GDP at an annual rate. The program envisages the divestiture of most non-financial public enterprises over a two year period.

Meanwhile, important steps are being taken to enhance the climate for the private sector through deregulation. Among them: legislation has been enacted to decontrol rents on new and vacant property as well as on occupied commercial property; procedures for investment approval have been liberalized; the energy sector is being opened up to the private sector through build operate transfer project; and the constitutional court has upheld the right of the government to transfer public ownership to the private sector. A new draft investment law is before Parliament which would reaffirm basic guarantees for investors, establish a nondiscriminatory legal framework for the public and private sectors as well as foreign and domestic entities, and unify and rationalize the framework for investment incentives. At the same time, a new corporate law and commercial code are being established. The program envisages adjustments in the prices of some energy products over the next two years so as to eliminate implicit subsidies.

In the area of fiscal reform, a bill is now before Parliament to extend to capital goods an input crediting mechanism under the sales tax, while preparations for extending the sales tax to the wholesale and retail levels are on track. A reform of the income tax is to be initiated in the new fiscal year. On the expenditure side, a restructuring of the civil services is under way. As an element of this, the authorities are confident that their goal of a cut of 2 percent in the civil service workforce will be achieved this year, notwithstanding expanded employment in the priority health and education sectors. Further cutbacks in nonessential personnel are foreseen in the coming years.

Financial sector reform encompasses the scheduled privatization of one of the large state commercial banks as well as one of the state owned insurance companies by end 1997, for which preparations are now well advanced. Meanwhile considerable progress has been made toward privatization of joint venture banks and insurance companies, and this process is continuing to move forward. And the central bank is actively working to further strengthen prudential regulations and supervision, and to develop and expand market based instruments of monetary policy.

The Fund is in no doubt that this new and critical phase of adjustment and reform is off to a good start. At the same time, sight must not be lost of the fact that Egypt faces a long journey towards the completion of the structural transformation of its economy. The main elements of the structural reform program: privatization, trade liberalization, and fiscal and financial sector reform will require a multi year time frame for their implementation. Moreover, some will now be entering a more difficult phase. For instance, following the successful sale of profitable public enterprises, the challenge now is to dispose of state owned entities that may require major restructuring or even liquidation.

Furthermore, IMF states that challenges and risks lie ahead, and the Fund staff warmly welcomes the close dialogue the Egyptian authorities are maintaining with the IMF on the relevant policy options, and their commitment to reform. The Fund looks forward to continuing to work closely with the Egyptian authorities in the period ahead and to support them in their endeavor to steer the economy toward a new era of sustained growth and rising living standards.

J. Japan

In the Fiscal Year 1996, the volume of Japanese grant aid to Egypt reached about 7.3 billion Japanese yen, Egypt is the third country among Japanese grant aid recipients. Furthermore, after the approval of Egypt's economic reform program by the IMF last October, Japan started to survey specific projects for the provision of yen loans which have been suspended for several years.

In view of the studies and research on the current development conditions and tasks in Egypt and its development programs as well as the policy dialogues between Japan and Egypt, priority of Japanese economic assistance is given to the following areas:

1. Expanding agricultural production (Rebuilding agriculture in order to improve self-sufficiency is an urgent task which could be attained through increasing agricultural productivity as well as improving the stocks and distribution of agricultural products.)

2. Development of human resources which constitutes a basic component of the socioeconomic infrastructure. (This target could be attained through the development of technicians, improving administrative capabilities, providing assistance to formulate long-term strategies and policies for promoting Industry and exports, and improving primary and secondary education.)

3. Economic infrastructure which entails formulating long-term industrial policies and promoting private-sector investment with a view to providing economic infrastructure, disseminating maintenance technology and providing for needs in the Suez Canal region.

4. Health and medical care services, population control and family planning, in particular, assistance to qualitatively improve medical care in provincial districts where it will directly benefit people in the low income bracket. This could be attained through the training of nurses, providing assistance with regard to population control and family planning.

5. Improving public hygiene and the living environment by providing running water and sewers.

6. In addition to the aforementioned areas, Japan will also promote aid for improving and conserving the environment.

In addition, a major project is about to start, that is the construction of the bridge over the Suez Canal. This bridge is an Egypt-Japan joint project which is expected to be a good facility connecting between the nations of Africa and Asia through the peaceful land of Egypt. Japan is determined to continue to enhance economic cooperation with Egypt putting emphasis on projects that will promote the peace process in this region.

K. Korea

Korean development assistance to many developing countries centers on those areas deemed practically conducive to economic and social development of those countries. This includes the sharing of the experience, technologies and skills accumulated during the course of Korea's own economic development.

On the basis of such an approach, Korea's aid policy for Egypt will target the promotion of Egyptian productive capacity through providing various kinds of human resources development programs and supporting Egyptian self-help efforts to achieve sustainable economic growth.

In the area of human resources development, the Korean Government will provide Egypt with a $1.5 million grant in the period of 1996-1998, for the building of the "Auto-Maintenance Vocational Training Center" in Cairo.

The Korean government also intends to contribute to the enhancement of Egypt's ability to develop its social overhead capital in rural areas. The project of "the feasibility Study on the

Sinai Technology Valley" will contribute to the development of the Sinai region, by providing technical assistance for initiating a basic study, and establishing master plan and more detailed design.

The Korean Government will provide an additional $1.5 million for this project until 1998.

In addition, the Korean Government will consider further assistance on a soft loan basis for those fields of infrastructure such as transportation, electric power, and telecommunications, if the Egyptian Government so requests.

SECTION III

III. DEVELOPMENT IN THE EGYPTIAN FINANCIAL SECTOR

1) Banking Sector

1. A. Banking Sector Regulations :

- **International Accounting Standards to be applied by Egyptian Banks by July.**

Egypt has realized significant gains within the past few years regarding the building of a market oriented system of bank regulation and supervision. The Egyptian banking system has undergone a wave of deregulation that liberalized interest rates on deposits and loans, granted banks the freedom to set charges and fees for banking services rendered, relaxed limitations on the transfer of capital in and out of the country, authorized foreign banks to deal in local currency. A system of loan classifications was initiated, as well as loan loss provisioning systems. Several laws and Circulars issued by the Central Bank of Egypt since 1992, have gone a long way towards closing the gap between the traditional local and international banking practices.

During the first half of 1997, the CBE issued a decision requiring banks to apply International Accounting Standards (IAS) upon preparing their balance sheets, effective next July. All legal auditors must adhere to these standards when auditing the bank's financial statements. The CBE also requires banks to be audited by two different independent auditors, and that auditors be changed every two years.

In addition, with regard to the role of the CBE in realizing a higher degree of transparency in the Egyptian economy, in April 1997, the CBE issued its first statistical report containing information on money supply, CBE financials, stock market performance, Egypt's balance of payments, in addition to other indicators that will help realize a higher degree of transparency.

- **Increasing Margin Requirement for Lending Using Shares as Collateral**

In the wake of the continuing decline in share prices during the second quarter of 1997, on more than one occasion, the four state commercial banks were advised by the CBE Governor to increase the margin set for lending money, using securities as collateral. Although, the CBE Governor did not set a specific margin for the banks to use, they were required to set an adequate and secure margin. Prior to this notification, banks used to lend money with a margin ranging between 20% and 35% of the share price.

1. B. Rating of the Four State Owned Commercial Banks:

During the second quarter of 1997, Moody's Investors Service assigned an unsolicited rating to the four state banks (National Bank of Egypt, Banque Misr, Banque du Caire and the Bank of Alexandria). Moody's assigned very low ratings to the four state banks, saying in a highly critical assessment, that they had been slow to respond to the liberalization of the Egyptian banking industry and the improving performance of the private sector competitors. Following is the table that presents the rating of the four state banks.

Rating of the Four State Owned Commercial Banks

Table(22)

State Banks	Long and Short Term Ratings for Deposits	Bank Financial Strength
National Bank of Egypt	Ba3/not Prime	D
Banque Misr	Ba3/not Prime	E
Bank of Alexandria	Ba3/not Prime	E
Banque du Caire	Ba3/not prime	E

Source: Moody's press release, in Meeds, June 13th, 1997

According to Moody's, the public sector banks remain disadvantaged compared to some private sector leading banks in terms of their overall competitiveness, strategic focus, staff caliber, operating infrastructure and efficiency. Despite the gradual improvements made over the last few years, Moody's stated that the banks' overall financial performance remains weak. Balance sheets of the four state banks remain overburdened with a lot of poorly performing assets, and they are still heavily exposed to the state owned companies in spite of the on-going efforts to diversify their business since the liberalization of the banking sector industry in early 1990s. Since then, the four state banks have been building up their loan loss reserves, but in view of potential losses from the high level of poor performing loans made to public sector companies in their portfolios, they remain "under-provided and under-capitalized". However, Moody's stated that the situation should improve as the banks realize part of the hidden value on their balance sheets, mainly by selling their equity participation.

Given this lower than expected rating given to the four state banks by Moody's, now would seem an ideal time to seek an international partner whose adequate capital and liquidity levels could assist Egypt's state owned banks. However, it should be mentioned that in response to this unsolicited rating, the National Bank of Egypt hired another international rating agency to conduct a solicited rating for the bank.

2) Merchant Banking Activities

The acceleration in the pace of the privatization program for law 203 companies still influences the banking sector positively. During the first six months of 1997, banks managed the share offering of fifteen public enterprise companies, assisted law 203 companies in the sale of some of their assets, and participated in the offering of six privately owned companies. For a review of the Merchant Banking Activity that took place during the first quarter of 1997, see IBTCI Quarterly Review Report for the period January till March 1997. As for the second quarter of 1997, banks managed the share offering of eight of the above mentioned fifteen public enterprise companies, assisted law 203 companies in the sale of some of their assets, and participated in the offering of three of the above mentioned six privately owned companies (Egyptian Kuwaiti HC, Oriental Weavers, & Misr Gulf Company for Oil Industry), through their network of branches. Banks were also in charge of evaluating a number of these companies. The following Table (23) shows the list of major public and private banks, and financial institutions that were engaged in merchant banking activities for both law 203 companies and privately owned companies during the period from March till July 1st, 1997:

List of Banks and Financial Institutions Involved in the Management of the Sale of Law 203 Companies and Assets, and JVBs During the Second Quarter of 1997

Table (23)

Date	Public and Joint Venture Banks	Holding Company	Financial Institutions	Companies offering shares for sale	Type of Sale	% offered
4/4/97	National Investment Bank			Alexandria Commercial & Maritime Bank	IPO	26%
15/4/97	Banque Misr	Housing Tourism & Cinema	• Triple A • Sherouk Brokers	Development and Engineering consultancy	IPO	10%
26/4/97	National Investment Bank		• El Salam • The Economic Brokerage	National Development Bank	IPO	3.9%
30/4/97	National Bank of Egypt	Engineering Industries	• Ahli Brokerage • El Rowad Brokerage	Electro Cables	IPO	10%
20/5/97	CIB	Spinning & Weaving & ready -made Garments	• CIIC • Intercapital	KABO	Anchor	63%
13/5/97	National Bank of Egypt	Agr. Development		Nobarreya	IPO	20% to 80%
8/6/97	Banque du Caire National Inv. Bank	Chemical Industries	• EFG-HERMES • El Salam	Middle East Paper Co. (SIMO)	IPO	10% to 75%
11/6/97		National HC for Construction & Housing		Upper Egypt Contracting		10% may inc. to 75%
22/6/97	National Bank of Egypt	Mills & Silos	• CIIC	Alexandria Mills	IPO	10% to 30%
29/5/97		Construction & Development	• OKAZ • Int. Group	El Shams for Housing & Dev.	IPO	10%
7/4/97	National	Rice Mills & Silos	CIIC	North Mills	Sale of Assets	

Date	Public and Joint Venture Banks	Holding Company	Financial Institutions	Companies offering shares for sale	Type of Sale	% offered
	Bank of Egypt					
11/4/97	National Bank of Egypt	Rice Mills & Silos		Alex Mills	Sale of Assets	
11/4/97	National Bank of Egypt	Rice Mills & Silos	CIIC	North Mills	Sale of Assets	

During this quarter, the National Bank of Egypt (NBE) and the Commercial International Investment Company (CIIC) , together with the Spinning & Weaving & Ready Made Garments Holding Company, managed the sale of 63% of the shares of Kabo Company to an anchor investor. Also, in April 1997, the National Bank of Egypt, together with the Holding Company for Rice Mills & Silos, managed the sale of assets for a number of its affiliated companies in North Egypt and Alexandria.

During the second quarter of 1997, the National Bank of Egypt (NBE), together with the Suez Canal Bank Company, managed the offering of 2,500,000 new shares issued by the Oriental Weavers Company. These shares were issued to increase Oriental Weavers' total capital from LE 60 million to LE 110 million. Minimum share subscription was set at 50 shares per applicant, at a price of LE 58.4 per share. Although the Oriental Weavers Company is considered the second privately owned company to offer shares to the public after Olympic Group's offering, its share offering was fully covered after 10 days from the start of subscription. The offering was almost 3.5 times over subscribed.

3) Activity in the Banking Sector

- The integration of the Egyptian Capital Market into the world economy has, nevertheless, set rigorous standards for competition for the banks. Now, banks are fast becoming an important backbone for investment operations in the capital market. Moreover, as banks increase their scope of activity, the need for more financial services arises. Egyptian banks have undergone a massive transformation during the year 1996 and the first half of the year 1997. Banks have tailored their strategies toward universal banking by being more innovative in financing the needs of their customers, introducing new services, and exploring new investment opportunities.
- On June 26th, MIBank increased its holdings in Misr Exterior Bank to reach approximately 30% of the bank's total capital. A number of businessmen and MIBank have purchased the stake of Banque Exterior de Espana in Misr Exterior Bank. This holding has an estimated value of approximately LE 150 million. MIBank purchased 84.3 thousand shares, worth LE 77.846 million, at a price of LE 923.45 per share. Five businessmen purchased 79.2 thousand shares, worth LE 71.28 million, at a price of LE 900 per share. The following table shows the ownership structure of Misr Exterior Bank prior to this sale transaction:

Misr Exterior Bank Ownership Structure
Prior to the Above Mentioned Sale Transaction

Table (24)

Banks	% share prior to the above mentioned sale transaction
Banque Misr	19.5%
Misr International Bank	11.64%
Banquo Exterior de Espana	29.34%
Local & International Mutual Funds	12.12%
Industrial Institutions	9.02%
Egyptian Company for Iron and Steel	4.00%
Egyptian Individuals	14.38%
Total	100%

- During the second quarter of 1997, four main groups submitted offers for the purchase of the four state owned banks' stake in one of the JVBs " Islamic Investment bank". The value of the four public sector banks' holdings in the Islamic Investment bank amounts to approximately 80% of the bank's total capital. One day prior to the closing date for acceptance of offers for the sale of these banks' stake, Banque du Caire (which was mandated by the other 3 state banks to handle negotiations with investors) announced the postponement of this sale transaction until an unspecified date. Banque du Caire informed the interested parties that the sale had been postponed due to the establishment of new regulations, standards and guidelines by the Government organizing the sale of public sector banks' holdings in JVBs, especially in light of the heightened interest shown by foreign and Arab investors in purchasing these holdings. However, it should be mentioned that this delay followed the Prosecutor General's postponement of the sale of "El Sherif" investment company's stake in the said bank, which amounts to approximately 250 thousand shares. In addition, the CBE requested from investors wishing to purchase the four public sector bank's stake in the Islamic bank, that they present a distinct plan outlining a clear strategy for the management and modernization of the bank, as well as plans for injecting new funds and increasing the bank's capital subsequent to the purchase. The plan should also include the buyers vision of how to develop the bank from a technical and technological standpoint. Although it was announced that the minimum sale price had been set at $10 per share, representing the share's nominal value, the CBE announced that it had not set a minimum price of $10 per share, as a condition for carrying out the sale, and that the matter was left to each investor's discretion. The current market price for the share is $8.76. The following Table (25) presents the ownership structure of the Islamic Bank for Investment and Development as of June 1997:

Islamic Investment and Development Bank Ownership Structure
as of June 1997

Table (25)

	As of June 1997
National Bank of Egypt	19.96%
Banque Misr	20%
Banque du Caire	20%
Bank of Alexandria	20%
Others	20.04%
Total	100%

4) Bond Market

In addition to the development of the equity market in Egypt. banks have undergone major developments in their local medium term debt market. Local medium-term debt markets are very beneficial as another source of intermediation in the economy. Bonds are considered the next-best source of funds for banks after the interbanks rate. In Egypt, bonds have become a popular financing tool, not just for government debt, but also for other types of commercial debt.

- **Corporate Bonds**

The Corporate Bond market in Egypt is bound to evolve quickly, as interest earned from loans is subject to income tax, while interest earned from bonds is tax free. During the first 6 months of 1997, five corporate bonds were issued by five specialized and joint venture banks. During the first quarter of 1997, the Industrial Development Bank Egypt and the African International Bank, issued 5-year corporate bonds with a total value of LE 150 million, and LE 300 million respectively (for details see IBTCI January - March 1997, Quarterly Review Report). As for the second quarter of 1997, three corporate bonds were issued by three banks, the Arab Land Bank Egypt, the Commercial International Bank and the National Societe Generale Bank. Following are the details of these three new issues:

- On April 5th, 1997, the Arab Land Bank Egypt announced the issuance of its second 7-year fixed rate notes due in the year 2003. The total issuing amount was LE 40 million. The notes issuance was launched via a public offering on April 20, 1997 and will continue for two months. In the event of over subscription to these notes, the allocation will be conducted on a pro rata basis. The notes were issued with a face value of LE 100. These bonds yield a fixed rate of return equal to 11.5% annually. Each note certificate has 5 coupons attached thereto for collecting the coupons on their respective due dates. These notes will be listed on the Cairo and Alexandria stock exchanges, within a four month period from the close of public subscription. Return on these notes is exempted from taxes.

- On April 17th, 1997, the Commercial International Bank (CIB) announced the issuance of its second 5-year floating rate notes due in the year 2002. The NBE together with CIIC managed the issuance of the Commercial International Bank notes. The total issuing amount was LE 300 million. The notes issuance was launched via a public offering on May 4th, 1997 and it was covered 1.58 times within 10 days from commencement of the subscription. Due to the over subscription for the notes, the allocation was conducted on a pro rata basis. The percentage allocated for each subscriber amounted to 62.9% . The notes were issued in denominations of LE 1,000, LE 5000, LE 10,000, LE 25,000, LE 50,000, LE 100,000 and LE 500 000 face value. Minimum subscription was ten notes for LE 1,000 face value. These bonds yield a floating rate of return equal to 0.125% semi annually over the average rate of return for 182 day government treasury bills. Each note certificate has 10 coupons attached thereto for collecting the coupons on their respective due dates. These notes will be listed on the Cairo and Alexandria Stock Exchanges within a period of three months from the close of the public subscription. Return on these notes is exempted from taxes.

- During the second quarter of 1997, the National Societe Generale Bank announced the issuance of 5-year floating rate non-convertible notes due in the year 2002. The total issuing amounted to LE 150 million. The NBE managed the issuance of the National Societe Generale Bank notes. These notes were launched via a public offering on June 17th, 1997, and was covered 4.2 times within 10 days from commencement of subscription. The bank announced the closing of the subscription period on June 30th, 1997. Due to over subscription to these notes, the allocation was conducted on a pro rata basis. The percentage allocated for each subscriber amounted to 23.8% . The notes were issued in denominations of LE 1,000, LE 5000, LE 10,000, LE 25,000, LE 50,000 and LE 100,000 face value. Minimum subscription was set at one note with LE 1,000 face value. These bonds yield a floating rate of return equal to 0.25% annually above the average rate of return for 91 day government treasury bills. Each note certificate has 20 coupons attached thereto for collecting the coupons on their respective due dates. The interest rate on the first coupon will be paid on September 30, 1997 and has been set at 9.171%. The National Societe Generale Bank notes will be listed on the Cairo and Alexandria stock exchanges within a 2-month period from the close of public subscription.

Pursuant to the completion of these two issuings, as of July 6th 1997, the total outstanding amount for notes issued by corporate institutions during the last two years amounted to LE 1.780 billion . The following Table (26) gives a brief summary of such corporate bonds.

List of Institutions that have Issued Corporate Bonds
During the Last Two Years and To Date

Table (26)

Corporation	Duration	Issuing Date	Maturity Date	Outstanding Amount in million	Coupon
Citibank	5 years	31/3/1996	31/3/2001	LE 200	T-bill rate for 91 days
Egyptian American Bank	5 years	5/6/1996	5/6/2001	LE200	10.75%
Arab Land Bank	7 years	10/9/1996	30/6/2003	LE 10	12%
Hoechst Orient Pharm. Comp.	5 years	6/5/1994	6/5/1999	LE 30	0.25% above T-Bill rate for 182 days
American Express Bank	5 years	/ 9 /1996	/ 9 /2001	LE 300	T-bill rate for 91 days
Egyptian British Bank	5 years	24/12/1996	24/12/2001	LE 100	0.25% above T-Bill rate for 91 days
Arab African International Bank	5 years	5/3/1997	5/3/2002	LE 300	0.25% above T-Bill rate for 91 days
Industrial Development Bank of Egypt	5 years	22/4/1997	22/4/2002	LE 150	0.25% above T-Bill rate for 91 days
Arab Land Bank	7 years	20/4/97	20/4/2003	LE 40	11.5%
The Commercial International Bank (CIB)	5 years	22/4/97	/274/2002	LE 300	0.125% above T-Bill rate for 182 days
National Societe Generale Bank	5 years	17/6/97	/6/2002	LE 150	0.25% above T-Bill rate for 91 days

- **Government Bonds**

As for Government Bonds, to date, the Egyptian government has issued two types of bonds; Treasury Bonds with two maturities, First are Treasury Bonds, with a maturity date of May 2000, total outstanding amount is LE 5 billion. Second are Treasury bonds with maturity a date of October 2003, with an outstanding amount of LE 4 billion.
In addition, Egypt has also issued T-bills with a total outstanding amount of LE 29.93 billion as of July 1st, 1997. These outstanding amounts are accounted for as follows:

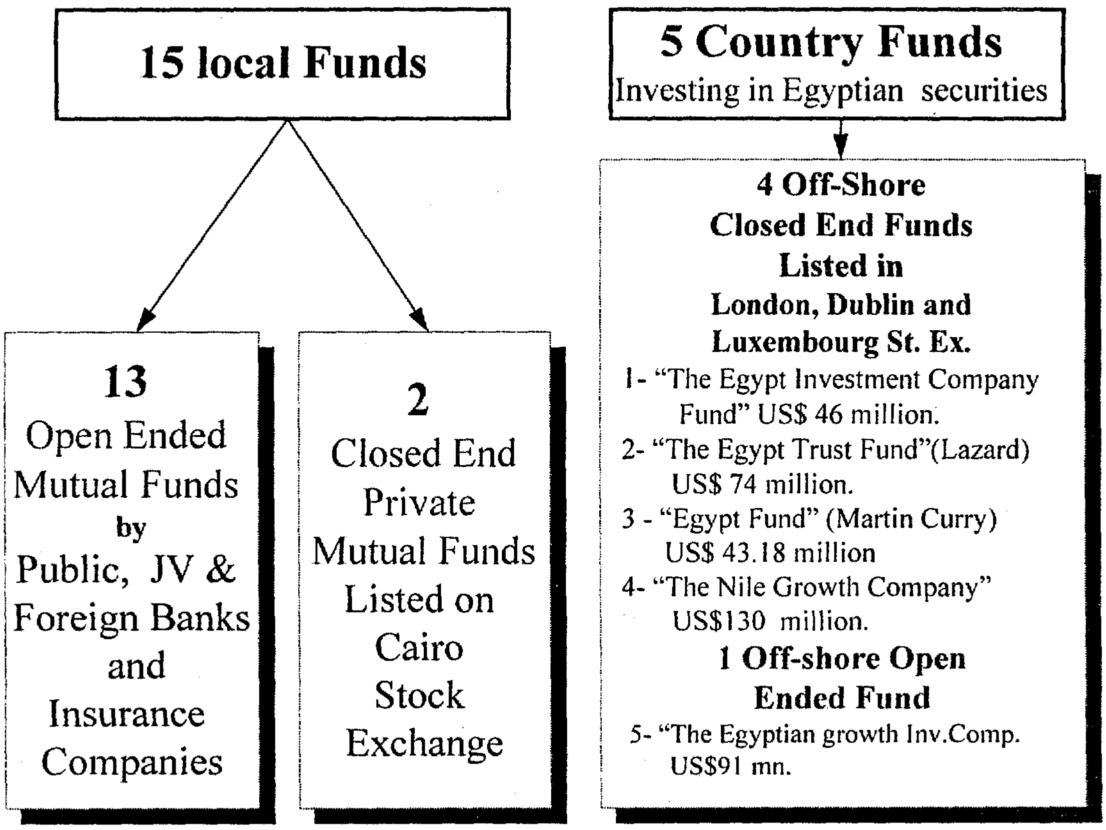
91 Day Treasury Bills	Amount Outstanding	LE 11.9 billion
182 Day Treasury Bills	Amount Outstanding	LE 18.03 billion
Total Treasury Bills	**Amount Outstanding**	**LE 29.93 billion**

5) Mutual Funds

As demand for securities investment is growing fast, during the first six months of 1997, four new mutual funds investing in local and foreign equities, amounting to approximately US$ 338 million, were launched. Two of these newly established funds are local funds, the other two are Country Funds that are in the process of being listed on the Dublin & Luxembourg stock exchanges. It should be mentioned that the investment objective of these two country funds is to invest principally in equities and securities of companies traded on the Egyptian stock exchange.

The accelerating pace of the privatization program, the development of the Egyptian economy and the quick response and development of the stock market, dictated a major reassessment of the traditional ways in which the public invest their money. This latter fact has created a tremendous increase in demand for securities investment. The high level of activity witnessed by the stock market has diverted some of the commercial banks' deposits to invest in financial equities and to the purchase of investment fund certificates. Domestic savings have been flowing to the stock market as interest rates kept declining from 16%-18% in 1991 to 10% - 8.75% in early 1997. The following chart demonstrates the alternative types of funds with investments in Egyptian equities as of July 1st., 1997.

Mutual Funds



5. A. Local Mutual Funds

To date, there are fifteen local funds established in Egypt. During this first six months of 1997, the Capital Market Authority approved the establishment of two of these local mutual funds in the Egyptian market; the American Express first open ended fund with total capital of LE 300 million, and the Egyptian Gulf Bank first mutual fund with a total of LE 100 million worth of investment (for details of these two funds refer to the New Investment Funds section below). Moreover, in April 1997, the Capital Market Authority approved the increase in capital of Banque Misr's First and Second Funds. This increase in capital amounted to LE 200 million for the two funds, LE 100 million for each fund.

These fifteen local mutual funds are widely distributed in Egypt, and are available for purchase by small investors. Thirteen of these local funds were developed through the endorsement of banks and insurance companies with a total of LE 2.5 billion worth of investments. These thirteen local funds are open ended funds, and most of them are either cumulative growth funds or income funds which distribute income on a quarterly or semi annual basis to certificate holders (see Table 27). The other two local funds are privately owned closed end funds, established by two corporate companies with a total capital of LE 1 million. See annex (9) for the list of all the local funds.

The following Table (27) gives a brief summary of the 15 local funds operating in Egypt, and their certificate prices as of July 3rd, 1997.

Egyptian Local Funds Established During the Period from 1994 up till July 3rd, 1997

Table (27)

	Fund	Starting Date of Operations	Size In Million LE	Fund Type	Nominal Value per Certificate in LE	Cert. Price as of July 3rd, 1997 in LE
1-	National Bank of Egypt (First Fund)	03/09/1994	200 increased by 100 in Jan. 97	Growth	500	890.5
2-	National Bank of Egypt (Second Fund)	03/10/1995	300 increased by 100 in Jan. 97	Income	100	105.25
3-	Egyptian American Bank	15/10/1994	200	Growth	100	128.42
4-	Bank of Alexandria	01/12/1994	200	Growth	100	137.79
5-	Banque Misr (First Fund)	01/02/1995	400 increased by 100 in April 97	Income	1,000	1160.52
6-	Banque Misr (Second Fund)	17/09/1995	300 increased by 100 in April 97	Growth	1,000	1593.24
7-	Allied Insurance	03/10/1995	100	Growth	500	544.3

	Fund	Starting Date of Operations	Size In Million LE	Fund Type	Nominal Value per Certificate in LE	Cert. Price as of July 3rd, 1997 in LE
8-	Banque du Caire	**09/11/1995**	100	Growth	100	203.43
9-	Societe Arab International de Banque (SAIB)	**12/05/96**	100 increased by 50 in Dec. 96	Growth + Semi Annual Prizes	500	811.4
10-	Export Development Bank	**6/08/96**	100	Income	100	118.63
11-	Suez Canal Bank	**17/11/96**	100	Income / Growth	500	504.52
12	American Express Bank	**25/2/97**	300	Income / Growth	100	97.78
13	Egyptian Gulf Bank	**23/3/97**	100	Income / Growth	100	97.55
Funds established by Private Corporate Companies						
14-	Delta International Bank	26/05/96	50	Income / Growth	100	170.74
15-	Orient Trust	27/11/96	50	Growth	1000	1071.06

5. B. Fund Managers, Investment Portfolio, and Management Fees

- **Management and Banks Fees**

As of June 1997, the increasing number of local funds operating in Egypt resulted in increased competition between the funds with regard to their fees. All the fund managers of the newly established funds announced low competitive management and incentive fees compared to those offered by the funds that were established earlier. As a result, funds that were established earlier started to introduce sharp cuts on their fees which, at times, accounted for as much as 25% of the funds' profit.

During the first six months of 1997, the NBE announced the agreement of their fund managers, "El Ahli for Investments", to the reduction of the fund management fees for the NBE First Fund, effective January 1997. The NBE has reduced its management fees by 25%, and its incentive fees by 50% (for details see IBTCI Quarterly Review Report for the period January till March 1997). See Annex (9) for the fees structure of different funds.

- **Investment Portfolio**

All Investment fund managers follow a policy that aims at maximizing the net asset value of their fund's certificates through capital appreciation, by investing in a diversified portfolio in accordance with the Capital Market Law, as follows:

- Investments in any one company shall not exceed 10% of the Funds net asset value and 15% of the outstanding securities of any particular company.
- Investments in other funds shall not exceed 10% of the Fund's capital and 5% of the resources of the fund in which it will invest.
- For liquidity purposes, the Fund shall invest approximately 10% of its capital in time deposits and treasury bills.

The following table presents the top ten companies on the investment portfolio for a number of selected funds:

Top Ten Companies On The Investment Portfolio
For A Number Of Selected Funds

Table (28)

Mutual Fund	Top Ten Companies On The Investment Portfolio	**Fund Managers**
National Banque of Egypt (NBE) First Fund	Helwan Portland, Ameryiah Cement, Middle and West Mills, Cement Torah, Abou Keir, NSG Bank, CIB Bank, Banque du Caire Mutual Funds Certificates EAB Bonds & Gov. Bonds year 2003	Al-Ahli for Inv.
Banque Misr First Fund	Gov. Bonds year 200 and 2003 Gov. T-Bills, Misr Int. Bank (MIB) Misr Exterior Bank, Ameryiah Cement, PACHIN, Suez Cement and EIPICO.	Concord International
Banque Misr Second Fund	Ameryiah Cement, EIPICO, MIB, Misr Exterior, CIB, Madinet Nasr and Suez Cement	Concord International
Banque Du Caire	Helwan Portland, Ameryiah Cement, Portland Torah, Madinet Nasr, North Mills, Banque Misr Inv. Cert., EIPICO, Cairo Poultry, Heliopolis Housing, and Suez Cement	HFM
El Delta Fund	Helwan Portland, Ameryiah Cement, Portland Torah, CIB, EIPICO, North Mills, Banque Misr Mutual Funds Cert., Heliopolis and Madinet Nasr for Housing & Suez Cement.	HFM
SAIB	Middle Egypt, North, Upper Egypt, West, Middle, and South Mills, Amerya Cement, Portland Helwan, Financial Industrial, East Delta Mills, Electro Cables.	Prime Invest. Fund Managers

Mutual Fund	Top Ten Companies On The Investment Portfolio	Fund Managers
Export Development Bank	Ameryiah Cement, Abou Keir, Helwan Portland, CIB, NSGBank, East Delta Mills, Middle ad South Mills, Madinet Nasr and Heliopolis Housing.	Cairo Portfolio Management
Orient Trust	Ameryiah & Suez Cement, Portland Torah, EIPICO, MEMPHIS, Cairo Pharmacutical, South Mills, Technopac, and Arabia	Al Masrya for Investment & Financial Services
	Pharmacutical.	

Source: Hermes Financial Manager, and El Borsa Weekly News Papers

5. C. Activity in the Existing Mutual Funds

Following the activity of the existing mutual funds during the first six months of 1997, it was found that:

- January 20th, 1997, was the last day for subscription in the new privately owned closed end mutual fund "Orient Trust" established by the Orient Trust Company during the last quarter of 1996. This fund is managed by the Egyptian Finance Company . The fund started its operations on January 26th, 1997, and within two months from its first day of operation, the fund's certificate price increased by 7.8% from its face value. Orient Trust Investment Certificates are the second Egyptian investment certificates to be listed on the Cairo Stock Exchange following the listing of Delta Mutual Fund certificates. This fund will be freely traded on the stock market, which gives investors the opportunity to liquidate their shares when needed. The official listing of these certificates introduces a new financial security, other than shares and bonds, to the stock market.

- Following the capital increase of the NBE's First and Second Funds early in January 1997 (for details see IBTCI Quarterly Review Report January till March 1997), the Capital Market Authority approved the increase in capital of Banque Misr's First and Second Funds in April, 1997. Banque Misr First Fund increased its capital from LE 300 million to LE 400 million and raised the capital of its second fund by 100 million to reach LE 300 million. The increase in capital for Banque Misr's First and Second funds was generated from the issuance of 100,000 new certificates that were sold to the public at their market price, which was 17.8% above the issuance price for the First Fund certificates, and 74% above the issuance price for the Second Fund. Banque Misr First Fund certificate price increased from its issuance price of LE 1000 in January 95 to LE 1178 in April, 97 (the second offering date), while Banque Misr Second Fund certificate price increased from its issuance price of LE 1000 in September 95, to LE 1743.55 in April, 97 (the second offering date). This event occurred after the Societe Arab International de Bank (SAIB) raised its capital during the last quarter of 1996, and after the NBE raised the capital of its two funds early this year. This demonstrates that the Egyptian financial market is still very healthy.

5. D. Existing Mutual Funds Performance

- The observed increase in the General Price Index and Hermes Index during January and early February (for further details see IBTCI Quarterly Review for the quarter January till March 1997, the Stock Market Section) reflected positively on investment fund certificate prices up till the last week of February 1997. By the beginning of March

1997, share prices started to decline and continued to do so throughout the entire quarter from March till June 1997, which negatively affected the performance of all the funds operating in Egypt. During the second quarter of 1997, certificate prices of all the local funds decreased see Annex (8) price trends for the different funds certificates. The following table shows the weekly development in investment certificates prices of the fifteen local mutual funds for the period January 2nd., 1997 till July 3rd, 1997.

Investment Certificate Prices During the Period from January 2nd., till July 3rd., 1997

Table (29)

	NBE 1st. Fund	NBE 2nd. Fund	EAB	Bank of Alex.	Banque Misr 1st. fund	Banque Misr 2nd. Fund	Allied Ins.	Banque du Caire	Orient Trust	SAIB	Export Dev. Bank	El Delta for Inv.	Suez Canal Bank	AMEX	Egyptian Gulf
Nominal Value Per Cert.	500	100	100	100	1000	1000	500	100	1000	500	100	100	500	100	100
Date															
2/1/97	762	111.8	124.74	128.37	1082.99	1401.75	545.05	166.88		656.05	113.27	153.79	513.48		
9/1/97	771	112.9	129	133	1110	1461	562	176.94		658.09	115.57	162.16	522.15		
16/1/97	781	114	131.48	135.13	1108.18	1462.8	566.05	177.18		670.25	115.96	162.89	525.05		
23/1/97	801.25	118.15	138.46	142.7	1133.97	1524.22	534.09	191.48		692.55	124.7	176.22	537.34		
30/1/97	826.5	120.8	144.34	148.42	1164.01	1589.09	NA	195.67		727.5	129.96	173.77	548.64		
6/2/97	876.25	126.85	151.13	154.83	1203.61	1688.52	NA	206.04		750	138.02	182.61	571.95		
13/2/97	895.25	129.35	152.68	157.39	1220.62	1738.15	642.19	207.89		783.65	140.99	183.32	580.23		
20/2/97	896.10	129.5	153.56	158.19	1244.28	1818.41	651.55	NA		791.10	145.02	183.18	583.15		
27/2/97	896.85	129.4	150.18	155.57	1235.92	1781.69	647.49	206.27	1060.60	750	142.14	180.56	570.48		
6/3/97	898.25	129.9	151.63	158.10	1233.78	1755.71	NA	210.42	1079.37	801.66	143.15	184.30	573		
13/3/97	887.25	128.70	150.16	158.10	1225.77	1729.97	648.13	209.08	1116.24	802.5	143.02	183.94	559.30		
20/3/97	890.10	128.00	148.84	155.88	1211.20	1682.88	635.5	208.23	1078..26	802.5	140.01	182.74	559.34		
27/3/97	895.15	129.10	149.83	155.96	1218.11	1702.39	640.34	209.82	1077.68	805.55	141.17	183.09	564.88		
3/4/97	900.25	114.6	150.25	156.28	1167.51	1720.88	643.98	210.86	1076.72	808	140.99	183.99	566.85		
10/4/97	898.35	114.5	149.75	155.73	1166.27	1710.2	NA	211.2	1076.68	810.95	140.57	184.45	567.64		
17/4/97	903.5	115.3	151.06	157.53	1176.96	1732.51	NA	213.07	1080.01	812.4	141.79	185.6	571.19		
24/4/97	904.25	116.5	150.32	156.41	1184.94	1759.65	NA	212.76	1081.04	813	141.88	184.46	565.62		
1/5/97	907	116.6	150.54	15657	1184.65	1759.96	NA	213.25	1081.26	818.5	142.25	184.5	567.08	NA	NA
8/5/97	905	115.6	148.23	154.24	1179.65	1737.68	632.2	209.11	1073.17	819.05	141.02	NA	561.04	NA	NA
15/5/97	906	114.7	147.28	153.44	1165.57	1687.86	NA	207.27	1063.77	819.15	139.73	176.84	549.81	NA	NA
22/5/97	902	114.8	146.4	152.37	1173.1	1692.49	618.28	207.63	1062.98	819.25	139.16	176.86	551.2	98.65	NA
29/5/97	893	113.5	142.84	148.61	1170.94	1663.94	NA	201.04	1057.47	819.25	134.27	169.64	532.02	96.29	96.31
5/6/97	898	114.45	145.08	150.56	1171.83	1674.85	607.67	204.85	1070.44	820	135.29	173.16	540.61	98.04	97.73
12/6/97	893	113.65	144.5	150.13	1170.37	1663.65	600.39	204.52	1070.93	815	133.24	172.47	534.55	97.98	97.64
19/6/97	890	112.65	143.84	149.7	1163.7	1646.31	NA	204.25	1070.12	811	131.68	171.7	529.83	97.7	97.43
26/6/97	890.35	112.7	143.01	149.2	1175.24	1656.82	591.63	203.3	1064.23	811.01	130.07	170.61	521.67	97.55	97.22
03/7/97	890.5	105.25	128.42	137.79	1160.52	1593.24	544.3	203.43	1071.06	811.4	118.63	170.74	504.52	97.78	97.55

Source : Fund Managers

- From the above table we notice that all Investment Fund Certificate prices picked up during January 97 till late February, and then started a long decline during the second quarter of 1997. Despite this decline, a number of these mutual funds that were established some time before this market free fall, have continued to provide positive returns for their subscribers as they benefited from the earlier rise in the Egyptian equity market which occurred in November 96 and January 1997.
- During the first and second quarter of 1997, a number of the mutual funds distributed a percentage of their return to their certificate holders. On April 1st. 1997, Banque Misr First Fund distributed quarterly dividends amounting to LE 60 per certificate. By the end of June and early July, seven of the local funds distributed a percentage of their return to their certificate holders. Both the EAB and Bank of Alexandria distributed dividends to their certificate holders for the quarter ending June 30th, 1997. Dividends distributed by the EAB amounted to LE 15 per certificate, and that of the Bank of Alexandria amounted

to LE 12 per certificate. Both the Export Development Bank and The Suez Canal Bank Funds distributed their semi annual dividends amounting to LE 13 and LE 20 respectively. Banque Misr First Fund, distributed its dividends for the second quarter of the year 1997, amounting to LE 29 per certificate. This amount should be compared to the LE 60 that was distributed for the first quarter of 1997, to indicate the impact of the sharp decline in share prices on the Fund. Banque Misr Second Fund also distributed a percentage of its profits for the first 6 months of 1997 , amounting to LE 100 per certificate. On July 2nd., 1997, the NBE Second Fund distributed its seventh quarterly dividends for the second quarter of 1997, amounting to LE 47.6 per certificate.

- The following table highlights a number of performance indicators for nine local investment funds that started their operations at least one year ago. These indicators include capital gain per certificate, dividends and the overall total return on the investment funds since their establishment, up till the end of June 1997.

Performance Indicators for 8 Local Inv. Funds as of July 3rd. 1997

Table (30)

	Growth Funds			Income Funds	Income / Growth Funds				
	NBE (First Fund)	Banque Misr (Second Fund)	Banque Du Caire	Banque Misr (First Fund)	NBE (Second Fund)	EAB	Bank of Alex.	Allied Insur.	Delta Fund
Establishment Date	3/9/94	17/9/95	9/11/95	1/2/95	3/10/95	15/10/94	1/12/94	3/10/95	26/5/96
Certificate issuing price in LE	500	1000	100	1000	100	100	100	500	100
Certificate price as of 1/1/96	567.6	1023.89	101.26 (4/1/96)	1000.03	101.45	100.51 (4/1/96)	100.36 (2/1/97)	520 (28/12/95)	NA
Certificate Price as of 31/12/96 in LE	757	1579.31	166.88 (2/1/97)	1077.07	109.60	124.74 (2/1/97)	128.37 (2/1/97)	642.35 (26/12/96)	148.30
Capital Gain During 1996	189.4	555.42	65.62	77.03	8.15	24.23	28.01	122.35	NA
Certificate Price as of 3/4/97 in LE	900.25	1720.88	210.86	1167.51	114.6	150.25	156.28	643.98	183.99
Capital Gain during the First Quarter of 1997 in LE	143	141.57	43.98	90.51	5	25.51	27.91	1.63	35.69
Certificate Price as of 3/7/97 in LE	890.5	1593.24	203.43	1160.52	105.25	128.42	137.79	544.3	170.74
Capital Gain during the second Quarter of 1997 in LE	-9.5	-127.48	-7.43	-6.99	-9.35	-21.83	-18.49	-99.68	-13.25
Capital Gain since establishment as of 3/7/97	390.5	593.24	103.43	160.52	5.25	28.42	37.79	44.3	70.74
Dividends distributed since its establishment till 3/7/997 in LE	Growth	Growth LE 197 in Dec.96 LE100 in June 97	Growth	89 in 1995 +139 in 1996 228 + 60 in 1997 total=288	47.6	44.75	37.5	117.00	8
Total Return since establishment till April, 3rd. 1997	78.1%	89.024%	103.43%	44.85%	52.85%	73.17%	75.29%	32.26%	78.74%
Total Average return per Annum	28.4%	50.8%	65.32%	19.2%	31.71%	27.44%	30.12%	19.32%	72.7%

N.B.: *Av. annual return on Growth Funds 48%*
Av. annual return on Income Funds 19.2%
Av. annual return on Growth & Income Funds 36%

From the above Table (30), it is observed that almost all the funds realized a negative capital gain during the quarter starting April 97 till the end of June 1997. Despite this decline, a number of these mutual funds have continued to distribute positive returns to their subscribers, as they benefited from the earlier rise in the market that occurred in January and early February 1997.

The realized average annual return on funds' certificates since their establishment, fluctuated between a maximum of 72.7% for El Delta Fund that was established almost a year ago, and a minimum of 19.2% for Banque Misr's First Income Fund.

5. E. New Investment Funds:

1. Local Funds

During the first six months of 1997, two mutual funds were successfully launched in the Egyptian local market, the American Express Bank first Mutual Fund and the Egyptian Gulf Bank First fund. Following are the details of these two funds.

- **American Express Bank First Fund**

  On March 18th, 1997, American Express Bank launched its first local open ended fund with a nominal capital of LE 300 million. The fund was first launched with a total capital of LE 100 million, and within one week from the first day of subscription the fund announced an increase in its capital to LE 300 million due to excess demand for the fund's certificates. This capital increase was generated from the issuance of 2 million extra certificates to be sold to the public during the same subscription period. Although the fund is an open ended fund, this increase in the fund's total capital was approved by the CMA. Investment certificates were issued with a nominal value of LE 100 each, with a minimum subscription of five certificates per applicant.

  After raising the Fund's capital from LE 100 million to 300 million, subscription to the Fund certificates was covered 3 times within 10 days from commencement of subscription. The bank announced the close of the subscription period after 10 days from first day of subscription. Due to over subscription to the notes, the allocation was conducted on a pro rata basis. The percentage allocated for each subscriber amounted to 28.5% .

  The American Express Fund is managed by Hermes Fund Management company, using EFG-Hermes as an advisor. All the Fund's activities are supervised by American Express Bank-New York. The Fund has the flexibility to invest locally or globally, which gives it the advantage of hedging for different country risks. Certificate holders will receive semi-annual dividends, in addition to the accumulation of capital gain.

- **The Egyptian Gulf Bank First Fund**

  On March 26th, 1997, the Egyptian Gulf Bank announced the launching of their first open ended fund with a total capital of LE 50 million. Subscription to this Fund's certificates took place in mid April 1997, and continued for only 15 days as subscription to this Fund's certificates was successfully covered within eleven days, by more than 2.5 times. Due to over subscription to the Fund's certificates, the allocation was conducted on a pro rata basis. The percentage allocated for each subscriber amounted to approximately 33%. The investment certificates were issued with a nominal value of LE

100 each, and a minimum subscription of 10 certificates per individual investor. The Hermes Fund Management company is managing the Egyptian Gulf Bank Fund.

Also, it should be mentioned that in an unprecedented move, the Egyptian Gulf Fund returned to their subscribers the excess amount of money that was paid, added to it the interest on the said amount calculated at the rate of the time deposits for the period starting from the second day of close of subscription, till the day when they started their allocation.

2. Off - Shore Country Funds

In addition to the fifteen local funds established in Egypt, there are five off-shore country funds investing primarily in Egyptian equities that have been launched within the period starting early 1996 and till mid 1997. The aggregate issue value of these five funds is approximately $384.18 million. Four of these off-shore funds are closed-end funds, and only one is an open- ended fund that was established early in 1997. The Following table gives a brief summary of these five country funds as of June 30th, 1997:

List of Country Funds investing Primarily in Egyptian securities

Table (31)

Name of Fund	Starting Date of Operations	Size In Million LE	Nominal Value per Certificate. in LE	Fund Type	Fund Managers
"Egypt Investment Company" Listed on London Stock Ex.	Jun.-96	US$ 46	US$ 10	Capital Growth Closed End	Concord National (BVI) Limited (40% NBE & 60% Concord ,New York)
"The Egypt Trust" Structuring Agent IFC listed in London Stock Ex.	Nov.-96	US$ 74	US$ 10	Capital Growth Closed End	Lazard Freres Asset Management Inv. Advisor: NBE
"The Egypt Fund" Martin Curry Listed in the Irish Stock Ex.	Aug. 1996 Ordinary Nov. 96 C	US$ 16.12 US$ 27.06	US$ 10 US$ 9.98	Capital Growth Closed End	Hermes Fund Managers HFM
"The Egyptian Growth Inv. Company Limited" Listed on London Stock Ex.	Jan-97	US$ 91	US$ 10.25	Capital Growth Open-Ended	Concord Misr Investments (Guernsey) limited part of the Concord Group
" The Nile Growth Company" will be listed in Luxembourg stock Ex.	June 97	US$ 130	US$ 10.30	Capital Growth Closed End	ACM CIIC Investment Management Limited

During the first six months of 1997, two of these country funds were launched. First was the fourth off-shore open-end fund "The Egyptian Growth Investment Company Limited" that was launched in the United Kingdom in January 1997, to be the first Egyptian off-shore open-ended fund for investment in Egyptian equities with a total amount of US$ 91 million. Second was the fifth country fund " Nile Growth Company" that was launched in May 1997, with a total capital of US$ 130 million, and is in the process to be listed in Luxembourg Stock Exchange to be the fourth closed end off-shore fund. All these funds are/or will be listed in the London and Luxembourg Stock Exchanges.

- **Egyptian Growth Investment Company Limited Country Fund**

During the first quarter of 1997, Banque Misr and the US-based Concord Group launched their first open ended off-shore fund "Egyptian Growth Investment Company Limited" to become the fourth off-shore fund in operation to date. The Fund aims at long term capital appreciation through investment primarily in equity and equity related securities of companies listed on the Egyptian Stock Exchange. It is managed by Concord Misr Investments (Guernsey) Limited, part of the Concord Group. The issuance was managed by Banque Misr, and Cairo-based Gulf Arab Investment Company. Placing and selling agents were Misr International Bank, Misr Romanian Bank, HSBC James Capel, and Nomura International Plc. The fund is listed on the London Stock Exchange

- **The Nile Growth Company Country Fund**

During the second quarter of 1997, the Commercial International Investment Company CIIC, the National Bank of Egypt NBE, and the Alliance Capital Management Corporation (ACM) launched their first closed ended off-shore fund "The Nile Growth Company" to become the fifth off-shore fund in operation to date. The Fund aims at medium and long term capital appreciation through investment primarily in equity and equity related securities of companies listed on the Egyptian Stock Exchange. The Company may invest in DRs of Egyptian companies. It is managed by the ACM CIIC Investment Management Limited. The fund will be listed on the Luxembourg Stock Exchange

6) Stock Market Performance of the Banking Sector

Since 1996, banks have increased their involvement in capital markets, this is evident by the increasing bond offerings made by banks during the year 1996 and the first six months of 1997, as well as CIB's and MIB's Global Depository Receipts offering, which are listed on London Stock Exchange. In addition, a remarkable number of banking stocks are currently available on the Egyptian Stock Exchange, and are expected to grow as more Joint Venture Banks are privatized in the coming period .

- **Banking Sector Share Prices:**

The banking sector was the most active sector of the Egyptian capital market in 1996, and it remains the most active sector during the first quarter of 1997. In early 1997, three banks were found on the list of the top ten companies with the highest market capitalization. During the four weeks ending mid February, the financial sector recorded the highest increase in share prices in the Cairo Stock Exchange. Commercial International Bank, CIB, rose by 16% but was capped by the CMA at LE 600 for most of that period. National Societe Generale rose by 48%, Misr International Bank was up by 42% and El Watany Bank rose by almost 59%.

As for the second quarter of 1997, the banking sector was one of the sectors that drove market down. Within the four weeks ending May 29th, 97, the Commercial International Bank's price fell 14.2%, MIB fell by 7.7%, Al Watany Bank fell by 15.78%, and the EAB fell by 16.45%. In June, banks were again faced with another tough month, as their share prices were still declining but at a lower rate; CIB's price fell by 4.58%, Al Watany Bank fell by 8.7%, EAB was up by only 2.4% and as the road show for MIBank's GDRs was underway, its price also increased by 0.5%.

The following Table (32) shows financial and performance indicators for the year 1996, and the market capitalization for the most actively traded bank shares during the second quarter of 1997:

Financial Performance Indicators for the Most Actively Traded Banks

Table (32)

As of 19/2/97	Earning 1995 / 96 .000	Earning 96 / 97 .000	No. of Shares .000	Mkt Capitalization as of June 30	E / S 95 /96	E / S 96 /97	Closing Price	P/E Ratio 95/96	P/E Ratio 95/96
Commercial Int. Bank (CIB)	3410,300	278,000	50,000	3,555,000,000	4.83	5.56	71.10	14.73	12.29
Al Watany Bank	42,700	53,000	11,797	613,232,958	3.62	4.49	51.98	14.36	11.57
Misr Int. Bank (MIB)	141,000	185,000	4,500	2,786,940,000	31.33	8.22	619.32	19.77	13.01
National Societe Generale Bank	56,000	61,700	10,000	807,500,000	5.60	6.17	80.75	14.42	13.09
Egyptian American Bank (EAB)	90,550	106,000	12,000	608,000,000	7.55	9.58	134.00	17.76	13.98
Misr Exterior Bank	53,000	63,000	730	727,798,300	72.60	86.30	996.71	13.73	11.55
Housing and Development Bank	45,000	58,000	5,400	475,200,000	8.33	10.74	88.00	10.56	8.19
Export Development Bank	36,051	24,474	690	287,398,800	52.25	35.47	416.52	7.97	NA

Source: EFG - Hermes

7) Stock Market Activities

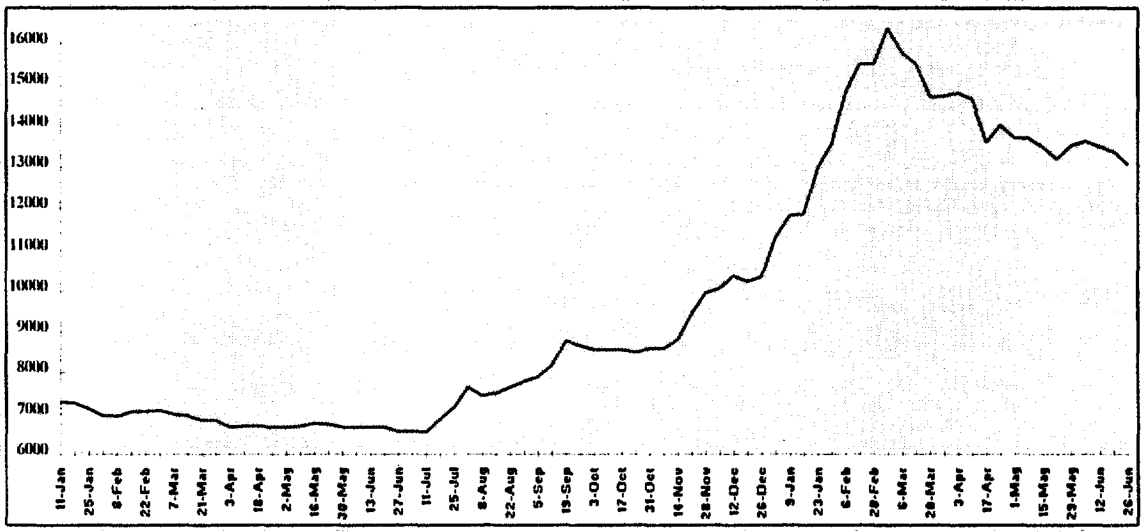
A. Hermes Index

During this quarter the Hermes Index continued its downward trend (in June the index decreased by approx. 25% compared to the end of February). The decrease in the stock market activities is the main reason of this decline. It should be noted that the Hermes Index does not take into consideration the newly shares floated in the stock market except three months to insure that the prices of the newly floated shares stabilized.

The below Figure (1) represents the Hermes Index trend since December 1995 till June 26, 1997.

Hermes Index from 28/12/1995 to 26/6/1997

Figure (1)



Source : Hermes.

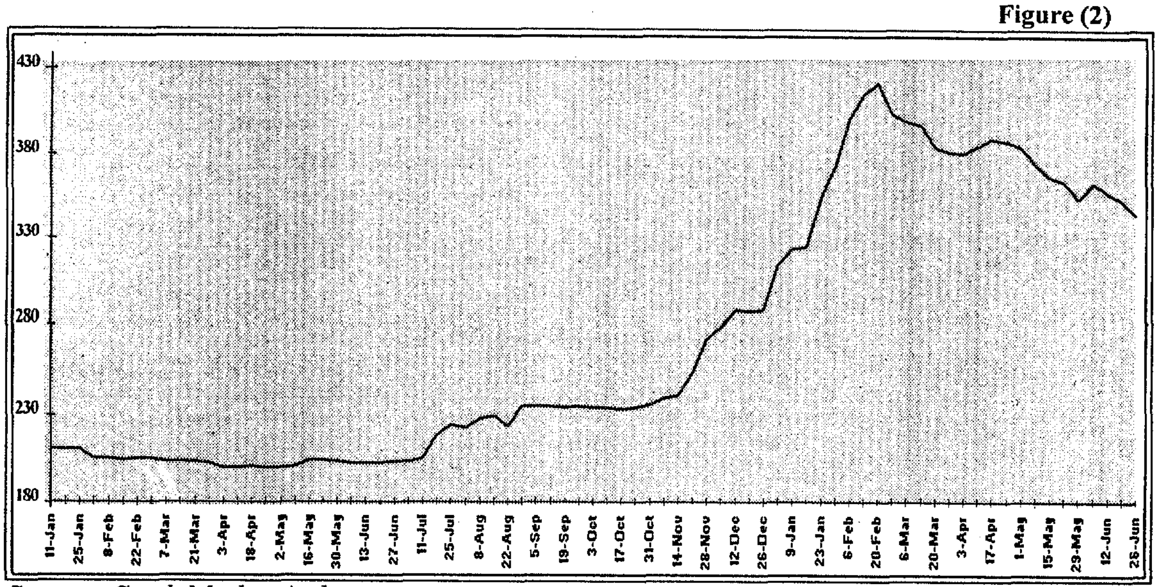
B. General Index.

Furthermore, the General Index continued its decrease by the end of June 1997 (decreased by approx. 23% compared to February figures).

The below figure (2) represents the General index trend since February 1997 till June 1997.

General Index Trend from 111/1/96 to 26/6/1997

Figure (2)



Source : Stock Market Authority.

SECTION IV

IV. MACROECONOMIC ENVIRONMENT AND BUSINESS CLIMATE

A. Macroeconomic Environment and Business Climate

1. Macroeconomic Environment

According to recently released data by the Ministry of Planning, and published in the Central Bank of Egypt's latest monthly report, the economy continues to demonstrate strength. CBE foreign exchange reserves have increased from their January level of $18.76 billion to $19.4 billion at end of February 97 representing over 26% of Egypt's current US$ 75 billion GDP. The balance of trade deficit decreased from $2.79 billion in the first quarter of fiscal year 1996/97, to $2.69 billion in the second quarter, as export proceeds increased from $1.157 to 1.221 billion, and import payments declined from $3.9 billion to $3.8 billion. Despite the trade deficit, the balance of payments continues to show a surplus, rising to $705 million for the second quarter of this fiscal year, from $604 million a year ago. According to the same report, total deposits in banks increased to reach a high of L.E. 155.78 billion in February, compared to L.E. 154.25 billion in January 1997. Also net foreign assets within the banking system (including the CBE) increased from L.E. 134.2 billion to L.E. 143.48 billion, with the agricultural sector getting the biggest share, L.E. 2.9 billion in the second quarter of the current fiscal year, compared to L.E. 2.3 billion during the same period last year. The industrial sector's share also increased from L.E. 2.7 billion to L.E. 3.54 billion during the same period.

2. Economic Policy

FY Budget

The 1997/98 budget was approved by the Peoples Assembly on April 26. The total figure approved was L.E. 83.3 billion, up 7% from the 1996/97 figure of L.E. 77.5 billion. Expenditure is forecast at L.E. 77.5 billion. This includes L.E. 29.8 billion directed to social services, and L.E. 25.1 billion to salaries and pensions. According to the new budget, government expenditure will be reduced by 6% to reach an annual increase of 8% instead of 14%. Minister of Finance Dr. Mohie El- Din El- Gharib commented on the new budget, stating that it reflects insistence on rationalization of governmental expenditure and giving priority to elements of stability. This will be done through rationalizing the use of factors of production and increasing maintenance to increase productivity. Also, the government is committed to paying debt services on time. He added that the State wants price stability and continuity of subsidies to the vital services presented to the Egyptian people. The Minister added that the Ministry of Finance has decided to review the finances of public sector authorities on a daily basis, and take appropriate decisions if in any case expenditures increased above the defined limit. Expenditure on water, electricity, fuel, pharmaceuticals, raw materials and transportation, is to increase from L.E. 3.3 billion in 1996/97 to L.E. 3.5 billion in 1997/98. According to the new budget, L.E. 4 billion will be directed to loss making companies. L.E. 6 billion will be directed to support General Authorities. The new budget witnessed an L.E. 557 million increase to reach a level of L.E. 83.792 billion, in response to requests by members of the Peoples Assembly during the five year plan discussions and discussions on year one of the plan. L.E. 150 million of the increase is to be added to health allocations to support health insurance and efforts directed for treatment of renal failure and the provision of medicine. Also, the Waqf Authority will be given L.E. 15 million, mosques L.E. 8 million, Al Azhar L.E. 20 million, and the Ministry of Justice L.E 10 million. In addition to this, L.E. 200 million of the budget increase will be allocated to paving roads. According to the new budget figures, the budget deficit will be L.E. 6.3 billion, though the government says it will hold the budget deficit at around 1% of GDP. Prime Minister Dr. Kamal El-Ganzouri said there will be no new taxes imposed in 1997/98, and investment will total L.E. 58 billion, 60% of which will come from the private sector.

The Next Five Year Plan

According to Dr. Kamal El-Ganzouri, in his FY budget and Government Five Year Plan statement to the People's Assembly on April 26, real GDP growth is projected at 5.7% for the fiscal year 1997/98. The government target for the next five year plan, due to start this July and runs until 2002/03, is for an average annual GDP growth of 7% and the creation of 2.5 million jobs, starting with 500,000 jobs in 1997/98. The Prime Minister stated that the investment target will total L.E. 58 billion, 60% of which will come from the private sector. Total investment between 1997 and 2002 should be L.E. 375 billion, representing an average of L.E. 75 billion for each of the 5 years. Over the next 5 years, if forecast deficits, expected to average 1% of GDP, (excluding privatization revenues) are achieved, the stock of both foreign currency and local currency debt is projected to reach 26% and 40% of GDP by FY 2000/01 respectively, implying a sustainable fiscal adjustment. The government's principal policy objective over the next 5 years is to continue lowering the deficit towards balance, to raise domestic savings, reduce the public debt burden and maintain the monetary and exchange rate stability essential to investor confidence and the inflow of foreign capital.

3. The New Investment Guarantees and Incentive Law:

On May 5, the new Investment Law (Law 8/1997) was passed by the People's Assembly. It was then signed into law by the President on May 11, and has become effective since then. The new law was approved after a long period of discussion. It has brought protests from the business community, who were outspoken in their expression of outrage at the wording of this law. Before presenting the different arguments for and against the Investment Law, and the possible consequences resulting from the implementation of this law, it is important to point out some of the most important features of this Law.

- The new law gives more incentives for priority investment sectors such as infrastructure, automobile parts, software, oil field services, tourism and manufacturing.
- It gives an incentive structure that is geographically based, with longer tax holidays for projects in target development areas.
- The new law aims at encouraging small and medium scale enterprises.
- It also intends to give incentives for export activities and exporters.

The principal objective of this law, is to boost production and foreign direct investment by streamlining procedures, removing much of the bureaucracy involved in incorporation, and awarding general tax incentives to priority sectors. It is basically derived from the former Investment Law 230. However there are four different investment guarantees that were amended from the former law, these are:

- Companies and enterprises may not be nationalized, placed under custody, frozen, or confiscated.
- No administrative agency may interfere in the pricing of company and enterprise products, or determine their profit.

- No authority may cancel or suspend all or part of a previously issued license to benefit from real estate, except in cases where the license conditions have been breached. Where the cancellation or suspension decision shall be issued by the Cabinet according to a request submitted by the authorized administrative agency, the concerned party may challenge the decision before the administrative court within 30 days from the date of announcing the decision or notification thereof.

- Companies and enterprises may own the construction and constructed land necessary for their activity and the extension thereof, regardless of the nationality of the owners, the place of their residence, or their share of ownership.

There were only three new provisions that were not included in the former law, these are:

- Projects under the Social Fund for Development will now enjoy a 10 year tax exemption.
- Projects outside the old valley or transferred from there will now have a 20 year tax holiday
- Tax incentives will be automatic and will no longer require the prior approval of any administrative authority. Companies will just send a note to the investment authority for statistical purposes and inform the authority of the date of the start of operations so that the company can begin its tax holiday. The new law has abolished the highly bureaucratic General Authority for Investment (GAFI), but has not specified GAFI's successor.

Obviously, this is the most favorable scenario describing the chain of future outcomes of implementing the new investment law, anticipated by those who designed and favor it. Although, other people have some doubts on this upbeat scenario. A significant sector of the business community is calling for its repeal by presidential decree. Their anger stems from the lack of consultation by the government in the drafting and confirmation of the proposed law. After more than three years of discussions with donors and Egypt's business community, the ninth draft of the Law was approved by the Cabinet on January 28. Then on March 21, a tenth and extensively different draft was submitted by the Prime Minister to the People's Assembly. This draft was submitted without any private sector input. The People's Assembly Economic Committee submitted the Law to the chamber for authorisation, with only one amendment to the government draft.

Critics consider the 47 article law to be inaccurate, and say that it was rushed to Parliament in time for the Paris donors' meeting, to satisfy the IMF agreement. The government had previously committed itself to passing the law at the beginning of this year.

Lawyers have found a number of errors in the Law. An example was mentioned by lawyer Mahmoud Fahmy, who stated that Article 8 in the new law is supposed to be identical to the same article in the former Investment Law 230. However, while copying this article, the drafter forgot a paragraph, and as a result left out legal protection from the expropriation of real estate.

Lawyers also question the effectiveness of the law, as it had not been submitted to the Cabinet for review. The Egyptian-Business Association alleged that Article 5 of the Law, which enables the administrative authority to allocate State-owned land to companies, violates the requirement of Article 123 of the constitution, requiring the People's Assembly approval for the disposal of Public lands. Another lawyer announced that the banning of nationalization in Article 8, is in violation of specific provisions in the constitution authorizing such expropriation only after adequate compensation has been paid.

Those against the law support their opinions by stating a number of important facts that affect the actual implementation and usefulness of the new law. For example, the new law abolishes the previous authority of the Council of Ministers which used to interfere in pricing. However, freedom in pricing appears to apply only to products and not services. Therefore, Egypt's hotels are, presumably, still unable set rates without input from the Ministry of Tourism. Also, while the law appears to offer pharmaceutical companies pricing freedom, the Ministry of Health issued a decree immediately after the issuance of the new law to clarify that pharmaceutical companies are still under pricing constraints.

The new law cancels the General Authority for Investment (GAFI), whereby a new administrative authority is to be established by presidential decree. An Investment Ministry is also under consideration. However, the new law lacks provisions relating to its administration including a legal basis for transparent administration. This has led to fears that the authority may use excessive discretion while applying the law, which consequently may scare away investors.

According to the new law, companies and enterprises are to possess lands and buildings regardless of the owners nationality. It also allows the State to allocate land by Prime Ministerial decree to projects, for free. However the Egyptian Business Association claims that enabling the State to give away public land violates the constitution, which requires parliamentary approval for the alienation of state lands. Another element that may scare investors away, is the confusion as to whether ownership in the form of "free simple title" is accorded to foreigners under the new law.

The new law removed the additional five year tax holiday for project expansion. This contradicts the government's target to realize a higher level of economic growth.

According to the new law, green-field projects are wooed with incentives, while anchor investors in privatized firms lack similar incentives.

The new law removes incentives altogether for some sectors such as travel agencies and restaurants catering to tourists. It also reduces the incentives for most eligible investors particularly those with projects in new communities. As a consequence of this lack of incentives, eleven famous international restaurants that have agents in Egypt, decided to cancel their expansion plans. Those firms maintain that the law has removed the custom incentives that they used to enjoy under Tourism Law no. 1 for 1972. This will add 50% to their investment costs if they seek further expansion in Egypt. The list of these restaurants includes McDonald's, KFC, Arby's, Chilli's and Tikka. Tourism experts argue that this lack of incentives will cause confusion among those companies that already embarked on expansions, as it may make them unable to pay for their bank loans after the reduction of their profit, and the increase in their costs by 50%. This also caused the International Franchise Union to stop granting permission for new projects in Egypt. This was decided at the Union's last meeting in Cairo. The International Franchise Union is responsible for granting trade marks to new international projects. It is also worth mentioning that there were more than 1200 tourism firms established under the old tourism law, which contributed to the tourism income in GDP. Also, the introduction of international tourism companies helped in transferring managerial skills and experience in this field.

Now that the law has been signed by the President, the focus of the business community is to remedy the faults through the executive regulations which are due within three months. This allows amendments to be made by decree, rather than forcing the Government to go back to

Parliament. The majority of lawyers do not expect the Government to stick to this timetable, due to the law's complex nature and the need to tie up so many loose ends.

4. Anti Trust Law:

The Ministry of Supply and Trade recently finished drafting an Anti Trust Law. This Law aims to fill in the legislative gap that Egypt must bridge in order to promote a competitive domestic, and global, free market system. The new Law defines monopoly as the practice enabling one company, or a group of companies who have merged together, to corner at least 30% of the trading of a certain product or a commodity on the local market.

The main objective of this Law is to tighten government control on a number of monopolistic practices that could negatively affect free competition in the Egyptian market, and seriously reduce Egypt's export volume. It aims to clarify that monopolies are detrimental to the promotion of a free market system. Accordingly, as discussed among those who are in favor of the Law, there are serious pitfalls that occur with mergers between two or more giant enterprises, as it may lead to an emergence of a monopolistic force which usually drives away competitors in the local market. This is true, even in the event that these mergers bring with them technology transfer, upgraded quality and higher investment.

The Law states that any parties to such a merger should notify the Ministry within 15 days of drawing up their agreement . Once the Ministry has been notified, the parties to the agreement are then obliged to await a written reply from the Minister of Supply. The Minister has three months to respond. At the end of this period , the parties, if they have not received either a formal approval or refusal, are free to complete their merger plans. Failure to comply with these guidelines could result in imprisonment and a heavy fine.

To guard against the emergence of monopolies, the draft law decrees that an Anti- trust and Competition Protection Council (ACPC) be established to oversee the licensing of mergers. The draft Law strictly bans alliances between giants in the local market unless prior approval is received from the Ministry of Supply. The bill also prohibits individuals from investing in companies that they are directly, or indirectly involved in, unless permission is granted from the Minister of Supply. What really precipitated this move, were some major developments that took place in the local market over the last few months

The British company Cadbury, this year bought the Food Industries Development Company(Bim Bim), and as a result, has cornered roughly 25% of the candy market

Switzerland's Nestle recently purchased an ice cream factory in the city of Qualioub from the Groppi company, and now covers 75% of the country's ice cream market.

On the securities market, similar buyouts and mergers have taken place. The Egyptian Financial Group EFG and the Hermes group merged last year to form a major brokerage house that controls almost 32% of the secondary trading market on the Cairo exchange.

The new Anti Trust Law also includes a provision for the securities market, to protect it from unscrupulous brokers and investment houses. The bill expressly prohibits individuals or traders from purchasing shares in companies whose business they are either directly or indirectly involved in unless permission is granted from the Ministry of Supply. ACPC is supposed to have the power to monitor closely the impact of any deal which may negatively affect free competition in the capital market.

The bottom line of this analysis is that this Law is an integral part of the GOE's attempts to combat monopolistic practices which keep Egypt away from the free market system, and negatively affect competition.

5. Egyptian Eurobonds

The recently assigned Standards and Poors sovereign investment grade rating is expected to foster fund raising in international equity markets. According to the Minister of Finance, Dr. Mohie El- Din El Gharib, the government intends to issue five year Eurobonds for the amount of $ 300 million, on the London stock exchange. This issuance attempts to motivate Egyptian Companies to raise debt/ equity funds in the Euromarket at moderate rates given the benchmark established by the Government.

Through this move Egypt is seeking economic benefits other than the need for this money, as it has reserves in the Central Bank of over $ 19 billion. It also has sufficient credibility to borrow from the international markets as Egypt's ratio of debt services to exports reached a level of 13% compared to 23% in 1991, which is considered low by international standards. A sovereign decision exists that prohibits borrowing from abroad unless the project is totally capable of paying its debts and services. Sovereign risk can be determined through the interest rate paid by the country on its issued bonds.

Given its adequate level of CBE foreign reserves, Egypt's main target is to boost the Egyptian financial market through developing the relationship between the Egyptian private sector and the international equity market. Benefits from this benchmark will accrue to local companies interested in raising equity funds at moderate rates on the international market. When a private project seeks to borrow funds in the international market through issuing bonds, its risk is identified on two levels the macro and micro level. The interest rate paid by the private sector is identified depending on the macro level which is the sovereign risk rating and the micro level project risk rating.

If the country doesn't issue bonds in the Euromarket, then the cost is higher for the private sector if it wants to take this step, as according to the rules, the costs of issuing bonds in the Euromarket is higher for the private sector. The private sector can issue bonds, but at a high international rate reaching 3-4 % above the LIBOR since there is no benchmark for the issuer.

The issuance of Eurobonds could effectively help close the gap between domestic savings and investments. In order for the government to increase its GDP by 7% annually, annual investment of $7 billion are required to cover the saving gap. With its foreign investment level at $2 billion, Egypt still needs $5 billion. Which can be achieved through the private sector seeking financing in the international market. Another beneficial effect of this bond is that since they are medium term bonds, they may solve the private sector problem of lack of low cost medium or long term financing. Interest rate differentials represent another added benefit, as the interest rate on equity borrowing in the European market is lower than that in Egypt.

Experts expect the Egyptian private sector to seek financing from the international market within 6 months to a year from the government issuance.

6. Privatization of Strategic Enterprises

With Egypt now entering the final phase of the economic reform program, the GOE started to invite the private sector to invest in strategic sectors such as telecommunications, ports, power, water and transport. This will have a major positive effect. It will show international investors that the government is committed to privatization, which will bring in the cash and generate serious activity in the stock market. World Bank studies indicated that a minority sale of Egypt Air, which comprises 13 companies, could almost triple the volume of activity on the Egyptian stock exchange, and a 10% flotation would generate sales of not less than L.E. 900 million. Similarly, the privatization of mobile phones alone could double the volume of transactions on the Cairo stock exchange. The following are the privatization efforts proposed during this quarter :

The government announced that it will invite the private sector to own and manage the newly established GSM mobile telephone services. The new company will start operating within the next quarter, with a paid in capital of L.E.100 million. The State Telecommunications Authority, Egypt Telecom (formerly Arento), will still own a majority stake in this company. This new company is expected to extend the mobile phone service to cover the entire country, and to increase the number of subscribers to 300,000 within three to five years.

The government is currently studying the possibility of privatizing potable water stations, while introducing controls to keep the price of water down. According to Public Enterprise Minister Dr. Atef Ebeid, Egypt needs to invest L.E.3 billion annually to provide new potable water stations and establish sewage networks, while the government is subsidizing potable water at some L.E.1,490 million annually (citizens only pay 50% of the production cost).

Given the strategic importance of the Egyptian General Petroleum Corporation (EGPC) and the Suez Canal Authority (SCA), it is unlikely that the government will privatize them before the next five years. EGPC's and SCA's combined net worth is estimated at L.E.10 billion, 5.6% of the 1996/97 GDP. During this quarter, EGPC received approval to sell its share holding in non-oil sector companies. These include Alexandria National Iron and Steel Company, Misr Chemicals and Abu Qir for Fertilizers and Chemical Industries. The timing of the sale transaction will be determined by the Privatization Ministerial Committee.

Airport privatization efforts are facing increasing difficulties, ultimately leading to private sector investors' evasion of this area, During the last three months, six airports were opened up to private sector investment; El- Dakhla, El- Farafra, Baharia Oasis, East Owainat, Dahab and Alamein. Only one offer was received from a Saudi Group for the Dahab airport, and the Khorafy group, which previously won the bid for the Marsa Alam airport, withdrew its offer for the Alamein airport, the only offer received for this airport. Investors are shying away from investment in this area, because of their sense of uncertainty regarding the Airport Law No. 3 of 1997, and the fierce attack launched by the People's Assembly against this Law. The Egyptian media portrayed this Law as a threat to Egypt's national security, consequently discouraging private sector investors from entering this activity. Another complaint, was that the prequalification booklet contained some very strict requirements that investors considered impossible to achieve, even though this is considered a very advanced prequalification booklet that is being implemented for the first time on a worldwide basis, as a new system for DBOT. Under this new system, the investor is free to design the airport without any interference from the government, according to the investor's feasibility study. Some investors also objected to another condition included in the booklet, which is the necessity of constructing housing projects for airport employees.

B. Macroeconomic Indicators

1. Nominal Interest Rate:

During the last three quarters, the discount rate generally trended downward. The Central Bank of Egypt decreased it from 13.5% in October, to 13.25% in November, to 13% in December, to 12.75% in March, 97. The latest decline in the discount rate, was on May 15, when the CBE decreased the discount rate by 0.5% to 12.25%. This is an indicator that the government intends to continue cutting interest rates gradually to reduce the cost of borrowing, and thus encourage direct investment and protect the pound against appreciation.

Such a downward trend in the discount rate was paralleled with a lower interest rate on loans and deposits, to reach their lowest level since the implementation of the structural adjustment program.

The GOE used to believe that interest rates should be higher than 9 % to be able to attract more capital flows, but with capital inflows reaching a satisfactory level, and with the upward pressure in the pound it may cause, it is felt that interest rates can be allowed to drop. The current level of interest rates is not so low to the extent that it will restrict capital inflows. The interest rate on dollar deposits is still 5.3 %. Interest rates are not expected to be below 8%, due to CBE's concern that this will cause a shift in deposits toward the dollar.

Interest Rate Trends

Table (33)

	Nov.	Dec.	Jan.	Feb.	March	April	May	June
Interest Rate(Lending)	12.25%	12.25%	11.75%	11.0 %	11.0%	11.0%	11.0%	10.75%
Interest Rate (Deposits)	10.25%	10.25%	10 %	9.25%	9.25%	9%	9%	8.75%
Rate on T-bills	10.17%	10.1%	10.11%	9.99%	9.6%	9.6%	8.9%	8.9%

Source : National Societe Generale Bank

It should be noted that this downward trend in the interest rate, was accompanied by a decrease in yields on 91 day T- bills, causing them to fall below 9 % for the first time since their introduction in 1991. It reached a low of 8.9% in May 97. This observed decrease in interest rates on T- Bills could encourage investors to make long term investment in the stock market, given its higher average total return.

The CBE has announced that it will also issue long term treasury bonds in the coming fiscal year 1997/98, as a part of its money sterilization policy, and also to curb inflation.

2. Inflation Rate

According to the most recent available data gathered by the Cabinet Information and Decision Support Center (IDSC), Egypt's consumer price inflation has continued to stabilize at less than 6% in recent months. It reached a level of 5.4% in February and 5.5% in March 97 calculated on annual basis, compared to 5.7% in January and 5.4% in December 96. The monthly inflation rate reached a level 0.3% in March, compared to 0.2% in February 97.

Rate of Inflation

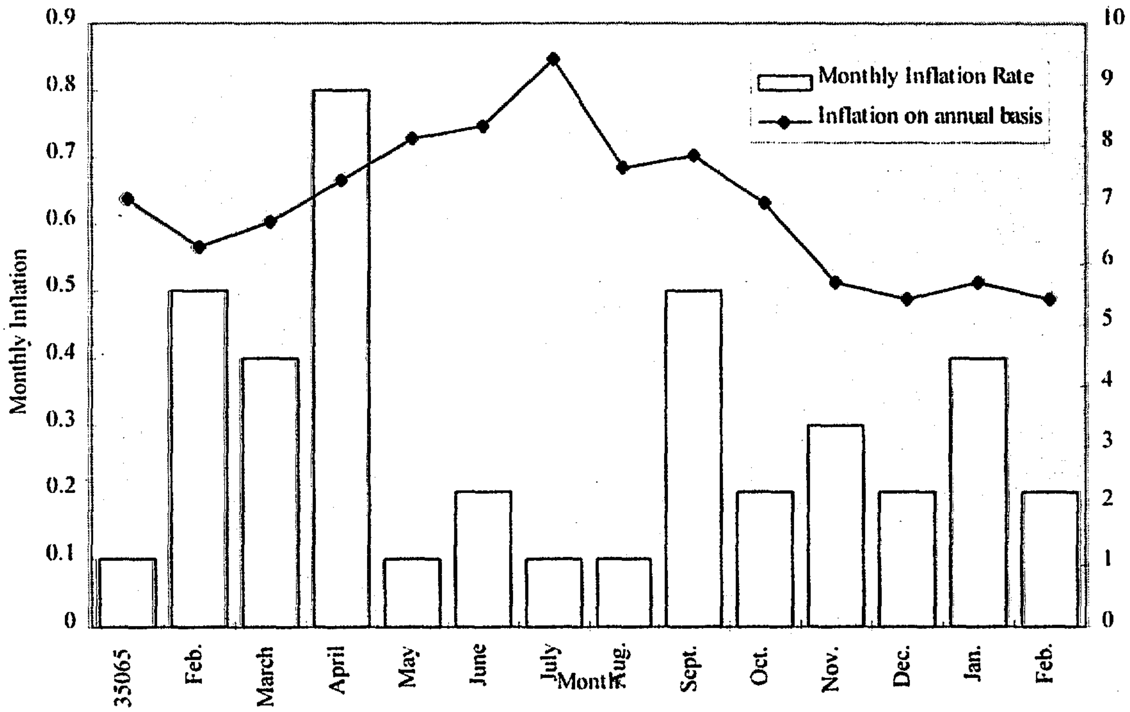
Table (34)

Month	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
Monthly Inflation Rate	0.1%	0.5%	0.2%	0.3%	0.2%	0.4%	0.2%	0.3%
Annual Inflation Rate	7.6%	7.8%	7%	5.7%	5.4%	5.7%	5.4%	5.5%

Source: Cabinet Of Information and Decision Support Center

Inflation Rate Trend

Figure (3)



Source: Cabinet Of Information and Decision Support Center

3. Exchange Rate

While the IMF is no longer demanding depreciation of the pound, the government has pledged to fight any appreciation of the currency which is under high pressure due to the recent high level of capital inflows. Fluctuations in nominal exchange rates has almost been negligible over the past 13 months, to the extent that in the period from May 1996 to May, 1997, the cumulative percentage change in the nominal exchange rate was -0.04% for the bid rate and - 0.02% for the ask rate. It should be noted that the GOE considers stability in the exchange rate as a significant factor in attracting foreign capital inflows. Stability in the pound is supported by the Central Bank reserve of US$ 19.2 billion, which completely covers the Egyptian pounds in circulation and the banking system foreign currency deposits.

Development of the Exchange Rate

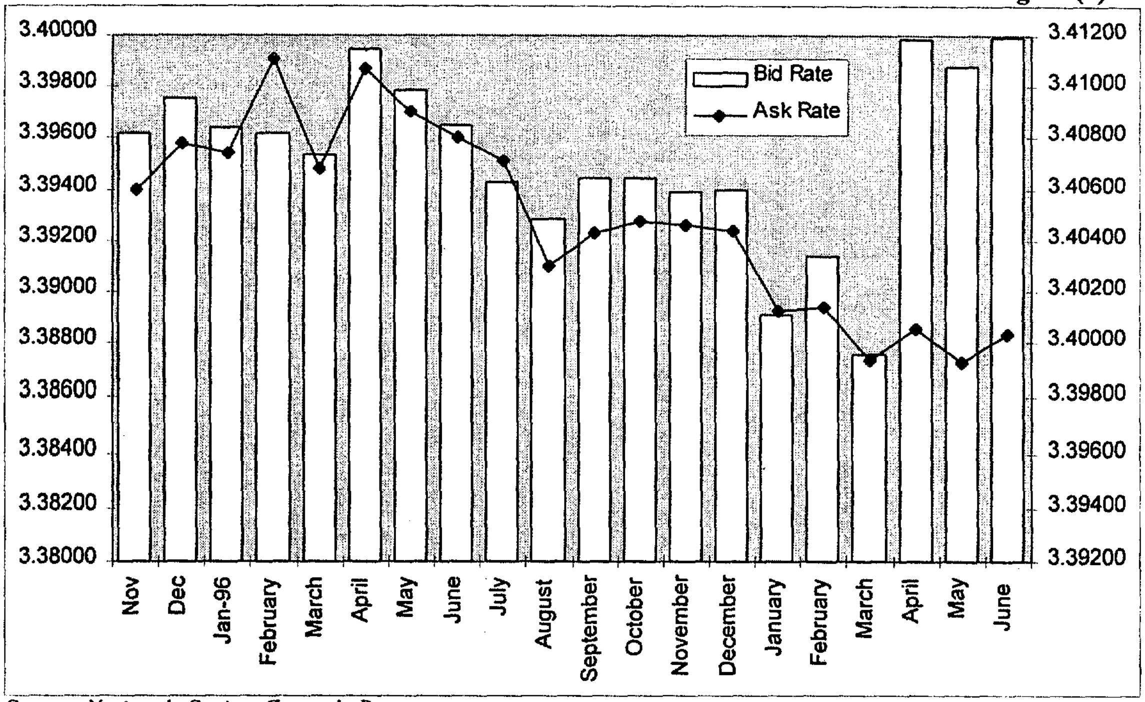
Table (35)

Month	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
Average Ask	3.40471	3.40461	3.4044	3.4012	3.40142	3.39993	3.40058	3.39926	3.4003

Source : National Societe Generale Bank

Exchange Rate Trend

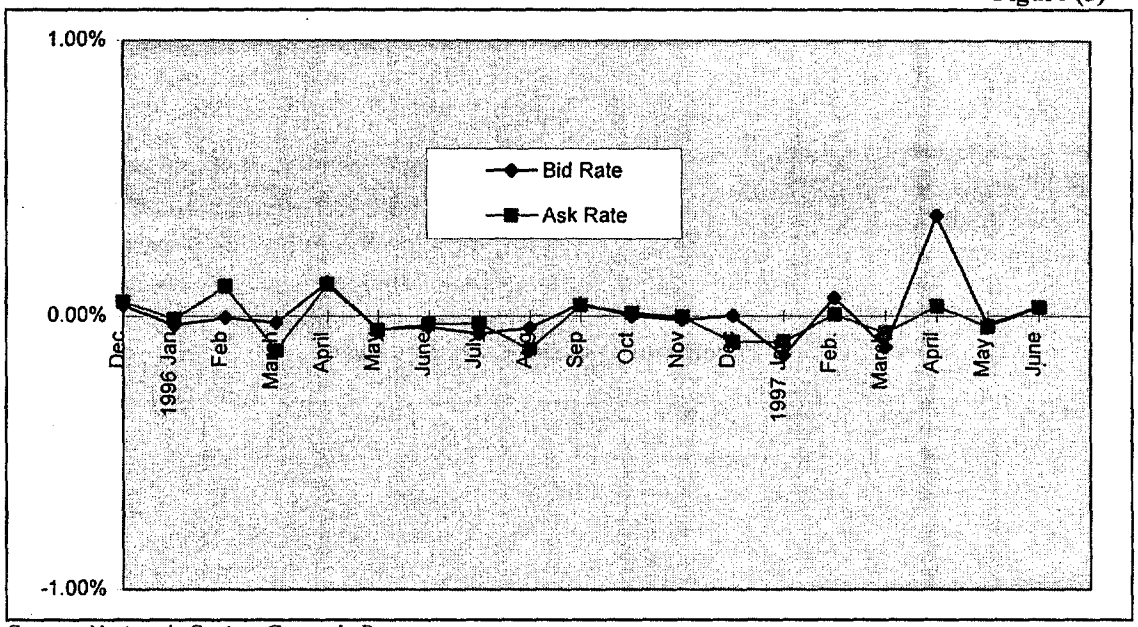
Figure (4)



Source: Nationale Societe Generale Banque

Rate of Change of Exchange Rate

Figure (5)



Source: Nationale Societe Generale Banque

4. Domestic Debt

According to the GOE budget presented to the People's Assembly in April 1997, domestic debt figures reached LE 152 billion in September 96, compared to L.E 150.4 billion in June 1996. The government's and economic authorities domestic debt, including their borrowings from the National Investment Bank, reached LE 133 billion (87.5% of domestic debt) by the end of September 96, compared to L.E.131 billion at end of June 1996. The government's domestic debt includes the government's and economic authorities net deposits in the banking sector, which are shown in the government balance sheet as a liability of LE 22.6 billion. Also included was the government's debt to the National Investment Bank, which included funds directed to finance public enterprise sector companies, and soft loans granted to low income housing. The LE 152 billion also included the cost of interest for T- bills, which accounted for LE 26 billion.

V. Actions to be Monitored by IBTCI

- The privatization of one of the four State Owned Banks.
- The sale of the four State Banks holdings in the Islamic Bank.
- The Finalization of the sale transaction for the shares of Alexandria Commercial & Maritime Bank.

Annex A

SPR II POLICY MATRIX

SPR II Goal: To achieve rapid, sustainable economic growth which benefits the great majority of the people, by promoting the transition to an outward oriented, competitive, private market economy.

Objectives	Policy Measures First Year 1996	Second Year 1997	Achievements up to date
I. FINANCIAL MARKETS: *SUBGOAL:* Encourage savings and efficient channeling of financial resources to the private sector within a stable fiscal setting.			
A. Increase competition in the financial markets			
		A.2. The state banks shall eliminate their ownership in at least 11 joint venture banks, except for trading purposes, and reduce their ownership to no more than 20 percent of outstanding shares in each of the remaining ones, except in special cases not to exceed three banks.	As of the second quarter of 1997: • There are 4 JVBs where the State Banks Ownership is below 1%. • There are 6 JVBs where the State Banks Ownership is between 1% - 20%. • There are 10 JVBs where the State Banks Ownership is between 21-50%. • There are 3 JVBs where the State Banks Ownership is above 50%.
		A.3. The GOE will reduce its share in	No activity was announced during

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SPR II POLICY MATRIX

SPR II Goal: To achieve rapid, sustainable economic growth which benefits the great majority of the people, by promoting the transition to an outward oriented, competitive, private market economy.

Objectives	Policy Measures		Achievements up to date
	First Year 1996	Second Year 1997	
		at least one additional joint venture insurance company to achieve private sector majority ownership and control.	the second quarter of 1997
B. Ensure financial system and social insurance solvency while facilitating privatization.		**B.** The GOE will take actions to reduce the debts of state owned enterprises in order to encourage privatization.	• The Debt Settlement amounted to approx. LE 1.2 billion as of June 1997. • Nevertheless, the long term loans increased by 3%. • The GOE is negotiating with the banks to drop a part of the Law 203 debts
C. De-monopolize shipping agencies and port services.			
II. TRANSITION TO MARKET ECONOMY: *SUBGOAL:* Promote a competitive private market economy.			
A. Decrease the size of the state owned enterprise sector by	**A.** The GOE will transfer majority ownership and control to the private		• In 1997 - 10 Companies were privatized (8 IPOs, 2 Anchor

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SPR II POLICY MATRIX

SPR II Goal: To achieve rapid, sustainable economic growth which benefits the great majority of the people, by promoting the transition to an outward oriented, competitive, private market economy.

Objectives	Policy Measures: First Year 1996	Policy Measures: Second Year 1997	Achievements up to date
divesting/liquidating existing public enterprises.	sector or liquidate at least 15 public enterprises whose total 1991 book value exceeds LE 2.7 billion.		Investor sales) • The total value of these sales amounted to approx. LE 820 million.
B. Facilitate the investment and operations for profit and non-profit enterprises.			
C. Improve the cost effectiveness of investment incentives.			
D. Introduce private sector competition in cotton and textile markets.		**D.** The GOE will continue implementation of its plan for the liberalization/privatization of the textile sector.	• The prices in this sector continue to affect negatively its financials (see Quarterly Review) • Up to date 3 textile Companies were privatized out of which 2 Companies were privatized during 1997.

SPR III POLICY MATRIX

Objectives	Policy Measures		Achievements up to date
	First Year 1996	Second Year 1997	
I. INCREASE PRIVATE SECTOR EXPORTS			
A. Improve the efficiency of the transportation system, and hence increase export competitiveness.			
II. INCREASE PRODUCTIVITY OF PRIVATE ENTERPRISE			
A. Increase competition in the financial sector to lower costs and improve services	**A.1.** The GOE will evaluate for transfer to the private sector at least one major public sector bank.		No activity was announced during the second quarter of 1997
	A.2. The GOE shall reduce its share in at least one state insurance company to achieve private sector majority ownership.		No activity was announced during the second quarter of 1997
B. Improve financial sector regulation to improve investor confidence			
C. Enhance the role of the private sector in the provision of financial services			

SPR III POLICY MATRIX

Objectives	Policy Measures First Year 1996	Second Year 1997	Achievements up to date
III. ENHANCE COMPETITIVE MARKETS			
A. Decrease the size of the state owned enterprise sector to encourage growth of the private sector.		**A.1.** The GOE shall liquidate or transfer majority ownership and control to the private sector at least 25 public enterprises whose total 1991 book value exceeds LE 4.5 billion.	During the first quarter of 1997, only 4 Companies were privatized as IPOs, and the total value of this sale amounted to LE 398 million
	A.2. The GOE shall ensure that uses of sales proceeds from privatization are limited, with only minor exceptions, to: 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.	**A.2.** The GOE shall continue to ensure that uses of privatization proceeds are limited, with only minor exceptions, to: 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.	Using the GOE's interpretation of financial restructuring as contained in the updated 1996 Guidelines, the GOE has restricted their use of sales proceeds to the benchmark categories. However, IBTCI draws particular note to the flexible definition and procedures for financial restructuring as used in those guidelines. Specific figures are contained in the body of our quarterly report.

Annex B

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Annex 1

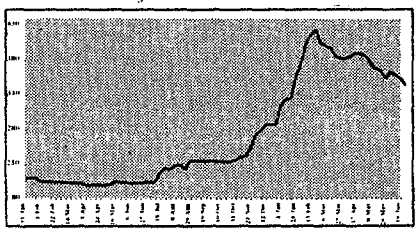
PUBLIC SHARE FLOTATION OF LAW 203 COMPANIES AS OF JUNE 26, 1997

Holding Co./Affiliated Co.	Initial Flotation Price (LE)	Lowest Price	Highest Price	Market Price (LE) on 19/6/1997	Market Price (LE) on 26/6/1997	Change (LE)	Change (%)	Private Share
Holding Company for Chemical Industries								
Alexandria Portland Cement	32.00	32.00	67.00	67.00	67.00	0.00	0.00%	20.57%
Misr Chemical Industries	10.75	10.75	25.80	18.75	18.00	-0.75	-4.00%	29.90%
Paints & Chemical Industries	25.00	125.00	140.00	116.01	117.50	1.49	1.28%	27.00%
Kafr El Zayat for Pesticides & Chemicals	29.00	29.00	144.90	144.50	144.90	0.40	0.28%	74.65%
El Nile for Matches & Prefabricated Houses	27.00	27.00	31.50	26.00	25.33	-0.67	-2.58%	54.47%
Holding Company for Engineering								
Egyptian Electro Cables	90.00	73.25	165.25	101.10	94.00	-7.10	-7.02%	30.00%
Telemisr	30.00	29.00	38.00	37.50	38.00	0.50	1.33%	66.20%
Holding Company for Food Industries								
Extracted Oils	45.00	35.00	45.00	31.50	30.00	-1.50	-4.76%	22.50%
North Cairo Flour Mills	42.00	38.50	175.50	181.00	175.50	-5.50	-3.04%	40.00%
Middle Egypt Flour Mills	18.00	18.00	41.10	41.00	40.00	-1.00	-2.44%	40.00%
Egyptian Starch & Glucose	35.00	35.00	45.00	39.06	38.00	-1.06	-2.71%	59.81%
El Nasr for Dehydrating Agricultural Products	38.00	38.00	45.00	29.76	32.80	3.04	10.22%	61.07%
Misr for Oil and Soap	31.00	29.40	30.75	27.00	27.10	0.10	0.37%	61.07%
Holding Company for Rice, Mills and Silos								
Storage & Silos	39.00	39.00	109.14	90.10	89.00	-1.10	-1.22%	40.00%
South Cairo & Giza Flour Mills	26.00	26.00	80.65	66.80	64.00	-2.80	-4.19%	39.40%
Middle & West Flour Mills	40.00	40.00	106.78	86.50	81.51	-4.99	-5.77%	61.01%
Upper Egypt Flour Mills	40.00	40.00	90.61	77.50	78.00	0.50	0.65%	60.92%
East Delta Flour Mills	31.00	31.00	82.00	65.00	66.75	1.75	2.69%	60.70%
Holding Company for Metallurgical Industries								
Amereya Cement	27.00	27.00	85.60	81.50	82.80	1.30	1.60%	51.60%
Holding Company for Mining & Refractories								
Eastern Tobacco & Cigarettes	47.50	37.25	90.25	84.00	85.00	1.00	1.19%	34.00%
Helwan Portland Cement	34.00	31.84	78.00	70.50	72.00	1.50	2.13%	52.27%
Torah Portland Cement	42.83	42.75	97.75	85.20	85.25	0.05	0.06%	32.50%
Egyptian Financial and Industrial	30.00	30.00	215.00	201.50	196.01	-5.49	-2.72%	74.70%
Holding Co. for Housing Tourism & Cinema								
El Ahram Beverage	67.00	61.00	142.50	130.00	128.75	-1.25	-0.96%	15.00%
United Housing	13.00	13.00	27.45	20.00	19.50	-0.50	-2.50%	8.80%
Development & Popular Houses	32.50	23.77	47.00	38.99	37.65	-1.34	-3.44%	62.58%
Holding Company for Pharmaceuticals								
Alexandria Pharmaceutical & Chemical Industries	66.15	55.00	114.00	90.25	103.50	13.25	14.68%	40.34%
Nile Pharmaceutical & Chemical Industries	56.70	45.00	53.00	52.50	52.25	-0.25	-0.48%	20.00%
Memphs Pharmaceuticals & Chemicals	50.00	50.00	87.00	84.00	87.00	3.00	3.57%	40.00%
Arab Drug	40.00	40.00	54.30	51.40	50.50	-0.90	-1.75%	39.95%
Holding Company for Spinning & Weaving								
Nasr Clothing & Textiles (Kabo)	100.00	60.88	102.00	108.00	102.00	-6.00	-5.56%	93.00%
Holding Company for Textile Manufacturing								
Alexandria Spinning & Weaving	42.00	19.00	42.17	38.50	36.60	-1.90	-4.94%	45.60%
United Arab Spinning & Weaving	44.00	36.10	86.00	27.50	25.65	-1.85	-6.73%	92.00%
Holding Company for National Construction								
Madinet Nasr For Housing and Development	65.00	65.00	491.25	234.00	242.25	8.25	3.53%	74.80%
Misr El Gedidah (Heliopolis) Housing & Development	52.50	50.00	550.00	406.00	401.03	-4.97	-1.22%	25.00%
Holding Company for Cotton & Foreign Trade								
Arab Ginning Company	27.00	27.00	60.00	56.00	58.00	2.00	3.57%	62.60%

Summary of the Above Table

Item Description	Numbers/Names of Companies
Share Prices increase (weekly)	10
Share Prices Decrease (weekly)	25
Share Prices Remained Constant (weekly)	1
Market price Below the Initial Flotation Price	6
Highest Increase (LE) in Share Prices (weekly)	Alexandria Pharmaceutical & Chemical Industries
Highest Increase (%) in Share Prices (weekly)	El Nasr for Dehydrating Agricultural Products
Highest Decrease (LE) in Share Prices (weekly)	Egyptian Electro Cables
Highest Decrease (%) in Share Prices (weekly)	Egyptian Electro Cables

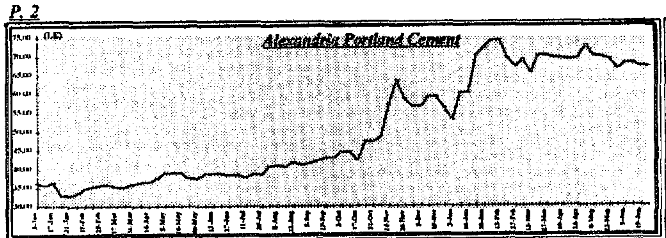
General Index from Jan. 1996 to June 1997

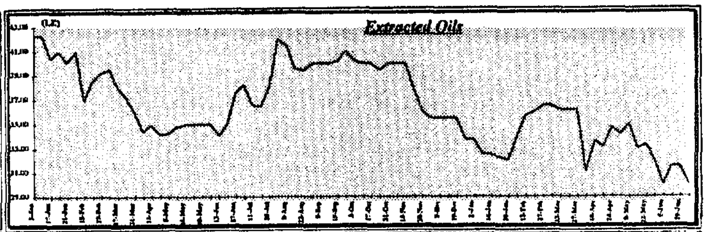


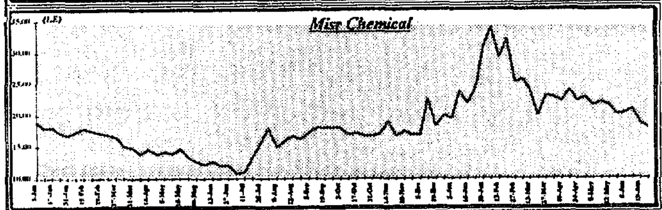
Annex 1

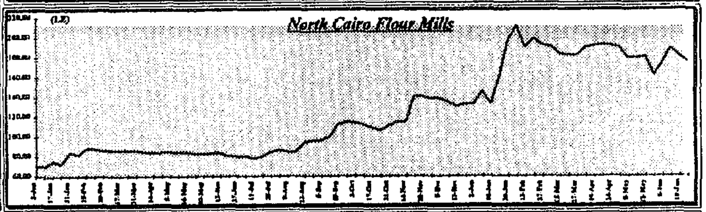
WEEKLY STOCK MARKET PRICES FROM JANUARY 1996 to JUNE 26, 1997

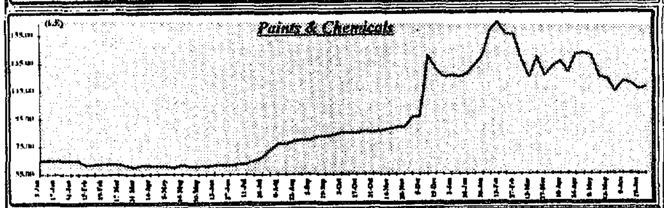
P. 2

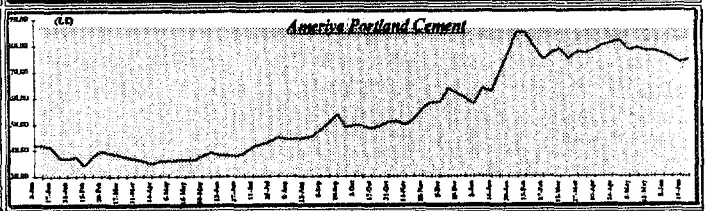


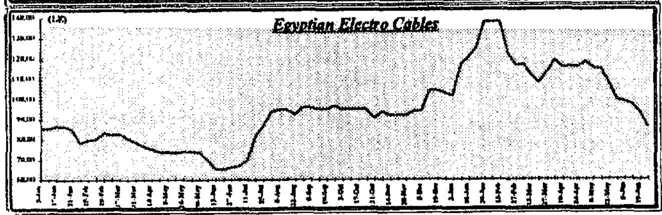


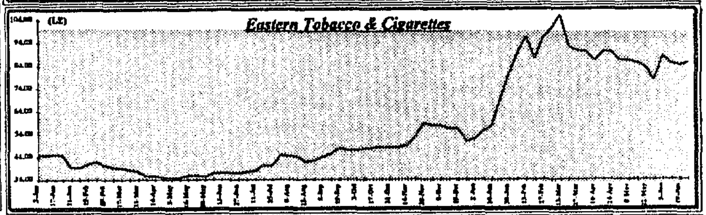


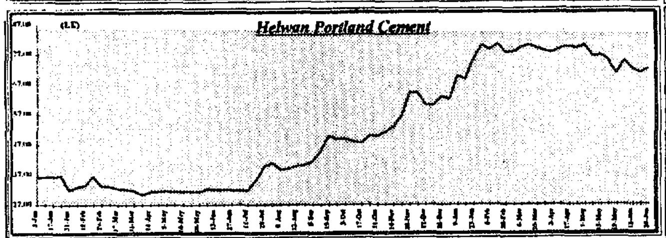


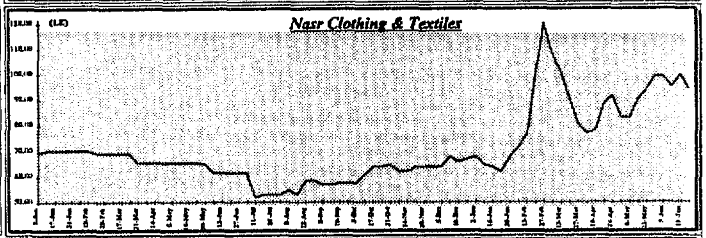


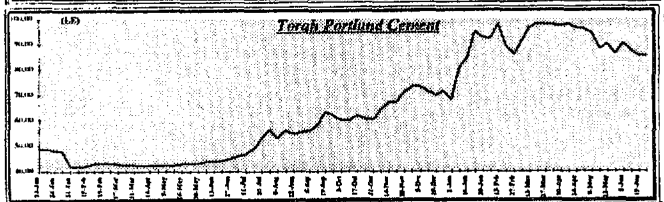


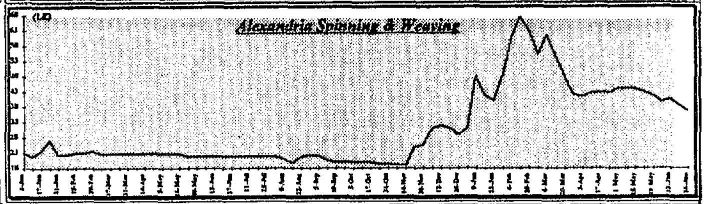


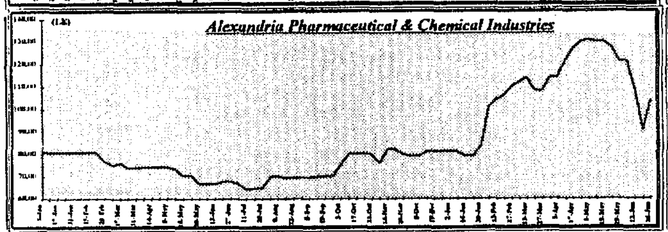


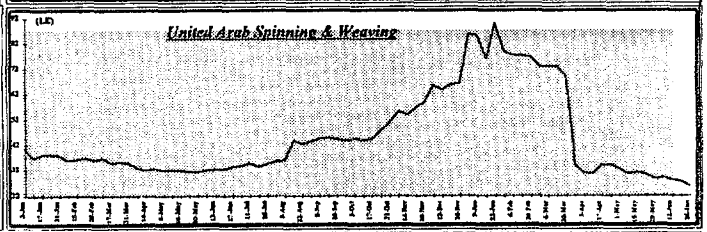


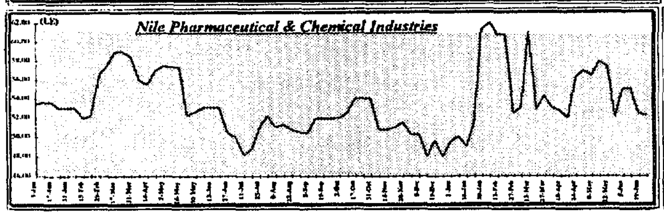


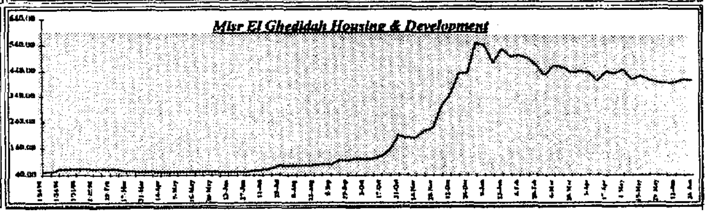












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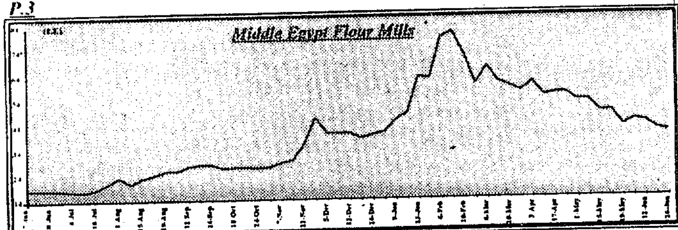
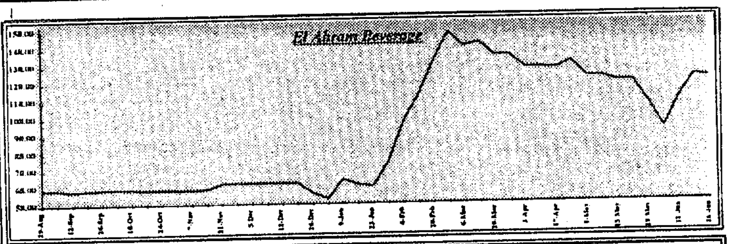
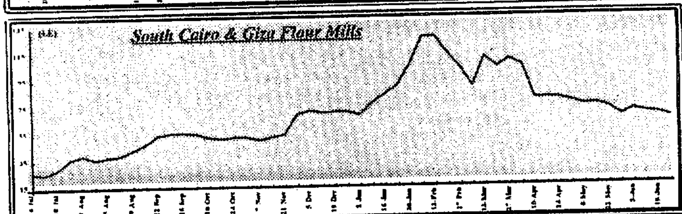
Annex 1

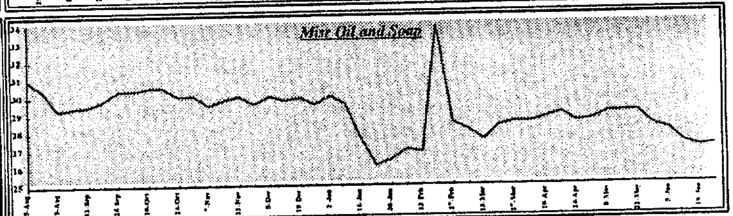
WEEKLY STOCK MARKET PRICES FROM JANUARY 1996 to JUNE 26, 1997

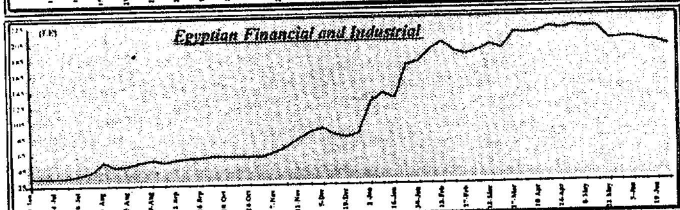
P.3

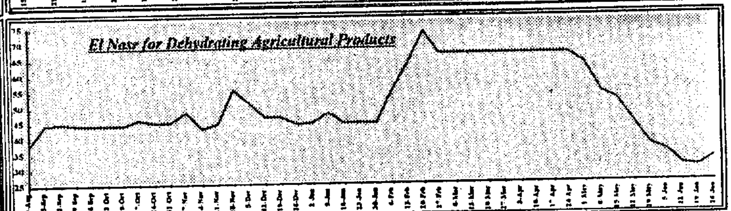


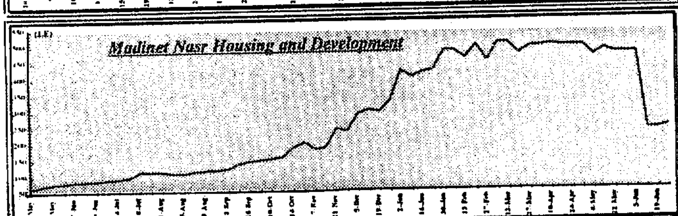


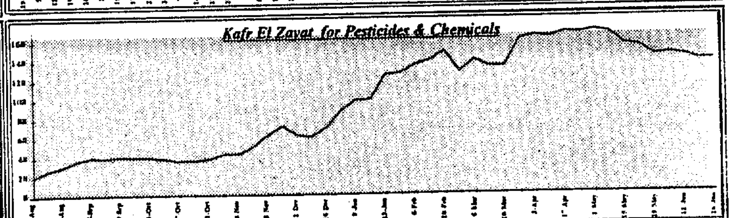


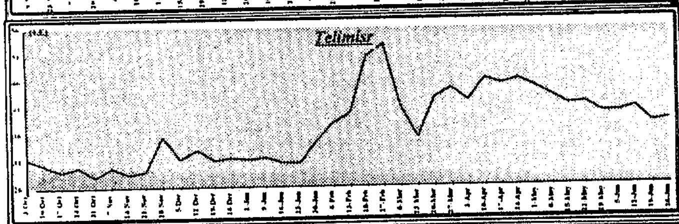


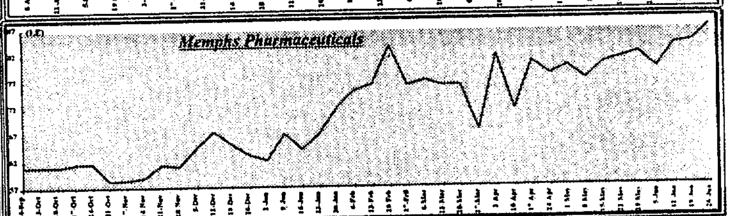


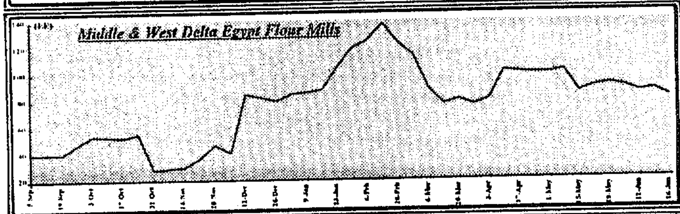


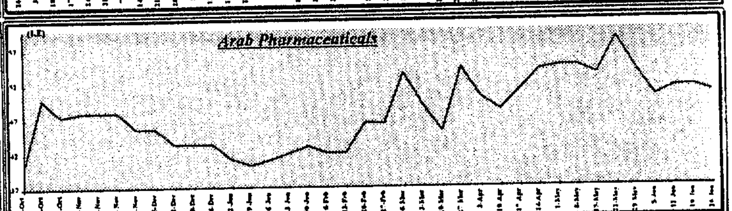


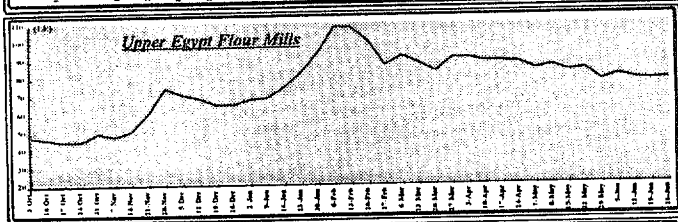


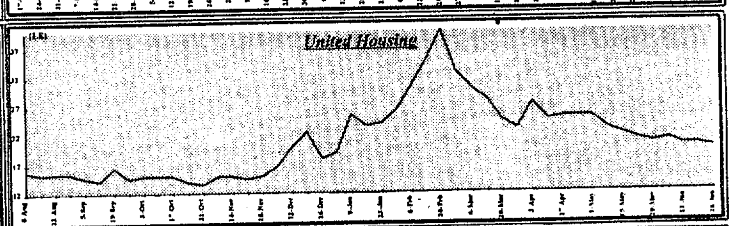


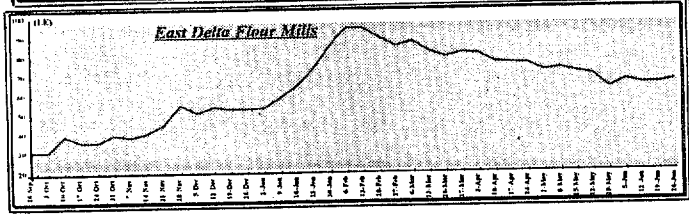


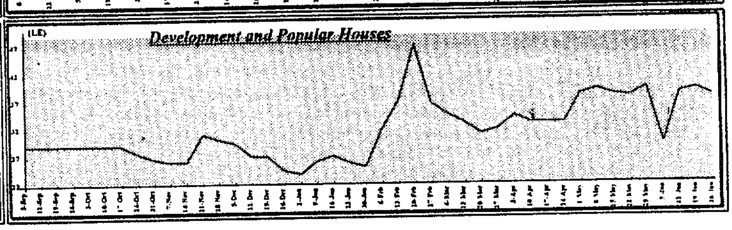












Annex 2

Companies Privatized by Method as of 1997

Company Name	% of Shares Sold	Sale Value	Book Value	Privatization Method
Nasr Co. for Bottling (Coca Cola)	100.00%	322	186.85	AI
Egyptian Bottling Co. (Pepsi Cola)	100.00%	156	107.63	AI
Nasr Boilers & Steam Vessel Manufacturing Co.	100.00%	58	56.14	AI
Nasr Public Utilities	100.00%	40	-	AI
Boulevard	100.00%	-	-	AI
Cairo Sheraton Hotel	78.00%	497	-	AI
Al Ahram Beverage	74.90%	231	-	AI
Kahromica	61.00%	81		AI
Kabo	93.00%	256	-	IPO
Nubaria	90.00%	21	-	IPO
Timo	90.00%	56	-	IPO
Upper Egypt Constructing	85.00%	9	-	IPO
Misr Free Shops	76.76%	104	91	IPO
Madinat Nasr Housing & Development	74.80%	190	197	IPO
Egyptian Financial & Industrial (EFIC)	74.70%	71	140	IPO
Kafr El Zayat Pesticides Dehydration	74.65%	26	70	IPO
Arab Transistor Radio & Electric Equipment (Tele Misr)	66.20%	40	153	IPO
Cairo Housing	65.30%	51	92	IPO
Development & Popular Houses	62.58%	64	180	IPO
Arab Cotton Ginning	62.60%	37	38	IPO
Nile Ginning	61.00%	133	53	IPO
Upper Egypt Flour Mills	60.92%	165	243	IPO
East Delta Flour Mills	60.69%	109	228	IPO
United Arab Spinning & Weaving	60.00%	103	166	IPO
Egyptian Starch & Glucose	59.81%	93	97	IPO
Nasr Agricultural Products Dehydration	59.46%	17	31	IPO
West & Middle Delta Flour Mills	54.91%	177	273	IPO
Nile Match & Prefabricated Housing	54.47%	29	88	IPO
Misr Oils & Soap Company	54.31%	110	180	IPO
Helwan Cement Co.	52.27%	550	214	IPO
Al Ameriya Cement Co.	51.60%	470	827	IPO
Wady Kom Ombo for Land Reclamation	95.00%	51	218	ESA
Egyptian Akaria Co.	95.00%	30	238	ESA
Egyptian Dredging Co.	95.00%	13	248	ESA
Mechanical Excavation Co.	95.00%	16	111	ESA
General Co. for Land Reclamation	95.00%	39	38	ESA
Arab Co. for Land Reclamation	95.00%	40	224	ESA
REGWA	95.00%	17	96	ESA
Upper Egypt Dredging Co.	95.00%	5	49	ESA
Engineering Design & Irrigation Projects (EDPICO)	95.00%	1	3	ESA
Behera Co.	95.00%	33	531	ESA

Annex 3

Corporate Governance as of June 1997

Company Name	% of Shares Sold	Sale Value	Book Value	Privatization Method	Change of the Board
Nasr Co. for Bottling (Coca Cola)	100.00%	322	186.85	AI	Yes
Egyptian Bottling Co. (Pepsi Cola)	100.00%	156	107.63	AI	Yes
Nasr Boilers & Steam Vessel Manufacturing Co.	100.00%	58	56.14	AI	Yes
Nasr Public Utilities	100.00%	40	-	AI	Not Yet
Boulevard	100.00%	-	-	AI	Not Yet
Cairo Sheraton Hotel	78.00%	497	-	AI	Yes
Al Ahram Beverage	74.90%	231	-	AI	Yes
Kahromica	61.00%	81		AI	Not Yet
Kabo	93.00%	256	-	IPO	Not Yet
Nubaria	90.00%	21	-	IPO	Not Yet
Simo	90.00%	56	-	IPO	Not Yet
Upper Egypt Constructing	85.00%	9	-	IPO	Not Yet
Misr Free Shops	76.76%	104	91	IPO	Yes
Madinat Nasr Housing & Development	74.80%	190	197	IPO	Yes
Egyptian Financial & Industrial (EFIC)	74.70%	71	140	IPO	Yes
Kafr El Zayat Pesticides Dehydration	74.65%	26	70	IPO	Yes
Arab Transistor Radio & Electric Equipment (Tele Misr)	66.20%	40	153	IPO	Yes
Cairo Housing	65.30%	51	92	IPO	Yes
Development & Popular Houses	62.58%	64	180	IPO	Yes
Arab Cotton Ginning	62.60%	37	38	IPO	Yes
Nile Ginning	61.00%	133	53	IPO	Yes
Upper Egypt Flour Mills	60.92%	165	243	IPO	Yes
East Delta Flour Mills	60.69%	109	228	IPO	Yes
United Arab Spinning & Weaving	60.00%	103	166	IPO	Yes
Egyptian Starch & Glucose	59.81%	93	97	IPO	Yes
Nasr Agricultural Products Dehydration	59.46%	17	31	IPO	Yes
West & Middle Delta Flour Mills	54.91%	177	273	IPO	Yes
Nile Match & Prefabricated Housing	54.47%	29	88	IPO	Yes
Misr Oils & Soap Company	54.31%	110	180	IPO	Yes
Helwan Cement Co.	52.27%	550	214	IPO	Yes
Al Ameriya Cement Co.	51.60%	470	827	IPO	Yes
Wady Kom Ombo for Land Reclamation	95.00%	51	218	ESA	Yes
Egyptian Akaria Co.	95.00%	30	238	ESA	Yes
Egyptian Dredging Co.	95.00%	13	248	ESA	Yes
Mechanical Excavation Co.	95.00%	16	111	ESA	Yes
General Co. for Land Reclamation	95.00%	39	38	ESA	Yes
Arab Co. for Land Reclamation	95.00%	40	224	ESA	Yes
REGWA	95.00%	17	96	ESA	Yes
Upper Egypt Dredging Co.	95.00%	5	49	ESA	Yes
Engineering Design & Irrigation Projects (EDPICO)	95.00%	1	3	ESA	Yes
Behera Co.	95.00%	33	531	ESA	Yes

Annex 4

PRIVATE SECTOR SHARE OF OPERATING COMPANIES ORIGINATING FROM LAW 203

P1

% Privately Owned	Date as of 31/3/97	% Owned to Date
100%	1. Egyptian Bottling Co. (Pepsi Cola)	100.0
	2. Nasr Boilers & Steam Vessel Manufacturing Co	100.0
	3. Nasr Co. for Bottling (Coca Cola)	100.0
	4. Nasr for Utilities	100.0
>75% <100%	1. Arab Co. for Land Reclamation	95.0
	2. Behera Co.	95.0
	3. Cairo Sheraton Hotel	78.0
	4. Egyptian Akaria Co.	95.0
	5. Egyptian Dredging Co.	95.0
	6. Engineering Design & Irrigation Projects (EDIPCO)	95.0
	7. General Co. for Land Reclamation	95.0
	8. General Co. for Reservoirs and Ground Water (REGWA)	95.0
	9. Mechanical Excavation Co.	95.0
	10. Upper Egypt Dredging Co.	95.0
	11. Wady Kom Ombo for Land Reclamation	95.0
	12. Ahram Beverage	89.9
	13. Misr Free Shops	76.8
	14. Kabo	93.0
	15. Nubaria	89.0
	16. Simo	83.0
	17. Upper Egypt for constraction	85.0
	18. Boulivara	90.0
>50% up to 75%	1. Madinet Nasr Housing & Development	74.80
	2. Egyptian Financial & Industrial (EFIC)	74.70
	3. Egyptian Starch & Glucose	59.81
	4. Misr Oil & Soap Co.	54.31
	5. Kafr El Zayat Pesticides & Chemicals	74.65
	6. Nasr Agricultural Products Dehydration	59.46
	7. Nile Match & Prefabricated Housing	54.47
	8. Arab Transistor Radio & Electric Equipment (Telemisr)	66.20
	9. West & Middle Delta Flour Mills	54.91
	10. Development & Popular Houses	62.58
	11. Arab Cotton Ginning	62.60
	12. Upper Egypt Flour Mills	60.92
	13. East Delta Four Mills	60.69
	14. Nile Ginning	61.00
	15. Ameriya Cement	51.60
	16. Cairo Housing	65.30
	17. United Arab Spinning & Weaving	60.40
	18. Helwan Portland Cement	52.27
	19. Kahromica	61.00

Annex 4

PRIVATE SECTOR SHARE OF OPERATING COMPANIES ORIGINATING FROM LAW 203

P2

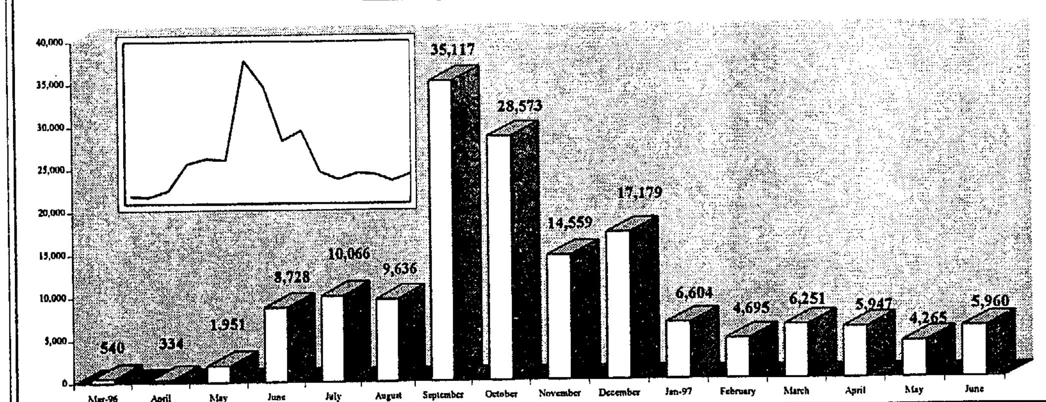
% Privately Owned	Date as of 31/3/97	% Owned to Date
>40% up to 50%	Alexandria Spinning & Weaving Co.	45.60
	El Shams Co. for Housing & Development	40.10
	Misr Hotels	50.00
	Nasr Electricity & Electrical Apparatus (PHILIPS)	50.00
	Middle Egypt Flour Mills	40.07
	North Cairo Flour Mills	40.00
	Memphis Pharmaceuticals	40.00
>30% up to 40%	1. Arab Bureau for Design & Engineering Consultation	40.0
	2. Damietta Spinning & Weaving Co.	37.7
	3. Misr Chemical Industries Co.	34.2
	4. Orient Linen & Cotton Co.	32.9
	5. Porcelain Dinner Ware & Utility Ware	33.6
	6. Torah Portland Cement	32.5
	7. South Cairo & Guiza Flour Mills	35.00
	8. Alexandria Pharmaceutical & Chemical Industries	31.00
	9. Memphis Pharmaceuticals & Chemical Industries	40.00
	10. Arab Drug	39.95
	11. Estern Tobacco	34.00
	12. Alexandria Spinning & Weaving	45.60
	13. Cairo Pharmaceuticals & Chemicals	39.98
>20% up to 30%	1. Alexandria Portland Cement	20.56
	2. Arab Carpet & Upholstery Co.	23.3
	3. Cairo Co. for Housing & Development	20.5
	4. Ramsis Agricultural Co.	23.0
	5. Egyptian Electro Cables	30.00
	6. Middle Egypt Flour Mills	29.85
	7. Heliopolice for Housing & Development	25.00
	8. Extracted Oils	22.50
	9. Nile Pharmaceuticals	20.00
	10. Paints & Chemical Industries	20.57
>10% up to 20%	1. Canal Co. for Shipping Agencies	11.6
	2. Dakhalia Spinning & Weaving Co.	13.3
	3. Extracted Oils Co.	20.0
	4. Nile Pharmaceutical & Chemical Industries	20.0
	5. North Cairo Flour Mills	20.0
	6. United Housing	8.80

Annex 5

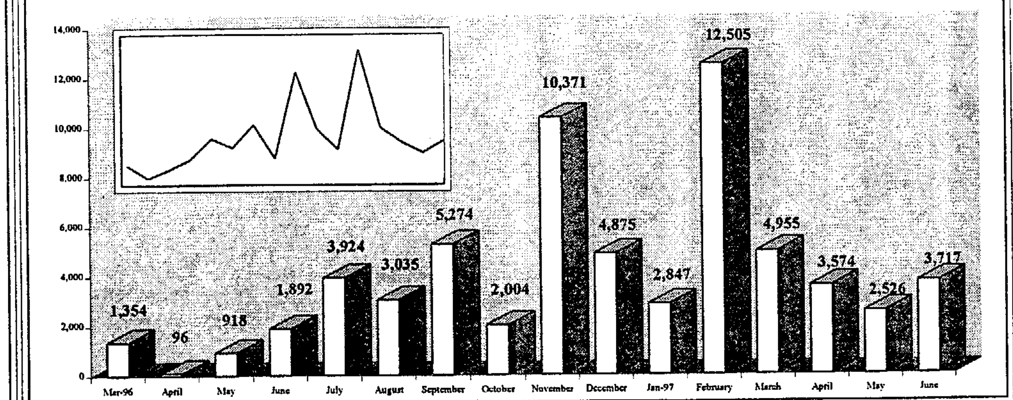
Breakdown of the Number and Value of Shares Traded from March 1996 to June 1997

Item Description	*Number of transactions*				*Number of Shares Traded (thousand)*				*Amount of Shares Traded (LE 000)*			
	Foreigners	Egyptians	Total	Foreigner as a % of the Total	Foreigners	Egyptians	Total	Foreigner as a % of the Total	Foreigners	Egyptians	Total	Foreigner as a % of the Total
Mar-96	540	18,557	19,097	**2.83%**	1,354	4,800	6,154	**22.01%**	30,881	164,214	195,095	**15.83%**
April	334	26,335	26,669	**1.25%**	96	7,361	7,457	**1.29%**	7,342	205,950	213,292	**3.44%**
May	1,951	59,842	61,793	**3.16%**	918	9,772	10,690	**8.59%**	65,173	453,138	518,311	**12.57%**
June	8,728	108,589	117,317	**7.44%**	1,892	20,149	22,041	**8.58%**	157,330	593,379	750,710	**20.96%**
July	10,066	38,034	48,100	**20.93%**	3,924	7,969	11,892	**32.99%**	572,640	234,051	806,691	**70.99%**
August	9,636	238,083	247,719	**3.89%**	3,035	13,315	16,350	**18.56%**	175,476	486,199	661,675	**26.52%**
September	35,117	1,122,116	1,157,233	**3.03%**	5,274	25,419	30,693	**17.18%**	336,937	1,079,271	1,416,208	**23.79%**
October	28,573	178,075	206,648	**13.83%**	2,004	8,463	10,467	**19.15%**	161,421	522,205	683,626	**23.61%**
November	14,559	184,127	198,686	**7.33%**	10,371	12,349	22,720	**45.65%**	580,201	629,836	1,210,037	**47.95%**
December	17,179	149,455	166,634	**10.31%**	4,875	16,203	21,078	**23.13%**	450,912	1,084,163	1,535,075	**29.37%**
Jan-97	6,604	94,537	101,141	**6.53%**	2,847	14,531	17,378	**16.38%**	284,802	1,233,793	1,518,595	**18.75%**
February	4,695	105,703	110,398	**4.25%**	12,505	17,297	29,802	**41.96%**	1,282,579	1,135,893	2,418,472	**53.03%**
March	6,251	122,200	128,451	**4.87%**	4,955	26,116	31,071	**15.95%**	517,780	1,674,823	2,192,603	**23.61%**
April	5,947	82,395	88,342	**6.73%**	3,574	12,365	15,939	**22.42%**	242,325	1,030,215	1,272,540	**19.04%**
May	4,265	75,855	80,120	**5.32%**	2,526	17,740	20,266	**12.46%**	223,482	966,202	1,189,684	**18.78%**
June	5,960	100,147	106,107	**5.62%**	3,717	16,792	20,509	**18.12%**	708,177	1,021,537	1,729,714	**40.94%**
Total	160,405	2,704,050	2,864,455	**5.60%**	63,866	230,641	294,507	**21.69%**	5,797,458	12,514,871	18,312,328	**31.66%**

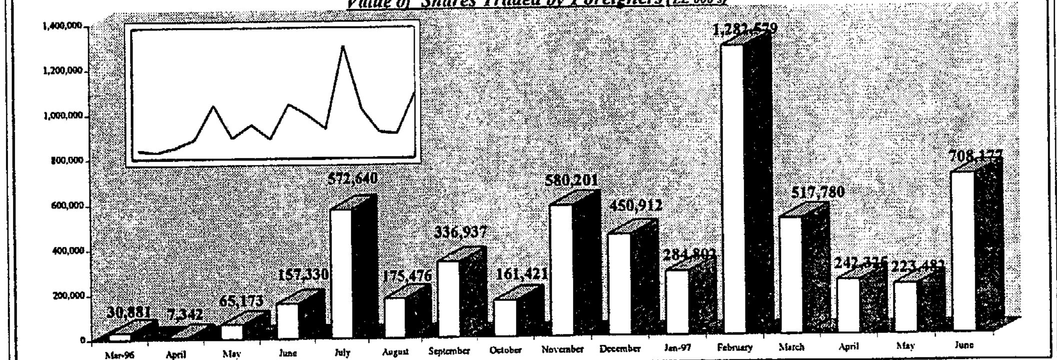
Number of Transactions by Foreigners



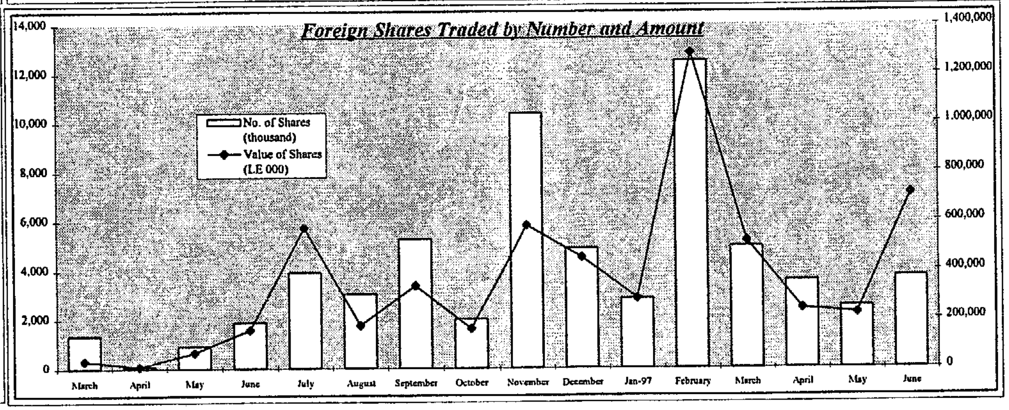
Number of Shares Traded by Foreigners (thousand)



Value of Shares Traded by Foreigners (LE 000's)



Foreign Shares Traded by Number and Amount



Source: Stock Market

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DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

Donor	Holding Company	Affiliate Company	Privatization Support
Partnership In Development Project (PIDP)	*Agricultural Development*	1. El Wady for Exported Agricultural Goods 2. Nubariya Seed Production Company (Nubaseed) 3. San El Hagar Agricultural & Food Security Co.	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
	Chemicals Industries	4. Egyptian Shoes Company (BATA)	Anchor Investor Transaction
	Engineering Industries	5. Nasr Engineering & Refrigeration Company (Koldair)	Anchor Investor Transaction
	Metallurgical Industries	6. Industrial Services Company (ARISCOM) 7. El Nasr Glass & Crystal Company 8. Sheeni Company	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
	Spinning & Weaving	9. Delta Cotton Ginning Company	Anchor Investor Transaction
	Textile Manufacturing	10. Consumption Goods and Other (SIDNAWY) 11. El Nasr Wool & Selected Textiles (STIA) 12. Omar Effendi	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
	Housing Tourism & Cinema	13. Misr Studios 14. Maamoura Co. For Housing & Development 15. Al Nasr Co. For Housing, Construction & Building Maintenance	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
	Mining & Refractories	16. El Nasr Particle Board Resins 17. El Nasr Co. For Refractories Ceramic (SORNAGA)	Anchor Investor Transaction Anchor Investor Transaction
European Community (EU)	*Housing Tourism & Cinema*	1. ETAP Luxor Hotel 2. Egotel Luxor 3. Sultana Land Project Luxor 4. Aamoon Island Hotel Aswan 5. Kalabsha Hotel Aswan 6. Sheherezade Hotel Giza	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction

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DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

Donor	Holding Company	Affiliate Company	Privatization Support
	Maritime Transport	7. Kimet Hotel Cairo 8. Egotex Romance Hotel Alex 9. Cosmopolitan Hotel Cairo 10. Cleopatra Hotel Cairo 11. Luxor Hotel (Wena)	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
		12. Nile Co. For Heavy Transport	Anchor Investor Transaction
		13. Nile Co. For Goods Transport	Anchor Investor Transaction
		14. Nile Co. For Inland Transport	Anchor Investor Transaction
		15. Nile Co. For Direct Tranport	Anchor Investor Transaction
		16. The Alexandria Shipyard Company	Anchor Investor Transaction
		17. Egyptian Shipbuilding & Repairs Co.	Anchor Investor Transaction
	Transport	18. Nile Co. For Transport Works	Anchor Investor Transaction
		19. Auto Repair Company	Anchor Investor Transaction
	Metallurgical Industries	20. General Nile Co. For Water Transport 21. General Nile Co. For River Transport 22. General Metal Company 23. Egyptian Ferro Alloys Company 24. Egyptian Iron & Steel Company 25. Delta Steel Mill Company 26. National Metal Industries Company 27. El Nasr Steel Pipes and Fittings Company	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
	Engineering Industries	1. Nasr Automotive Manufacturing Co. (NASCO) 2. Egyptian Light Transport Manufactring Co. (El Tramco) 3. Misr Engineering & Tools Co. (Micar) 4. Spring & Transport Needs Manufacturing Co. (Yayat) 5. El Nasr Forging Co. 6. El Nasr TV & Electronics Co. (Nasr TV)	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction

DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

Donor	Holding Company	Affiliate Company	Privatization Support
		7. The Tractor & Engineering Company 8. Transport & Engineering Company (TRENCO) 9. Nasr Rubber Products	Anchor Investor Transaction Anchor Investor Transaction Anchor Investor Transaction
KFW Kreditanstalt fur Wiederaufbau	*Food Industries*	1. Alexandria Oil & Soap Company	Anchor Investor Transaction
	Chemical Industries	2. Industrial Gases Company 3. Misr Chemical Industries Company 4. Egyptian Plastics and Electrical Industries Company	Anchor Investor Transaction Operational Restructuring Anchor Investor Transaction
	Engineering Industries	5. Abu Qir Fertilizers Company 6. Alexandria Metal Products Company 7. Egyptian Copper Company	 Restructuring or Liquidation Restructuring Transaction
	Metallurgical Industries	8. El Nasr Castings Company	Financial Restructuring & debt equity swap

Annex 7

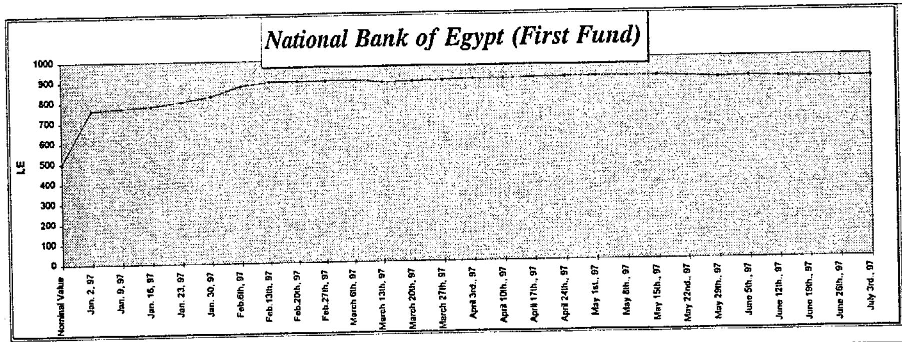
Longitudinal Progress of the Four State Banks Divestiture of Shares in Joint Venture Banks For the Fiscal Years 1995 -1997 (till June)

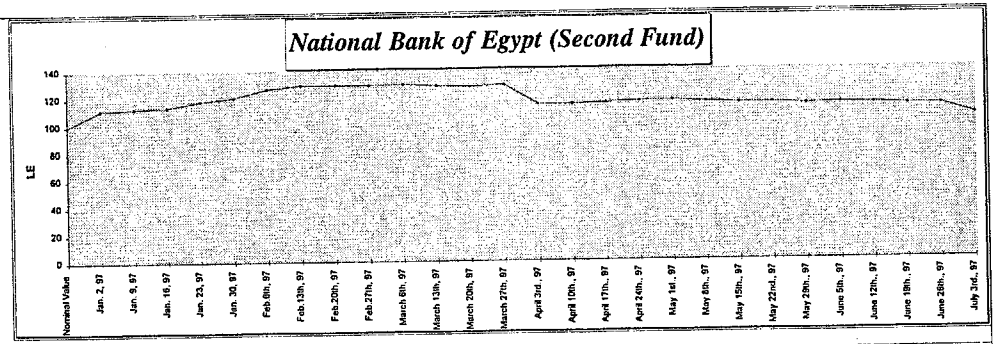
		NBE		Banque Misr		Banque du Caire		Bank of Alexandria		Total Public Banks Share		% of Public Banks stake sold
No:	*Joint Venture Banks*	Aug.95	June 97	Aug.95	June 97	Aug.95	June 97	Aug.95	June 97	Aug.95	June 97	as of June 97
1	Alexandria Commercial & Martime Bank	9.520%	0.003%					9.720%	0.000%	19.240%	0.003%	19.237%
2	Alexandria Kuwait International Bank							71.680%	9.750%	71.680%	9.750%	61.930%
3	Banque Du Caire et De Paris					51.000%	51.000%			51.000%	51.000%	0.000%
4	Cairo Barclays International Bank					51.000%	51.000%			51.000%	51.000%	0.000%
5	Cairo Far East Bank					29.000%	29.000%			29.000%	29.000%	0.000%
6	Commercial International Bank (CIB)	42.610%	22.610%							42.610%	22.610%	20.000%
7	Credit Internationale D'Egypte	51.000%	19.500%							51.000%	19.500%	31.500%
8	Egypt Arab African Bank					8.300%	8.300%	8.300%	0.230%	16.600%	8.530%	8.070%
9	Egyptian American Bank (EAB)							51.000%	42.500%	51.000%	42.500%	8.500%
10	Egyptian Gulf Bank					14.000%	0.000%			14.000%	0.000%	14.000%
11	Egyptian Saudi Finance Bank	8.590%	8.590%	8.200%	0.000%	8.500%	8.500%	8.400%	8.400%	33.690%	25.490%	8.200%
12	El Togarioun Bank (Bk. of Commerce and Development)	16.998%	16.998%	10.000%	10.000%	10.000%	10.000%	10.000%	10.000%	46.998%	46.998%	0.000%
13	Export Development Bank of Egypt	15.000%	11.460%	15.000%	11.460%	15.000%	11.460%	13.200%	10.080%	58.200%	44.460%	13.740%
14	Housing and Development Bank	6.940%	0.010%	6.940%	0.000%	6.940%	0.000%	5.560%	0.000%	26.380%	0.010%	26.370%
15	Islamic Bank for Investment and Development	19.960%	19.960%	20.000%	20.000%	20.000%	20.000%	20.000%	20.000%	79.960%	79.960%	0.000%
16	Misr America International Bank					32.800%	32.800%			32.800%	32.800%	0.000%
17	Misr Exterior Bank			40.000%	19.500%					40.000%	19.500%	20.500%
18	Misr International Bank			64.786%	24.800%					64.786%	24.800%	39.986%
19	Misr Iran Development Bank							37.500%	37.500%	37.500%	37.500%	0.000%
20	Misr Romanian Bank			51.000%	34.000%					51.000%	34.000%	17.000%
21	National Bank for Development	1.870%	0.000%	2.760%	0.000%	1.910%	0.000%	3.040%	0.010%	9.580%	0.010%	9.570%
22	National Societe Generale Bank	30.400%	18.000%							30.400%	18.000%	12.400%
23	Suez Canal Bank	19.134%	5.810%	11.220%	0.019%	11.130%	0.070%	10.890%	0.030%	**52.374%**	5.929%	46.445%

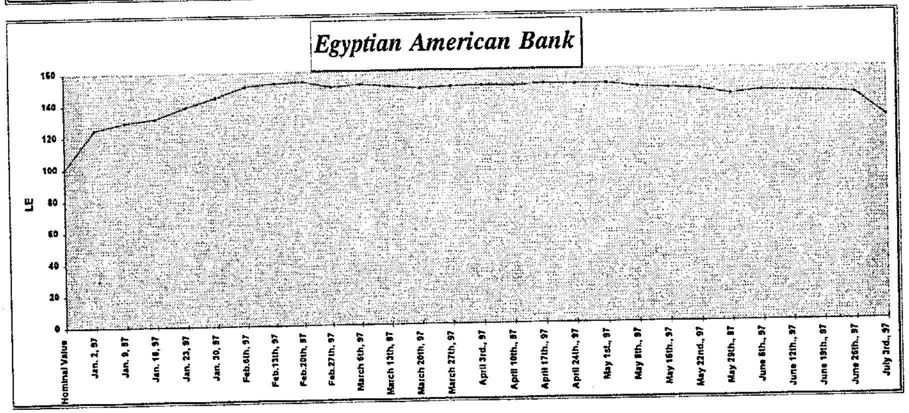
Annex 8

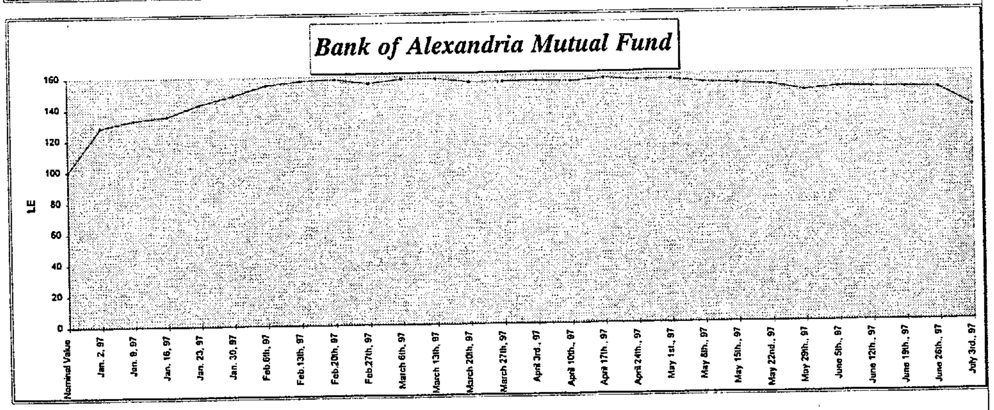
P.1

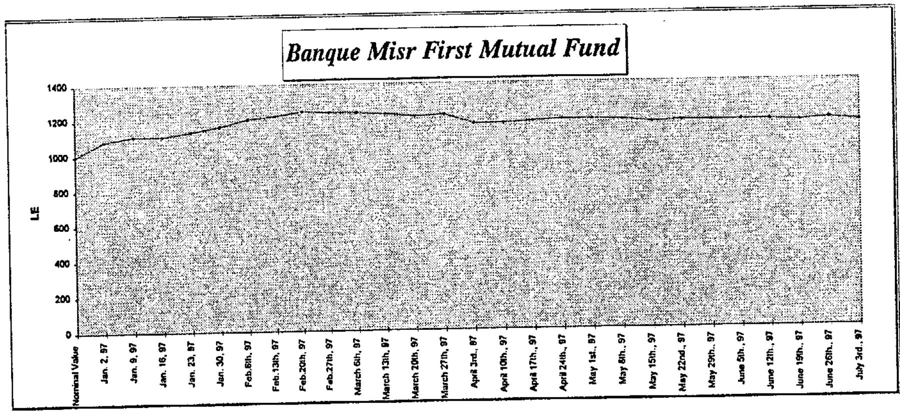
Certificate Prices for Egypt Local Mutual Funds
For the Period from January till June 30, 1997

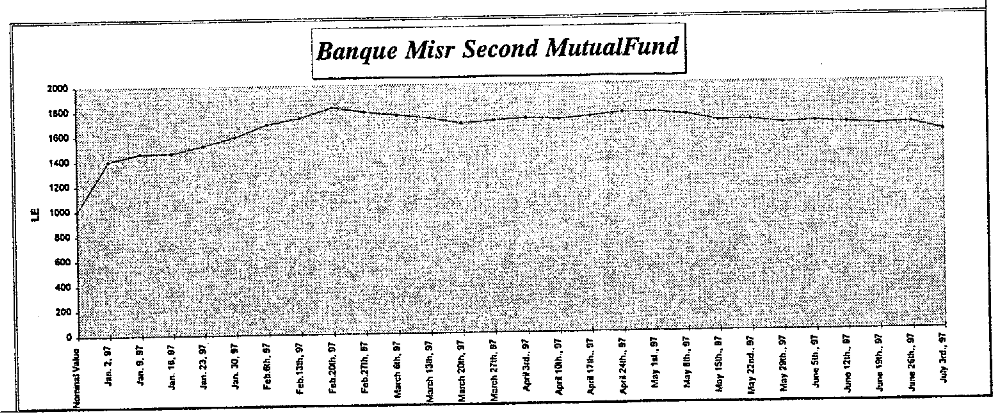








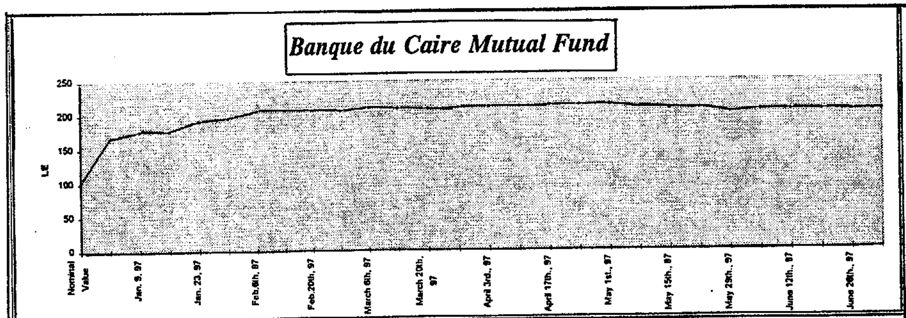


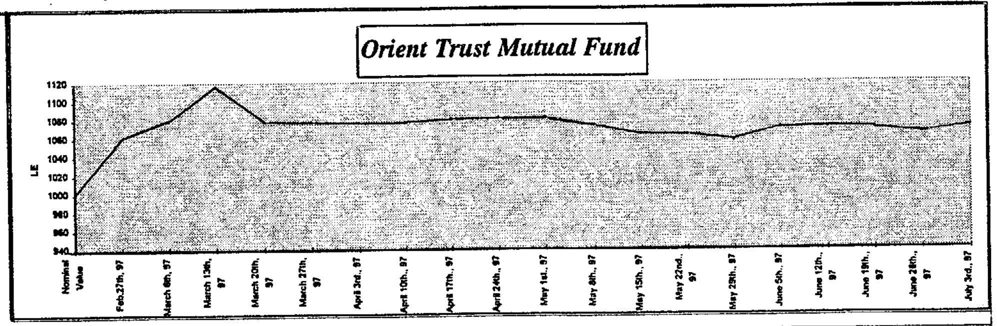


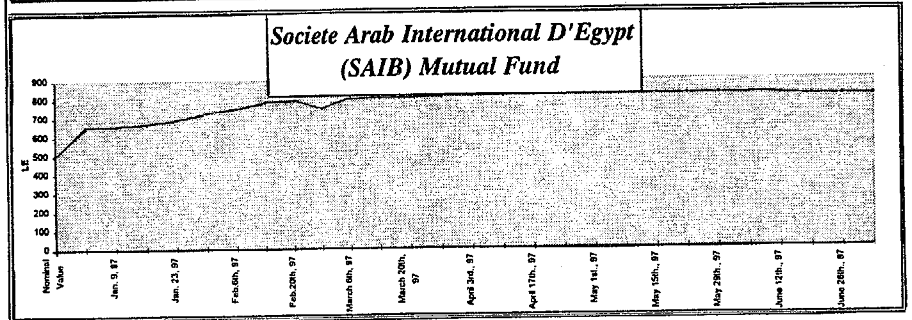
Annex 8

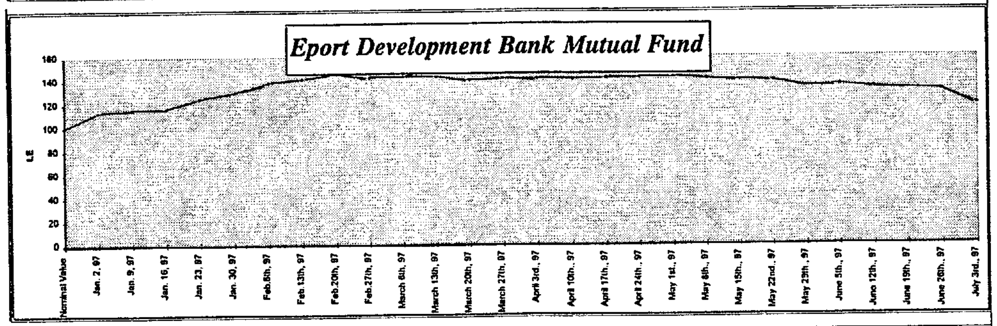
P.2

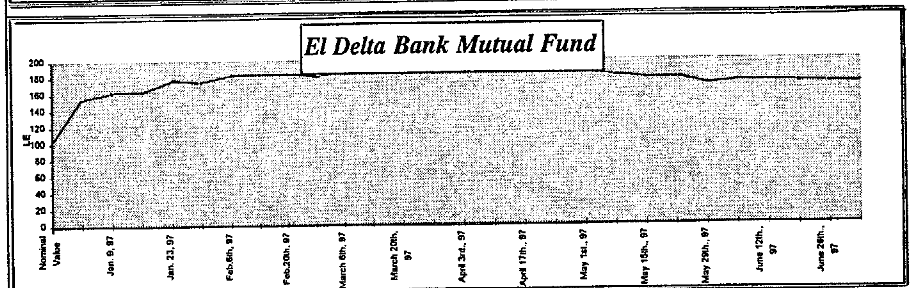
Certificate Prices for Egypt Local Mutual Funds
For the Period from January till June 30, 1997

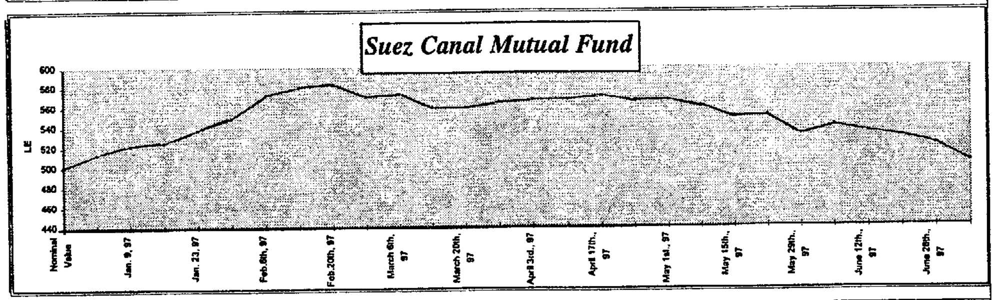


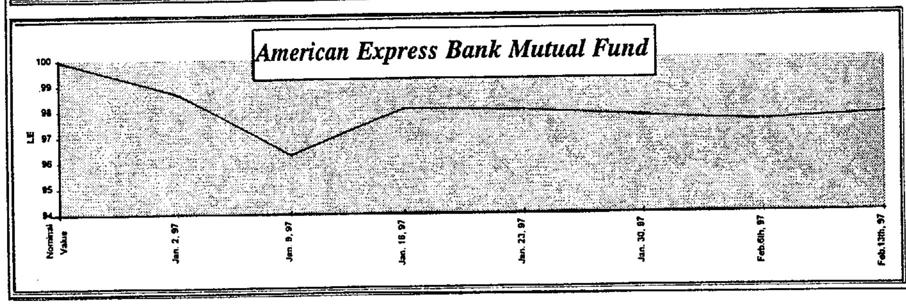


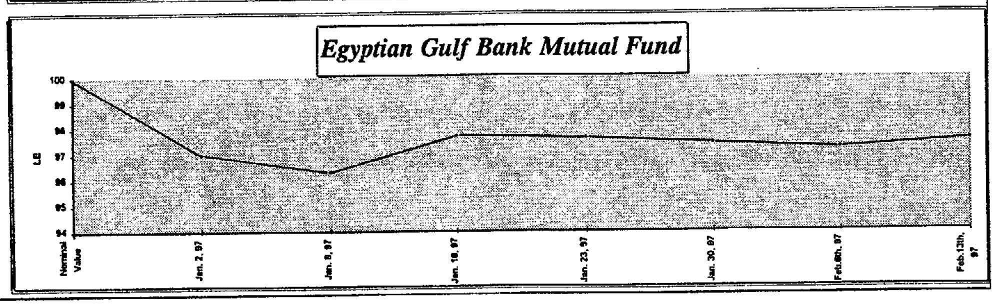












Annex 9

Egyptian Local Funds

P.1

	Name of Funds	Inception Date	Size (million)	Fund Type	Fee Structure
1	National Bank of Egypt (NBE) (1st. Mutual Fund)	3/09/94	LE 200	Growth Open Ended	**Subscription Fees:** 1% of the price with a min of LE15 ***Redemption Fees:*** *None* **Mgmt.Fees:** 0 75% of NAV **Incentive fees** 10% of Net Profit exceeding 91 days T-Bills rate +1% **Bank Fees** None **Custodian Fees** None
2	National Bank of Egypt (NBE) (2nd Mutual Fund)	3/10/94	LE 300	Income Open Ended	**Subscription Fees:** None **Redemption Fees:** 0 75% of NAV (.5% to NBE, 0 25% to Fund) **Mgmt.Fees:** till 100mm 0 9% on equity & 0.4% on non equity LE 100-200 mm 0.8% on equity & 0.35% on nonequity above 200 mm 0 7% on equity & 0 3% on nonequity **Incentive fees** None **Bank Fees** 0.75% of NAV **Custodian Fees** None
3	Egyptian American Bank (EAB) Mutual Fund	15/10/94	LE 200	Growth Open Ended	**Subscription Fees:** None ***Redemption Fees:*** 1% of NAV **Mgmt.Fees:** till 200mm 1% of NAV LE 200-350 mm 0.9% of NAV LE 350-500 mm 0.8% of NAV above 500 mm 0.75% of NAV **Incentive fees:** 7.5% of Net Profit exceeding 91 days T-Bills rate +1% **Bank Fees:** 1.5% of NAV **Bank Incentive Fees.** *7.5% of Net Profit exceeding 91 days T-Bills rate +1%* **Custodian Fees:** None
4	Bank of Alexandria Mutual Fund	1/12/94	LE 200	Growth Open Ended	**Subscription Fees:** None **Redemption Fees:** 1% of NAV **Mgmt.Fees:** 0.75% of NAV **Incentive fees:** 10% of Net Profit exceeding last discount rate **Bank Fees:** 0.75% of NAV **Bank Incentive Fees:** 10% of Net Profit exceeding last discount rate **Custodian Fees** 0.3% of Securities Value
5	Banque Misr (1st. Mutual Fund)	1/02/95	LE 400	Income Open Ended	**Subscription Fees:** None **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:** till LE100mm 0.9% on equity & 0 375% on non equity LE 100-200 mm 0.7% on equity & 0.25% on nonequity above 200 mm 0.7% on equity & 0.23% on nonequity **Incentive fees:** None **Bank Fees:** 1% of NAV **Bank Incentive Fees:** None **Custodian Fees:** None

Annex 9
P.2

Egyptian Local Funds

Name of Funds	Inception Date	Size (million)	Fund Type	Fee Structure
6 Banque Misr (2nd. Mutual Fund)	17/09/95	LE 200	Growth Open Ended	**Subscription Fees:** None **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:** till LE100mm 0.9% on equity & 0.375% on non equity LE 100-200 mm 0.7% on equity & 0.25% on nonequity above 200 mm 0.7% on equity & 0.23% on nonequity **Incentive fees**: None **Bank Fees**: 1% of NAV **Bank Incentive Fees**:None **Custodian Fees**:None
7 American Express Bank Mutual Fund	25/02/97	LE 300	Income/Growth Open Ended	**Subscription Fees:** 0.5% of Cert. Price **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:** 0.75 of NAV **Incentive fees**: 10% of Net Profit exceeding 91-days T- Bills Rate +1% **Bank Fees**: 0.5% of NAV **Bank Incentive Fees**:10% of Net Profit exceeding 91-days T- Bills Rate +1% **Custodian Fees**:0.3% of securities Value
8 Egyptian Gulf Bank Mutual Fund	23/03/97	LE 100	Income/Growth Open Ended	**Subscription Fees:** None **Redemption Fees:** 1% of NAV **Mgmt.Fees:**0.75% of NAV **Incentive fees**: 7.5% of Net Profit exceeding 91-days T- Bills Rate +1 **Bank Fees**: 0.75% of NAV **Bank Incentive Fees**:7.5% of Net Profit exceeding 91-days T- Bills Rate +1 **Custodian Fees**:0.25% of securities Value
9 Orient Trust Mutual Fund	27/11/96	LE 50	Growth Closed End	**Subscription Fees:** 0.5% of Cert. Price **Redemption Fees:** None **Mgmt.Fees:**1% of NAV **Incentive fees**:12% of the difference in NAV of the Fund at the end of each quarter + any profit distribution during the period **Bank Fees**:None **Bank Incentive Fees**:None **Custodian Fees**:None
10 Delta International Bank Mutual Fund	26/05/96	LE 50	Income/Growth Closed End	**Subscription Fees:** 1.5% of Cert. Price **Redemption Fees:** None **Mgmt.Fees:** LE100mm 1% LE 100-200 mm 0.9% above 200 mm 0.8% **Incentive fees**: 12% of Net Profit exceeding 91-days T- Bills Rate +2 or 5yr bond +1% **fund Fees**:0.3% of NAV **Bank Incentive Fees**:None **Custodian Fees**:0.3% of securities Value

Annex 9
P.3

Egyptian Local Funds

Name of Funds	Inception Date	Size (million)	Fund Type	Fee Structure
11 Allied Insurance Mutual Fund	21/08/95	LE 100	Growth Open Ended	**Subscription Fees:** 0.75% of Cert Price, min.LE10 **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:**y 1.5 of NAV **Incentive fees**: 20% of Net Profit exceeding 91-days T- Bills Rate **Bank Fees**: 0.75% of NAV **Bank Incentive Fees**: None **Custodian Fees**: 0.3% of securities Value
12 Banque Du Caire Mutual Fund	16/11/95	LE100	Growth Open Ended	**Subscription Fees:**None **Redemption Fees:**1% of NAV **Mgmt.Fees:**0.5% of NAV **Incentive fees**:10% of Net Profit exceeding 5yrs T- bonds+ 1% **Bank Fees**: 0.5% of NAV **Bank Incentive Fees**:10% of Net Profit exceeding 5yrs T- bonds+ 1% **Custodian Fees**:
13 Societe Arab Internationale de Banque (SAIB) Mutual Fund	3/06/96	LE 100	Growth +Semi Annual Prizes Open Ended	**Subscription Fees:**LE 2.0 per cert **Redemption Fees:** 1% of NAV **Mgmt.Fees:** 0.7 of NAV **Incentive fees**:7.5% of Net Profit exceeding 5yrs T- bonds **Bank Fees**:0.5% of NAV **Bank Incentive Fees**: **Custodian Fees**:
14 Suez Canal Bank Mutual Fund	5/12/96	LE 100	Inome/Growth Open Ended	**Subscription Fees:** 0.5% of Cert. Price, min.LE 7 **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:**1%of NAV **Incentive fees**:15% of Net Profit exceeding 91 days T-Bills rate **Bank Fees**:0.75% of NAV **Bank Incentive Fees**: **Custodian Fees**: 0.3% of securities Value
15 Export Development Bank Mutual Fund	7/10/96	LE 100	Income Open Ended	**Subscription Fees:** 0.75% of Cert. Price, min.LE 7 **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:**0.9%of NAV **Incentive fees**:15% of Net Profit exceeding 91 days T-Bills rate 7% of Net Profit exceeding 91 days T-Bills rate **Bank Fees**: 1% of NAV **Bank Incentive Fees**:7% of Net Profit exceeding 91 days T-Bills rate 7% of Net Profit exceeding 91 days T-Bills rate **Custodian Fees**:0.25% of securities Value