USAID Privatization Project

EVALUATION SERVICES CONTRACT

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Quarterly Review

For period October 1, 1997 to December 31, 1997

Submitted to:

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ATTRIBUTION

This draft report supersedes earlier draft versions of the report for the same period. Earlier report versions were distributed for review and comment only and were not for attribution.

DATA USE CONVENTIONS

The data used in this report come from a variety of public sources. When data presented are derived from multiple reports from the same organization, the unit definition and data structure correspond to the specific data convention of the organization. This report merely arrays the data and presents standard comparative measures, both ordinal (ranking) and cardinal (percentages). When more than one source is used to present data, the most dominant organizational unit definition issued, and data are disaggregated to correspond to this unit level. The combined source data are compiled and arrayed to meet the specific needs of the report. Again, standard measures and statistical conventions are used in presenting comparative measures. Aggregation of composite data may not be totally reconcilable due to rounding, proportionality, or other statistical methods used; however, the data are complete and fairly and accurately presented within the boundaries of the information available.

ACRONYMS LIST

Acronym	Description
AA	Arthur Andersen
AAW	Al Ahram Weekly
ABA	Alexandria Businessmen Association
ABC	Arab Banking Corporation
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
AUC	American University in Cairo
BAH	Booz Allen Hamilton
BEMI	Baring's Emerging Market Index
BOD	Board of Directors.
BODA	British Overseas Development Agency
BOT	Build Operate & Transfer
CAA	Central Audit Authority
CAPQ	Central Administration for Plant Quarantine
CBE	Central Bank of Egypt
CDS	Central Depository System
CEA	Canadian Executive Agency
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	Chief of Party
CTS	Cargill Technical Services
DA	Development Associates, Inc.
DAI/B	Development Alternatives, Inc./ Bethesda
DF	Direct Fund
EAB	Egyptian American Bank
EAAB	Egypt Arab African Bank
EBA	Egyptian Businessmen's Association
EBB	Egyptian British Bank
EBBA	Egyptian-British Businessmen's Association
EBT	Earnings Before Tax
EBU	Egyptian Banking Union
ECMA	Egyptian Capital Market Association
ECU	European Currency Unit
EDRs	European Depository Receipts
EEA	Egyptian Electricity Authority
EFG	Egyptian Financial Group
EFIC	Egyptian Financial & Industrial Co.
IFPRI	International Food Policy Research Institute
EGPC	Egyptian General Petroleum Corporation
EHDR	Egyptian Human Development Report
EISA	Egyptian Insurance Supervisory Authority
EJBG	Egyptian Junior Businessmen's Group
ELAS	Egyptian Labor Adjustment Service
EPIC	Economic Policy Initiative Consortium

ACRONYMS LIST

Acronym	Description
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
FIT	Foundation for International Training
FPIs	Foreign Portfolio Investments
FSRU	Food Security Research Unit
FT	Financial Times
FY	Fiscal Year
GA	General Assembly
GAAP	General Auditing and Accounting Procedures
GAFI	General Authority for Investment
GAMS	General Algebric Modeling System
GDP	Gross Domestic Product
GDRs	Global Depository Receipts
GOE	Government of Egypt
GOFI	General Organization For Industrialization
HC	Holding Company
HDI	Human Development Index
HFI	Hermes Financial Index
HI	Household Income
HSBC	Hongkong & Shanghai Banking Corporation
HTC	Housing Tourism & Cinema
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction & Development
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 Irrigation 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
LTD	Long Term Debt
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 Affairs
MOTS	Ministry of Trade & Supply
MPC	Ministerial Privatization Committee

ACRONYMS LIST

Acronym	Description
MPE	Ministry of Public Enterprise
MPWWR	Ministry of Public Works & Water Resources
MSCI	Morgan Stanley Capital International Index
MTS	Ministry of Trade & Supply
MVE	Monitoring, Verification & Evaluation Unit
NBD	National Bank for Development
NBE	National Bank of Egypt
NCF	National Consulting Firm
NGO	Non-Governmental Organization
NIB	National Investment Bank
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
PACIN	Paints and Chemicals Company
P/E	Price/Earnings
PERPP	Public Enterprise Reform and Privatization Program
PEO	Public Enterprise Office
PIDP	Partnership in Development Project
PKF	Parnell Kerr Forster
PMU	Project Management Unit
PO	Project Officer
PP	Privatization Project
PPC	Program Planning Committee
PR	Public Relations
PU	Purdue University
QR	Quarterly Review
RDI	Reform, Design & Implementation Unit
RFP	Request for Proposal
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
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
SMEDUP	Small and Medium Enterprise Development in Upper Egypt
SO	Strategic Objective
SOEs	State Owned Enterprises
S&P	Standard & Poor's
STTA	Short Term Technical Assistance
T-Bills	Treasury Bills
TA	Technical Assistance
TBD	To Be Determined
TAMIS	Technical & Administrative Management Information System
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

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ACRONYMS LIST

Acronym	Description
UBS	Union Bank of Switzerland
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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8. Data Analysis and Financial Trends

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Executive Summary of Quarterly Achievements & Issues during the Period October - December 1997

1. PROGRESS IN PRIVATIZATION[1]

1.1 Summary Statistics

Table 1 shows that as of December 31, 1997, 70 or approximately 23 percent of the original 314 Law 203 companies have been privatized, with 28 privatizations having taken place in 1997. Sale proceeds by method of sale are presented in Table 2.

Law 203 Company Privatizations by Method as of December 31, 1997

Table (1)

Method	1991	1992	1993	1994	1995	1996	1997	Total
Majority IPOs						15	13	28
Liquidations	4	2	1	1	2	1	6	17
ESAs				10			5	15
Anchor Investors				3		3	4	10
Total	**4**	**2**	**1**	**14**	**2**	**19**	**28**	**70**
Percent of the Total Privatization	**6%**	**3%**	**1%**	**20%**	**3%**	**27%**	**40%**	**100%**

Source: PEO; compilation and presentation by IBTCI.

Total Privatization Sale Proceeds by Method as of December 31, 1997

Table (2)

Method	Value (LE million)	Percent of the Total
Majority IPOs	4,581	36.41
Minority IPOs	1,854	14.73
Liquidations	625*	4.97*
Anchor Investors	1,690	13.43
ESAs	323	2.57
ESOPs	3	0.02
Local Governates	300	2.38
Sale of Unutilized Assets	3,079	24.47
Joint Venture Companies	128	1.02
Total	**12,583**	**100.00**

Source; PEO; compilation and presentation by IBTCI.

**The proceeds from liquidations will not be included in the value until after assets have been sold and debt and employment payments have been settled.*

Sixteen Law 203 firms, as presented in Table 3 on the following page, were privatized during fourth quarter 1997.

The Ministerial Privatization Committee (MPC), headed by Prime Minister Dr. Kamal El Ganzouri, decided to sell 75 percent of Delta Industrial Company (IDEAL) to the Olympic Group, a strategic or anchor investor. At the same time, a 10 percent share offering was sold to the Employees' Shareholder Association (ESA) and 15 percent was also offered on the Cairo stock exchange to individual and institutional investors.

[1] The Executive Summary was contributed by the staff of IBTCI/Egypt.

Companies Privatized during Fourth Quarter 1997

Table (3)

Affiliated Companies	Holding Company	Selling Date	Percentage Sold	Privatization Method
Electro Cables	Engineering	Oct-97	51	IPO
Industrial and Eng.	Electricity Dist.	Oct-97	90	IPO
Mahmoudia Contracting	Construction	Dec-97	80	IPO
Alex. Spinning & Weaving	Spinning & Weaving	Dec-97	48	AI
IDEAL	Engineering	Dec-97	100	AI/IPO
General for Transport	Inland Trans.	Dec-97	95	ESA
Direct Transport	Inland Trans.	Dec-97	95	ESA
Nile Heavy Transport	Maritime Trans.	Dec-97	95	ESA
Nile Goods Transport	Maritime Trans.	Dec-97	95	ESA
Inland Transport	Maritime Trans.	Dec-97	95	ESA
General Batteries	Chemical	Oct-97	N/A	Liquidation
Misr Fab	HTC	Oct-97	N/A	Liquidation
United Poultry	Agr. Dev.	Nov-97	N/A	Liquidation
Marriott Agricultural	Agr. Dev.	Nov-97	N/A	Liquidation
Ramses Agricultural	Agr. Dev.	Nov-97	N/A	Liquidation
Meat & Dairy Products	Agr. Dev.	Nov-97	N/A	Liquidation

Source: PEO; compilation and presentation by IBTCI

This 15 percent public offering is beneficial in several respects: (1) it allows the market to determine the price of the shares and readjusts that price depending on the performance of the company over time; (2) it assists the ESAs in determining a fair market value for their shares; and (3) it allows Olympic a way in which to sell their holdings should they ever decide to do so without all the associated problems of exit as described in subsection, "Privatization Alternatives: Moving Beyond Reliance on Only IPO Offerings" in IBTCI's Quarterly Review for third quarter 1997.

The Olympic Group is a financial investment company that can use various approaches to make IDEAL and its components and assets more productive and efficient. For example, the Olympic Group could restructure the company, introduce new products, realign management, vertically or horizontally integrate IDEAL's operations with their own, or sell non-performing assets in order to increase its profitability. According to the July 1997 *Sales Memoranda* prepared by the Commercial International Investment Company (CIIC), the Olympic Group Financial Investment Co. (OGFI) is an Egyptian Joint Stock Company established in 1995 under Law 230/1995. The OFGI is the holding company for the LE270 million integrated "Olympic Electric" group of companies, the leading household electric appliance manufactures in Egypt.

The sale became immediately controversial when the price went from the LE63 paid by Olympic to LE66 when trading began on the exchange. The controversy was unnecessary and demonstrates that 'Private Placements' as a normal financial procedure are still not well understood in Egypt. The 75 percent sold to Olympic was clearly a private placement and should be perfectly legal and non-controversial. The fact that the market drove up the price to LE66 is what one would normally expect from the investing public who note that a well respected organization has taken a large stake in a company. The Holding Company's complaint that they could have gotten more possibly does not take into account that the investing public simply would not have bid up the shares without the respect accorded to Olympic's ownership.

With regard to another Law 203 firm, a group of Egyptian business interests have purchased a 51 percent stake in the Egyptian Electric Cables (Electro Cables or Kabelat). This finally completes the long saga of the privatization of Electro Cables after its initial minority public offering in 1996. The investors were advised by CIIC. Other buyers include the Sayyad and Allam groups, the National Bank of Egypt (NBE), Al Watany Bank, and Misr Insurance Company.[2]

There have been no public offerings sold via Global Depositary Receipts (GDRs) during fourth quarter 1997.

There has not yet been an official announcement as to which of the Big Four public sector banks will be privatized by the end of 1998. The privatization of one of the Big Four public sector banks was announced by Dr. Faika El Rafaie, Deputy Governor of the Central Bank, during the February 1997 conference hosted by the Egyptian Center for Economic Studies.

As reported in IBTCI's Quarterly Review for third quarter 1997, 15 of the 23 joint venture banks (JVBs) have been privatized as of December 31, 1997 as described in Section 8.1 of this report. A privatized JVB as presented in Section 8.1 is defined as having less than 51 percent collective ownership by the Big Four state-owned banks, the National Investment Bank, the Big Three state-owned insurance companies, the Egyptian Reinsurance Company, and other identifiable Egyptian public entities. Tracking public-sector ownership for the JVBs remains problematic since ownership, due to subsequent market transactions, cannot be accurately monitored, and there are no restrictions on other public sector entities from owning shares of JVBs.

1.2 Other Privatization Activities

1.2.1 Law 203 Firms

Negotiations between Elkin, a Norwegian firm, and the GOE for the purchase of a 34 percent stake in Egyptian Ferroalloys Co. from the Holding Company (HC) for Metallurgical Industries were underway during the end of fourth quarter 1997. According to the PEO staff, the key remaining issues are that the GOE guarantees that the price of electricity, a major production input, not be raised over a certain period of time; and that 10 percent of the company's shares be publicly offered on the stock exchange. This latter issue may be related to the desire of the company to have the market reflect its value and to provide a method of alternative financing, exit possibilities or the positive attributes of market visibility.

In addition to the new privatizations summarized in the above tables, the GOE has continued to engage in the fundamental restructuring activities including the early retirement scheme for excess labor and debt forgiveness and rescheduling during fourth quarter 1997.

The statistics presented in Section 2 of this report suggest substantial problems within some Holding Companies as reflected, for example, by the high percentage of accounts receivable and inventory compared to sales and net worth. These findings suggest that further in depth analysis of the industrial structure and organization of their associated sectors may be useful in future in establishing future policies to increase the efficiency and competitiveness of these firms.

[2] Middle East Economic Digest, December 5, 1997, p. 9.

1.2.2 Privatization of Joint Venture Banks

There has been minimal activity in the divestiture by the Big Four banks of their stakes in joint venture banks (JVBs) during fourth quarter 1997, as described in Section 2.6 of this report. As a group they still have not met the 20 percent divestiture target set by Prime Minister El Ganzouri in early 1996.[3] At that time, he requested that the four public sector banks with ownership of 49 percent or less in JVBs, dilute their ownership to no more than 20 percent of JVBs total capital before the end of 1996. No announcement was made then or subsequently concerning the dilution of ownership of the four public banks with majority ownership of the JVBs to 20 percent or less. As indicated in the following two paragraphs, there has been some movement to reduce shares in JVBs by state banks that had majority ownership of the JVBs. Moreover, under the target each of the Four State Banks could own 20 percent of a JVB; thus, the Big Four state banks in theory could still have 80 percent ownership.

The 20 percent government target has yet to be met by Banque du Caire and Bank of Alexandria, as shown in Table 28 which presents percentage of the Big Four state banks' holdings in the 23 JVBs as of December 31, 1997. Table 28 indicates that Banque du Caire still holds 29 percent of Cairo Far East Bank and 32.8 percent of Misr America International Bank; and Bank of Alexandria still holds 37.5 percent of Misr Iran Development Bank. In addition, Banque du Caire still has 51 percent ownership in Cairo Barclays International Bank.

The National Bank of Egypt complied with the 20 percent target through the gradual sale of its JVB holdings where it had minority ownership. Banque Misr complied technically with the timetable for banks with ownership of 49 percent or less in JVBs, but still has a 24.8 percent share of Misr International Bank (MIBank) and 33.0 percent share of Misr Romanian Bank. Still, Banque Misr has complied technically with the target, since it was formerly majority owner of MIBank and Misr Romanian and thus not subject to the 20 percent target.

1.2.3 Bonds, Local Mutual and Country Funds

During the past quarter, the CMA has approved the establishment of several new local mutual funds. Misr Exterior Bank has launched an open-ended fund with total capital of LE100 million to be managed by Lazard Asset Management. A new LE1 billion fund managed by Concord International Company is being established with the participation of the Big Four Banks, Misr Insurance and the General Insurance and Pension Authority. This is to be a five-year, closed-end fund with a paid-in capital of LE500 million with shares to be listed on the Cairo stock exchange. In addition, the CMA has approved investment certificate splits of each of Banque Misr's two funds and the daily redemption of the investment certificates for Al Ahly for Development's two local mutual funds.

Regarding offshore funds, International Societe Generale Company has announced that it is establishing a new US$100 million fund for direct investment in 5 Arab nations, one of which will be Egypt. It is to be a closed-ended fund listed on the Dublin Stock Exchange under the name "Societe Generale Arab Investment Fund." Also, the Dublin listed Egypt Fund has raised its capital by an additional US$32 million to bring its total net asset value to US$100 million.

[3] IBTCI, Monthly Review, August 1996, p. 31.

A new bond was offered in December. The Middle East Company for Modern Lighting (Mostafa Aly) offered a LE15 million, 5-year bond for subscription through the NBE and Suez Canal Bank.

There has been no further activity relating to the planned sovereign debt Eurobond issue this quarter.

1.2.4 Stock Market Activity

Over the course of fourth quarter 1997, the Egyptian stock market slightly declined since the end of October, but shot up in early December due to heavy demand from several new funds and the pension fund. Given the new decree from the MPC allowing the pension and social security funds to invest in equities on the stock exchange as illustrated by the pension fund's third quarter purchase of 2 million shares of Ameriya Cement, a controversy has arisen over the extent to which these public sector purchases should be used. The International Monetary Fund (IMF) delegation visiting Egypt criticized the GOE for allowing these purchases.[4] The IMF experts consider this measure to be against the goals of privatization, which are to increase private sector ownership through private sector involvement. On the other hand, some other successful emerging economies, such as Chile's, have relied heavily on these types of funds for long term investments. The problem is that the approximately LE71 billion pension fund is almost the equal to the market capitalization of the entire exchange. Thus, unrestricted use of this fund alone could greatly distort the stock market. This situation is potentially contradictory to having a free market because the GOE controlled pension fund can be used to strongly influence the market. For example, the CMA stated in a press release that the Egyptian stock market had been supported in the previous two weeks due to purchases made by the pension and social insurance funds.[5] This would be of less concern if, for example, (1) the pension funds were controlled by portfolio managers independent of the GOE, or (2) other investment options, such as a more developed domestic debt or bond market, or overseas investments, were available.

1.2.5 Market Maker

Mahmoud Abdel Aziz, the Chairman of the National Bank of Egypt, announced that the CMA has granted preliminary approval for the formation of a LE500 million fund that will undertake the role of a market maker.[6]

> "Make a Market" is defined as:
>
> Maintain firm bid and offer prices in a given security by standing ready to buy or sell ROUND LOTS at publicly quoted prices. The dealer is called a *market maker* in the over-the-counter market and a SPECIALIST on the exchanges. A dealer who makes a market over a long period is said to *maintain* a market.[7]

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[4] An article in *Al Ahrar*, December 6, 1997, can be found in *Privatization Hot Issues*, produced by Arthur Anderson's Privatization Project on the same day.

[5] A summary of an article in *Al Alam Al Youm*, November 29, 1997, is presented in "The Market" produced by EFG-Hermes Securities Brokerage on the same day.

[6] "The National Bank of Egypt Launches the Market Maker with a Total Capitalization of LE500 Million," *Al Alam Al Youm*, December 8, 1997, p. 1.

[7] Downes, John and Goodman, John Elliot, Dictionary of Finance and Investment Terms, Fourth Edition, Barron's Educational Services, Inc., 1995, p. 316.

This fund will aim to preserve the market's balance and to reduce speculation, while increasing transparency and adding liquidity to the market. The NBE chairman added that preparations were underway to invite banks and other financial institutions, insurance companies and other parties to participate in the fund. He further stated that this fund is the first of its kind in the Egyptian market and will play the role of a specialized market maker for certain shares listed on the exchange that might not possess the necessary degree of liquidity.

Although this fund is being labeled as a market maker, according to IBTCI's sources, the fund is really a long term investment vehicle. At present, it would be difficult for the fund to perform the market maker function because (1) there are currently no rules or regulations regarding the role of a market maker in the Egyptian stock exchange, (2) neither the fund nor the GOE has announced for which stocks the fund would act as market maker, and (3) the LE500 million capitalization of the fund is small in comparison to the capitalization of the stock exchange, and is notably smaller than the capitalization of the larger shares listed on the exchange. Market maker capabilities will need to be preceded by the establishment of a legal and regulatory framework defining how they will act and to which bodies it will answer.

1.2.6 Investor Friendly Policy Initiatives: Labor

No labor policy reforms as described below in Section 5 were instituted during fourth quarter 1997, or since they were identified by the Egyptian business community during the high-profile October 1994 conference, "Private Sector Development in Egypt: Investing in the Future." The importance of labor law reform as it relates to privatization and private sector development is described in the text.

The new draft labor law has been approved by the Cabinet of Ministers, but requires approval by the Parliament before it can be put into effect. The new draft law would address some of the constraints listed in Section 5, but awaits action by the Egyptian Parliament, where it has been resting for the past several years. The draft law seeks to unify treatment of labor across sectors, with a few exceptions in the government.[8] The draft law was prepared by the International Labor Office (ILO), some businessmen, labor unions, the Ministry of Labor and Employment, Cairo University's research center dealing with legal studies, and others. According to an Egyptian consultant dealing with labor law, a main reason for delay in passage of this law is its provisions that allow workers to strike.

IBTCI plans to expand its monitoring of investor friendly policies in future reports.

1.2.7 Macroeconomic Overview

The Egyptian macroeconomy continues to grow at an estimated real growth rate of 5.3 percent per annum during Fiscal Year (FY) 1996/97, compared to 4.9 percent during FY 1995/96. The other major macroeconomic statistics indicate continued overall stability that suggests sound macro-management of the economy. Over FY 1996/97, the most recent statistics obtained from the Central Bank of Egypt, the Ministry of Economy and the Informational & Decision Support Center (IDSC) consistently suggest that over the period from July 1, 1996, to June 30, 1997, the external trade deficit has declined, inflation has dropped, interest rates have continued to decline gradually, exchange rates have remained basically unchanged, foreign debt as a percentage of GDP continues to diminish, trade

[8] Naguib, Sami, Encyclopedia of the Draft Labor Law, Insurance House, Cairo, 1997, p. 6.

barriers are being reduced, foreign reserves are rising and the rate of unemployment is falling, as described below and in IBTCI's Quarterly Review for third quarter 1997. These improvements in the macroeconomic indicators suggest continued prudent conservative monetary and fiscal policies, and domestic and foreign trade liberalization.

1.3 Achievements during the Last Half of 1997

The GOE has made a consistent effort and substantial headway during the last half of 1997 moving the privatization process forward as well as in undertaking substantial and sweeping reforms that lay the groundwork for a transformation of the Egyptian economy and society.

1.3.1 Transparency

The call for improved transparency has been a constant since the privatization program commenced, and much headway has been made in 1997. Minister of Economy Dr. Youssef Boutros Ghali decreed during third quarter 1997 that each company offering shares on the stock exchange must first issue a prospectus adhering to international norms. If enforced, this decree will enhance transparency for offerings. Further, the requirement that banks and Law 230 companies prepare their financial statements using international accounting standards and that all companies disclose financials within three months after fiscal year end would provide greater information to the market and investors in a more useful and timely manner.

1.3.2 Strategic & Anchor Investors

The sale of Delta Industrial Company (IDEAL) is a milestone for the privatization program. The slow progress made on sales to strategic or anchor investors has been heavily criticized by some observers. Strategic investors are crucial for the ongoing effort to expand privatization into the realm of the less attractive and less profitable companies, now that the most profitable public sector firms have been partially privatized. Strategic investors may offer a good chance to turn around many of the less profitable Law 203 firms by providing new investors with opportunities to bring in modern expert management and new technologies that could create greater efficiency and provide international marketing linkages for exports. The IDEAL transaction appears to offer an example of a successful strategic investor sale. As noted above, the GOE completely divested its shares, so the privatization is total. The ESA purchased 10 percent of the shares thus giving the workers a stake in the company's future. The sale of 15 percent of the shares to the public and institutional investors allows the market to set a price for the shares and to respond to the company's new management. It also provides an opportunity for the Olympic Group to raise more capital.

1.3.3 Early Retirement Plan

The second half of 1997 saw the first implementation of the early retirement plan, which begins to address one of the thorniest issues vexing privatization: excess and redundant labor. An initial group of 27,000 workers have agreed to take early retirement at a cost of LE617 million, as described more fully in Section 2 of IBTCI's Quarterly Review for third quarter 1997. The GOE now has a legal method for reducing excess labor in companies before they are sold.

1.3.4 Debt Rescheduling and Forgiveness

After several years of inertia, the public sector banks in 1997 rescheduled or forgave the debt of many Law 203 Companies. This has been a crucial obstacle in the privatization of many companies that suffer from excessive debt. Debt forgiveness, undertaken in 13 Holding

Companies, has reached approximately LE4.89 billion, or 24 percent of the total debt. Forgiveness thus far has been restricted to accumulated interest and not principal.

1.3.5 Insurance

Despite a great deal of discussion in the press concerning the privatization of the Egyptian insurance sector, none of the Big Three state insurance companies have yet been privatized. However, for the first time, a foreign insurance company has opened in Egypt. The American Life Insurance Company opened an office in Egypt and will be working in partnership with the privately owned Pharonic Insurance Company. Additionally, Minister of Economy Dr. Youssef Boutros Ghali has focused much attention on the insurance sector in the past quarter in preparation for the planned privatization of one of the state owned companies before the end of 1998, as called for in the IMF agreement signed in October 1997. The Minister was reported as stating that a number of companies are being evaluated for sale to the public, and that foreign institutions will be able to participate as partners in this sector.[9] Additionally, Mr. Kareem Salem, Vice Chairman of the Egyptian Authority for Insurance Surveillance, stated that revisions to the Insurance Law 159/1995 are being studied that would allow foreigners to own more than 49 percent of insurance companies (the limit under the current law), and allow non-Egyptians to act as market brokers.[10]

1.3.6 Ratings

During the last half of 1997, international rating agencies continued to incorporate Egyptian banks into their rating networks. During third quarter 1997, IBCA, a European ratings agency, issued an investment grade long term rating of BBB- on unsecured foreign currency and an A- long term local currency rating. This investment grade rating was in line with the rating that Standard & Poor's (S&P) awarded during the first half of 1997. During fourth quarter 1997, Moody's Investors Service, came through with its expected revision of Egypt's banks. In November, Moody's revised upward its rating of Egypt's long term foreign currency reserves from BA/2 to BA/1. Also, Moody's revised its ratings of seven Egyptian banks' foreign currency deposits from BA/2 to BA/1. Additionally, in December, IBCA awarded Commercial International Bank (CIB) a BBB- short term and an A3 short term rating. This is the first time a joint venture bank has been awarded a rating by an international agency.

1.3.7 Indices

During the last half of 1997, Egypt was included in three major international indices. During third quarter 1997, Egypt was included into the Baring's Emerging Markets Index (BEMI) and also into the Morgan Stanley Capital International (MSCI) Index. Both of these new inclusions are initially on a stand-alone basis. In fourth quarter 1997, Egypt was included in the International Finance Corporation's (IFC) Investible Index a year after being included in the general composite index. These inclusions are milestones for Egypt on its road to joining the international financial community.

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9 An article in *Al Alam Al Youm*, November 29, 1997, is presented in *Privatization Weekly*, produced by Arthur Anderson's Privatization Project team on the same date.

10 *Al Alam Al Youm*, December 3, 1997.

1.3.8 Transformation of Egypt Telecom

During fourth quarter 1997, the MPC approved the transformation of Egypt Telecom (formerly Arento) from a wholly owned government entity into a Joint Stock Company under Law 159/1981. Final details are unclear as yet, but it appears that the government will retain the majority stake in the new company, and offer a minority stake to the public.

1.3.9 Electricity Distribution

Also during fourth quarter 1997, the GOE has spread privatization into the government-owned and managed utilities sector. In this case, the privatization is a result of deregulation. The GOE has allowed entry to the private sector, rather than sale of existing assets or companies to the private sector. Mr. Maher Abaza, Minister for Electricity and Energy, has stated categorically that the GOE will not in the future make any further investments in the construction of new electricity generation plants and the construction of additional facilities to meet Egypt's growing demand for electricity. These additional facilities will be the responsibility of the private sector. The new private sector companies will be allowed to distribute this electricity, but not to set prices. The GOE will officially purchase all of the electricity production and resell it at subsidized prices to consumers. Please see Section 4 of this report for a discussion of this mechanism.

1.4 Challenges for 1998

1.4.1 Pension Investments

The GOE allowance of the Pension Fund and Social Insurance Fund to invest in the stock market is a bold step. These funds need a new outlet for investment as there are simply not enough instruments available in the local financial sector to soak up all of their funds for investment. Significant outstanding issues must be clarified. In addition to the concerns listed above about the potential supply shortage in the market and artificially high prices that could result from this situation, there are other questions that must be answered. For example, what risk parameters will be established for the funds and what regulatory body will oversee the activities of the fund.

1.4.2 Sovereign Debt Offering

Egypt's sovereign debt offering, which had been scheduled for fourth quarter 1997, was postponed due to the unexpected and still ongoing crisis in Asian and other emerging markets. Going ahead with this offering, however, would establish a benchmark that would allow Egyptian firms to tap the international marketplace. A GOE policy commitment to make the offering was a major topic at Euromoney's September 9-10, 1997 conference and the offer is expected by many international investors in emerging markets. Following through on that commitment would increase transparency and bolster Egyptian credibility in the international marketplace, even if the offering must be made on terms less favorable than those offered last summer.

1.4.3 Public Consensus Regarding Privatization

There is an undercurrent of dissent to economic liberalization and reform and to privatization in particular in Egypt that needs to be addressed. The GOE needs a greater effort to push the positive privatization message through consistent announcements, more detailed explanation of the mechanisms of the program, more publicity for success stories as well as additional exposure for the program's end goals. A positive public attitude towards these reforms would more likely transform Egypt into a country fully able to integrate with the World Trade Organization (WTO) in 2005.

1.4.4 Transparency

Much ground has been covered since 1991 in improving transparency. Among these is the increased frequency of financial reporting and the greater openness by companies and financial institutions applying International Accounting Standards (IAS). The process of increasing transparency must continue. An arbitration system to settle contract disputes must be initiated; allocations of new share offerings need to be more understandable; GOE policies and announcements need to relay a consistent message to both local and international audiences; labor policies need to be clarified by the passage of new labor laws; corporate governance issues of privatized firms must be clarified to allow stockholders more say in the management and operations of firms; and pressure must be maintained to insure that companies follow through by actually applying IAS and truthfully reporting their financial condition.

1.4.6 Environmental Law

The new environmental law is set to go into effect in February 1998 and the consequences of its passage on business have been inadequately discussed. The GOE has yet to announce how adherence to the law's stipulations will be measured and what the penalties for transgressors will be. The firms affected by the new environmental restrictions will need to adjust their operations in accord with the new legislation. Investors purchasing shares of privatized companies or anchor investors considering investment in upcoming privatization candidates will want to know what level of environmental liabilities they may face.

2. THE GOVERNMENT OF EGYPT'S PRIVATIZATION AND DIVESTITURE PROGRAM[11]

2.1 Law 203 Companies Privatized during Fourth Quarter 1997

As of the end of fourth quarter 1997, 70 of the original 314 Law 203 Companies have been privatized with total sale proceeds of approximately LE12.583 billion as presented in Tables 1 and 2. Unfortunately, the proceeds from the sale of affiliated companies' assets, which can be used for financial restructuring, debt settlement, and the early retirement program, have not been reported since September 1996 and thus are not included in the above total.

Sixteen Law 203 Companies (3 IPOs, 2 Anchor Investors, 5 EASs and 6 liquidations) were privatized during the last quarter of 1997. The number of companies privatized during this quarter is the highest since the beginning of the privatization program in 1991. Figure 1 shows the percentage of privatizations by method. Figure 2 details the number of companies privatized by method.

Number and Percent of Law 203 Companies Privatized by Method as of December 31, 1997

Figure (1)

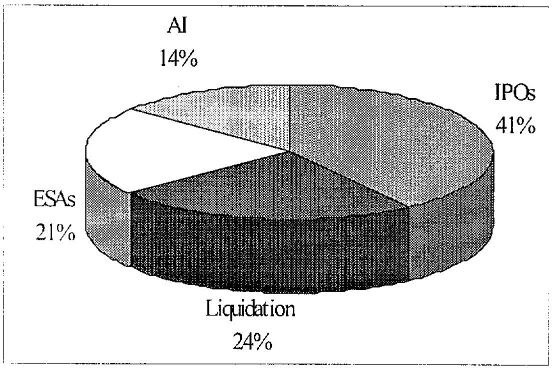
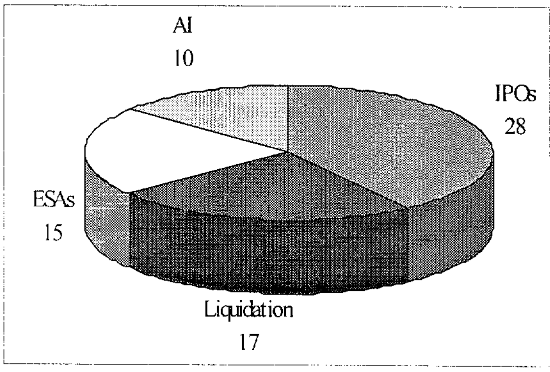


Figure (2)



Source: PEO; compilation & presentation by IBTCI.

2.2 Sale of Assets

During the fourth quarter of 1997, the GOE offered a large number of assets for sale. Proceeds from the asset sales, like those from other privatizations, could be used to cover a large part of the costs of restructuring, debt settlement, and financial restructuring efforts that would aid further privatizations. The proceeds from the sales of these assets can also be used to finance voluntary early retirement schemes. Reducing the excessive labor force of the remaining government-owned operations remains a key constraint for further privatization. Yet the proceeds of these asset sales have not been reported since September 1996. The value of these assets, depending on how they are separated from their affiliated companies (ACs), could possibly exceed the value of ACs sold without the assets. Section 8.14 of this report provides details of sales of assets announced in the Egyptian press during fourth quarter 1997.

[11] Sections 2.1-2.5 were contributed by Mohamed Ragui and Hoda Howeidy; Sections 2.6-2.7 by Manal El Hinnawy; and Section 2.8 by Ola Attia.

2.3 The Government of Egypt's 1998 Privatization Plan

The GOE's 1998 Privatization Plan

Table (4)

Holding Company	Affiliated Company	Book Value (LE 000) 1991	% of the Grand Total
Spinning & Weaving	Misr Rayon	373,073	4.01
	Cairo Dyeing & Finishing	57,557	0.62
	El Sharkeya for Spinning & Weaving	249,648	2.69
	Misr Helwan Spinning & Weaving	336,209	3.62
	Misr for Textile Equipment	41,378	0.45
Sub-Total		**1,057,865**	**11.38**
Textile Manufacturing & Trade	Misr Beida Dyers	274,414	2.95
	National Co. for Spinning & Weaving	205,750	2.21
Sub-Total		**480,164**	**5.16**
International Trade & Cotton	General Co. for Jute Products	52,045	0.56
	Cairo Silk Textiles	85,892	0.92
	Al Nasr Spinning & Knitting-Shourbagy	98,951	1.06
	Misr for Import & Export	61,035	0.66
	Arab Co. for Foreign Trade	27,791	0.30
	Al Nasr for Export and Import	481,856	5.18
Sub-Total		**846,215**	**9.10**
Chemical Industries	General for Trading & Chemicals	34,637	0.37
	Egyptian for Leather Manufacturing	49,937	0.54
	Al Nasr Leather Tanning	71,499	0.77
	Egyptian Plastic & Electrical Industries	117,164	1.26
	Dyestuffs and Chemicals	98,333	1.06
	Canaltex Flooring	33,852	0.36
	Egyptian Shoes Co. – Bata	96,179	1.03
	National Plastics Co.	104,933	1.13
	General for Paper Industry - RAKTA	295,660	3.18
	National Paper Co.	230,166	2.48
	Paper Converting Co. – VERTA	141,090	1.52
Sub-Total		**1,273,450**	**13.70**
Inland Transport	Misr ForeignTrade Co.	344,242	3.70
Sub-Total		**344,242**	**3.70**
Engineering Industries	Egyptian for Pipes – Sigwart	356,611	3.84
	Egyptian Copper Works	332,452	3.58
	Al Nasr Forging	66,559	0.72
	Cairo Metal Products	62,554	0.67
	Springs & Transport Needs Manufacturing	41,085	0.44
	Egyptian Mechanical Precision Industries - SABI	77,092	0.83
	Al Nasr Engineering & Refrigeration- Koldair	81,522	0.88
	Misr Engineering and Tools - MICAR	49,782	0.54
	Al Nasr Television and Electronics	227,094	2.44
	Al Nasr Automotive manufacturing	1,096,733	11.80
	Egyptian for Light Transport - Eltramco	330,441	3.55
	Al Nasr Rubber Products - Naroubin	61,970	0.67
Sub-Total		**2,783,895**	**29.95**
Metallurgical Industries	Egyptian Ferro-Alloys	257,137	2.77
	General Co. for Metals	255,292	2.75
	Al Nasr for Steel Pipes	369,857	3.98
	Delta Steel Co.	332,453	3.58
	Egyptian for Railway Wagon- SEMAF	445,231	4.79
Sub-Total		**1,659,970**	**17.86**
Maritime Transport	Egyptian for Shipbuilding & Repair	70,439	0.76
Sub-Total		**70,439**	**0.76**
Mining & Refractories Sector	Sinai Managanese	210,260	2.26
	Al Nasr Refractories & Ceramics - SORNAGA	117,366	1.26
	Al Nasr Particle Board	39,596	0.43
	Al Nasr Phosphate	296,050	3.18
Sub-Total		**663,272**	**7.13**
Housing, Tourism & Cinema	Egyptian Vineyards Co.	117,016	1.26
Sub-Total		**117,016**	**1.26**
Grand Total		**9,296,528**	**100.00**

Source: PEO

The Government of Egypt has announced its privatization plan for 1998. It consists of privatizing wholly or in part 50 affiliated companies in 10 Holding Companies, with an estimated 1991 book value of LE9.3 billion. The GOE plan does not mention the method to be used or the percentage to be privatized of each company. Table 4 on the preceding page details the affiliated companies scheduled for privatization, their Holding Companies, the AC's 1991 book value, and the book value as a percentage of the total 1991 book value scheduled to be privatized by the GOE in the coming year. The LE9.3 billion 1991 book value of Law 203 Companies scheduled for sale in 1998 is equal to approximately 15 percent of the LE62.5 billion total 1991 book value of Law 203 Companies.

2.4 Holding Companies Performance[12]

2.4.1 Holding Company for Rice & Flour Mills

The Holding Company for Rice & Flour Mills contains 15 affiliate companies. Six of these have offered shares on the stock exchange. Three of these companies have sold majority stakes in 1996. Total debt forgiveness of the affiliated companies is LE57 million. None of the affiliated companies in this Holding Company are included in the GOE's 1998 Privatization Plan. Table 5 and Figure 3 present the financials from this HC over the period from 1994 until 1997.

Summary of Financial Data of the HC for Rice and Flour Mills
1994 - 1997 (in LE million)

Table (5)

Item Description	1994	1995	1996	1997	Percentage Change 96/97
Sales	4,361	5,050	5,329	5,515	3
Net Profit	99	150	73	184	152
Accounts Receivable	411	609	486	502	3
Inventory	720	944	808	798	(1)
Total Assets	2,998	3,596	3,349	3,418	2
Net Worth	725	811	761	743	(2)
Long Term Loans	635	630	602	580	(4)
ROS	2%	3%	1%	3%	
ROE	14%	18%	10%	25%	
ROA	3%	4%	2%	5%	

Source: PEO; compilation and presentation by IBTCI.

Comments on the Rice and Flour Mills Financials

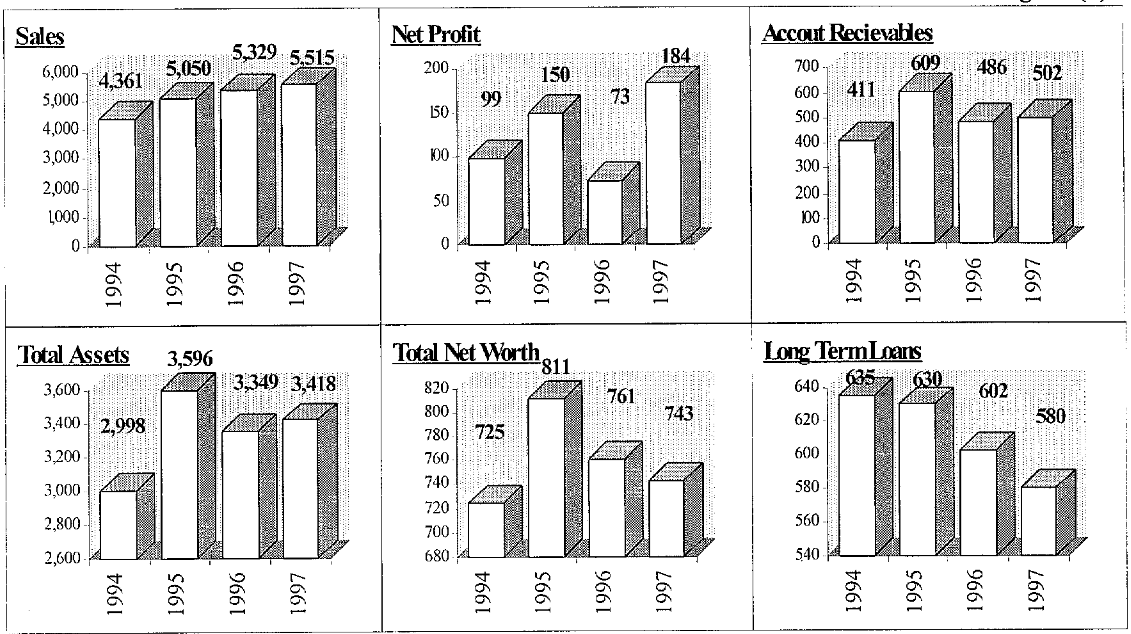
- Total sales have increased despite the majority sale of 3 companies through the stock market in 1996. Total sales since 1994 have witnessed an upward trend despite the losses realized by 9 affiliated companies (mostly rice mills companies).

- Net profit increased by 152 percent due to the remarkable increase of the profits of some affiliated companies and the decrease of the losses in others. Some Law 203 affiliate companies are realizing huge profits by selling unutilized assets.

[12] The fiscal year for Holding Companies and all Law 203 Companies is July 1-June 30. In the following sections, a year refers to the fiscal year ending in that year. Therefore, "1995" shall refer to the fiscal year 1994/95, "1996" to 1995/96, etc.

Summary of Financial Data of the HC for Rice and Flour Mills
1994 - 1997 (in LE million)

Figure (3)



Source: PEO; compilation and presentation by IBTCI.

- At 3 percent, return on sales (ROS) is very low in 1997. It is expected that this ratio will drop when the remaining profitable affiliate companies are sold. The GOE might consider (1) selling these losing companies to strategic or anchor investors, (2) liquidating them, or (3) financially restructuring them.

- The accounts receivable, representing 9 percent of total sales, have increased by 3 percent in 1997 compared to 1996. This is considered reasonable in the Egyptian rice and flour milling industry. The accounts receivable item has always represented a financial burden on many GOE companies.

- Total assets have increased by 2 percent in 1997 compared to 1996, despite the total sale of East Delta Flour Mills, Upper Egypt Flour Mills, and Middle & West Delta Flour Mills on the stock exchange. This increase is largely due to the "projects under implementation" item that increased by 34 percent (LE45 million) in 1997.

- The net worth item saw a decrease of 2 percent in 1997 compared to 1996, despite the Holding Company realizing a net profit of LE184 million. This decrease is due to the HC's dividend distribution policy. The ROE increased from 10 percent in 1996 to reach 25 percent in 1997 due to the increase in the net profit and the decrease in the net worth.

- The Holding Company succeeded in decreasing its long term loans by 4 percent (LE22 million) in 1997, while taking into consideration the Holding Company's debt forgiveness of LE57 million. The HC still has 9 losing companies in its charge. This may have a negative impact on the long term loans item because these companies will not be able to pay their obligations unless the GOE acts quickly, as suggested above.

- The flour milling sector has been termed "strategic" by the GOE since the beginning of the privatization program, despite the majority sale of 3 companies in 1996. Regardless, the GOE has majority privatized 3 companies and now are in the process of offering a second tranche of the 3 minority-privatized affiliated companies.

2.4.2 Holding Company for Electricity Distribution

The Holding Company for Electricity Distribution contains 13 affiliated companies. Only one of the affiliated companies has offered shares on the stock exchange, but it has been majority privatized. None of the affiliated companies in the Holding Company have received any debt forgiveness and none are included in the GOE's 1998 Privatization Plan. Table 6 breaks down the financials from this HC over the period from 1994 until 1997. Figure 4 presents the information from the financials in Table 6 in a bar graph format.

Summary of Financial Data of the HC for Electricity Distribution
1994 - 1997 (in LE million)

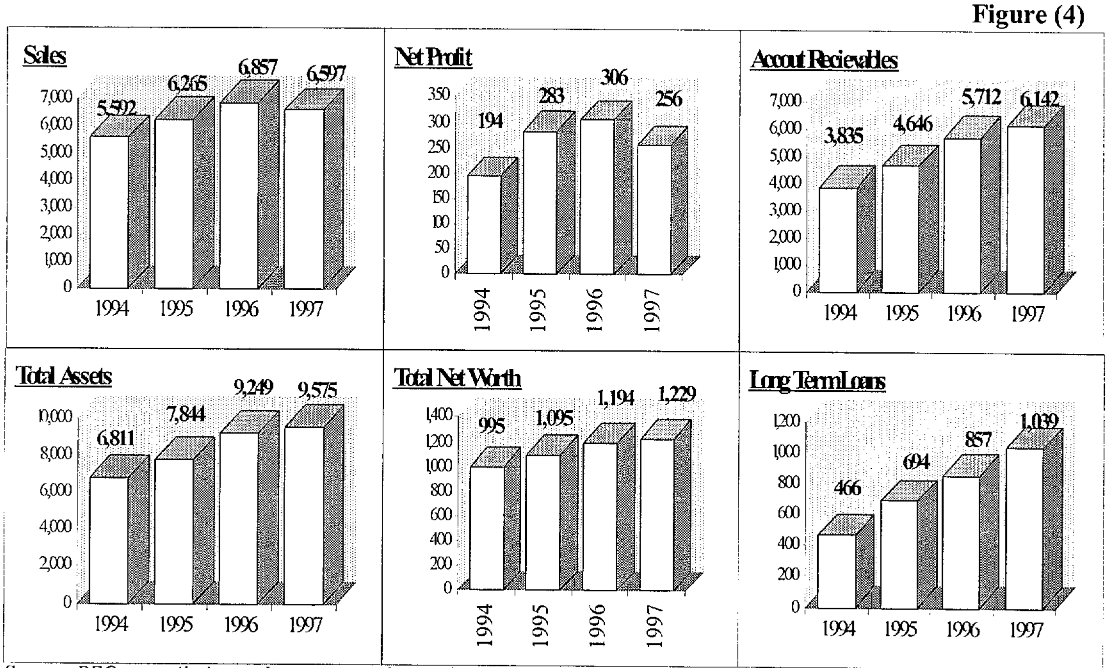
Table (6)

Item Description	1994	1995	1996	1997	% Change 96/97
Sales	5,592	6,265	6,857	6,597	(4)
Net Profit	194	283	306	256	(16)
Accounts Receivable	3,835	4,646	5,712	6,142	8
Inventory	769	620	627	557	(11)
Total Assets	6,811	7,844	9,249	9,575	4
Net Worth	995	1,095	1,194	1,229	3
Long Term Loans	466	694	857	1,039	21
ROS	3%	5%	4%	4%	
ROE	19%	26%	26%	21%	
ROA	3%	4%	3%	3%	

Source: PEO; compilation and presentation by IBTCI

Summary of Financial Data of the HC for Electricity Distribution
1994 - 1997 (in LE million)

Figure (4)



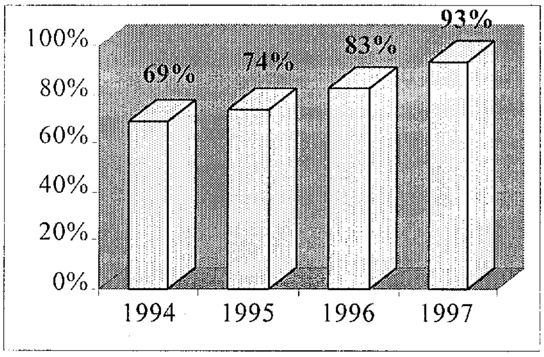
Source: PEO; compilation and presentation by IBTCI

Comments on the Electricity Distribution Financials

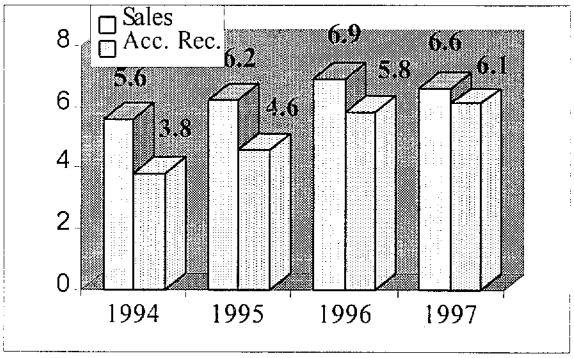
- Total sales have decreased by 4 percent during 1997 compared to the previous year. This is the first year since 1994 where total sales decreased. However, net profit decreased by 16 percent and the HC's return on sales remained at 4 percent for the second consecutive year.

- Accounts receivable have increased by 8 percent in 1997 compared to 1996. However, accounts receivable represents 93 percent of the total sales. This is considered extremely high and reflects the financial performance of the Holding Company, as none of the affiliated companies has a negative return. The increase of the accounts receivable is due to delayed payment by other public sector companies. The accounts receivable item represents approximately 64 percent of the book value of the company (total assets). This is again considered very high. Figures 5 and 6 present the accounts receivable verses sales from 1994 to 1997.

HC for Electricity Distribution Accounts Receivable as a Percentage of Sales
Figure (5)



HC for Electricity Distribution Accounts Receivable & Sales (in LE billion)
Figure (6)



Source: PEO; compilation and presentation by IBTC.

- Total assets have increased by 4 percent in 1997 compared to 1996. This increase is largely because of the "projects under implementation" item that increased by approximately 27 percent (LE37 million) in 1997 and because of the increase of the "fixed assets" item by approximately 6 percent (LE172 million).

- Net worth saw an increase of 4 percent in 1997 compared to the 1996 figure. This increase is due to the increase in reserves by approximately 7 percent and profits that were carried forward.

- The Holding Company's long term loans increased by approximately 21 percent, or LE182 million, in 1997. This huge increase is considered normal due to the augmenting accounts receivable item that affects the Holding Company's ability to meet its obligations. Long term loans represents 85 percent of HC's net worth.

- The Holding Company has lately privatized one of its affiliated companies, Engineering & Industrial Projects. Ninety percent of the company's shares were sold through the stock market.

2.5 Law 203 Companies Performance

2.5.1 Sales

Total sales of Law 203 Companies in 1997 decreased by 2.5 percent compared sales in 1996. Despite the privatization of 70 companies, total sales did not seriously decline. In fact, the Holding Company for International Trade & Cotton's sales increased by approximately 30 percent. This increase does not reflect that Holding Company's performance, as it realized losses of LE473 million and its inventory level increased by 81 percent. Table 7 and Figure 7 present the total sales trend from 1995 until 1997.

Comparison of Holding Company Sales
1995 - 1997 (in LE million)

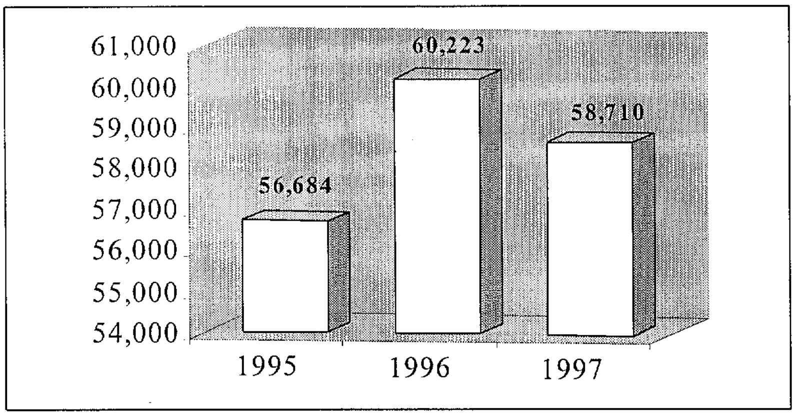
Table (7)

Holding Companies	Sales 95	Sales 96	Sales 97	% Change 96-97
Spinning, Weaving & Ready Made Clothes	3,325	3,539	3,264	(7.77)
Food Industries	7,081	6,990	6,954	(0.52)
National Construction	3,415	4,003	3,427	(14.39)
Engineering Industries	3,318	3,603	3,368	(6.52)
Textile Manufacturing & Trade	3,758	3,651	3,062	(16.13)
Inland Transport	1,228	1,263	1,187	(6.02)
Housing, Tourism & Cinema	1,120	1,276	1,444	13.17
Mining & Refractories	4,043	4,535	4,379	(3.44)
Metallurgical Industries	6,277	7,368	7,175	(2.62)
Pharmaceuticals & Medical Appliances	2,536	2,557	2,647	3.52
Electric Power Distribution	6,265	6,857	6,597	(3.79)
Chemical Industries	2,486	3,028	2,773	(8.42)
Agriculture Development	970	994	955	(3.92)
Maritime Transport	2,032	2,116	1,912	(9.64)
International Trade & Cotton	3,780	3,114	4,051	30.09
Rice Mills & Silos	5,050	5,329	5,515	3.49
Total	**56,684**	**60,223**	**58,710**	**(2.51)**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Sales
1995 - 1997 (LE million)

Figure (7)



Source: PEO; compilation and presentation by IBTCI.

2.5.2 Accounts Receivable

- Contrary to what was expected, accounts receivable for Law 203 Companies increased by approximately 6 percent in 1997 compared to 1996 as shown in Table 8. This increase is in opposition to Holding Companies' sales figures, which decreased by approximately 3 percent in 1997. The increase was primarily concentrated in the Holding Companies for Food Industries, Textile Manufacturing, Agricultural Development, Spinning, Weaving & Ready Made Clothes, and Metallurgical Industries. This increase is primarily due to three reasons: (1) insufficient collection system, (2) the inability or unwillingness of other public sector companies to pay for goods and services rendered, and (3) the inability or unwillingness of some government authorities to pay for goods and services rendered. The inability to collect on these accounts is a vicious circle, increasing the debt levels of affected companies. Even the performance of efficient companies is hampered when they have to resort to short term credit facilities to finance their needs for working capital. If in turn they must resort to credit to finance their need for working capital, this increases their debt service levels and decreases their profit margins.

- The Holding Company for Food Industries is in particularly bad shape. Their sale figures remained almost constant but their accounts receivable increased by approximately 72 percent. Food products are not commodities that can be stored for a long time.

- In the less severely affected Holding Companies, collecting accounts receivable would allow affiliated companies to service their debt, reduce short term borrowing, and operate more profitably. Table 8 and Figure 8 compare the accounts receivable of Law 203 Companies from 1995 until 1997.

Comparison between the Holding Companies' Accounts Receivable 1995 - 1997 (in LE million)

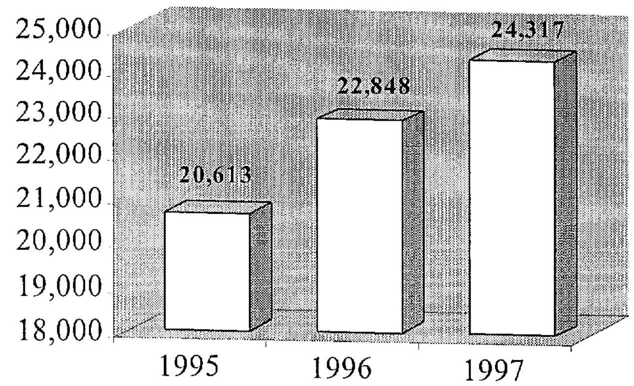
Table (8)

Holding Companies	Accounts Receivable 95	Accounts Receivable 96	Accounts Receivable 97	% Change 96-97
Spinning, Weaving & Ready Made Clothes	1,454	1,381	1,736	25.71
Food Industries	558	462	793	71.65
National Construction	3,366	3,712	4,122	11.05
Engineering Industries	1,428	1,508	1,432	(5.04)
Textile Manufacturing & Trade	1,179	1,320	1,862	41.06
Inland Transport	184	175	178	1.71
Housing, Tourism & Cinema	719	774	115	(85.14)
Mining & Refractories	323	354	278	(21.47)
Metallurgical Industries	1,220	1,551	2,084	34.36
Pharmaceuticals & Medical Appliances	987	872	567	(34.98)
Electric Power Distribution	4,646	5,735	6,142	7.10
Chemical Industries	395	449	450	0.22
Agriculture Development	287	282	357	26.60
Maritime Transport	207	191	210	9.95
International Trade & Cotton	3,051	3,457	3,489	0.93
Rice Mills & Silos	609	625	502	(19.68)
Total	**20,613**	**22,848**	**24,317**	**6.43**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Accounts Receivable
1995 - 1997 (LE million)

Figure (8)



Source: PEO; compilation and presentation by IBTCI.

- **Accounts Receivable versus Sales.**

Some Holding Companies are facing other serious problems where the accounts receivable are higher than or close to the amount of sales. Most affected are the Holding Company for National Construction (120 percent), the Holding Company for Electricity Distribution (93 percent), and Holding Company for International Trade & Cotton (86 percent). If these companies continue to sell to the same clients who have not paid for goods and services rendered in the previous year, the debt cycle begins again. In order to continue to operate, these Holding Companies have to borrow from banks. They will be unable to service their bank debt, and will not be able to pay their suppliers, who in turn will face the same problem. The dilemma will continue to grow. Table 9 represents the difference between the accounts receivable and the sales of Law 203 Holding Companies.

Accounts Receivable versus Total Sales
(in LE million)

Table (9)

Holding Companies	Sales 97	Accounts Receivable 97	Accounts Receivable as % of Total Sales
Spinning, Weaving & Ready Made Clothes	3,264	1,736	53
Food Industries	6,954	793	11
National Construction	3,427	4,122	120
Engineering Industries	3,368	1,432	43
Textile Manufacturing & Trade	3,062	1,862	61
Inland Transport	1,187	178	15
Housing, Tourism & Cinema	1,444	115	8
Mining & Refractories	4,379	278	6
Metallurgical Industries	7,175	2,084	29
Pharmaceuticals & Medical Appliances	2,647	567	21
Electric Power Distribution	6,597	6,142	93
Chemical Industries	2,773	450	16
Agriculture Development	955	357	37
Maritime Transport	1,912	210	11
International Trade & Cotton	4,051	3,489	86
Rice Mills & Silos	5,515	502	9
Total	**58,710**	**24,317**	**41**

Source: PEO; compilation and presentation by IBTCI.

2.5.3 Inventory

The inventory figure for Holding Companies has decreased by 7 percent in 1997 compared to 1996 figures. Of the 16 Holding Companies, only two saw an increase in their inventories: International Trade & Cotton by 81 percent and Inland Transport by 25 percent. The level of inventory in some Holding Companies is considered to be very high compared to their sales figures. Moreover, the decrease of the inventory level is due to the sale of a large number of companies during 1997. Table 10 and Figure 9 present a comparison between the Holding Companies inventory figures between 1995 and 1997.

Comparison between Holding Companies' Inventory
1995 - 1997 (in LE million)

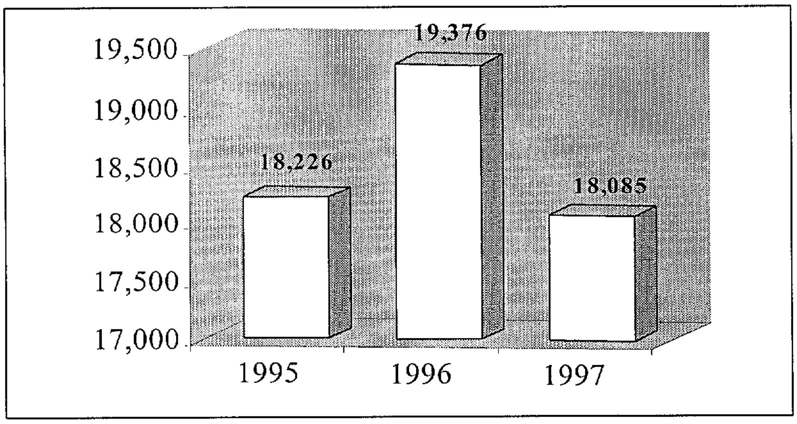
Table (10)

Holding Companies	Inventory 95	Inventory 96	Inventory 97	% Change 96-97
Spinning, Weaving & Ready Made Clothes	1,538	1,858	1,561	(15.98)
Food Industries	1,798	2,126	2,113	(0.61)
National Construction	627	726	651	(10.33)
Engineering Industries	1,529	1,764	1,577	(10.60)
Textile Manufacturing & Trade	1,568	1,749	1,461	(16.47)
Inland Transport	145	153	191	24.84
Housing, Tourism & Cinema	370	386	131	(66.06)
Mining & Refractories	2,221	2,293	1,954	(14.78)
Metallurgical Industries	3,246	3,332	2,920	(12.36)
Pharmaceuticals & Medical Appliances	858	871	889	2.07
Electric Power Distribution	620	627	557	(11.16)
Chemical Industries	1,133	1,194	1,081	(9.46)
Agriculture Development	245	230	198	(13.91)
Maritime Transport	330	315	293	(6.98)
International Trade & Cotton	1,054	944	1,710	81.14
Rice Mills & Silos	944	808	798	(1.24)
Total	**18,226**	**19,376**	**18,085**	**(6.66)**

Source: PEO; compilation and presentation by IBTCI.

Comparison of Law 203 Companies' Inventory
1995 - 1997 (in LE million)

Figure (9)



Source: PEO; compilation and presentation by IBTCI.

- **Inventory versus Total Sales**

The inventory figures represent a burden on the financials of some Law 203 Companies. It should be noted that the GOE bases incentives on production not on sales. In many cases, the products are not sold for many reasons that will be examined later. This negatively affects the performance of the Holding Companies. The inventory item is more than 40 percent of the total sales in six Holding Companies as presented in Table 11.

Comparison between Law 203 Companies' Sales and Inventory Levels in 1997 (in LE million)

Table (11)

Holding Companies	Sales 97	Inventory 97	Inventory as % of Total Sales
Spinning, Weaving & Ready Made Clothes	3,264	1,561	48
Food Industries	6,954	2,113	30
National Construction	3,427	651	19
Engineering Industries	3,368	1,577	47
Textile Manufacturing & Trade	3,062	1,461	48
Inland Transport	1,187	191	16
Housing, Tourism & Cinema	1,444	131	9
Mining & Refractories	4,379	1,954	45
Metallurgical Industries	7,175	2,920	41
Pharmaceuticals & Medical Appliances	2,647	889	34
Electric Power Distribution	6,597	557	8
Chemical Industries	2,773	1,081	39
Agriculture Development	955	198	21
Maritime Transport	1,912	293	15
International Trade & Cotton	4,051	1,710	42
Rice Mills & Silos	5,515	798	14
Total	**58,710**	**18,085**	**31**

Source: PEO; compilation and presentation by IBTCI.

For many years, public sector companies have been facing numerous difficulties storing, packaging, and shipping their finished goods. These problems are somewhat reflected in their accumulating inventory. The following factors account for some of the problems facing affiliated companies.

1. Handling, packaging, and shipping of products with short shelf lifes (food products) are particularly problematical for the Holding Company for Food Industries.

2. Regarding the Holding Company for Spinning, Weaving & Ready Made Clothes, many production decisions over fashion, quality, color, and dye suitability are hangovers from the socialist system which attempted to sell whatever could be produced with outdated technology for barter trade with other socialist economies.

3. A lack of trained personnel with marketing skills able to interpret and design what the market wants instead of what the system can produce.

4. The inability of small and medium sized public sector enterprises to merge or be taken over has put them at a competitive disadvantage to large multinationals with the financial resources to conduct effective international marketing and advertising campaigns as well as discount prices to capture market share.

5. Excessive government regulations concerning production changes, product differentiation, sales strategies, profit margin regulation, product testing, consumer surveys, marketing tests, and media advertising.

6. Price controls, as well as fixed dates and duration of sales.

2.5.4 Net Worth

The net worth figures for Law 203 Companies continued their upward trend in 1997, increasing by approximately 26 percent compared to 1996 figures. This increase in net worth is due to the increase in net profit realized in 1997 (almost double the net profit realized in 1996), and efforts by the GOE in the areas of debt forgiveness of Law 203 Companies, financial restructuring, and the new early retirement plan. On the other hand, a sizable* number of Law 203 Companies were sold and shifted to Law 159. This should have decreased the net worth figure. Still, four Holding Companies – Spinning, Weaving & Ready Made Clothes, National Construction, Textile Manufacturing & Trade, and International Trade & Cotton – have a negative net worth which negatively affects the overall net worth figure for Law 203 Companies. The negative net worth of the above four Holding Companies in 1997 is equal to LE4.1 billion. Table 12 and Figure 10 present the Law 203 Holding Companies net worth from 1995 to 1997.

Comparison between the Holding Companies' Net Worth 1995 - 1997 (in LE million)

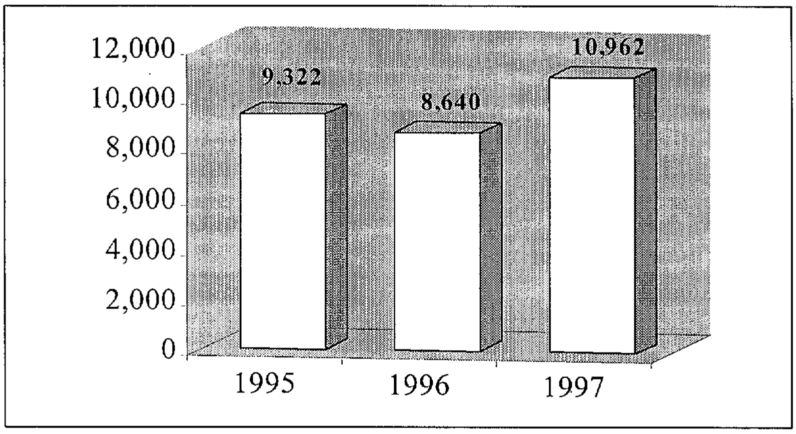
Table (12)

Holding Companies	Net Worth 95	Net Worth 96	Net Worth 97*
Spinning, Weaving & Ready Made Clothes	(16)	(517)	(1,112)
Food Industries	1,634	1,734	1,987
National Construction	(854)	(1,179)	(612)
Engineering Industries	35	(30)	7
Textile Manufacturing & Trade	145	(171)	(857)
Inland Transport	902	1,053	892
Housing, Tourism & Cinema	852	1,042	1,516
Mining & Refractories	704	782	1,006
Metallurgical Industries	2,176	2,300	3,270
Pharmaceuticals & Medical Appliances	489	717	1,143
Electric Power Distribution	1,095	1,194	1,229
Chemical Industries	1,260	1,441	1,470
Agriculture Development	984	1,045	1,143
Maritime Transport	311	206	1,052
International Trade & Cotton	(1,207)	(1,738)	(2,365)
Rice Mills & Silos	812	761	743
Total	**9,322**	**8,640**	**10,962**

Source: PEO; compilation and presentation by IBTCI.
** At least 20 companies were sold during 1996-1997.*

Comparison between Law 203 Companies' Net Worth 1995 - 1997 (in LE million)

Figure (10)



Source: PEO; compilation and presentation by IBTCI.

2.5.5 Long Term Loans

The value of long term loans by Law 203 Companies saw a slight decrease of approximately 1.6 percent in 1997 compared to 1996. Debt forgiveness of Law 203 Companies amounted to LE4.8 billion as of the end of 1997 as discussed in Section 2 of IBTCI's Quarterly Review for third quarter 1997. When the figure for debt forgiveness is considered, it appears that long term loans taken by Law 203 Companies increased in 1997 instead of decreasing. Of the 16 Holding Companies, 7 witnessed an increase in long-term loans, especially the Holding Company for National Construction, in which long term loans almost doubled. However, some Holding Companies experienced a notable decrease in their long-term loans, such as the Holding Company for Maritime Transport and the Holding Company for Housing, Tourism & Cinema. It should be noted that of the 16 Holding Companies, 8 have higher long-term loans figures than net worth figures: the Holding Companies for National Construction, Housing, Tourism & Cinema, Mining & Refractories, Electricity Distribution, Spinning, Weaving & Ready Made Clothes, Textile & Trade, and International Trade & Cotton. Table 13 and Figure 11 present Law 203 Companies' long term loans from 1995 until 1997. Table 14 and Figure 12 show the Law 203 Company's long term loans compared to their net worth.

Comparison between the Holding Companies' Long Term Loans 1995 - 1997 (in LE million)

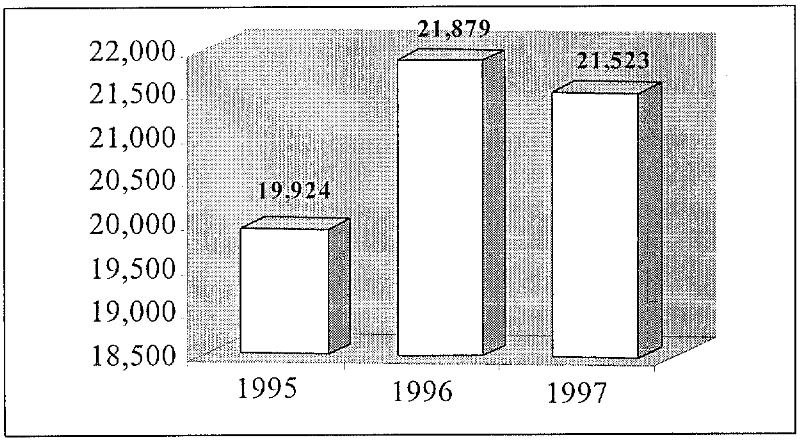
Table (13)

Holding Companies	LTL 95	LTL 96	LTL 97	% Change 96-97
Spinning, Weaving & Ready Made Clothes	441	420	390	(7.14)
Food Industries	1,015	1,076	909	(15.52)
National Construction	200	395	782	97.97
Engineering Industries	765	919	1,140	24.05
Textile Manufacturing & Trade	2,525	3,174	3,592	13.17
Inland Transport	621	594	681	14.65
Housing, Tourism & Cinema	324	312	192	(38.46)
Mining & Refractories	4,076	3,991	4,143	3.81
Metallurgical Industries	6,587	7,088	6,228	(12.13)
Pharmaceuticals & Medical Appliances	0	205	186	9.27
Electric Power Distribution	694	857	1,039	21.24
Chemical Industries	774	926	975	5.29
Agriculture Development	501	369	309	(16.26)
Maritime Transport	467	604	42	(93.05)
International Trade & Cotton	304	347	335	(3.46)
Rice Mills & Silos	630	602	580	(3.65)
Total	**19,924**	**21,879**	**21,523**	**(1.63)**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Long Term Loans 1995 - 1997 (in LE million)

Figure (11)



Source: PEO; compilation and presentation by IBTCI.

Long Term Loans versus Net Worth
(in LE million)

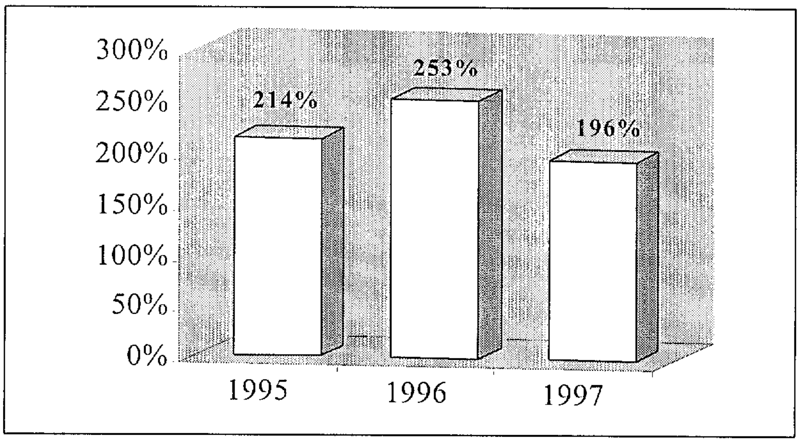
Table (14)

Holding Companies	Long Term Loans 97	Net Worth 97	Long Term Loans as % of Net Worth
Spinning, Weaving & Ready Made Clothes	390	(1,112)	(35.07)
Food Industries	909	1,987	45.75
National Construction	782	(612)	127.78
Engineering Industries	1,140	7	16.286
Textile Manufacturing & Trade	3,592	(857)	(419.14)
Inland Transport	681	892	76.35
Housing, Tourism & Cinema	192	1,516	12.66
Mining & Refractories	4,143	1,006	411.83
Metallurgical Industries	6,228	3,270	190.46
Pharmaceuticals & Medical Appliances	186	1,143	16.27
Electric Power Distribution	1,039	1,229	84.54
Chemical Industries	975	1,470	66.33
Agriculture Development	309	1,143	27.03
Maritime Transport	42	1,052	3.99
International Trade & Cotton	335	(2,365)	(14.16)
Rice Mills & Silos	580	743	78.06
Total	**21,523**	**10,962**	**196.34%**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Long Term Loans as Percentage of Net Worth 1995 - 1997

Figure (12)



Source: PEO; compilation and presentation by IBTCI.

2.5.6 Net Profit

Net profit of Law 203 Companies increased by approximately 96 percent in 1997 compared to 1996. This figure is all the more remarkable as most of the profitable public sector companies have already been privatized. The GOE's efforts in debt reduction of Law 203 Companies, financial restructuring, and reducing excess labor by initiating the early retirement plan has reduced the costs of the Holding Companies. There are still 4 Holding Companies realizing losses: National Construction, Textile Manufacturing & Trade, International Trade & Cotton, and Spinning, Weaving & Ready Made Clothes. Total losses in these 4 Holding Companies amounted to approximately LE1.8 billion. Table 15 and Figure 13 presents the Law 203 Companies' net profits from 1995 until 1997.

Comparison between the Holding Companies' Net Profit 1995 - 1997 (in LE million)

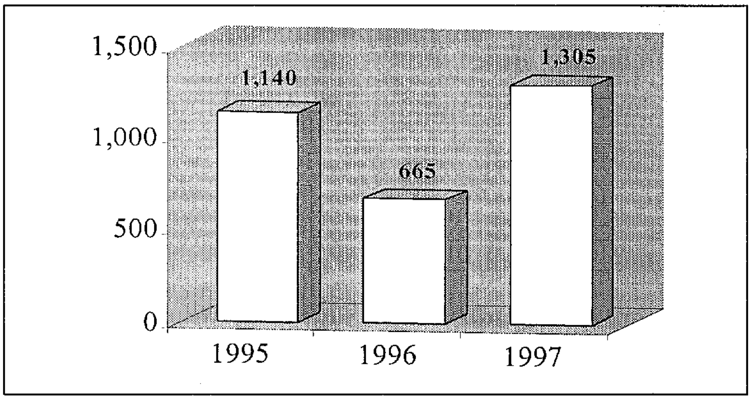
Table (15)

Holding Companies	Net Profit 95	Net Profit 96	Net Profit 97
Spinning, Weaving & Ready Made Clothes	(214)	(504)	(434)
Food Industries	359	417	457
National Construction	(433)	(294)	(76)
Engineering Industries	9	(20)	79
Textile Manufacturing & Trade	(165)	(296)	(857)
Inland Transport	273	206	229
Housing, Tourism & Cinema	236	266	350
Mining & Refractories	209	257	241
Metallurgical Industries	241	256	376
Pharmaceuticals & Medical Appliances	99	123	356
Electric Power Distribution	283	306	256
Chemical Industries	298	286	219
Agriculture Development	137	125	208
Maritime Transport	21	40	190
International Trade & Cotton	(363)	(576)	(473)
Rice Mills & Silos	150	73	184
Total	**1,140**	**665**	**1,305**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Net Profit 1995 - 1997 (in LE million)

Figure (13)



Source: PEO; compilation and presentation by IBTCI

- **<u>Return on Sales</u>**

The return on sales doubled in 1997 due to the increase in net profit and the decrease in sales. It should be noted that 83 of the remaining Law 203 Companies are still realizing losses. Table 16 below shows the sales, net profit, and return on sales (ROS) for each Holding Company in 1997. Figure 14 shows the return on sales for all Law 203 Companies from 1995 until 1997.

Net Profit versus Total Sales (in LE million)

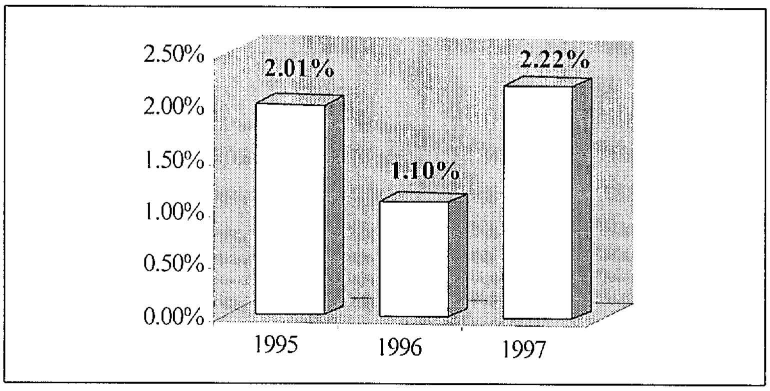
Table (16)

Holding Companies	Sales 97	Net Profit 97	% ROS
Spinning, Weaving & Ready Made Clothes	3,264	(434)	(13)
Food Industries	6,954	457	7
National Construction	3,427	(76)	(2)
Engineering Industries	3,368	79	2
Textile Manufacturing & Trade	3,062	-857	(28)
Inland Transport	1,187	229	19
Housing, Tourism & Cinema	1,444	350	24
Mining & Refractories	4,379	241	6
Metallurgical Industries	7,175	376	5
Pharmaceuticals & Medical Appliances	2,647	356	13
Electric Power Distribution	6,597	256	4
Chemical Industries	2,773	219	8
Agriculture Development	955	208	22
Maritime Transport	1,912	190	10
International Trade & Cotton	4,051	(473)	(12)
Rice Mills & Silos	5,515	184	3
Total	**58,710**	**1,305**	**2**

Source: PEO; compilation and presentation by IBTCI.

Law 203 Companies' Return on Sales
1995 - 1997 (in LE million)

Figure (14)



Source: PEO; compilation and presentation by IBTCI.

2.5.7 Total Assets

Total assets of Law 203 Companies increased by approximately 1 percent compared to 1996, regardless of the privatization of many affiliated companies. It should be noted that the book value of Law 203 Companies in 1991 was LE62.5 billion and the current figure is LE98.63 billion, an increase of approximately 45 percent. The total assets of the Holding Company for International Trade & Cotton increased by 19 percent, as presented in Table 17. However, as this Holding Company realized losses and has a negative net worth, this increase in total assets is due to the accumulated inventory and accounts receivable. The return on the total assets of all Holding Companies in 1997 was equal to 1.43 percent, which is considered quite low. Table 17 and Figure 16 presents the total assets of Law 203 Companies from 1995 to 1997. Figure 15 shows the return on assets of Law 203 Companies.

Comparison between the Holding Companies
Total Assets 1995 - 1997 (in LE million)

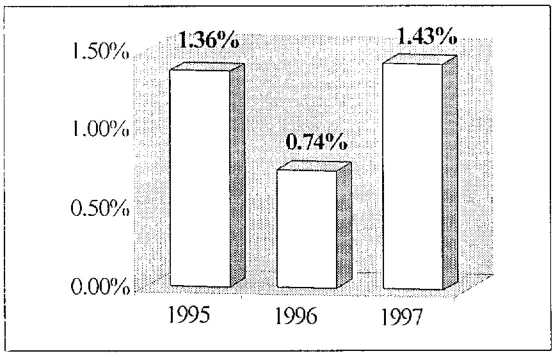
Table (17)

Holding Companies	Total Assets 95	Total Assets 96	Total Assets 97	% Change 96 - 97
Spinning, Weaving & Ready Made Clothes	4,604	5,292	5,307	0.28
Food Industries	5,958	6,537	6,698	2.46
National Construction	5,897	6,737	6,375	(5.37)
Engineering Industries	4,436	4,799	4,448	(7.31)
Textile Manufacturing & Trade	4,923	5,270	5,346	1.44
Inland Transport	2,290	2,453	2,475	0.90
Housing, Tourism & Cinema	3,057	3,255	3,751	15.24
Mining & Refractories	9,313	9,578	8,414	(12.15)
Metallurgical Industries	12,893	13,928	13,959	0.22
Pharmaceuticals & Medical Appliances	2,652	2,477	2,727	10.09
Electric Power Distribution	7,844	9,249	9,575	3.52
Chemical Industries	3,935	4,285	4,377	2.15
Agriculture Development	2,890	2,963	3,089	4.25
Maritime Transport	2,482	2,602	2,187	(15.95)
International Trade & Cotton	6,769	7,618	9,072	19.09
Rice Mills & Silos	3,596	3,349	3,418	2.06
Total	**83,539**	**90,392**	**91,218**	**0.91%**

Source: PEO; compilation and presentation by IBTCI.

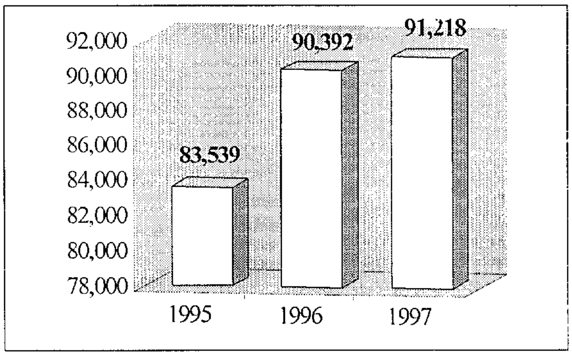
Law 203 Companies' Return on Assets 1995 - 1997

Figure (15)



Law 203 Companies' Total Assets 1995 - 1997 (in LE million)

Figure (16)



Source: PEO; compilation and presentation by IBTCI.

2.6 Privatization Activity in the Banking Sector

2.6.1 Privatization of State-Owned Banks

As of the end of fourth quarter 1997, no activity has been announced regarding the privatization of the "Big Four" state-owned banks – Bank of Alexandria (BOA), National Bank of Egypt (NBE), Banque Misr, and Banque du Caire. In early 1997, the Government of Egypt agreed with the IMF to privatize one state owned bank by the end of 1997, as reported in IBTCI's Semi-Annual/Quarterly Review covering the period January-June 1997. However, during the second quarter of 1997 it was reported in meetings attended by IBTCI staff that the GOE was concerned about this timetable and sought to delay the planned privatization until the end of 1998. The Deputy Governor of the Central Bank of Egypt stated that the government would cease to own banks, and instead will concentrate on the monitoring of the banking sector through the CBE.[13] Also, the Governor of the Central Bank of Egypt reported in late December, 1997 that the privatization of public sector banks would require amendments to the current legal framework governing the operations of these banks that is to be issued by the Parliament.[14] However, to date no activity has been announced regarding this matter.

2.6.2 Privatization of Joint Venture Banks

To date, there are 15 joint venture banks where ownership stakes by the four state owned banks and other public authorities is below 51 percent. During the second half of 1997, no major sales transaction for the stakes of the Big Four state-owned banks in JVBs was announced. However, the Big Four state-owned banks continued to divest their minority holdings in JVBs, but as a group still have not met the divestiture target set by the Government of Egypt.

The 20 percent government target has yet to be met by Banque du Caire and Bank of Alexandria, as shown in Table 28, which presents percentage of the Big Four state banks' holdings in the 23 JVBs as of December 31, 1997. Table 28 indicates that Banque du Caire still holds 29 percent of Cairo Far East Bank and 32.8 percent of Misr America International Bank, and Bank of Alexandria still holds 37.5 percent of Misr Iran Development Bank. In addition, Banque du Caire still has 51 percent ownership in Cairo Barclays International Bank.

The National Bank of Egypt complied with the target through the gradual sale of its JVB holdings where it had minority ownership. Banque Misr complied technically with the 20 percent target for banks with ownership of 49 percent or less in JVBs, but still has a 24.8 percent share of Misr International Bank (MIBank) and 33 percent share of Misr Romanian Bank. Still, Banque Misr has complied with the timetable, since it was formerly majority owner of MIBank and Misr Romanian and thus not subject to the 20 percent target.

During the second half of 1997, two sales transactions for public sector bank stakes in JVBs were partially canceled. The first transaction was the sale of the National Investment Bank and other public maritime agencies' stakes in the Alexandria Commercial & Maritime Bank. The second canceled sale transaction was the sale of 23.5 percent of the Bank of Alexandria's stake in Egyptian American Bank (EAB), representing 10 percent of EAB's

[13] *Al Alam Al Youm*, September 23, 1997.
[14] *Al Alam Al Youm*, December 23, 1997.

total capital. This transaction was canceled before execution. For the details of the two canceled transactions, see IBTCI's Quarterly Review for third quarter 1997.

As of the end of 1997, there are 15 JVBs for which the ownership of the Big Four state-owned banks and other Egyptian public authorities is below 50 percent, as detailed in Section 8.1 of this report. Current JVB ownership by Egyptian state banks and other government owned or controlled entities is impossible to track exactly. It is possible that other insurance companies or major public agencies could be lumped in the "other" category. This would suggest private sector majority ownership while in fact the JVB could still be majority owned by the public sector. However, efforts of the Big Four state-owned banks to meet the 20 percent target for their minority shares has clearly affected the ownership structure of 21 of the JVBs. The data in Section 8.2, suggests that the Big Four public banks' ownership is between 20 and 49 percent for 10 of these 21 JVBs, and below 20 percent in the remaining 11.

As cited in previous IBTCI Quarterly Reviews, the public versus private share of ownership percentages in JVBs changes on day to day basis because of active trading in the stock market. Exact ownership percentages are difficult to pin down for the following reasons:

- Shares of most JVBs are continuously traded on the stock exchange and are among the most actively traded shares. Consequently, changes in ownership resulting from these transactions are not monitored because of the difficulty of tracking them.
- Egyptian public sector entities, other than the four state banks, are not restricted from buying JVB shares. Whereas Prime Minister El Ganzouri stated clearly in early 1996 that public sector banks with ownership of 49 percent or less in JVBs were required to dilute their ownership to no more than 20 percent of JVB's total capital, no restrictions were adopted for other types of public sector or public sector-controlled entities, such as the pension fund, insurance companies, or economic authorities.
- Other stakeholders in JVBs include the following: (1) other specialized banks whose ownership structure is unknown; (2) entities whose ownership structure also varies daily because their shares are actively traded on the stock exchange; and (3) other public sector entities, such as pension funds and retirement accounts, that might hold shares for the benefit of workers or other individuals.

The percentage of JVB ownership by each of the Big Four state banks is presented in Section 8.1 for two periods: August 31, 1995 and December 31, 1997. A subsequent discussion of the privatization activities and JVB sales transitions carried out by each of the Big Four state banks during second half of 1997 is presented below. This information has been obtained from a variety of sources, ranging from newspaper articles, follow up discussions by IBTCI with the staffs of the relevant state banks, JVBs, and others involved with the sales.

2.6.2.1 National Bank of Egypt

Table 18 shows comparative percentage figures for the National Bank of Egypt (NBE) holdings in JVBs on August 31, 1995, September 25, 1997, and December 31, 1997.

National Bank of Egypt's Ownership of Joint Venture Banks on August 31, 1995, September 25, 1997, and December 31, 1997 (in %)

Table (18)

Joint Venture Bank	August 31, 1995	September 25, 1997	December 31, 1997	% Sold as of December 31, 1997
Alexandria Commercial & Maritime Bank	9.520	0.003	0.003	9.520
CIB	42.610	19.810	19.610	23.000
Credit Internationale d'Egypte	51.000	19.500	19.500	31.500
Egyptian Saudi Finance Bank	8.590	8.590	7.690	0.900
El Togarioun Bank	16.998	16.998	16.998	-
Export Development Bank	15.050	11.457	11.457	3.593
Housing & Development Bank	6.940	0.010	0.010	6.930
Islamic Bank for Investment and Development	19.960	19.960	19.960	-
National Bank for Development	1.870	0.000	0.000	1.870
National Societe Generale Bank	30.400	18.000	18.000	12.400
Suez Canal Bank	19.134	5.810	4.590	14.544

During the second half of 1997, NBE continued to divest its minority holdings in Commercial International Bank (CIB), Egyptian Saudi Finance Bank, and the Suez Canal Bank. It reduced its holdings in the Commercial International Bank (CIB) from 22.2 to 19.8 percent of the bank's capital during third quarter 1997 and from 19.81 to 19.62 during the fourth quarter 1997. The NBE also reduced its total holdings in the capital of the Egyptian Saudi Finance Bank from 8.59 to 7.69 percent and its holdings in the capital in Suez Canal Bank from 5.81 to 4.59 percent. The NBE has become the first state-owned bank to achieve the GOE target of reducing its minority holdings in all JVBs to a maximum of 20 percent. This was accomplished while having supported the spirit of the JVB privatization effort by also reducing its former majority holdings in all JVBs to a maximum of 20 percent.

Details of the above mentioned sale transactions conducted by the NBE during the second half of 1997 are as follows:

- **Commercial International Bank**

After NBE had sold 10 percent of its stake in CIB, representing 2 percent ownership of CIB during the third quarter of 1997, during fourth quarter 1997, NBE reduced its holdings in CIB to only 19.61 percent of CIB's total capital. Table 19 details the ownership structure of CIB as of December 31, 1997.

Commercial International Bank's Ownership Structure as of December 31, 1997 (in %)

Table (19)

Stakeholder	May 31, 1995	Post-GDR offering on September 25, 1996	September 25, 1997	December 31, 1997
NBE	42.20	22.20	19.81	19.61
International Finance Corporation	5.00	5.00	5.00	5.00
The Arab Investment Company	2.67	2.67	2.67	2.67
Other Individual Shareholders	50.13	50.17	50.59	50.79
International Financial Institutions				
• Bankers Trust Company				
– B.T Globenet Nominees	0.00	19.93	19.93	19.93
Limited	0.00	2.00	2.00	2.00
Total	**100.00**	**100.00**	**100.00**	**100.00**

The CIB Annual General Assembly decided in June 1996 to increase the issued and paid-in capital from LE450 million to LE500 million by transferring LE50 million from 1995 profits as free shares to be distributed to the original share. Additionally, in August 1997, the par value of the shares was amended from LE100 to LE10 per share.

- **Egyptian Saudi Finance Bank**

During fourth quarter 1997, NBE reduced its total holdings in the Egyptian Saudi Finance Bank from 8.59 to 7.69 percent of the bank's total capital. Table 20 shows the ownership structure of the Egyptian Saudi Finance Bank as of December 31, 1997.

Egyptian Saudi Finance Bank's Ownership Structure as of December 31, 1997 (in %)

Table (20)

Stakeholder	Before Sale	After Sale
NBE	8.6	7.7
Banque Misr	0.0	0.0
Banque du Caire	8.5	8.5
Bank of Alexandria	8.4	8.4
Misr Insurance	4.5	4.5
El Shark Insurance	0.0	0.0
Al Baraka Invest. Holding Company	35.5	35.5
Dallah Int. Holding Company.	5.5	5.5
Others	20.8	21.7
Total	**100**	**100**

- **Suez Canal Bank**

During fourth quarter 1997, NBE continued to divest its holdings in Suez Canal Bank. It reduced its holdings from 5.91 to 4.59 percent of Suez Canal Bank's total capital. NBE sold 1.32 percent out of the bank's total capital. Table 21 shows the ownership structure of Suez Canal Bank as of December 31, 1997.

Suez Canal Bank's Ownership Structure
on December 31, 1997 (in %)

Table (21)

Stakeholder	Before Sale	After Sale
NBE	5.81	4.59
Banque Misr	0.01	0.01
Banque du Caire	0.07	0.07
Bank of Alexandria	0.03	0.03
Libyan Foreign Bank	20.0	20.0
Arab International Bank	6.07	6.07
Suez Canal Authority Fund (staff)	10.01	10.01
Green Valley Company for Investment	5.91	5.91
Arab World for Investment	10.04	10.04
Misr Insurance	11.73	11.73
Mohandes Insurance Company	1.07	1.07
El Shark Insurance	0.43	0.43
Egyptian Reinsurance Company	0.17	0.17
Others	28.65	29.97
Total	**100**	**100**

2.6.2.2 Banque Misr

During the second half of 1997, Banque Misr announced no activity regarding the further sale of its JVB holdings. Table 22 shows comparative percentages of Banque Misr's holdings in JVBs on August 31, 1995, September 25, 1997, and December 31, 1997.

Banque Misr's Ownership of Joint Venture Banks
on August 31, 1995, September 25, 1997, and December 31, 1997 (in %)

Table (22)

Joint Venture Bank	August 31, 1995	September 25, 1997	December 31, 1997	% sold as of December 31, 1997
Egyptian Saudi Finance Bank	8.200	0.000	0.000	8.200
El Togarioun Bank	16.020	16.020	16.020	-
Export Development Bank of Egypt	15.000	11.457	11.457	3.593
Housing & Development Bank	6.940	0.000	0.000	6.940
Islamic Bank for Investment and Development	20.000	20.000	20.000	-
Misr Exterior Bank	40.000	19.500	19.500	20.500
MIBank	64.786	24.800	24.800	39.986
Misr Romanian Bank	51.000	33.000	33.000	18.000
National Bank for Development	2.760	0.000	0.000	2.760
Suez Canal Bank	11.220	0.019	0.019	11.210

Table 22 indicates that Banque Misr has met the target set by Prime Minister El Ganzouri by the gradual sale of its minority holdings in JVBs. However, Banque Misr still holds stakes that amount to over 20 percent in banks where it originally held majority stakes. These stakes are (1) a 34.0 percent stake in Misr Romanian Bank, and (2) a 24.8 percent stake in MIBank. For more detailed ownership structure for both MIBank and Misr Romanian Bank, see IBTCI's Quarterly Review for third quarter 1997.

2.6.2.3 Bank of Alexandria

Table 23 shows comparative percentage figures for the Bank of Alexandria's holdings in JVBs on August 31, 1995, September 25, 1997, and December 31, 1997.

Bank of Alexandria's Ownership of Joint Venture Banks on August 31, 1995, September 2, 1997, and December 31, 1997 (in %)

Table (23)

Joint Venture Bank	August 31, 1995	September 25, 1997	December 31, 1997	% sold as of December 31, 1997
Alexandria Commercial & Maritime Bank	9.720	0.000	0.000	9.720
Alexandria Kuwait International Bank	71.680	9.750	9.750	61.250
Egypt Arab African Bank	8.300	0.000	0.000	8.300
Egyptian American Bank (EAB)	51.000	39.800	35.33	15.6700
Egyptian Saudi Finance Bank	8.400	8.400	8.400	-
Togarioun Bank	9.710	9.710	9.710	-
Export Development Bank	13.200	10.080	10.080	3.120
Housing & Development Bank	5.560	0.000	0.000	5.560
Islamic Bank for Investment and Development	20.000	20.000	20.000	-
Misr Iran Development Bank	37.500	37.500	37.500	-
National Bank for Development	3.040	0.010	0.010	3.030
Suez Canal Bank	10.890	0.300	0.300	10.860

The BOA has continued to reduce its holdings in EAB. In July 1997, it reduced its holdings from 42.5 percent to 39.8 percent of EAB's total capital. During fourth quarter 1997, it continued to dilute its holdings from 39.8 percent to 35.33 percent of the bank's total capital. Table 24 shows the ownership structure of EAB as of December 31, 1997.

Egyptian American Bank's Ownership Structure on September 25, 1997 and December 31, 1997 (in %)

Table (24)

Stakeholder	Original Share Ownership	September 25, 1997	December 31, 1997
Bank of Alexandria	42.5	39.8	35.3
American Express Bank, Ltd.	40.8	40.8	40.8
Free float (EAB employees and the general public)	16.7	19.4	23.9
Total	**100.0**	**100.0**	**100.0**

Additionally, during the second half of 1997, IBTCI staff learned from a reliable source that the BOA no longer owns a stake in Egypt Arab African Bank (EAAB). For more details, please see IBTCI's Quarterly Review for third quarter 1997.

2.6.2.4 Banque du Caire

Table 25 shows comparative percentage figures for Banque du Caire's holdings in JVBs on August 31, 1995, September 25, and December 31, 1997.

Banque du Caire's Ownership of Joint Venture Banks on August 31, 1995, September 25, 1997, and December 31, 1997 (in %)

Table (25)

Joint Venture Bank	August 31, 1995	September 25, 1997	December 31, 1997	% sold as of December 31, 1997
Banque du Caire et de Paris	51.000	49.000	22.000	29.000
Cairo Barclays International Bank	51.000	51.000	51.000	-
Cairo Far East Bank	29.000	29.000	29.000	-
Egypt Arab African Bank	8.300	0.000	0.000	8.300
Egyptian Gulf Bank	14.000	0.000	0.000	14.000
Egyptian Saudi Finance Bank	8.500	8.500	8.500	-
El Togarioun Bank	16.510	16.510	16.510	-
Export Development Bank of Egypt	15.000	11.457	11.457	3.593
Housing & Development Bank	6.940	0.000	0.000	6.940
Islamic Bank for Investment and Development	20.000	20.000	20.000	-
Misr America International Bank	32.800	32.800	32.800	-
National Bank for Development	1.910	0.000	0.000	1.910
Suez Canal Bank	11.130	0.070	0.070	11.060

Banque du Caire has executed 3 sale transactions during the second half of 1997. In addition to the sale transaction for a percentage of its holdings in Egypt Arab Bank, 2 other sale transactions were carried out for the sale of its stake in Banque du Caire et de Paris during third and fourth quarters 1997. First was the sale of 2 percent of its majority stake in Banque du Caire et de Paris to the Banque du Caire Employees' Pension Fund during third quarter 1997. This sale contributed to the privatization of the bank as it reduced Banque du Caire's stake from 51 percent to 49 percent. Second was the sale of 27 percent of the state bank's holdings in Banque du Caire et de Paris to its French partner in October 1997. The following are the details of the fourth quarter sale transaction.

- **Banque du Caire et de Paris**

On October 29, 1997, Banque du Caire diluted its holdings in Banque du Caire et de Paris by selling a 27 percent stake to its French partner, Banque National de Paris. The French bank took majority control of Banque du Caire et de Paris with this sale. The French bank paid US$18.4 million for 7,020 shares in Banque du Caire et de Paris, thereby increasing its stake from 49 percent to 76 percent. EFG-Hermes acted as the financial advisor to Banque du Caire in this transaction. Following this transaction, the stake held by Banque du Caire in Banque du Caire et de Paris was reduced from 51 to 22 percent. Table 26 shows the ownership structure of Banque du Caire et de Paris on December 31, 1997.

Banque du Caire et de Paris' Ownership Structure
on August 31, 1995, September 25, and December 31, 1997 (in%)

Table (26)

Stakeholder	August 31, 1995	September 25, 1997	December 31, 1997
Banque du Caire	51	49	22
Banque Nationale de Paris	49	49	76
Banque du Caire Employees Pension Fund	0	2	2
Total	**100**	**100**	**100**

- ## Egypt Arab African Bank

In the last week of third quarter 1997, IBTCI learned from a reliable source that Banque du Caire no longer owns a stake in Egypt Arab African Bank (EAAB). However, a 1996 document states that Banque du Caire held an 8.3 percent stake at that time. There has been no official announcement of the sale of this stake. For more details, please see IBTCI's Quarterly Review for third quarter 1997.

In August 1997, the Egyptian Reinsurance Company sold its entire stake in the EAAB to a foreign investor. This stake amounted to 9.6 percent of EAAB's total capital. Although this was in essence a private placement transaction, it was executed through the stock exchange. The transaction was carried out at a price agreed upon between the buyer and the seller, which exceeded the market price by more than 5 percent. As a result, the stock exchange canceled the transaction because it is illegal to execute a transaction on the exchange at the then-prevailing market price while a parallel transaction takes place outside of the exchange to cover the price difference. However, by time the stock exchange canceled the transaction, the shares and their legal title had passed to the buyer. Consequently, the case is under investigation and IBTCI staff cannot be positive about the correct ownership structure of the bank. Table 27 shows the ownership structure of EAAB prior to these two transactions.

Egypt Arab African Bank's Ownership Structure
in August 1997 prior to the Sale of Egyptian Reinsurance Company's Stake

Table (27)

Stakeholder	Percentage Share
Arab African International Bank	49.00
Pension Fund	7.19
Egypt Reinsurance Company	9.50
El Mansour & El Maghraby	23.00
El Shark Insurance Company	0.28
El Ahlia Insurance Company	0.97
Individuals	10.06
Total	**100.00**

2.6.3 Total Holdings of the Four State-Owned Commercial Banks in JVBs

All privatization activities that took place in the banking sector during 1996 and the first quarter of 1997 were successful and were characterized by high demand for JVB shares. However, the attempts at privatization in the banking sector during the second half of 1997 were failures. The Big Four state-owned commercial banks have continued to divest their holdings in CIB to 19.6 percent; in Egyptian Saudi Finance Bank, to 24.6 percent; in Suez

Canal Bank, to 4.7 percent; in Misr Romanian Bank, to 33.0 percent; in MIBank, to 24.8 percent; in Banque du Caire et de Paris, to 22.0 percent; and in EAB, to 35.3 percent. These percentages and the total distribution of the Big Four banks' holdings of the 23 JVBs as of December 31, 1997 are presented in Table 28. Banque du Caire still had a 51 percent stake in Cairo Barclays International Bank on December 31, 1997.

Holdings of the Big Four Banks in Joint Venture Banks as of December 31, 1997 (in %)

Table (28)

Joint Venture Bank	National Bank of Egypt	Banque Misr	Banque du Caire	Bank of Alexandria	Total Public Banks' Share
Alexandria Commercial & Maritime Bank	0.003			0.000	0.000
Alexandria Kuwait International Bank				9.750	9.750
Banque du Caire et de Paris			22.000		22.000
Cairo Barclays International Bank			51.000		51.000
Cairo Far East Bank			29.000		29.000
Commercial International Bank (CIB)	19.610				19.610
Credit Internationale d'Egypte	19.500				19.500
Egypt Arab African Bank			0.000	0.000	0.000
Egyptian American Bank (EAB)				35.330	35.330
Egyptian Gulf Bank			0.000		0.000
Egyptian Saudi Finance Bank	7.690	0.000	8.500	8.400	24.590
El Togarioun Bank (Bank of Commerce)	16.998	16.000	16.500	9.700	59.200
Export Development Bank of Egypt	11.460	11.460	11.460	10.080	44.460
Housing & Development Bank	0.010	0.000	0.000	0.000	0.010
Islamic Bank for Investment & Development	19.960	20.000	20.000	20.000	79.960
Misr America International Bank			32.800		32.800
Misr Exterior Bank		19.500			19.500
Misr International Bank (MIBank)		24.800			24.800
Misr Iran Development Bank				37.500	37.500
Misr Romanian Bank		33.000			33.000
National Bank for Development	0.000	0.000	0.000	0.010	0.010
National Societe Generale Bank	18.000				18.000
Suez Canal Bank	4.590	0.019	0.070	0.030	4.709

2.6.4 Banking Privatizations Currently Underway

Four transactions of the sale of stakes of state banks in JVBs are still underway as of December 31, 1997. IBTCI will follow up on the completed transactions next quarter.

2.6.4.1 El Togarioun Bank

During the second week of November 1997, a new round of negotiations started in Cairo for the sale of state financial institutions' stakes in the Trade and Development Bank (El Togarioun) amounting to 81.5 percent of the bank's total capital. The Big Four state-owned banks owned 59.2 percent of El Togarioun Bank, with shares valued at LE122 million. The National Investment Bank owned 22.3 percent of El Togarioun's capital valued at LE46 million. On September 21, 1997, the chairman of El Togarioun Bank stated that he expects the Big Four banks and the National Investment Bank to sell off their combined 81.5 percent holdings, worth LE168 million, by the end of October 1997. This came in the wake of the Egyptian monetary authorities rejection of the first offer received from the Arab Banking Corporation (ABC), based in Bahrain, during third quarter 1997, as reported in IBTCI's Quarterly Review for third quarter 1997.

The rejection of the ABC's offer resulted from it's insistence on making the sale payment in installments, as well as insisting on receiving the subsidies currently received by El Togarioun Bank from the Central Bank of Egypt. Under the ABC's offer, El Togarioun Bank's share price was LE7, whereas the share's nominal value is LE10.[15] The financial situation of this bank had improved during the third quarter, and the bank now realizes annual profits of over LE17 million. Although approximately ten offers from Egyptian and foreign investors were received for the purchase of El Togarioun Bank, all were excluded because of the lack of commitment on behalf of the buyers. The offer received from Indosuez Bank is among the strongest offers open for negotiations, since the offer includes clear plans for modernization of the bank and the introduction of new investments.[16] Table 29 shows the ownership structure of El Togarioun Bank prior to this expected sale transaction:

El Togarioun Bank's Ownership Structure as of December 31, 1997

Table (29)

Stakeholders	Amount in LE ('000)	% Share
NBE	35,003	17.00
Banque Misr	32,944	16.00
Banque du Caire	33,974	16.50
Bank of Alexandria	20,000	9.71
National Investment Bank	45,918	22.30
El Shark for Insurance	5,148	2.50
Egyptian Reinsurance Company	5,000	2.43
Others	27,924	13.60
Total	**205,911**	**100.00**

2.6.4.2 Islamic Investment and Development Bank

During the second half of 1997, Banque du Caire was mandated by the other 3 state banks to handle the sale negotiations for their stakes in the Islamic Investment and Development Bank.[17] A committee of independent experts has been formed to evaluate the bank's assets. The value of the Big Four public sector banks' holdings in the Islamic Investment and Development Bank amounts to approximately 80 percent of the bank's total capital. This step has been taken in light of new indicators pointing to an improvement in the bank's financial position in the 1996 budget. The bank's share price has increased to approximately US$9 per share, close to the share's nominal value of US$10. This is coupled with an increase in the value of bank's assets in various areas, especially in Mokattam and on the Nile. An Egyptian firm had previously evaluated the bank's assets during the first half of 1997, but this evaluation was rejected for unknown reasons.

[15] *Al Alam Al Youm*, November 10, 1997, p. 1.

[16] *Al Alam Al Youm*, November 10, 1997, p. 1.

[17] *Al Alam Al Youm*, September 29, 1997, p. 1.

Following this rejection, the sale transaction was suspended. One day prior to the closing date for acceptance of offers for the sale of these banks' stakes, Banque du Caire announced an indefinite postponement of this sale transaction. Banque du Caire informed the interested parties that the sale had been postponed because the Government was establishing new regulations, standards and guidelines regarding the sale of the public sector banks' holdings in JVBs. There appears to be heightened interest by foreign and Arab investors in purchasing these stakes. As of to date no further announcement regarding this sale transaction were released

Table 30 presents the ownership structure of the Islamic Bank for Investment and Development on December 31, 1997.

Islamic Investment and Development Bank's Ownership Structure as of December 31, 1997 (in %)

Table (30)

Stakeholders	December 31, 1997
National Bank of Egypt	19.96
Banque Misr	20.00
Banque du Caire	20.00
Bank of Alexandria	20.00
Others	20.04
Total	**100.00**

2.6.4.3 Delta International Bank

On September 20, 1997, Delta International Bank announced that it was increasing its paid in capital from LE111 million to LE300 million. Bank President Ali Negm announced that the subscription had been successfully covered for the increase in the bank's capital to LE60 million was at a price of LE16 per share plus a LE0.5 per share issuance fee. This tranche was distributed among the bank shareholders according to their percentage share ownership in the bank's capital. The second tranche of the bank's capital increase, estimated at LE51 million. Although it was mentioned in IBTCI's Quarterly Review for the last quarter that the second tranche was scheduled to be offered to the public in November 1997 at LE22 per share, IBTCI has neither been able to confirm this sale nor seen any mention of this transaction in the media.

2.6.4.4 El Watany Bank of Egypt

In December 1997, El Watany Bank of Egypt announced that it was increasing its paid in capital from LE82.5 million to LE105 million through the issuing of 3,202,521 new shares. These 3.2 million shares were distributed as follows: 2 million shares were offered to the public at a price of LE50 plus LE0.35 issuance fee per share; the remaining 1.2 million shares were offered to the bank's original shareholders at a price of LE40 plus LE0.35 issuance fee per share. The public offering was fully covered within 10 days from the date of subscription and was 7 times over subscribed. Although the minimum number of shares for the public subscription was set at 100 shares per applicant, the allocation of shares was done on a pro rata basis. Table 31 shows the ownership structure of El Watany Bank of Egypt prior to this capital increase in October 1997.

El Watany Bank's Ownership Structure
as of October 21, 1997 (in %)

Table (31)

Stakeholders	As of October 21, 1997
Ahmed Fathi Hassan Soliman	5.4
El Shark for Insurance	4.5
Principal Bank for Development and Agricultural Credit	3.3
Other shareholders	7.4
Free float on the stock exchange	79.4
Total	**100.0**

2.6.5 Privatization and the Egyptian Banking Sector Law

After a legal committee was formed to study the possibility of privatizing public sector banks under the existing legal framework, and to examine whether any legislative amendments or a new law would be needed for this purpose in early 1997. As of the end of 1997, there have been no new developments this quarter.

2.7 Privatization Activity in the Insurance Sector

2.7.1 Privatization of State Owned Insurance Companies

As of the end of 1997, no activity has been announced regarding the privatization of the following public sector insurance companies: Misr, El Shark, Al Ahlia, and Egypt Reinsurance. However, the first step towards privatizing this sector has been taken with the appointment of Dr. Youssef Botrous Ghali as the new Minister of Economy in July. The Minister has called for bids from international firms to evaluate Egypt's insurance companies in preparation for their sale by the end of 1998. Dr. Youssef Boutros Ghali stated in *Al Alam Al Youm*[18] that there is nothing to fear from the privatization of the insurance sector or the authorization for foreigners to compete with Egyptian firms in this sector. The Minister demanded that national insurance companies benefit from their dealings with foreign companies, especially since the expertise exists in national companies to enable them to update and modernize these companies.

Although the GOE's intention is to privatize the state owned insurance companies within the next two years, the government's privatization plan does not include the concept of breaking up any of the three public insurance companies (Misr, El Shark, and Al Ahlia). These three companies have a 90 percent share of the insurance market in Egypt; Misr Insurance alone has 50 percent of the of the life and non-life coverage. Failure of this intermediate step to break up the could essentially transform the current state oligopoly into a private oligopoly that, under current law, would continue to lead to a misallocation of Egypt's scarce resources.

During the American Chamber Conference "The Challenges Facing the Insurance Industry in Egypt" held under the auspices of Minister of Economy on December 1, 1997, the Minister and the Deputy Chairman of the Egyptian Insurance Supervisory Authority (EISA) announced that the GOE is now working on reforming insurance legislation to bring it into line with international standards. The Deputy Chairman announced that the insurance market will be gradually opened after a proper and efficient legal framework is in place. In order to improve the market structure and increase competition, it is highly recommended that the EISA allow more entry into the insurance market, especially by foreign insurance companies. This means removing the 49 percent limitation on foreign ownership in the direct insurance industry, mirroring earlier reforms in the banking sector.

2.7.2 Privatization of the Joint Venture Insurance Companies

According to Law 91/1995 which amended Law 10/1981, public insurance companies are supposed to sell their holdings in the joint venture insurance companies within three years from the Law's implementation on April 5, 1995. Public insurance companies began to sell their holdings in these joint venture insurance companies, and, during 1996, a number of transactions took place that lowered the percentage of ownership by public sector insurance companies in joint venture insurance companies. Despite this transfer of ownership from public to private, the insurance sector remains overwhelmingly dominated by the state owned firms as indicated above (90 percent public and 10 percent private).

No activity has transpired in the insurance sector during fourth quarter 1997. For the detailed ownership structure of the Joint Venture insurance companies, see IBTCI's Quarterly Review for third quarter 1997. The remainder of this section provides a brief summary of the

[18] *Al Alam Al Youm*, December 31, 1997.

regulatory framework of the Egyptian insurance industry, insurance companies that are newly established in the market, and the detailed structure of the Egyptian insurance sector as of December 31, 1997.

2.7.3 Regulatory Framework of the Egyptian Insurance Industry

Privatization of the Egypt's insurance industry is not the only reform needed as private insurance companies must operate in a highly regulated environment. Premiums for automobile and fire insurance are fixed by the government. By law, at least 30 percent of all reinsurance must be placed with Egypt Reinsurance Company, the sole Egyptian company offering reinsurance.

Foreign participation is limited to 49 percent of direct insurance companies. Although there are no restrictions on foreign participation in reinsurance, reinsurance can be handled just as easily abroad. Managers and principals in direct insurance companies must be Egyptian. According to a paper presented by Mr. Samir Hamza, an attorney, in the above-mentioned insurance conference, the Egypt insurance industry is highly regulated. Following are a number of the legal conditions that are required to be met by the operators in the insurance and reinsurance market that were presented in Mr. Hamza's paper: [19]

- Two of the board members of any insurance company must have experience in the field; one of them must be responsible for operations and must be an Egyptian national. Further, the law requires that the responsible manager for subscription, compensation, reinsurance and investment activities must also have experience in these fields. The company must further inform EISA of appointments. The EISA has the right to block nominations. In case of any objection raised by EISA, the party concerned shall have to submit his grievance to the Minister of Economy, who shall decide on such grievance within thirty days.

- The law requires that an insurance and reinsurance company should maintain in Egypt sufficient funds to cover at least the technical reserves required under the law and that such amounts be deposited with one of the banks registered with the Central Bank of Egypt.

- Regarding participation in other companies, the law prohibits an insurance company from participating in the capital of another insurance company that operates in the same field of insurance. Further, a company cannot participate in the capital of one company by more than 5 percent of its total investments or 20 percent of the capital of such a company. There are further limits regarding granting of loans.

- The law requires that the fiscal year of any insurance company begin on January 1, and end on December 31 and that no independent auditor can audit the account of more than two insurance companies.

As the Government of Egypt is moving toward liberalizing the insurance industry to expand and strengthen the existing market, the major reform awaiting this key sector, in addition to the privatization of one state owned insurance company, is the deregulation of the legal framework for the insurance industry. The ability to attract prominent multinational insurers

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[19] Hamzr, Samir, "Regulatory Framework for the Insurance Industry in Egypt," presented at the American Chamber of Commerce Conference "The Challenges Facing the Insurance Industry in Egypt" held in Cairo, December 1, 1997.

to the Egyptian market and to encourage the domestic private sector to play a more active role in this industry is contingent upon removing existing barriers to entry and to free competition. According to market operators, the main points that should be addressed are:

- Waiving the 49 percent cap on foreign ownership, as most foreign companies are reluctant to enter into arrangements that do not provide for full management control and ownership. However it should be noted that lifting the foreign ownership cap would prevent Egyptian regulators from supervising operations and entry of foreign insurers.

- Enhancing and defining the role of the regulator.

- Removing the requirement of Egyptian nationality for insurance companies' managing directors. Waiving this requirement should be a consequence of the recommended change of waiving the 49 percent cap on foreign ownership. If foreign investments are to be encouraged by the right of foreign equity ownership, than ownership rights should be accompanied by the right to install management of its choosing regardless of nationality. One of the benefits of foreign ownership is the introduction of international expertise and skills.

- Removing compulsory reinsurance through the elimination of the set percentage to be reinsured with Egypt Reinsurance. Insurance companies should be allowed maximum flexibility in making reinsurance arrangements, permitting them to place reinsurance with domestic and foreign reinsures in order to securely spread the risk.

- Removing limitations on premiums for all types of insurance, including fire and automobile.

- Increasing transparency in the insurance sector. For example, the Insurance Supervisory Authority might consider requiring insurance companies to apply International Accounting Standards (IAS) in preparing their financial statements and balance sheet accounts, as well as conducting audits through two different independent auditors.

In early January 1998, the Higher Insurance Council, chaired by the Minister of Economy, approved a draft law for the insurance industry that allows foreigners to own more than 49 percent of insurance companies. The draft law has been submitted to the Parliament for approval.

Following the announcement by the GOE in early January 1998 regarding the beginning of deregulation of the insurance sector, it was announced on January 5, 1998 that Muenchener Rueckversicherungs AG (Munich Re), the world's largest reinsurance company, will open a regional office in Egypt.[20]

2.7.4 The Structure of Egypt's Insurance Sector and Newly Established Firms

As of December 31, 1997, the Egyptian insurance sector was composed of EISA, the insurance regulatory body, and 12 insurance companies described in the following organizational chart. One of these is the first multinational insurance company to be authorized by the Egyptian Insurance Supervisory Authority to operate in Egypt under the name Pharaonic American Insurance Company – ALICO.

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[20] *Al Ahram*, January 5, 1998.

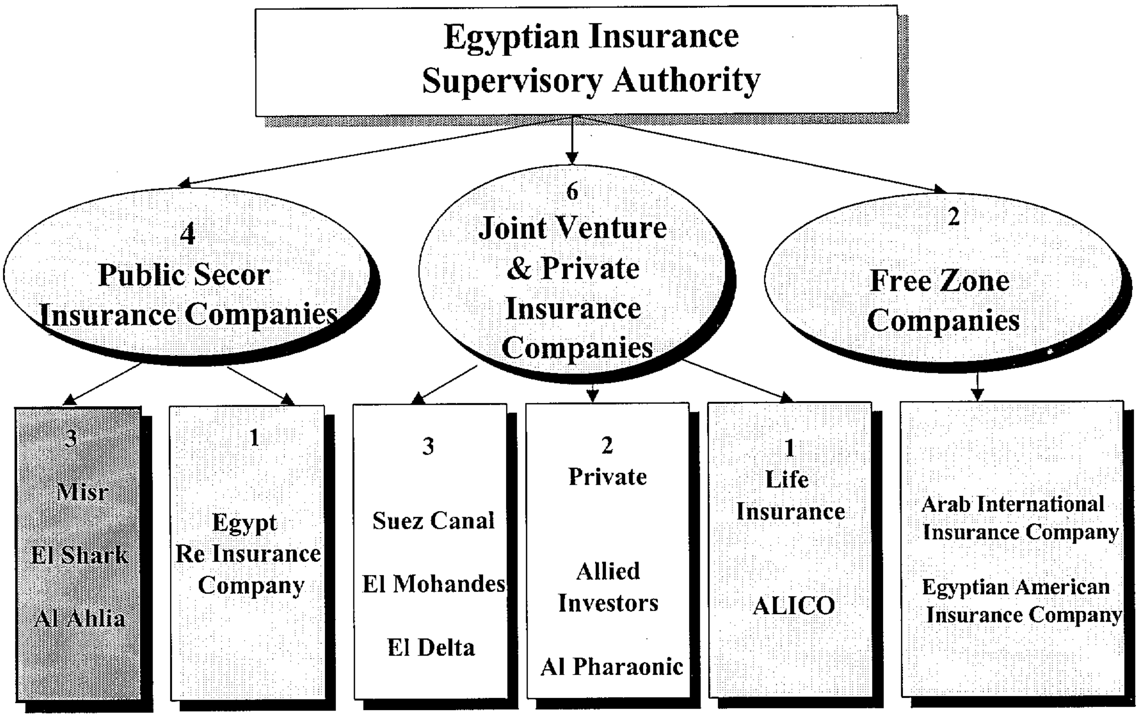
- **<u>American Life Insurance Company – ALICO</u>**

After years of trials, American Life Insurance Company (ALICO) finally entered the Egyptian market in a joint venture partnership with the private Egyptian firm Pharaonic Insurance Company. The venture was given the license in January 1997, started marketing in March and began operations early during fourth quarter 1997. ALICO is only operating in the life insurance field.

An open and competitive life insurance industry benefits the Egyptian economy by mobilizing domestic capital, encouraging foreign investment and creating skills-intensive employment. It also benefits individuals and families by promoting and encouraging savings and by providing financial security at competitive rates.

Figure (17)

Structure of the Egyptian Insurance Sector as of December 1997



For more details about the structure of the Insurance sector see IBTCI's <u>Quarterly Review</u> for third quarter 1997.

2.8 Bilateral and Multilateral Donor Programs

Under Egypt's Economic Reform Program, international donors have been invited to participate in the Program through the provision of technical assistance and guidance in a wide spectrum of areas, ranging from privatization, organization, management policy and technical directions. The Economic Reform Program creates new areas of investment that generate higher rates of return and less risk for investors. Ultimately, these new investments are expected to result in higher paying jobs for the Egyptian population, increased exports, tax revenues, and generally, more opportunities for Egyptians. Technical assistance is also being provided by these international donors on the various components that have arisen around the privatization program. Support activities provided by donors range from financial and technical support of the PEO Office, the Capital Markets Authority, and other entities and institutions associated with the Egyptian stock market, to assistance in reorganization, financial restructuring, policy development and technical activities for individual public-owned Law 203 firms and JVBs. In this section, an overview of selected donor support activities is provided, with particular emphasis on new developments during the fourth quarter of 1997. The information in this section was gathered through a variety of means: telephone conversations with donor representatives, donor reports, newspaper articles and announcements, and other sources.

2.8.1 United States Agency for International Development (USAID)

- **Privatization Project (PP)**

The USAID, through the PP, provides the GOE with privatization support in the form of local and international experts to assist in preparation of company information memos and valuations for both sellers and potential investors of public enterprises. It provides studies and policy support activities for developing new financial institutions and instruments, and for developing policies for dealing with the fast moving developments in the stock market. The PP comprises a consortium of Egyptian and international companies, led by Arthur Andersen (AA), an international business and financial consulting firm.

- **The Mission of the PP**

- ❑ Actively promote, participate, and assist in the execution of transactions that transfer government-owned assets into private hands.
- ❑ Accelerate Egypt's privatization efforts by providing assistance, creating favorable public opinion, supporting organizational policies, and developing a legal framework as a means towards overall economic reform.

The PP works in close coordination with the Ministry of Public Enterprise's Public Enterprise Office (PEO), Holding Companies (HCs), affiliated companies (ACs), capital market institutions, and regulatory bodies. It also works with specific entities targeted for privatization, particularly financial institutions, other GOE institutions, and USAID and its programs for supporting privatization.

During fourth quarter 1997, PP has completed and submitted valuations for nine companies and assets: El Wady Company for Exportation of Agricultural Goods, Nubariya Seed Production Company (Nubaseed), Egyptian Shoes Company (BATA), Nasr Engineering & Refrigeration Company (Koldair), Erection & Industrial Services Company (ERISCOM), El

Nasr Glass & Crystal Company, Sheeni Company, Misr Aluminum, Nile Co. for General Engineering and Misr Hotels (as separate assets).

The PP is working on the following company valuations: Consumption Goods and Other (SIDNAWY); El Nasr Wool & Selected Textiles (STIA); Omar Effendi; Delta Cotton Ginning Company; Egyptian Gypsum Marble & Quarries Co. (GYMCO); El Nasr Particle Board Resins; and El Nasr Co. for Refractories Ceramic (SORNAGA).

3.8.2 International Business & Technical Consultants Inc. (IBTCI)

IBTCI is an international management and consulting firm assisting the USAID mission in Egypt on an evaluation program for privatization of state-owned enterprises. IBTCI's responsibilities center mainly on the continuous monitoring and evaluation of the work being carried out under the USAID assistance program.

- **Program Monitoring and Evaluation**

IBTCI currently monitors and evaluates four distinct areas: (1) the Government of Egypt's privatization program; (2) the performance of the technical assistance contractor, the consortium led by Arthur Andersen; (3) the conduct and analysis of privatization policy studies; and (4) examination of the Privatization Program's impact on the macroeconomic and business climate in Egypt. IBTCI publishes and disseminates quarterly reports and semi-annual evaluations of the privatization effort.

During fourth quarter 1997, IBTCI undertook a special study that describes and explains the three principal methodologies being used by the Egyptian Government to privatize previously state owned enterprises: (1) the 100 percent sale of companies to employees (ESAs), (2) anchor investor sales, and (3) public offerings totaling at least 51 percent of a company's equity on the stock exchange.

Each method has its own peculiarities, which have or may dramatically impact the ability of private sector owners to impact management. Additionally, Egyptian law concerning corporate governance will also impact the new owners ability to effect management or production procedures. Thirdly, the Egyptian labor law and other directives can or may impact the ability of new owners to make the kinds of management changes or production changes necessary to impact the efficiency of the firm.

Consequently, the primary purpose of this special study is to derive the facts underlying privatization, to discern whether private sector ownership has an impact on management, as relates to efficiency and productivity in the Egyptian context.

In this respect, IBTCI has selected companies which privatizations correspond to each of the three methods under study. Three ESAs were examined: General Company for Reservoirs and Ground Water (Regwa), Upper Egypt Dredging Company and Wadi Komombo. Two anchor investor sales were studied: Babcock & Wilcox (Egypt) and Al Ahram Beverages. Finally, 2 initial public offerings evaluated: Nasr City Housing & Development (Madinet Nasr) and Arab Transistor Radio & Electric Equipment (Telemisr).

2.8.3 Sector Policy Reform (SPR) Programs II and III

These programs are the second and third 2-year US$400 million programs that support policy reforms in broad areas, including privatization, de-monopolization, and increased participation of the private sector in the economy. Selected guidelines of SPR III and GOE performance as of December 31, 1997, are presented in Section 7. Specifically, the policy conditionality associated with the first year of SPR II, requires the GOE to sell its shares in another 11 joint venture banks and to privatize or liquidate 30 public sector entities whose 1991 book value exceeds LE5.4 billion. The SPR II requires the GOE to sponsor a study to assess the indebtedness among state owned enterprises. The second year of the SPR II requires the GOE to take actions to reduce the debt of state owned enterprises in order to encourage privatization. Another area of concern is the use of privatization proceeds. The second year of SPR II requires the GOE to adopt and begin implementing an action plan to break up state monopolies in maritime transportation.

Selected targets of the SPR III program are presented in Section 7 of this report. They intensify the privatization agenda by requiring the GOE to privatize one of the Big Four public sector banks and one of the Big Three public sector insurance companies. The program also calls for the GOE to liquidate or privatize at least 25 additional public sector entities, whose 1991 book value exceeds LE4.5 billion. The SPR III commits the GOE to limit the use of these proceeds to debt retirement and financial restructuring of public enterprises to be privatized, employee compensation stemming from downsizing and liquidations, the costs of selling public enterprises, and reduction of domestic public debt. The SPR III requires continued implementation of this action plan. The SPR II and III programs also require the GOE to adopt a privatization and liberalization plan for the textile sector.

The SPR programs are attempting to move into new sectors of the economy, including the privatization and de-monopolization of ports and airports. In 1996, the GOE sponsored a study to determine the actions necessary to improve the port facilities. The SPR programs also support other policy reform efforts that directly impact privatization, including indebtedness of state owned enterprise.

2.8.4 Agricultural Policy Reform Project (APRP)[21]

The Agricultural Policy Reform Project is a four-year, US$200 million sector grant program. This program, like the SPR III project described above, aims to remove remaining policy barriers to private enterprise. However APRP focuses on agriculture. It supports the creation of a more liberal competitive marketing system and the stimulation of sustainable agricultural growth. It also aims to increase employment and income in the agricultural sector and agricultural related activities, to improve efficiency of land and water use in old and new settlement areas, and to target food subsidies to the poor for improving their food security.

The APRP supports policy reform efforts with technical assistance in four areas.

2.8.4.1 Reform Design & Implementation (RDI)

The RDI provides technical assistance in resource economics, marketing, agribusiness, and privatization. It conducts studies to clarify policy issues and constraints and proposes possible solutions, recommends policies in support of a private sector-led liberalized economy, implements public awareness programs, sponsors a wide range of training courses to provide the skills needed to support a free market system, develops plans for divesting economic and commercial activities to the private sector, and promotes private sector economic activities and investment in agriculture and agribusiness.

[21] Agricultural Policy Reform Project, Quarterly Reports II & III, No. 17, October 1997.

2.8.4.2 Monitoring Verification and Evaluation (MVE)

The MVE provides technical assistance to verify the accomplishment of policy reforms, monitors the impact of reforms on the policy environment, evaluates the impact of reforms on the agricultural sector and the economy, determines the impact of reforms on the economic welfare of agricultural producers and consumers and on economic operations of marketing agents, detects problems in policy implementation, offers approaches to policy constraints, conducts rapid appraisals and market/farm surveys (for example, to verify increases in private sector participation in market operations), and evaluates policy implementation activities developed under APRP.

2.8.4.3 Food Security Research (FSR)

The FSR develops a more cost-effective food subsidy system protecting vulnerable households and individuals that is socially and politically feasible. It recommends policy options to stimulate rural employment and income generation, identifies policy options for market liberalization, and provides extensive data bases on Egyptian household income, consumption, and nutrition and wheat trading.

2.8.4.4 Project Management Unit (PMU)

The PMU provides overall coordination and logistics support for the three technical units mentioned above in Sections 2.8.4.1-2.8.4.3.

• APRP Accomplishments

During the third and fourth quarters of RDI Unit operations, the Technical Assistance Team, working in close collaboration with the PMU, with other APRP offices, and with USAID's Strategic Objective 1 Team's Agricultural Policy division, has reported the following achievements:

1. Morocco cereals marketing reform approach: maps of cotton and rice sub-sectors completed. Cotton sub-sector maps and report published. Rice maps and report was scheduled to be published in fourth quarter 1997.
2. Road Map methodology: road map analysis successfully conducted for procedural and regulatory issues in the rice and cotton sub-sectors.
3. Mobilization of long-term expatriate team: three long-term expatriates arrived within 30 days of signature of contract. The fourth member of the team arrived two weeks later. Three Egyptian professionals started within 30 days of signing the contract. The fourth joined on Jan 1, 1997. One team member had to be replaced. The replacement was identified and began work February 2, 1997.
4. Baseline conditions in four areas of RDI Implementation: status reports on benchmarks published in February 1997. This report was late because of the change in the nature of the work to be done. Rather than a general assessment of the four RDI technical areas, the team carried out an analysis of the Tranche I benchmark status to guide prioritization of efforts to help satisfy this first set of benchmarks.
5. Coordination with other APRP components has been successfully implemented. Technical & Administrative Management Information System (TAMIS) and Local Area Network (LAN) allow rapid and effective communications.
6. TAMIS: installed and operational
7. Field accounting system: installed and operational

8. Full responsibility for project management to Chief of Party (COP): COP in full responsibility for all decisions.
9. Field team management delegated to Dr. Max Goldensohn.

- **Studies Initiated and Completed**

Studies completed are as follows: Agricultural Land Divestiture, Rice Road Map, Cotton Sub-Sector Map, Rice Sub-Sector Map, Training Needs Assessment, Cotton Lint Imports, Phytosanitary Rules, Seed Sector Assessment: Policy and Association, Cotton Price Policy Study (and Model), Cotton Deficiency Payment Management System, Far East Textile and Yarn Market Study, and Textile Privatization Preparation Paper.

Research initiated on Short Staple Cotton and Short Season.

Studies yet to be completed in the fourth quarter: Fertilizer Prices and Marketing Study, Yarn Tariffs Study, Tax Burden Study, Research & Extension. The terms of reference for these studies has been completed.

- **Implementation Activities Prepared**

1. Short season cotton research: planning completed. ARC reports trials in Qena in 1997 planting season.
2. Phytosanitary regulation reform: will initiate planning in Quarter 5 after return of head of Central Administration for Plant Quarantine, (CAPQ) at Ministry of Agriculture and Land Reclamation from invitational travel to USA.
3. Update International Food Policy Research Institute (IFPRI), Ministry of Public Works and Water Resources (MPWWR), Ministry of Agriculture & Land Reclamation (MALR), University of Cairo GAMS model: will complete planning in Q2, start work in Q3, complete in Q4.
4. Private Seed Producers and Traders Association: study completed. Association created in Q2 and Q3. Association named to National Seed Council for Q4.
5. Textile sector Rehabilitation Fund: planning begun. Report completed. Policy advocacy campaign in Q4 and on going.
6. Sharkeya Rice Mill ESA Privatization. Planning began in Q2 and Q3. Expect to have draft plan in Q4.
7. Privatization of cotton seed acid delinting plant. Plan will be completed in Q4.
8. Cotton market information system: weekly reporting, Situation and Outlook reports begun in Q3. On-going in Q4.
9. Press review of national press clippings started on weekly basis from Arabic and English press from August 8, 1997.

Training: TNA and first draft training plan completed. Three overseas invitational travel events planned for Q4. Policy seminars and workshops carried out as needed. Trade analysis course planned for South Africa in Q5.

- **Problems Encountered**

1. The task forces had not begun to operate by the end of Q3. 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. The idea of the TFF requires re-thinking.

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 MPWWR under APRP runs smoothly. So far, this relationship is working well.

3. The USAID Direct Hire staff supporting APRP/RDI left, with one exception, during Q2. Luckily this caused no problems at all. The USAID Egyptian professional staff remains, as will one key member of the USDH staff.

2.8.2 British Department for International Development (DFID)

A team from DFID (formerly British Overseas Development Agency (BODA)) visited the Capital Market Authority and other officials in November to discuss a project to assist the Egyptian authorities to improve regulation of the Capital Markets and promote wider public awareness and access. A project proposal is expected.

The DFID will advise the CMA on all aspects of its development as requested by CMA management. This will include work in the areas of surveillance, corporate finance, financial disclosure, implications of accounting reform, and public information strategy.

Training courses in the United Kingdom will be offered for Capital Market Authority and Egyptian Stock Exchange staff as well as financial journalists.

2.8.3 International Monetary Fund (IMF)

An IMF delegation visited Cairo in December to undertake the periodic review of the economic restructuring program, which Egypt is currently implementing with IMF assistance. This year is considered the last year of the economic restructuring program, which Egypt has implemented in cooperation with the IMF since the beginning of the 1990s. The Economic Reform & Structural Adjustment Program (ERSAP) developed and agreed upon in October 1996 is expected to end in September 1998. The basic features of the 1998 restructuring program includes increased private sector activity and encouraging the private sector to enter new investment areas such as ports, airports and infrastructure. Privatization of a number of ports is expected before the end of March 1998, in addition to the privatization of one of the public sector commercial banks, and one of the state owned insurance companies.

The ERSAP also includes increased administrative reform and changes to the legal framework in order to encourage investment. Changes are also planned for the taxation system, with the aim of increasing taxation revenues without imposing any new taxes or increasing current taxation levels.

The head of the IMF workgroup stated that Egypt is currently moving to join the group of middle income countries. He also added that following the success of Egypt's economic policies, and the realization of high economic growth rates based on solid economic fundamentals, Egypt is now ready to implement the second generation of economic reform policies and actions.

Regarding the privatization program, the GOE has prepared a privatization program until the end of 1998, with particular emphasis on privatization action plans up until the end of March 1998. The privatization program is more diversified this time. The GOE has taken the initiative and offered new areas for privatization, with ports and airports heading the list of new areas, in addition to retail outlets.

The head of the IMF workgroup also stated that one of the state owned commercial banks would be privatized next year, in addition to a state owned insurance company. Privatization of one of the state owned commercial banks had been delayed this year, in order to develop a legal framework suited to this privatization.

The IMF has set new conditions for its third agreement with Egypt within the GOE's economic reform program. This agreement stipulates (1) privatizing road, railroad, telephone, and airport sectors, (2) privatizing the 314 public sector companies by the end of next year, (3) privatizing a portion of the government's services sector by early 1999, and the entire sector by 2000, (4) relaxing restrictions on the sale of strategic companies, such as pharmaceuticals, mills, electricity distribution, and maritime services.

2.8.4 Germany

Kreditanstalt fur Wiederaufbau (KFW) is a development bank. It commissions diagnostic and consulting studies funded through assistance programs leading to soft loans and further technical assistance.

The German Government, through KFW, has provided grant funds amounting to DM4.5 million (equivalent to US$3 million) to finance privatization studies and related advisory services for eight public sector companies. Accountants and consultants from Coopers & Lybrand, KPMG, and Booz Allen Hamilton have carried out these studies.

The eight companies are Alexandria Oil & Soap Company, Industrial Gases Company, Misr Chemical Industries, Egyptian Plastics and Electrical Industries Company, Abu Qir Fertilizers Company, Alexandria Metal Products Company, Egyptian Copper Company, and El Nasr Castings Company.

There has been very limited follow up on the studies by the PEO, the four Holding Companies concerned, and the affiliated companies. The KFW consultant prepared an evaluation of Industrial Gases and received three bids from strategic investors. However, the price evaluation prepared by the KFW consultant was much lower than that prepared by the HC for Chemical Industries. All 3 offers were rejected and the sale fell through. The Government of Egypt then called off the sale.

In most of the other cases as well, the consultants recommendations for technical and/or financial restructuring, partial or full privatization are being very slowly implemented. In a number of cases, these delays in implementation of the proposals for restructuring or privatization have led to substantial and avoidable losses and/or prospects for an eventual privatization have been considerably reduced.

It seems increasingly doubtful to the German side if, and to what extent, studies and advisory services have to be provided by foreign consultants, given the growing proficiency of local financial intermediaries, accountants and auditors.

In view of this experience, the German Government has, based on KFW's recommendation, suspended funding of further privatization studies. The studies conducted so far and their impact in particular will be reviewed and evaluated in early 1998. Based on this evaluation, the German side will decide on whether to proceed or discontinue the financing of studies and advisory services related to privatization.

2.8.5 United Nation Development Program (UNDP)

The UNDP plans to continue providing services to the GOE, utilizing the flexibility of its program for the benefit of improved delivery of programs and projects. The UNDP is ready to fund the PEO, along with the participation of the GOE, and other donors. The PEO plans to carry out its commitments until December 31, 1997, by which time the remaining donors would meet with the GOE to decide upon the level of their participation.

2.8.6 European Community (EU)[22]

The European Union's agreement with the Government of Egypt on the Public Enterprise Reform & Privatization Program (PERPP) is designed to assist in the facilitation of the reform process of the Public Enterprise Sector through the provision of specialized expert technical assistance. The program is scheduled to last for five years.

The total budget for the program is ECU43 million distributed as follows: ECU25 million are allocated for privatization technical assistance, ECU9 million are earmarked for restructuring, ECU2 million for training, ECU1 million for technical assistance on special projects, ECU3 million for the Project Management Unit (PMU), ECU500,000 for monitoring, and ECU2.5 million for contingency.

The EU established a Project Management Unit to manage the technical assistance program. The PMU is a contractor operated by Maxwell Stamp plc of London. It is a medium-sized economics and management consulting firm that operates worldwide. The PMU will be responsible for assisting the PEO in procuring technical assistance to ensure that the project objectives are achieved. The main objective of the Project Management Unit (PMU) is to assist the Holding Companies in prioritizing their affiliated companies for the reform process.

The PMU is given instructions by the PEO on the privatization candidate chosen by the Holding Company. The PMU then prepares a comprehensive set of tender documents, inviting a short list of six of the prequalified consultancy consortia to bid for the assignment. This document includes the terms of reference, details of target value of the contract, and its projected length.

A committee from the PEO, the Holding Company, and the PMU evaluates tenders on basis of technical merit. The lowest priced tender is awarded the contract.

The contracts are usually split into two phases. The first phase is a comprehensive review of the commercial position of each organization. This includes financial performance, operational efficiency, sales and marketing capabilities, market review, and manpower studies. The consultants will work on the implementation of the second phase with the affiliated companies and the Holding Companies to achieve the agreed goals. Some companies will be suitable for moving straight to the second phase, if studies on the best divestiture method or similar considerations have been done, since PMU's consultants can rapidly assess these plans. There may be a range of eventual outcomes appropriate for the second phase, but the privatization method, in which the PERPP would most like to assist, is anchor investor privatizations. This method of divestiture is particularly beneficial because anchor investors bring expertise in the technical and managerial fields as well as financial investment. The consultants that the PMU uses are particularly well experienced in the

[22] Project Management Unit, Monthly Progress Reports for October, November, and December 1997.

whole process of marketing public entities to interested international companies. Of course, the PERPP will support the work required for any form of divestiture, but in the PMU's opinion, the anchor investor route is the most appropriate one for the system.

2.8.6.1 PMU Tasks

- Establish lists of privatization or restructuring candidate firms to be included in this project in collaboration with the PEO.
- Prepare, in collaboration with the PEO and the HCs concerned, the terms of reference for each TA contract; assist in evaluating the tenders and obtain the relevant endorsements by the Deputy NAO and the EC Commission.
- Insure that the TA for the implementation of the project is procured and executed in compliance with rules and procedures governing EC-Egypt financial cooperation.
- Identify potential problems in project implementation and recommend corrective measures.

2.8.6.2 Activities of the Project Management Unit (PMU)

- **Water and River Transport Companies**

Final approval of the European independents Phase I report is still awaited. The basic recommendations of European Independents is that a strategic investor will be approached immediately while a number of improvements in the management of the companies are addressed, whilst the consultants are approaching potential investors. European independents have already identified a possible investor, and received an interested response.

- **Upper Nile Hotels**

The cost of demolishing the Kalabsha Hotel is still outstanding. Therefore, the approval to commence Phase II was not forthcoming, and was still awaited at the end of fourth quarter 1997.

- **Metals Companies**

The approval from the EU is still not yet forthcoming as Booz, Allen Hamilton have yet to present a detailed separate budget for the 6 companies for Phase II. Once this has been received, the project will continue.

- **Narubin and Trenco**

A progress meeting was held on October 7, with WS Atkins, the Holding Company, and the PEO. The consultants continue to be on time with their Phase I activities and they delivered a draft of the report in mid of October. A meeting to discuss their findings and recommendations was held on November 19, and it is hoped that basic approval for the Phase II will be received at that meeting.

- **Alexandria Shipyard & Ship Repair Company**

No further discussions on this project took place this quarter.

- **Automotive Engineering Companies**

The evaluation committee for this project met again on October 1, and opened the three highest banded scoring consultants' financial tenders. Booz, Allen Hamilton was the winner, but the technical question regarding nationality requirements for consultants was still not resolved by the EU, resulting in another adjournment. This was still the case at the end of fourth quarter 1997.

- **Engineering Companies**

The long-awaited approval for the 6 short-listed consultancy consortia for this project was received at the end of October. Final drafts were in the process of production at the end of the month. It is assumed that the documentation will be dispatched to the consultants before Christmas.

2.8.6.3 Planned Activity Schedule/Detailed Work Program

The Planned Activity Schedule is one of the basic working documents in the comprehensive one year rolling work program that is currently being developed. Although it was hoped the initial draft for this document would be circulated for comments in late October, it will not be available until the end of November or early December. This is due to a number of factors – continuing discussion on the subsidiary parts of the Program, Training and Short Term Projects, plus continuous revisions of the basic program as new enterprises were allocated to PMU's during the month, necessitating amendments to the PEOs prioritized list. However, the number of companies to be included in the Schedule has increased, by sixteen companies in seven separate projects, to be carried out as soon as possible. Therefore, as last month, the Planned Schedule does not incorporate the full program.

2.8.7 Canadian International Development Agency (CIDA)[23]

The following are summary outlines of privatization or privatization-related projects provided to IBTCI staff by CIDA:

2.8.7.1 Restructuring and Privatization of Public Enterprises

Objective:	To strengthen the process of privatization of public sector enterprises.
Budget:	C$4.2 M
Dates:	1995-1999
Canadian Executing Agency:	Roche

Project Description

The project will provide a complete set of services responding to specific needs identified in selected public enterprises, to improve their managerial capabilities and their operations, with the ultimate goal of bringing them closer to the point of sale to the private sector.

Background

[23] Canadian Executing Agency, Canadian International Development Agency, Consortium Roche/Deloitte, Draft of *Diagnostic Report*, September 1997.

The Government of Egypt, having announced an ambitious privatization program to privatize most of the enterprises currently owned by the state, and following an agreement with the Canadian International Development Agency (CIDA), inaugurated a project called the "Privatization of Egyptian Public Sector Enterprises." The project goal is to support Egypt's transition towards a market-based economy. Its purpose is to strengthen the process of privatization of public sector enterprises using the approach best suited to the situation of each selected enterprise; an integrated approach (restructuring before privatization) or specialized approach (rapid privatization).

The CIDA selected a consortium to implement the project, composed of Roche Ltd. and Deloitte & Touche Consulting Group designated as the Canadian Executing Agency (CEA). The CEA proposed a structured approach to the technical assistance project preceding any assistance by diagnostic activities in order to define the areas of assistance.

The CEA carried out an Inception Mission to Egypt during January 11-24, 1997, and confirmed with the Public Enterprise Office (PEO) that the two sectors of assistance assigned to the CEA were the four pulp and paper companies and the eight electricity distribution companies.

The PEO confirmed that the CEA had been awarded a mandate to assist in the privatization of a portfolio of the four Pulp and Paper Companies to be offered to majority anchor investors.

No new activities were reported for the Pulp and Paper Company during the fourth quarter 1997.

A Diagnostic Mission was organized for the Egyptian electricity distribution sector. The CEA was instructed by the representative of the Holding Company to exclude from its diagnosis of the sector, all issues pertaining to the question of labor reduction. The CEA has complied with this request.

Inception Mission found a complex situation:

- no clear decision had yet been taken to privatize the electricity distribution sector, though private investment in generation is being solicited via a BOOT project;
- the environment was not necessarily conducive to efficient privatization where the responsibility for the sector is shared between the Ministry of Public Enterprises, the Holding Company for Construction and Distribution of Electric Power (HCCDEP) and, the Ministry of Energy;
- the current institutional framework was not ideal for attracting private investors (tariffs that are suspected to be below long-run marginal costs, a regulatory body reporting to the Ministry of Energy, apparently no laws governing sector institutions, serious non-payment of government electricity bills and cross debts between the state, EEA, HCCDEP and EDCOs); and,
- significant opportunities existed for restructuring (right-sizing, modernizing billing and collection, specific technical problems, commercial and human resource management, etc.).

There was a general lack of appreciation for the impact that privatization may have on the operations and management of individual EDCOs. Some of the major managerial difficulties detected, that could be the object of well-focused training programs included: rating setting mechanisms and issues related to cross-subsidies at multiple levels, financial equilibrium, unpaid state electricity bills and debts, and upcoming regulatory changes.

In the general area of institutional framework, it was felt that eventual investors might not consider the EDCOs in a positive light unless they can be managed autonomously and are financially independent. The EDCOs would not qualify. They are not able to set rates on a full recovery basis, to collect their bills or to cut off non paying customers, particularly government institutions or administrative services. The year end financial operation carried out between the Ministry of Finance, EEA, HCCDEP, and the EDCOs to cross subsidize between EDCOs and to compensate EEA, is financially unsound, and unattractive to private investors. Major policy change must come about before privatization can be envisaged in the sector. Though the PEO did manifest an interest in the preparation of a privatization strategy that could be designed to deal with these issues, the Minister of Energy did not feel that work at the institutional level by the CEA was warranted at the time.

Since the CEA could not obtain the required support to assist the Government of Egypt in achieving desired changes in the structure or legislation pertaining to the sector so as to facilitate the privatization process and develop a privatization strategy, the CEA therefore, in the case of the EDCOs, felt it needed to limit its actions to restructuring activities in those areas that had already been accepted by or would be more readily acceptable to the GOE, but which would eventually have a favorable impact on the process of moving the EDCOs towards privatization. Even though the first priority of the CEA mission is to assist in accelerating the privatization process in the EDCOs.

The general objectives of the diagnostic activities were to prepare, in close collaboration with EDCOs, HHCCDEP, PEO, and CIDA, a technical assistance and training program to help the EDCOs become more effective, better managed and eventually more financially attractive to eventual private investors. Although it seems that privatization of the EDCO is not envisaged in the near future, every program designed under PEPSE should be considered in view of its benefits in bringing the EDCOs closer towards operating more like private companies.

The purpose of the diagnostic mission was thus to confirm with the EDCOs, those fields in which the CEA could carry out an activity program, to gather the detailed information (on the exact status related to the fields under study, e.g. what has already been accomplished, what difficulties are being experienced, where training is required, and so forth) and to discuss how the individual EDCOs envisage the intervention of CEA (related of course to what they can provide in terms of resources, equipment, and time frame). CEA recommendations would then develop the best approach to the implementation phase of the selected technical assistance programs taking into account, available budget, expected impact and EDCO and Holding company priorities. The technical assistance and training programs to be identified/designed and agreed upon during the Electricity Distribution Diagnostic Mission would be designed keeping in mind that these programs need to be replicated in other utilities.

During the Inception Mission, the actual situation found in the EDCOs to which the CEA had been assigned, permitted us to determine the areas of concentration for the diagnostic mission where CEA technical assistance would be most beneficial for EDCOs. These included:

- commercial management practices;
- technical issues (power quality/planning);

- rates and tariffs;
- financial management; and
- human resources.

The Diagnosis Mission would also have to review the institutional and regulatory framework so as to gather an understanding of the wider context in which EDCOs operate and to avoid proposing technical assistance sub-projects not compatible with the context. It was thus decided that a team of specialists in the following fields would be the most efficient in relation to the objective of preparing technical assistance preliminary sub-projects:

- institutional and legal framework;
- regulatory framework;
- planning and power quality;
- commercial management;
- metering management;
- demand side management (DSM);
- financial management; and
- human resources.

2.8.7.2 Egyptian Labor Adjustment Service Project -Phase II

Objective:	To facilitate the re-employment of persons affected by the privatization of public sector enterprises.
Budget:	C$3.8 M
Dates:	1993-1997
Canadian Executing Agency:	Segitel 3-T

Project Description

The project helps create mechanisms within the Labor Adjustment Unit at the Social Fund for Development (SFD) to address the needs of redundant and displaced workers. The, SFD is an active player in labor issues resulting from the economic reform program. It draws upon Canada's own experience in this politically and economically sensitive area.

2.8.7.3 Small and Medium Enterprise Development in Upper Egypt-Phase II

Objective:	To improve the economic conditions of marginal population groups (such as women and youths) through micro and small enterprise development programs supported by the Social Fund for Development (SFD) in Upper Egypt.
Budget:	C$8 M from CIDA; C$12 M from the SFD
Dates:	1996 - 1999
Canadian Executing Agency:	Foundation for International Training (FIT)

Project Description

The project seeks to reach the untapped potential of entrepreneurs by providing the necessary technical assistance in addition to access to credit. Low income target groups including women will be assisted to develop a "project" concept, to analyze the market and develop the business plan, to access the credit and to develop the physical infrastructure and skills needed to produce the final output. Credit will delivered through private banks via the SFD. CIDA will finance the complementary training and Technical Assistance. The project is implemented in Qena, Sohag, and Beni-Suef.

2.8.7.4 Civil Service Reform Program (CSR)

Objective:	To support the GOE in its efforts at modernizing/upgrading the Civil Service.
Budget:	C$2.45 M (CIDA), C$ 0.5 M (UNDP)
Dates:	1995-1999
Implementing Agency:	State Ministry for Administrative Development

Project Description

This project is jointly financed with the UNDP. It will provide the initial inputs and efforts to encourage attitude changes towards a service-oriented Civil Service as well as promote legislative reform. This project will promote high level consensus-building, as well as provide a pilot modernization in the key institutions involved in private sector development, such as a one-stop-shop for new investors.

3. DEVELOPMENTS IN THE EGYPTIAN FINANCIAL SECTOR[24]

This section reviews recent activities in (1) the Egyptian banking sector, (2) the bond market, (3) the mutual funds industry, and (4) the stock market. There have been several new developments in the financial sector during the second half of 1997. Four new corporate bond offerings were launched via public offering by Egypt Arab African Bank, the Middle East Company for Lighting, the Egyptian Financial Company (EFC), and the Egyptian Company for Car Industry (JAC). The CMA approved 3 new local open-ended mutual funds (1 during the third quarter and 2 during the fourth quarter). The first state owned closed-ended fund with an authorized capital LE1 billion and paid in capital LE500 million was launched. The CMA approved the establishment of a venture capital fund by Al Ahly for Development and Investment Company. Finally, bearer shares were offered for the first time in Egypt: LE112 million of bearer shares were offered by Credit Agricole Indosuez Group during the third quarter.

3.1 Banking Sector

The banking sector in Egypt has benefited from and been most affected by the Egyptian reform program. Since 1992, the Egyptian banking industry has become less regulated and more competitive. Egypt has realized significant gains from this more market-oriented approach to bank regulation and supervision. Banking deregulation has led to a more liberalized system of interest rates on deposits and loans. Banks are free to set charges and fees for their banking services. Limitations on the transfer of capital into and out of Egypt have been relaxed. Foreign banks are now authorized to deal in local currency. A system was initiated for loan classifications and loan loss provisioning. New reforms have led banks to diversify their activities and services and, subsequently, to increase their profits.

However, in mid-December 1997, in the wake of declining interest rates on local and foreign currency deposits, greater freedom of banks regarding loans and interest rates, Mahmoud Abd El Aziz, the Chairman of the Egyptian Banking Union (EBU) and the Chairman of the National Bank of Egypt (NBE) attacked Egyptian banks that were engaging in client stealing practices such as lowering loan interest rates. The NBE Chairman called on the EBU's Market Regulation Committee to intervene to stop these harmful practices.[25]

3.1.1 New Banking Sector Reporting Regulations

In early 1997, the CBE Governor announced that banks were now required to use International Accounting Standards (IAS) in preparing their financial statements and reports, and to release them quarterly after being audited by two different independent auditors (which are to be changed every two years). In 1998, the Big Four state owned banks (NBE, Banque Misr, Banque du Caire, and Bank of Alexandria) published their detailed financial statements in *Al Ahram*, Egypt's semi-official daily newspaper. This was the first time that the Big Four had released extensive financials to the public and is a major step in improving transparency and confidence in the financial sector.

[24] Sections 3.1-3.3 were contributed by Manal El Hinnawy; Section 3.4, by Mohamed Ragui.

[25] *Al Alam Al Youm*, December 18, 1998, p. 1.

3.1.2 Banking Union Calls for Liquidation of Small Banking Entities

The Chairman of the EBU called for the liquidation of specialized banks or their privatization through mergers or sale to the private sector. Mr. Abd El Aziz stated that these banks had failed to realize their goals and that increased competition in the banking sector, following the ratification of the liberalization of trade and services agreement, will not allow these small entities to survive. In a meeting with economic reporters, the head of the EBU added that the coming stage will require an increase in capital of the Egyptian banks by no less than LE2 to LE5 billion. The NBE submitted a request to the Central Bank of Egypt to increase its capital from LE2.8 billion to LE5 billion.[26]

Essam El Ahmady, the Chairman of Banque Misr, believes that merging is the best policy for the smaller banks. In this context, MIBank announced earlier this quarter that it would increase its holding in Misr Exterior Bank to reach approximately 30 percent of the bank's total capital. Previously, a number of businessmen and MIBank had purchased Banque Exterior de Espana's stake in Misr Exterior Bank. For the details of this transaction, see IBTCI's Semi-Annual/Quarterly Review for the period January-June 1997.

3.1.3 Ratings of the Big Four Banks

During the second half of 1997, NBE was granted a more favorable rating by the international rating agency Standard & Poor's (S&P) than the Moody's Investor's Service unsolicited rating of June 1997. Please see IBTCI's Semi-Annual/Quarterly Review for the period January-June 1997.

During third quarter 1997, S&P placed NBE at the head of the Egyptian banking sector. Its evaluation lasted several months to insure reliability of data. The S&P report indicated that NBE had a 21.5 percent market share of all credit and deposit transactions in Egypt. The S&P report also stated that the bank's level of local liquidity was sufficient to meet its requirements, and that this indicated that the NBE had a strong financial position. The S&P report indicated that the NBE has bad debts in ailing state-owned enterprises and, as a result, that NBE's asset quality has suffered heavily. However, the bank was said to have taken significant steps towards dealing with this problem. The report stated that the bank is capable of maintaining sufficiently high operating profits to absorb this massive amount of provisions in addition to allowing a modest profit. Since any institutional rating cannot exceed the country rating, NBE was awarded an AAA rating for long-term commitments, (the same rating as Egypt's), and a BBB rating for short-term commitments. This was reported in more detail in IBTCI's Quarterly Review for third quarter 1997.

3.1.4 Ratings of the Joint Venture Commercial Banks

During fourth quarter 1997, Commercial International Bank (CIB) was granted a credit rating by IBCA, a British based rating agency. The CIB was assigned a BBB- long term and A3 short term rating. The CIB was the first Egyptian company to issue its shares as global depository receipts (GDRs), and is Egypt's fifth largest bank with a market capitalization of US$1 billion. It has a 16 percent market share of corporate banking services to the Egyptian private sector. Additionally, the Commercial International Investment Company (CIIC), its investment banking and brokerage arm, is among best in Egypt.[27] The CIIC is lead manager for the still-upcoming minority offering of Egypt Aluminum Company.

[26] *Al Alam Al Youm*, January 10, 1998, p. 1.

[27] *Financial Times*, December 2, 1997.

3.1.5 Banking Sector Activity

Improved standards for competition between banks were established while deregulating the sector. Now, banks are fast becoming the backbone for investment operations in the Egyptian capital market. The rapid progress of the Egyptian privatization program has developed the stock market and provided banks with new opportunities for investment. Banks have expanded their operations and diversified their income sources as well as their services. They have also tailored their strategies toward universal banking by being more innovative in financing the needs of their customers, introducing new services including brokerage, corporate advice, evaluation, sales agents, and fund management. Egyptian banks underwent a massive transformation during 1996 and 1997.

Moreover, as banks increase their scope of activity, the need for more financial services arises. A number of commercial banks announced the establishment of joint venture investment companies with foreign and local financial institutions. The first was CIB's investment company, CIIC. By the end of third quarter 1997, the Hongkong and Shanghai Banking Corporation (HSBC) had begun taking steps to establish an investment services company in partnership with Egyptian British Bank (EBB). The new company will have a total capital of LE20 million, with HSBC investing 60 percent, and will provide necessary funding for new projects and expansions in existing projects as well as managing IPO and GDR offerings. In September, Flemmings, the British bank, announced the establishment of its new joint venture investment company with El Mansour & El Maghraby, an Egyptian investment company. The joint venture will start its operations in January 1998. Also in December 1997, the Bank of Alexandria, in cooperation with Egyptian American Bank (EAB), announced that they are in the process of establishing the Alexandria Company for Investment and Development, with a proposed total capital of LE500 million.[28]

The following are the banking sector activities during the second half of 1997. In July 1997, EAB decided to raise a US$100 million 3-year syndicated loan on the international market. For more details about this issue see IBTCI's Quarterly Review for third quarter 1997. Before the privatization program, the investment-grade ratings by S&P, IBCA, and Moody's and Egypt's inclusion in the International Finance Corporation's (IFC) Investible Index (IFCI) on November 3, 1997, Egyptian banks would probably not have been able to obtain financing in the international marketplace.

During fourth quarter 1997, Credit International d'Egypte Bank decided to split each of its shares into ten shares. Following the split, the nominal value of each share will be LE7 instead of LE70. According to the bank's chairman, splitting the shares facilitates the trading of the share on the stock market.[29] It should be mentioned that Credit International d'Egypte Bank is a joint venture bank where the French partner took majority control in late 1996, after increasing its stake in the bank's capital to reach 50.5 percent of the bank's total capital. For more details please see IBTCI's Quarterly Review for fourth quarter 1996. Table 32 details the ownership structure of the Credit International d'Egypte Bank as of January 20, 1998.

[28] *Al Alam Al Youm*, December 7, 1997, p. 1.

[29] *Al Alam Al Youm*, January 13, 1998, p. 1.

Credit International d'Egypte's Ownership Structure as of January 20, 1998

Table (32)

Stakeholders	Ownership (in %)
Credit Commercial de France Bank (French partner)	50.5
Berliner H. Frankfurter Bank (German partner)	10.0
NBE	19.5
Employees (of both NBE and Credit Int. d'Egypte)	20.0
Total	**100.0**

3.1.6 Bank Profits as of June 30, 1997

The economic reform program and the subsequent developments and diversification of activities in the banking industry appear to have increased the profits of many banking institutions. Net profits for public sector banks increased by 65.5 percent to reach LE519 million for FY1996/97 compared to LE313 million for FY1995/96.[30] Twelve JVBs announced their financial results for the first three quarters of FY1997, and all increased their profits over the first three quarters of FY1996, as presented in Table 33.

State Owned, Joint Venture, and Private Banks' Profits Announced during the Second Half of 1997

Table (33)

Bank	Profits (in LE million)	Percentage Increase*
The Big Four State Banks		
Fiscal Year Ending June 30, 1997		
National Bank of Egypt	200.00	54.00
Banque Misr	130.00	103.00
Banque du Caire	103.50	84.00
Bank of Alexandria	85.00	72.00
Private & Joint Venture Banks		
First 9 Months' Results, FY1997		
Alexandria Commercial & Maritime	37.30	110.00
El Togarioun Bank	17.70	22.00
Egyptian Gulf Bank	28.20	90.00
Misr Iran Development Bank	42.20	88.80
Egypt Arab African Bank	29.00	72.00
Delta International Bank	137.60	46.00
Egyptian Saudi Finance Bank	20.70	6.00
Misr Romanian Bank	31.40	4.00
Labor Bank	12.30	15.00
National Bank For Development	24.20	7.00
Misr International Bank (MIBank)	35.07	34.20
Suez Canal Bank	49.75	37.30

* The percentage change for the Big Four banks is against FY 1995/96; for private and JVBs, the percentage change is against the first 9 months of FY 1996.

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30 The fiscal year for state owned banks is July 1-June 30; the fiscal year for private and JVBs is January 1-December 31.

3.1.7 Merchant Banking Activities

The ongoing privatization of Law 203 Companies has continued to positively affect the entire banking sector. During this evaluation period, many state banks and JVBs have expanded their activities and introduced new services traditionally undertaken by merchant banks. They have evaluated a number of companies that are to be sold; managed share offerings for fifteen public enterprise companies; assisted Law 203 Companies in the sale of assets; managed the issuance of corporate bonds and participated in the offerings of seven privately owned companies. These companies are El Akarya Group, Ganoub El Wadi for Cement Company, the Egyptian Company for Trade and Transportation, Mina for Touristic Investments, Zahraa El Maadi for Investment & Development, EGYTRANS, and Misr Chemical Industries. For a review of the merchant banking activity that took place during the third quarter of 1997, please see IBTCI's Quarterly Review for the period ending September 1997. As for fourth quarter of 1997, banks managed share offerings for 9 of the above mentioned 15 public enterprise companies and participated in the offering of 3 of the above mentioned privately owned companies.

Table 34 lists the banks that acted as sales managers for executed transactions for private companies during fourth quarter 1997. Tables 35 lists major public and private banks, and other financial institutions that engaged in merchant banking activities for Law 203 affiliated companies during fourth quarter 1997.

Banks and Financial Institutions Involved in the Management of Sales of Private Companies and Assets during Fourth Quarter 1997

Table (34)

Date	Public and JVBs	Financial Institutions	Companies Offering Shares for Sale	Type of Sale	Shares
11/9/97	Arab Investment Bank	Okaz for Brokerage & Investment	Zahraa El Maadi for Investment & Development	Anchor Investors	236,500
14/9/97	NBE	IDC	EGYTRANS	IPO	60,000
14/12/97	Banque Misr		Misr Chemical Industries	IPO	51%

During fourth quarter 1997, MIBank and the HC for Electricity Distribution successfully managed the majority offering for the Industrial Engineering AC through the stock market. Also in November, Bank of Alexandria and Egyptian American Bank, together with the Holding Company for Engineering Industries, managed the sale of 5 million shares of Delta Industrial Company (IDEAL), representing the company's total capital. The value of the shares offered was LE100 million.

Also during the period under review, NBE successfully managed the LE6 million capital increase for the Egyptian Company for Transportation and Trade (EGETRANS) through the public offering of 60,000 shares. The public offering was launched on September 15, 1997, and the minimum subscription was for 10 shares. The offering was oversubscribed and the allocation was on pro rata basis. The percentage allocated for each subscriber amounted to 85 percent.[31]

Banks and Financial Institutions Involved in the Management of Sales of Law 203 Companies and Assets, Private Companies, and Joint Venture Banks during Fourth Quarter 1997

Table (35)

Date	Public & JVBs	Holding Company	Financial Institutions Involved	Company Offering Shares	Type of Sale	% Offered
2/9/97	NBE	Construction & Development	El Ahly Brokerage Golden Share Brokerage	Giza for Construction	IPO	80%
8/9/97	Banque Misr	Textile Manufacturing & Trade		Egyptian Co. Wool Ginning	Sale of Assets	
11/9/97		Housing, Tourism & Cinema	El Rowad & Al Shorook	Cairo Housing	Anchor Investor	27.26%
19/9/97	Bank of Alexandria	Mining and Refractories		SORNAGA	Sale of Assets	
19/9/97	Banque Misr	Rice Mills & Silos		Middle & West Delta Mills	Sale of Assets	
26/9/97	NBE	Textile Manufact. & Trade		Nat. Spinning & Weaving	Sale of Assets	
28/9/97	NBE	Agriculture Development	El Safwa Security Brokerage	El Wadi Agricultural Exports	IPO ESA	30% 10%
11/10/97	MIBank	Electricity Distribution	El Rowad & Intercapital	Industrial & Engineering	IPO ESA	Majority 10%
12/10/97	NBE	Mining & Refractories		Sand Bricks	Sale of Assets "Land"	
9/11/97	Bank of Alexandria	Mining & Refractories; Chemical Industries	Financial Brokerage Group	Suez Cement	IPO	8.57%
26/11/97	Bank of Alexandria & EAB	Engineering Industries	Delta EAB Brokerage	IDEAL	IPO	100%
29/11/97	Banque Misr	Housing, Tourism & Cinema	Al Rowad, Al Shorook	Misr Free Shop	IPO	10%
9/12/97	National Investment Bank	Food Industries		Salhia Agriculture Project	Sale of Assets	
12/12/97	CIB	Textile Manufact. & Trade	CIIC Intercapital	Alex. Textiles	IPO ESA	10% 10%
16/12/97	NBE	Construction & Development	Al Ahly Al Safwa	Mahmoudia General Contracting	IPO ESA	90% 10%

[31] *El Borsa*, Issue No. 72, November 2,1997, p. 2.

3.2 Bond Market

In Egypt, bonds are considered the second best source of funds for banks after the interbank borrowing. Banks have undergone major developments in their local medium-term debt market. Medium-term debt markets are beneficial as they provide another source of financial intermediation in the economy. Bonds have become a popular financing tool for both government and commercial debt. Currently there are 16 issues of corporate debt, 2 treasury bonds, 18 housing bonds, other than GOE T-bills and development bonds. This leaves the Egyptian capital market in short supply of debt products. The debt market has developed slowly and needs to accelerate. This shortage has forced investors to retain their debt investments until maturity, which in turn leads to an inefficient secondary market.

If Egypt is to revive its debt market, the need for a debt rating agency is paramount. In January 1996, it was announced that the Capital Market Authority granted the first debt rating agency license. Egypt's first corporate debt rating agency, the Nile Rating Agency received its license in late December 1997, and is expected to start its operations by spring 1998. This agency is a subsidiary of the regional International Arab Rating Company, established by the IFC, the UK-based IBCA rating agency, and the Arab Monetary Fund. The Nile Rating Agency is expected to concentrate on rating corporate bonds, which would allow the CMA to remove the current ban on bond issues in excess of net assets without its approval.[32] Because of the nature of debt securities, the credit rating of the bond issuers is important to prospective investors. Having such rating agency would make Egypt debt market function more effectively as a means of financing future growth.

3.2.1 Government Bonds

The GOE has issued two types of bonds: a 5 year treasury bond, with maturity in May 2000 (total outstanding amount of LE5 billion), and a 7 year treasury bond, with maturity in October 2003 (total outstanding amount of LE4 billion). Egypt has also issued T-bills with a total outstanding amount of LE29.063 billion as of January 21, 1998. These outstanding amounts are in Table 36.

Outstanding Treasury Bills

Table (36)

Maturity	Amount Outstanding (in LE billion)
91 Day	10.243
182 Day	18.820
Total Treasury Bills	**29.063**

In addition, to the above mentioned bonds and treasury bills, the GOE has also planned to go ahead with its first sovereign Eurobond issue. This issuing is to raise the country's international profile, setting a benchmark for banks and corporate borrowers and is meant to be a step toward building a yield curve for Egypt. The bonds are to be denominated in dollars. This issuing was expected during fourth quarter 1997. However it has been postponed until 1998. For more details about this issue, see Section 6 of this report.

[32] *Egypt Focus*, Vol. 8, No. 1, January 1998.

3.2.2 Housing Bonds

In a effort to finance investments in the housing sector, the GOE issued the first housing bond (known as Sanadat El Eskan) in 1978. These bonds have a 20 years maturity, the longest of all GOE issues. Table 37 lists the Housing Bond Issues since 1978 through December 1997.

Housing Bond Issues December 1978 - December 1997

Table (37)

Issue	Issue Date	Maturity Date	Coupon (in LE)	Current Yield (in %)
1	1-Dec-78	1-Dec-98	9.0	14.5
2	1-Dec-79	1-Dec-99	9.0	11.5
3	1-Dec-80	1-Dec-00	9.0	11.1
4	1-Dec-81	1-Dec-01	9.0	11.0
5	1-Dec-82	1-Dec-02	9.0	11.6
6	1-Dec-83	1-Dec-03	9.0	11.6
7	1-Dec-84	1-Dec-04	9.0	13.2
8	1-Dec-85	1-Dec-05	9.0	12.2
9	1-Dec-86	1-Dec-06	8.5	12.9
10	1-Dec-87	1-Dec-07	8.5	12.1
11	1-Dec-88	1-Dec-08	8.5	12.4
12	1-Dec-89	1-Dec-09	8.5	12.8
13	1-Dec-90	1-Dec-10	8.5	12.6
14	1-Dec-91	1-Dec-11	8.0	12.1
15	1-Dec-92	1-Dec-12	8.0	11.8
16	1-Dec-93	1-Dec-13	8.0	11.8
17	1-Dec-94	1-Dec-14	8.0	11.0
18	1-Dec-95	1-Dec-15	8.0	11.8

Source: Prime Research, Capital Market Overview, October 1997.

All Housing Bonds issues have a par value of LE100, are callable after 15 years, and have a 20 year maturity. Coupon rates have fallen from 9 percent to 8 percent.

3.2.3 Corporate Bonds

The corporate bond market has gone from zero in 1993 to 16 today. However, this segment of the capital market needs to expand to provide companies with different financing options and to diversify investment opportunities for investors. As with securities, capital gains from interest earned from bonds are tax-free.

Four corporate bond offerings were announced in *Al Ahram* during fourth quarter 1997 and first two weeks of January 1998. Although the first of these bond offerings (Egypt Arab African Bank's 5 year floating rate notes) was announced during the third quarter of 1997, the offering took place on October 15, 1997. After this, the Middle East Company for Modern Lighting announced on December 1, 1997 that its bonds would be offered on December 8, 1997. This was the last corporate bond offering during 1997. During the first two weeks of January, the launching of 2 other corporate bonds were announced: the Egyptian Financial Company announced a 5 year bond, and the Egyptian Company for Car Industry (JAC) announced a 5 year non-convertible bond. Following are the details of these 4 corporate bonds.

• Egypt Arab African Bank

The Egypt Arab African Bank announced on September 30, 1997 that its first 5 0year, floating rate non-convertible bonds, due in 2003, would be launched via a public offering lasting 2 months starting October 15, 1997. The total issue amount was LE125 million. The total issuing amount was fully covered within less than two weeks from commencement of the subscription.[33] The notes had a face value of LE1,000 and will yield a floating rate return equal to 0.375 percent annually above the average rate of return for 91 day T-bills. The minimum subscription was for 1 note. These notes will be listed on the Cairo and Alexandria stock exchanges. To facilitate trading, the bonds were issued in the Central Depository System. The returns on these notes are exempt from taxes.

• Middle East Company for Modern Lighting

The Middle East Company for Modern Lighting announced on December 1, 1997 that its first 7 year, fixed rate non-convertible bonds, due in 2005, will be launched via a public offering lasting 2 months starting December 8, 1997. The total issue amount was LE50 million, of which only LE15 million were offered via public offering. The remaining LE35 million were covered through a closed offering by National Bank of Egypt for LE25 million, Suez Canal Bank for LE5 million, and the Egyptian Anglo Investment Financial Company for LE5 million. Within two weeks from commencement of the subscription, the LE15 million allotted for public subscription were covered 1.5 times. Due to oversubscription, allocation was conducted on a pro rata basis. The notes will have a face value of LE1,000 and will yield a fixed rate of return equal to 11 percent annually, distributed semi-annually. The minimum subscription was for 1 note. These notes will be listed on the Cairo Stock Exchange.

• Egyptian Financial Company

The Egyptian Financial Company (EFC) announced on January 5, 1998, that its first 5 year, floating rate non-convertible bonds, due in 2003, will be launched via a public offering lasting 2 months starting January 20, 1998. The total issue amount will be LE30 million. If oversubscribed, allocation will be on a pro rata basis. The notes will have a face value of LE1,000, and will yield a floating rate of return equal to 0.75 percent above the average rate of return for 91-day T-bills, distributed quarterly. The minimum subscription is for five notes. These notes will be listed on the Cairo Stock Exchange.

• Egyptian Company for Car Industry

The Egyptian Company for Car Industry (JAC) announced on January 11, 1998, that its first 5 year, floating rate non-convertible bonds, due in 2003, would be launched via a public offering lasting 2 months starting January 28, 1998. The total issue amount will be LE50 million through Banque du Caire, National Bank of Egypt, and Banque Misr. If oversubscribed, allocation will be on a pro rata basis. The notes will have a face value of LE1,000, and will yield a floating rate of return equal to 1 percent annually above the average rate of return for 91-day T-bills, distributed quarterly. The notes will be issued in denominations of LE1,000, LE10,000, LE25,000, and LE50,000. The minimum subscription is one LE1,000 note. These notes will be listed on the Cairo and Alexandria stock exchanges.

[33] *El Borsa*, November 9, 1997, p. 2.

After completion of these issues, the amount outstanding for corporate notes issued during the last three years will total LE2.105 billion. Table 38 summarizes corporate bond.

Corporate Bonds Issued
May 6, 1994 - January 20, 1998

Table (38)

Corporation	Duration	Issuing Date	Maturity Date	Outstanding Amount (LE million)	Coupon
Victoria United Hotels	7 years	4/95	4/02	70	0.25% above 182 day T-bill rate with a 12% minimum
Citibank	5 years	31/3/96	31/3/01	200	91 day T-bill rate
Egyptian American Bank	5 years	5/6/16	5/6/01	200	10.75%
Arab Land Bank	7 years	10/9/96	30/6/03	10	12%
Hoechst Orient	5 years	6/5/94	6/5/99	30	0.25% above 182 day T-bill rate
American Express Bank	5 years	12/9/96	12/9/01	300	91 day T-bill rate
Egyptian British Bank	5 years	24/12/96	24/12/01	100	0.25% above 91 day T-bill rate
Arab African International Bank	5 years	5/3/97	5/3/02	300	0.25% above 91 day T-bill rate
Industrial Development Bank of Egypt	5 years	22/4/97	22/4/02	150	0.25% above 91 day T-bill rate
Arab Land Bank	7 years	20/4/97	20/4/03	40	11.5%
Commercial International Bank (CIB)	5 years	22/4/97	22/4/02	300	0.125% above 182 day T-bill rate
National Societe Generale Bank	5 years	17/6/97	6/02	150	0.25% above 91 day T-bill rate
Egypt Arab African Bank	5 years	15/10/97	15/10/02	125	0.375% above 91 day T-bill rate
Middle East Company for Lighting	7 years	8/12/97	8/12/05	50	11% annually distributed semi-annually
Egyptian Financial Company	5 years	20/1/98	20/1/03	30	0. 75% above 91 day T-bill rate
Egyptian Company for Car Industry (JAC)	5 years	28/1/98	28/1/98	50	1 % above 91 day T-bill rate

Source: IBTCI database

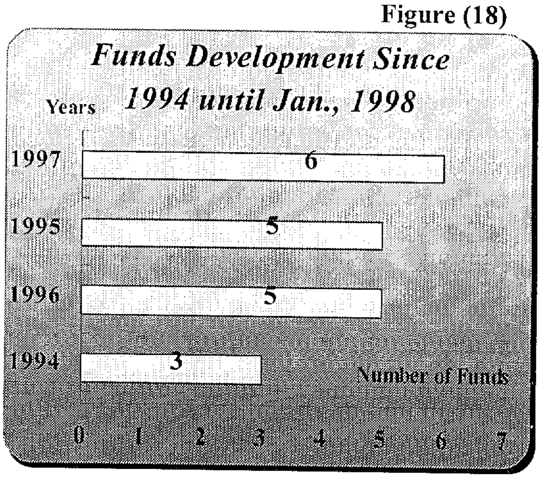
- On December 12, 1997, the Commercial International Bank (CIB) announced that it had registered LE300 million worth of its 5 year floating rate non-convertible notes due 2002 in the Central Depository System, effective December 21, 1997.

- On January 4, 1998, the Arab African International Bank announced its bond coupon rate (4th coupon) of 9.064 percent, worth LE22.35 for each bond, covering the period from January 1, until March 31, 1998. Payment of this coupon will be through the Central Depository System.

- On January 6, 1998, Victoria United Hotels announced the payment of its bond coupon (3rd coupon) of 12 percent, starting January 1, 1998. Paying agent was NBE.

3.3 Mutual Funds

Figure (18)



The local mutual fund industry has experienced explosive growth since it began in 1994. It has grown by an average annual rate of over 80 percent. During the second half of 1997, the CMA approved the establishment of four new local mutual funds. One was established during third quarter 1997, and the other 3 were approved during fourth quarter 1997.

Figure 18 shows the funds growth rate since 1994. There are several factors that would insure this growth for some time. Since privatization began in 1991, the Egyptian economy has become more stable. Macro-economic stability and the acceleration of privatization in the past 2 years, especially through the GOE use of IPOs as a major vehicle for privatizing state owned enterprises, have led to an enormous change in the savings and investment mentality of many Egyptians. Investment in the capital market is now viewed by many as a viable option to bank deposits, real estate, and cash "under the mattress." The take-off of the Egyptian stock market in 1996 created the necessary climate for establishing many new mutual funds that allow new and different investment possibilities for small retail and large institutional investors alike. On the other hand, banks and insurance companies are looking to diversify their profit resources away from the traditional interest income and at the same time improving their customer services. By January 20, 1998, 19 mutual funds have been successfully established, as described in Figure 19.

In December 1997, the Chairman of the NBE announced[34] that the Capital Market Authority had granted its preliminary approval for the formation of a fund that will under take the role of a market maker, with the aim of preserving the market balance, reducing speculation, increasing transparency and adding liquidity to the market. The Chairman stated that preparations are underway to invite banks, financial institutions, insurance companies and a number of other investing parties to participate in the fund. This fund, which is considered the first of its kind in the Egyptian market, represents a new addition to financial tools currently available in the market. The NBE Chairman stated that the fund will play the role

[34] *Al Alam Al Youm*, December 8, 1997, p. 1.

of a specialized market maker for certain shares listed on the stock market that might not possess the necessary degree of liquidity. This fund will be managed by one of the specialized companies in the field, in cooperation with the bank. However, for a discussion of the problems of this fund playing a market maker role, see Section 1 of this report.

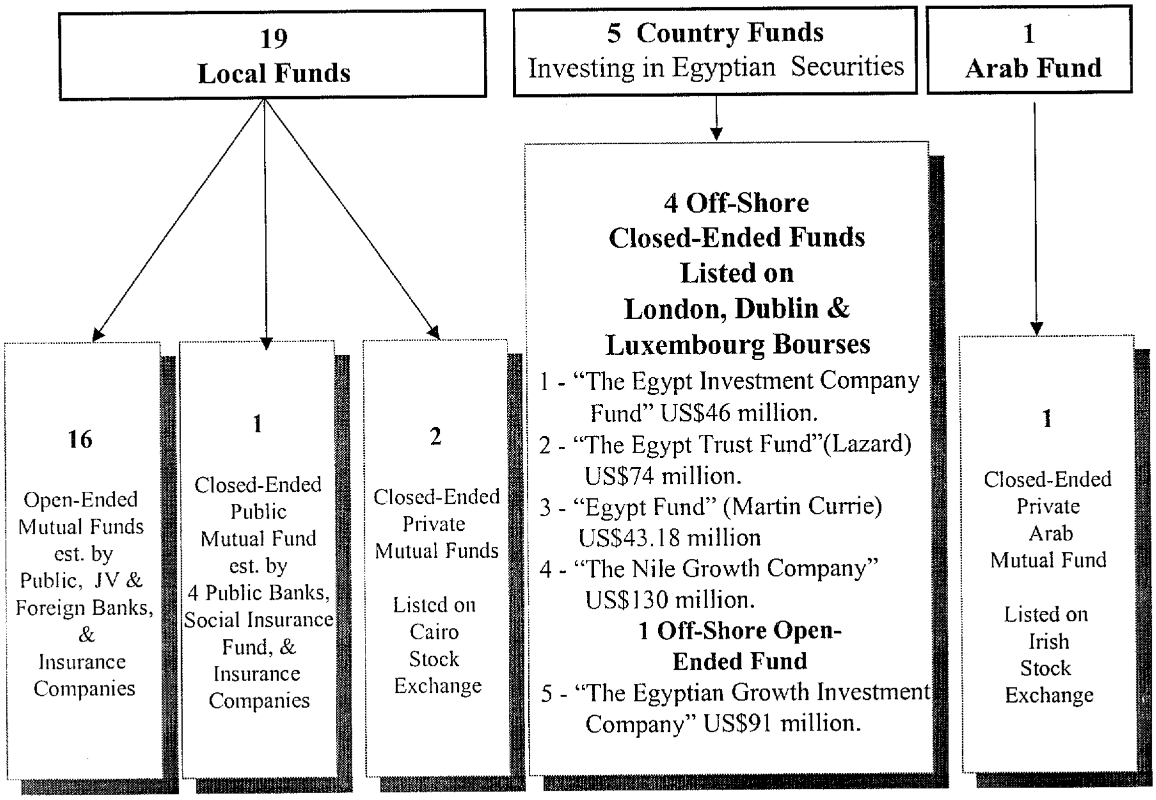
EFG-Hermes, an Egyptian securities brokerage, reported that 80 percent of investors in the Cairo stock exchange currently invest in mutual funds. This number is up from 20 percent in 1994 when the first mutual fund was founded. As stock market prices began to recover in December 1997, the demand for securities investment started to grow again.

Figure 19 details the different types of funds with investments in Egyptian equities as of January 20, 1998. The mutual funds information in this section was obtained by IBTCI staff from individual mutual fund managers.

Figure (19)

Mutual Funds

as of January 10, 1998



3.3.1 Local Mutual Funds

During the period under review, the CMA approved the establishment of three new local mutual funds: (1) Misr Exterior Bank's first open-ended fund with a total capital of LE100 million, (2) MIBank's first open-ended fund with a total capital of LE200 million, and (3) the Egypt International Fund, the first public sector closed-ended fund. The Egypt International Fund was established by the Big Four state banks, insurance companies, and the GOE's Pension and Security Fund. This fund has a total capital of LE500 million and can be increased to LE1 billion. Details of these new funds are presented below in Section 3.3.2.1.

Also, during the second half of 1997, the CMA approved a LE100 million capital increase of the Banque Misr I Fund, to bring its total capital to LE500 million. Table 39 summarizes the 19 local funds and their certificate prices on January 8, 1997.

Egyptian Local Mutual Funds Established between September 3, 1994, and January 8, 1998

Table (39)

Fund	Starting Date	Size (in LE million)	Fund Type	Nominal Value per Certificate (in LE)	Certificate Price on Jan. 8, 1998 (in LE)
NBE I	3/9/94	200. Inc. by 100 1/97	Growth	500	900.25
NBE II	3/10/95	300. Inc. by 100 1/97	Income	100	100
EAB	15/10/94	200	Growth	100	116.86
Bank of Alexandria	1/12/94	200	Growth	100	127.47
Banque Misr I	1/2/95	500. Inc. by 100 4/97. Inc. by 100 8/97.	Income	1,000. 10:1 split 11/97	119.6
Banque Misr II	17/9/95	300. Inc. by 100 4/97	Growth	1,000. 15:1 split 11/97	106.2
Allied Insurance	3/10/95	100	Growth	500	511.16
Banque du Caire	9/11/95	100	Growth	100	194.33
Societe Arab International de Banque (SAIB) I	12/5/96	100. Inc. by 50 12/96	Growth/ Semi Annual Prizes	500	790.05
Export Development Bank	6/8/96	100	Income	100	111.56
Suez Canal Bank	17/11/96	100	Income/ Growth	500	479.41
American Express Bank	25/2/97	300	Income/ Growth	100	93.34
Egyptian Gulf Bank	23/3/97	100	Income/ Growth	100	92.86
SAIB II	23/9/97	100	Income/ Growth	100	100.5
Misr Exterior Bank	11/12/97	100	Income/ Growth	1,000	NA
MIBank	15/1/98	250	Growth	100	NA
Closed-Ended Funds Established by State Owned Banks, Insurance Companies, and the Pension Fund					
Egypt International Fund	10/12/97	500	Growth	1,000	NA
Closed-Ended Funds Established by Private Companies					
Delta International Bank	26/05/96	50	Income/ Growth	100	148.42
Orient Trust	27/11/96	50	Growth	1,000	1060.19
Total Capital			**LE3.65 billion**		

Source: Individual Mutual Fund Managers

With addition of the three above-mentioned funds, there are now 19 licensed local mutual funds operating in Egypt. The 19 local mutual funds are widely distributed in Egypt and are available to small investors. Seventeen of these local funds were developed through the endorsement of banks, insurance companies, and the state Pension and Security Fund with total investments of LE3.65 billion. Sixteen are open-ended local funds, and most are either cumulative growth funds or income funds. Income funds distribute dividends quarterly or semi-annually. Two private companies with a total capital of LE1 million established two local closed-ended funds.

3.3.2 Local Funds

3.3.2.1 New Investment Funds

During fourth quarter 1997, 3 new mutual funds were established. The Egypt International Fund is a closed-ended fund and has an authorized capital of LE1 billion. The 2 other funds, Misr Exterior Bank and MIBank's, are open-ended funds with a total capital of LE100 million and LE250 million, respectively. All three were successfully launched during fourth quarter 1997 and January 1998, as described below.

- **Societe Arab International Bank (SAIB) II**

On September 23, 1997, Societe Arab International Bank launched its second local open-ended fund with a nominal capital of LE100 million. The fund was first launched with a total capital of LE50 million. Within two weeks from the first day of subscription, the fund announced a LE100 million increase of its capital due to excess demand for the fund's certificates. This capital increase was generated from the issuance of 500,000 extra certificates to be sold to the public during the same subscription period. Although open-ended, the fund's increase was approved by the CMA. Investment certificates were issued with a nominal value of LE100 each, with a minimum subscription of five certificates per applicant.

SAIB II is managed by Prime Investments. Certificate holders will receive semi-annual dividends in addition to the accumulation of capital gains. The fund will distribute a free certificate to each holder of five certificates when the price per certificate reaches LE120. Additionally, SAIB II is the only fund that calculates the fund manager's fee percentage on the CMA General Index and not the T-bill rate.

- **Misr Exterior Bank**

Misr Exterior Bank announced the launching of its first open-ended mutual fund with a nominal capital of LE100 million in December 1997. Subscription took place on December 11, 1997, continued for 15 days, and was oversubscribed. Due to oversubscription, allocation was conducted on a pro rata basis. The investment certificates were issued with a nominal value LE1,000 each, and a minimum subscription of 1 certificate per individual investor. The Lazard Asset Management company is managing the Misr Exterior Bank Fund. In addition to the accumulation of capital gains, certificate holders will receive semi-annual dividends.

- **Misr International Bank**

On December 31, 1997, MIBank announced the launching of its first open-ended fund with a nominal capital of LE250 million. Subscription commenced in mid-January 1998.

Investment certificates will be issued with a nominal value of LE100 each, and minimum subscription of 5 certificates. In case of oversubscription, allocation will be conducted on a pro rata basis. The Concord International Company will manage this fund. The fund has flexibility to invest locally or globally, giving it the advantage to hedge for individual country risks. Investors in MIBank's fund will be able to redeem their certificates daily, in line with international norms. Only investment certificates for Bank Misr's 2 funds are also convertible daily. Investment certificates for all other funds are redeemable weekly.

- **Egypt International Fund**

This fund's capitalization is LE1 billion, of which the founding members have paid in LE500 million. This makes it the largest local mutual fund to invest in the Egyptian stock market, and its duration is five years. The total fund certificates are LE500 with a nominal value of LE1,000 each. Table 40 presents the fund participants and the percentage and value of theirs holdings.

Egypt International Fund's Shareholders

Table (40)

Stakeholders	Value (LE million)	Percentage
NBE	50	10
Banque Misr	50	10
Banque du Caire	50	10
Bank of Alexandria	50	10
Social Insurance Fund	200	40
Insurance Companies	100	20
Total	**500**	**100**

As all fund participants are in for medium term investment, the fund manager won't be under the same pressure to boost certificate redemption prices, and the valuation of the funds assets will be conducted after five years.

The fund caused some objections by entering the market three weeks before announcing its incorporation. The fund was attempting to reverse the market's downward trend and stop the wave of selling in order to realize a degree of share price stability. The launching of the fund pushed up the market during the second week of December. In the three days following the fund's launch on December 10, 1997, the EFG Index (an index of the Egyptian stock exchange published by EFG-Hermes Securities Brokerage) gained 8.36 percent.[35]

3.3.2.2 New Mutual Fund Regulations

During the second week of November 1997, the stock market committee decided that investment funds must cover the value of subscription request in full prior to any allocation of privatization shares. The new decree will achieve equality between investment funds and other investors in the Egyptian stock market. Investment fund managers warned against numerous problems associated with such a decision. Mr. Sherif Raafat, Chairman of the Stock Exchange, indicated that all investors, including investment funds, will be required to pay in full for all the requested shares prior to allocation, whether in cash or through checks.[36]

[35] *Egypt Focus*, Vol. 8, No. 1, January 1998, p. 1.

[36] *Al Alam Al Youm*, November 11, 1997, p. 1.

Following the November 17, 1997 attack in Luxor, share prices began to drop. Abd El Hamid Ibrahim, the Chairman of the CMA, contacted investment fund managers to urge them to refrain from any further selling on behalf of their funds in order to stabilize the market.

3.3.2.3 Mutual Funds Share Allocation

During the second half of 1997, Mr. Sherif Rafaat, Chairman of the Stock Exchange, indicated the necessity of changing the current allocation system employed in IPOs to grant a higher percentage of shares to mutual funds and financial institutions. He wished to prevent both price speculation between individual investors and the resulting sharp declines in prices once these shares are allocated to individuals. According to Mr. Rafaat, one of the main reasons for the wave of price declines after new offerings is the immediate re-sale of these shares by investors upon taking possession. Dr. Atef Ebeid, Minister of Public Enterprise, disagrees entirely with Mr. Rafaat's view on this matter. For Dr. Ebeid, this is inconsistent with the philosophy behind the Privatization Program, which seeks to widen the ownership base of public enterprises.

3.3.2.4 Redemption of Mutual Fund Certificates

During fourth quarter 1997, the Capital Market Authority decided to ease some of the limitations regarding the redemption of mutual funds certificates. Redemption of certificates was permitted on a daily and weekly basis, according to the capabilities and predilection of each fund. The CMA chairman stated that this decision has been taken to facilitate matters for mutual fund, following the complaint launched by fund managers in light of the CMA's announcement that investment funds should post their certificate prices on a daily basis, thereby allowing redemption of certificates on daily basis also. Banque Misr's 2 funds and the new MIBank fund lead the other Egyptian mutual funds in this regard. If and when the others follow, investment certificate redemption policy in Egypt will be brought into line with international norms.

In November 1997, Al Ahly for Investment and Development Company, manager of the NBE I and II funds, announced that it had obtained CMA approval for conducting a daily evaluation of the NBE funds' investment certificates. The purpose was to grant these certificates a higher degree of liquidity. A daily evaluation of NBE's certificates was not possible in the past, since a mechanism for tying together the various branches did not exist.[37]

3.3.3 Fund Managers, Investment Portfolios, and Management Fees

Increased competition between mutual funds has led to changes in the structure of fund managers' fees and banks' fees.

- **Managers' and Banks' Fees**

To compete with existing funds and attract new clients, several new funds have changed their fund management and bank fees structure. When the mutual fund industry first began, fees including the manager and banks fees, were vastly out of proportion to international standards or what would be considered fair. All the fund managers of the newly established funds announced low competitive management and incentive fees compared to those of earlier funds. For example, MIBank's new fund does not charge any incentive fees for the

[37] *Al Alam Al Youm*, November 30, 1997, p. 1.

management company. The fund manager charges management fees of only 1 percent of the fund net asset value per annum. Consequently, some older funds have altered their fee structures to retain their clients and remain competitive. In some cases, fees have been reduced by as much as 50 percent. See Section 8.3 for the current fee structure of different funds. See IBTCI's Quarterly Review for third quarter 1997 for a review of the SAIB I Fund reduced fee structure.

- **Funds Investment Portfolio**

All fund managers invest in a diversified portfolio to maximize their fund's performance taking into account the trade-off between both expected returns and risk. However, they are constrained by some regulations set by the Capital Market Law.

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

Although the mutual funds industry had developed significantly, the local market is still short of experienced fund management companies. Due to scarcity of fund management firms, a single management firm is responsible for the management of one-third of the investment funds operating in Egypt. A number of problems may arise from such a situation. Table 41 on the following page presents the top companies in investment portfolios of 15 selected mutual funds during fourth quarter 1997.

3.3.4 Existing Mutual Fund Activity During the Second Half of 1997

- On September 9, Banque Misr I increased its capital to LE500 million. Following the first capital increase of Banque Misr I in April 1997, as detailed in IBTCI's Semi-Annual/Quarterly Review for the period January-June 1997, the CMA approved the second capital increase of Banque Misr I in September 1997. Banque Misr I increased its capital from LE400 million in April 1997 to LE500 million. The increase in capital for Banque Misr I was generated from the issuance of new certificates that were sold to the public at their market price, 196 percent above the original issue price. The Banque Misr I certificate price increased from its issuance price of LE1,000 in January 1995 to LE 1,196 on September 21, 1997, the third offering date.

- On November 13, in order to increase liquidity, facilitate trading, and to diversify the number of certificate holders, Banque Misr announced a split for certificates of its two funds. This split was effective November 23, 1997. On that day, the certificate price for Banque Misr I certificates was LE1,182.6 per certificate. Each certificate was split 10:1, with a new certificate price of LE118.26. The Banque Misr II Fund certificate went from LE1,595.10 before the split to LE106.34 per certificate afterwards, a 15:1 split. This occurred after the fund had announced daily redemption for their certificates. This indicates that the Egyptian financial market is still healthy.

- The CMA approved the increase in capital of Banque du Caire's Fund in December 1997. The Banque du Caire Fund increased its capital from LE100 million to LE200 million, generated from the issuance of 1 million new certificates sold to the public at market price.

Top Companies in the Portfolios of 15 Mutual Funds, as of January 20, 1998

Table (41)

Mutual Fund	Top Companies in Investment Portfolio	Fund Managers
NBE I	Ameriya Cement, Middle & West Delta Mills, Torah Cement, Abu Qir, National Societe Generale Bank, (NSGB), CIB, East Delta Mills, MIBank, and Credit Internationale d'Egypte Bank.	Al Ahly for Investment.
NBE II	Ameriya Cement, Helwan Cement, Middle & West Delta Mills, East Delta Mills, Suez Cement, Abu Qir, MIBank, CIB, Suez Canal Bank, and Middle Egypt Flour Mills.	Al Ahly for Investment.
Banque Misr I	Gov. Bonds – 2000 and 2003, Gov. T-bills, MIBank, EIPICO, PACIN, Misr Exterior Bank, Ameriya Cement, and Suez Cement.	Concord International Investment
Banque Misr II	Ameriya Cement, EIPICO, MIBank, Misr Exterior, Bank, Suez Cement, CIB, Nasr City Housing, and PACIN.	Concord
Banque du Caire	Helwan Cement, Ameriya Cement, Torah Cement, Nasr City Housing, North Cairo Mills, CIB, Cairo Poultry, Heliopolis Housing, and Suez Cement.	Hermes Fund Management (HFM)
Delta Fund	NSGB, Helwan Cement, Ameriya Cement, Torah Cement, CIB, Upper Egypt Flour Mills, EIPICO, North Cairo Mills, Heliopolis Housing, Nasr City Housing, and Suez Cement.	HFM
SAIB I	Upper Egypt Mills, Ameriya Cement, Helwan Cement, Egyptian Financial & Industrial (EFIC), PACIN, Suez Cement, EAB Bonds, AMEX Bonds, Kafr El Zayat, and NBE I fund.	Prime Investment Fund Managers
Export Development Bank	CIB, Ameriya Cement, Abu Qir, Helwan Cement, Suez Canal Bank, PACIN, Memphis Pharmaceutical, Cairo Pharmaceutical, and Alexandria Pharmaceutical.	Cairo Portfolio Management
Orient Trust	Gov. Bonds - 2000 and 2003, CIB, EBB Bonds, Citibank Bonds, Arab Land Bank Bonds, Suez Cement, Torah Cement, EIPICO, and Technopac.	Al Masrya for Investment & Financial Services
American Express Bank	Ameriya Cement, CIB, Upper Egypt Flour Mills, North Cairo Mills, Torah Cement, Helwan Cement, Heliopolis Housing, NSGB, EPICO, and Suez Cement.	HFM
Egyptian Gulf Bank	Torah Cement, Helwan Cement, NSGB, CIB, Upper Egypt Mills, Nasr City Housing, Heliopolis Housing, Ameriya Cement, North Cairo Mills, and Suez Cement.	HFM
Suez Canal Bank	Helwan Cement, Suez Cement, Ameriya Cement, Kafr El Zayat, Nasr City Housing, Abu Qir, Middle & West Delta Mills, MIBank, CIB.	Egyptian Anglo
Allied Insurance	Helwan Cement, Suez Cement, Ameriya Cement, Kafr El Zayat, Abu Qir, Middle & West Delta Mills, MIBank, CIB, and Upper Egypt Mills.	Egyptian Anglo
EAB	Nasr City Housing, Heliopolis Housing, Torah Cement, Helwan Cement, CIB, Egypt Gas, Ameriya Cement, Eastern Tobacco, EFIC, Upper Egypt Mills.	Egyptian Fund Management Group (EFMG)
Bank of Alexandria	Nasr City Housing, Heliopolis Housing, Torah Cement, Helwan Cement, CIB, Egypt Gas, Ameriya Cement, Eastern Tobacco, EFIC, North Cairo Mills.	EFMG

Source: El Borsa, January 11, 1998

3.3.5 Mutual Funds' Performance

The decline in the CMA General Index and the Hermes Financial Index during the second half of 1997 reflected negatively on investment fund certificate prices until the last week of December 31, 1997. Then the market appeared to be recovering, much of it in response to the premature buying by the Egypt International Fund (See Section 3.3.2.1 above. Table 42 shows the weekly developments in investment certificate prices of the 16 local mutual funds from September 4, 1997 until January 8, 1998.

Investment Certificate Prices from September 4, 1997 until January 8, 1998

Table (42)

	NBE I	NBE II	EAB	Bank of Alex.	Banque Misr I	Banque Misr II	Allied Ins.	Banque du Caire	Orient Trust	SAIB I	SAIB II	Export Dev. Bank	El Delta for Inv.	Suez Canal Bank	AMEX	Egyptian Gulf Bank
Nominal Value Per Cert.	500	100	100	100	1000	1000	500	100	1000	500		100	100	500	100	100
Date																
4/9/97	915.75	107.5	133.29	143.3	1190.4	612.93	541.67	214	1093.11	793.55		120.93	159.78	492.83	101.58	101.33
11/9/97	922.25	108.5	134.86	144.89	1194.63	624.68	547.3	215.14	1097.22	800		122.27	161.73	500.02	102.69	102.47
18/9/97	927.3	109.6	135.22	145.35	1196.18	630.58	549.91	215.04	1092.59	800.5		122.34	161.71	503.16	102.65	102.45
25/9/97	933.0	111.10	134.68	144.82	1197.04	633.40	551.35	214.23	1092.84	802.0		122.36	161.02	503.99	102.01	101.77
2/10/97	935.25	102.8	135	145.2	1177.31	638.98	553.31	214.2	1104	803.5		121.7	160.94	504.03		101.89
9/10/97	935.5	102.7	134	144.9	1180.21	632.07	550.45	212.6	1104	804		121.25	159.64	500.12	101.39	101.08
17/10/97	928.75	101.75	133	143.8	1177.83	624.11	544.91	210.8	1103	804.5	100.1	120.48	158.09	492.81	100.76	100.41
24/10/97	932	102.15	134	144.1	1180.09	624.25		210.6	1104	804.75	100.15	119.8	157.98	491.82	100.74	100.41
31/10/97	934	102.5	133	143.4	1177.58	609.69	541.4	208.3	1103	805.55	100.3	119.24	156.46	490.22	99.96	99.55
6/11/97	927.25	101.7	132.26	142.35	1178.45	604.02	540.17	206.79	1100.09	805.56	100.33	118.22	155.51	487.43	99.4	99
13/11/97	915.4	100.75	128.48	138.3	1173.96	586.06	535.58	199	1088.77	795.6	100.33	117.54	150.14	482.81	96.16	95.76
20/11/97	894.25	100.05	124.58	134.52	1182.6	595.1	526.56	194.08	1070.11	787.5	100.25	116.31	146.27		93.46	92.89
27/11/97	900.25	100.75	125.17	135.06	1190.7	605.75	530.48	194.82	1075.08	790.07	100.26	115.96	146.79	475.44	93.75	93.17
4/12/97	887	100.05	121.17	131.29	1190	593.6	518.63	189.99	1061.53	774.32	100.05	113.42	143.04	463.89	91	90.78
11/12/97	892	100.25	123.16	133.4	1200.6	602.6	518.66	193.64	1066.06	780.44	100.16	115.68	145.93	464.07	93.04	92.57
18/12/97	892.25	100.45	122.42	132.54	120.83	07.47	522.89	192.5	1066.27	781	100.1	114.91	145.05	467.63	92.38	91.88
25/12/97	896.75	101.25	122.43	132.54	121.52	08.35	NA	192.5	1067.08	790.3	100.5	114.91	146.02	475.3	92.38	91.88
1/1/98	902.25	100	117.98	128.67	148.27	19.53	NA	195.71	1070.49	795	100.51	112.6	148.27	480.62	94.16	93.65
8/1/98	900.25	100	116.86	127.47	119.6	106.2	511.16	194.33	1060.19	790.05	100.5	111.56	148.42	479.41	93.34	92.86

N.B. Certificates of Banque Misr 1st. fund prices were split into ten and certificates of its second fund were split into 15 certificates.
Source: Individual Fund Managers

From the above table, all investment funds' certificate prices continued to decline through out the period September 4, 1997-January 8, 1998. Despite this decline, some funds have continued to provide positive returns for their subscribers as they benefited from the subsequent rise in the Egyptian equity market that occurred early this year.

Table 43 highlights some performance indicators for nine local investment funds that began their operations over a year ago. These indicators include capital gains per certificate, dividends, and total return on investments for the period from their establishment until January 8, 1998.

Performance Indicators for Nine Local Investment

Funds as of January 8, 1998

Table (43)

	Growth Funds			Income Funds	Income / Growth Funds				
	NBE I	**Banque Misr II**	**Banque du Caire**	**Banque Misr I**	**NBE II**	**EAB**	**Bank of Alex.**	**Allied Insurance**	**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	00	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	67.51	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	.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 Second Quarter 1997 (LE)	-9.5	-127.48	-7.43	-6.99	-9.35	-21.83	-18.49	-99.68	-13.25
Certificate Price as of 25/9/97 (LE)	933.0	1633.4	214.23	1197.04	111.01	134.68	144.82	551.35	161.62
Capital Gain during Third Quarter 1997 (LE)	42.5	40.16	10.80	36.52	5.76	6.26	7.03	7.05	-9.12
Certificate Price as of 8/1/97 (LE)	900.25	1593*	194.33	1196**	100	116.86	127.47	511.16	148.42
Capital Gain during Fourth Quarter 1997 (LE)	-32.75	-40.4*	-19.9	-1.04**	-11.01	-17.82	-17.35	-40.19	-13.2
Capital Gain since Establishment as of 8/1/98	400.25	593	94.33	96	0.00	16.86	27.47	11.16	48.42
Dividends Distributed from Establishment until 8/1/998 (LE)	Growth	Growth LE 197 in Dec.96 LE 100 in June 97 LE 60 in Dec.97 Total=357	Growth	89 in 1995 +139 in 1996 228 + 60+ 29 +23+34 in 1997 total=374	60.10	52.75	45.5	117.00 +50 +25 total=192	8+20 +5 total=32
Total Return from Establishment until Jan. 8, 1997	80%	95%	94.33%	47%	60.10%	69.61%	72.97%	40.63%	80.42%
Total Average Return Per Annum	24.62%	42.22%	45.28%	16.6%	27.73%	21.98%	24.32%	18.75%	50.79%

Source: Individual Fund Managers
* *Certificate split 15:1 (certificate price after split 106.2)*
** *Certificate split 10:1 (certificate price after split 119.6)*
N.B.: *Av. annual return on Growth Funds 37.4%*
Av. annual return on Income Funds 16.6%
Av. annual return on Growth & Income Funds 28.7%

Table 43 shows that all 9 selected mutual funds certificate prices realized negative capital gain during the fourth quarter 1997. However, these funds have continued generally to distribute positive returns to their subscribers because they benefited from the earlier rise in the market during the period from November 1996 until February 1997.

The average annual return realized on the funds' certificates since establishment fluctuated between a maximum of 50.79 percent for El Delta Fund to a minimum of 16.6 percent for Banque Misr I.

During the second half of 1997 and the first two weeks of 1998, six of the local funds distributed a percentage of their return to their certificate holders.

- The Delta Fund distributed dividends twice during the period from July 1997 until January 1998. On July 31, 1997, the Delta Fund distributed a dividend of LE20 for all certificate holders recorded as of July 22, 1997. In January 1998, the fund distributed its third coupon of LE5 for each certificate holder.
- On January 3, 1998, the NBE II Fund distributed its ninth coupon for the fourth quarter of 1997, amounting to LE2.5 per certificate. This makes the total amount distributed by the NBE II Fund for each certificate equal to LE35, representing 35 percent of the certificate's nominal value.
- On August 28, 1997, SAIB I fund announced the distribution of a dividend of LE30 per certificate.
- On January 4, 1998, both the EAB and Bank of Alexandria funds distributed dividends to their certificate holders for the quarter ending December 31, 1997. This is considered the fifth dividend distribution for both funds. Dividends distributed by the EAB and Bank of Alexandria funds amounted to LE8 per certificate for both funds. Pursuant to this dividend distribution, total amount distributed by the EAB fund since its establishment equal to LE52.75 per certificate. For Bank of Alexandria, total dividends distributed since its establishment amounted to LE45.5 for each certificate.
- On January 4, 1998, the Export Development Bank announced the distribution of its semi-annual dividend amounting to LE5 per certificate. This amount should be compared to the LE20 that was distributed for the first half of 1997, indicating the impact of the sharp decline in share prices on the fund.

3.3.6 Off-Shore Country Funds

In addition to the 19 local funds and the 5 offshore country funds investing primarily in Egyptian equities that have been launched since 1996, a new Arab fund was launched during this quarter. National Societe Generale Bank launched the fund primarily for investments in Egypt. The aggregate issue value of these six funds is approximately US$434 million. Five of these offshore and Arab funds are closed-end funds, and one is an open-ended fund established in early 1997. The increasing number of country funds illustrates the important role of foreign investors in the Egyptian market.

In October 1997, the offshore Egypt Fund raised more than US$32 million in a C share issue placed by Saudi American bank, Hermes Financial, and Financial Brokerage Group. The issue brings the net asset value of this Dublin-listed fund to over US$100 million. Hermes Financial, with Martin Currie of the UK acting as investment advisor, manages the fund.

Table 44 on the following page briefly summarizes the five country funds and the sole Arab fund as of January 10, 1998.

Country and Arab Funds Investing Primarily In Egyptian Securities

Table (44)

Name of Fund	Starting Date of Operations	Size (US$ million)	Nominal Value per Certification LE	Fund Type	Fund Managers / Advisor
Country Funds					
"Egypt Investment Company" listed on London Bourse	6/96	46	US$10	Capital Growth Closed-End	Concord National (BVI) Limited (40% NBE & 60% Concord Inv., New York)
"The Egypt Trust" Structuring Agent IFC listed in London Bourse	11/96	74	10	Capital Growth Closed-End	Lazard Freres Asset Management Inv. Advisor: NBE
"The Egypt Fund" Martin Currie listed in the Dublin Bourse	8/96 Ordinary 11/96 11/97	16.12 27.06 32	10 9.98	Capital Growth Closed-End	HFM
"The Egyptian Growth Inv. Company Limited" listed on London Bourse	1/97	91	10.25	Capital Growth Open-Ended	Concord Misr Investments (Guernsey) Ltd., part of the Concord Group
" The Nile Growth Company" will be listed in Luxembourg Bourse	6/97	130	10.30	Capital Growth Closed-End	ACM CIIC Investment Management Limited
Regional Funds					
Societe Generale Arab Fund Listed on Dublin Bourse	10/97	50	100	Capital Growth Closed-End	Societe Generale emerging Europe asset Management Ltd.

Source: Individual Fund Managers

Following are details of the Arab Fund established during fourth quarter 1997.

- **Societe Generale Arab Fund**

During fourth quarter 1997, National Societe Generale Bank launched its first closed-ended Arab fund, the Societe Generale Arab Fund, to become the first fund targeting Arab investments in operation to date. The fund aims to achieve capital growth through a balanced portfolio of equities based in the Arab region, principally in Egypt. Investments are predominately in quoted securities, with a maximum of 40 percent available for unlisted equities. Subscription to this fund was from October 6 - November 24, 1997. Table 45 on the following page gives more details about the Societe Generale Arab Fund:

Societe Generale Arab Fund Status, Fees, Share Price, Custodian, Manager, Administrator, and Listing

Table (45)

Societe Generale Arab Fund	
Status	A closed-ended investment company with an initial life of 5 years (with an option to extend to 7 years), incorporated in Guernsey and denominated in US$.
Investment Region	Principally in Egypt, Lebanon, Jordan, Oman, and Bahrain. Investments may also be made in Saudi Arabia, UAE, Qatar, Kuwait and other countries in the region, as and when permitted.
Listing	Irish Stock Exchange; proposed to be listed on Bahrain Stock Exchange
Issue Size	It is intended to raise US$50 million, with a maximum of US$150 million.
Price per share	US$100
Min. Subscription	US$ 100,000
Dividend Policy	The major portion of the fund's investments are not anticipated to yield any income, but to be reinvested.
Investment Manager	Societe Generale Emerging Europe Asset Management, Ltd.
Administrator	Management International (Guernsey) Limited
Custodian	Bank of Bermuda (Guernsey) Limited
Fees	• 2% annual management fee • 20% annual performance fee of the increase in Net Asset Value over 15% in each financial year using " High Water Mark"
Pricing	The Net Asset Value will be calculated Monthly and published in the Financial times and on Reuters Page SXWU.

Source: Societe Generale Emerging Europe Asset Management Limited

3.3.7 Venture Capital Closed-End Funds

Four direct investment funds are preparing to operate in the Egyptian market. Two of the funds are based in Egypt, with a total capital of LE400 million. The third fund is based in a Gulf state, and the fourth is based in London. The four funds had submitted requests to the CMA requesting authorization to operate in Egypt. The CMA Chairman stated that four new funds will have a pivotal role in the issuance market and also in the transactions market, since these funds deal mainly with unlisted companies and closed companies. These direct investment funds will invest in loss-making companies. Their primary focus is on financial and administrative restructuring prior to offering their shares on the stock market.[38]

In addition, during third quarter 1997, the CMA approved a proposal for the establishment of a venture capital fund by Al Ahly for Development and Investment Company. Dr. Fouad Soultan, the Ex-Minister of Tourism, manages Al Ahly. Other financial institutions have received CMA approval for establishing venture capital funds, but none have yet started operations.

3.3.8 Stock Market Performance of the Banking Sector

Since the beginning of 1996, banks have increased their involvement in capital markets by offering bonds and GDRs. Additionally, many bank stocks are listed and traded actively on the stock exchange, and their number is expected to grow.

[38] *Al Alam Al Youm*, October 15, 1997, p. 1.

• Banking Sector Share Prices

During fourth quarter 1997, rumors of a merger between MIBank and Misr Exterior Bank pushed up MIBank's shares by about 7 percent during the second week of October, reaching LE614 per share. MIBank executives were quick to state that rumors of a merger were totally unfounded. MIBank already holds about 30 percent of Misr Exterior Bank, having bought shares from Banque Misr and from the original joint venture partner, Banco Exterior de Espana. However MIBank has confirmed that it intends to carry out a five-for-one stock split of its own shares, to encourage liquidity.[39]

Table 46 shows financial and performance indicators for 1996 and the market capitalization for the most actively traded bank shares during fourth quarter 1998::

Financial Performance Indicators of the Most Actively Traded Banks

Table (46)

As of January 19, 1998	Earnings 95/96 (LE '000)	Earnings 96/97 (LE '000)	Earnings 97 / 98 (LE '000)	No. Shares ('000)	Market Cap. as of January 12, 1998 (LE million)	EPS 96/97	EPS 97/98	Closing Price (LE)	P/E Ratio 95/96	P/E Ratio 96/97	P/E Ratio 97/98	Dividend (LE) & Paying Date	Yield (Trailing)
CIB	341,030	275,000	315,000	50,000	3,310.5	5.56	6.30	66.21	14.73	12.04	10.51	20,000 15-6-97	3.02%
Al Watany Bank	42,700	59,000	71,000	11,797	595.8	5.00	6.02	50.50	14.36	10.10	8.39	27,000 1-6-97	5.35%
MIBank	141,000	183,000	215,000	22,500*	2,287.4	8.13	9.56	101.66	19.77	12.50	10.64	125,000 22-6-97	12.30%
National Societe Generale Bank	56,000	69,800	85,700	12,000	967.4	5.82	7.14	80.62	14.42	13.86	11.29	200,000 14-4-97	24.81%
Egyptian American Bank (EAB)	90,550	105,000	121,000	12,000	1,226.6	8.75	10.08	102.22	17.76	11.68	10.14	60,000 6-7-97	5.87%
Misr Exterior Bank	53,000	70,000	125,000	730	1,210.9	95.89	71.23	658.88	13.73	17.30	NA	245,000 1-6-97	1.48%
Housing & Development Bank	45,000	62,000	70,000	5,400	461.0	11.48	12.96	85.37	10.56	7.44	6.59	NA	NA
Export Development Bank	36,051	45,000	75,000	2,500	750. 0	18.00	30.00	300.00	7.97	16.67	10.00	NA	NA

** Number of shares after split*
Source: EFG-Hermes Securities Brokerage

[39] Middle East Economic Digest, October 10, 1997.

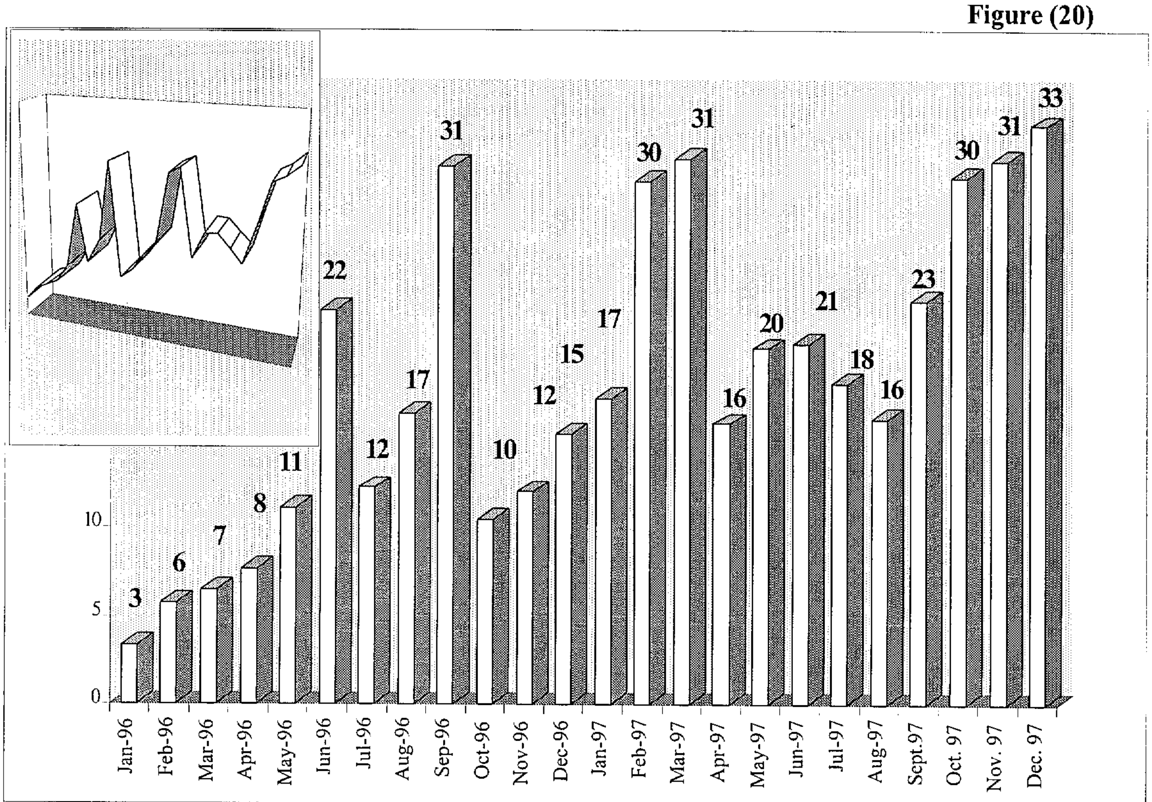
3.4 Stock Market

3.4.1 Number of Shares Traded

The number of shares traded reached its highest level ever in December 1997, as described in Figure 20, which presents the number of shares traded from January 1996 until August 1997. This increase in due to the new companies privatized during this period.

Number of Shares Traded from January 1996 through December 1997 (million).

Figure (20)



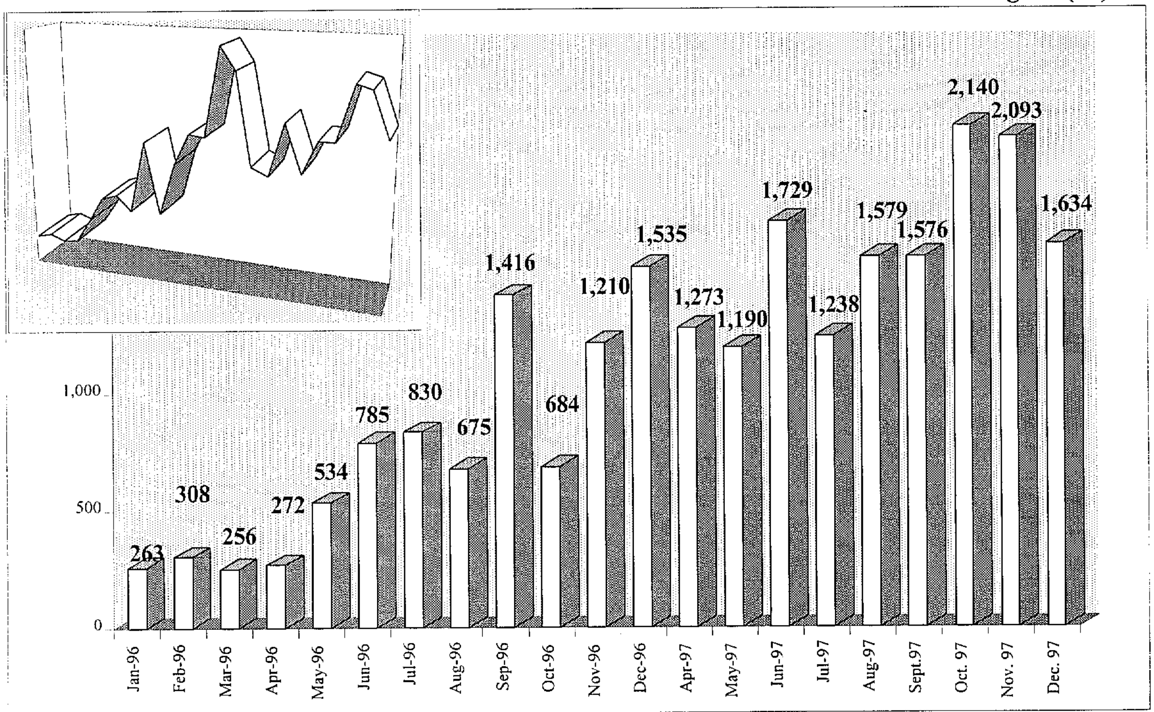
Source: Capital Market Authority; Presentation and Compilation by IBTCI.

3.4.2 Value of Shares Traded

In contrast to the increase in the number of shares traded as described above, the value of shares traded decreased in December as shown in Figure 21, which presents the value of shares traded from January 1996 until December 1997. This decrease is contrary to what was expected due to the newly privatized companies. The value traded in the stock market usually increases with new share offerings and more privatized companies.

Value of Shares traded from January 1996 Through December 1997 (LE million)

Figure (21)



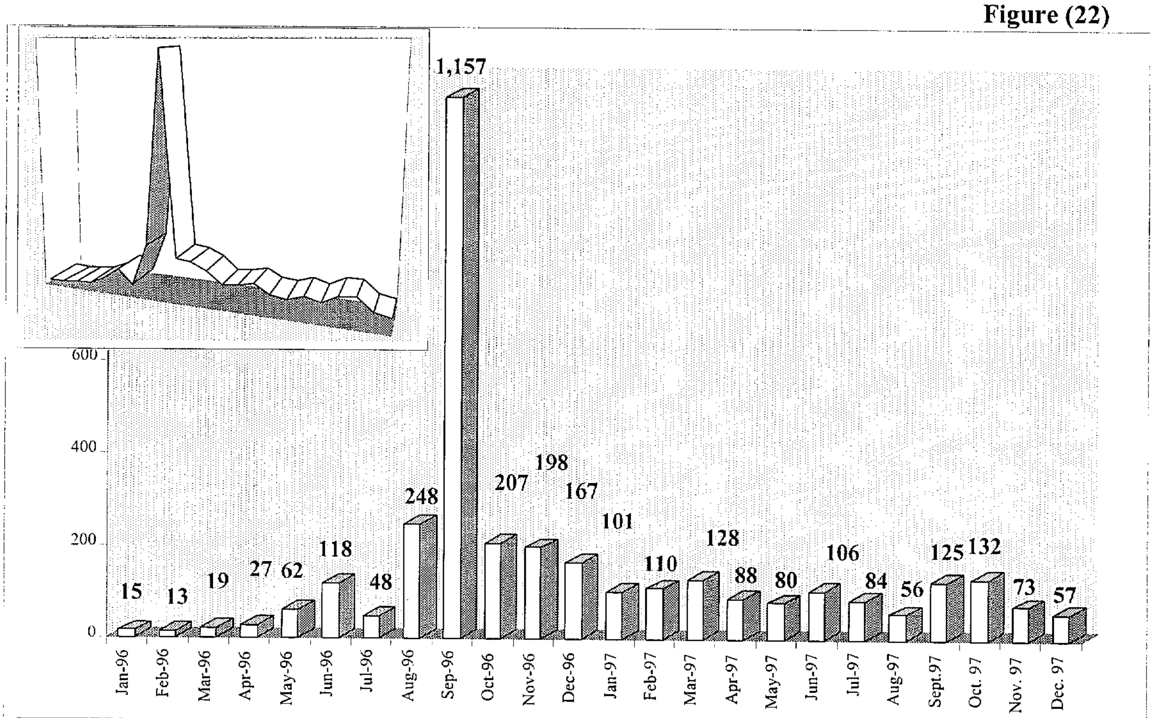
Source: Capital Market Authority; Presentation and Compilation by IBTCI.

3.4.3 Number of Transactions

The number of transactions reached its lowest level since July 1997. Figure 22 presents the number of transactions from January 1996 to December 1997.

Number of Transactions from January 1996 Through December 1997 (thousand).

Figure (22)



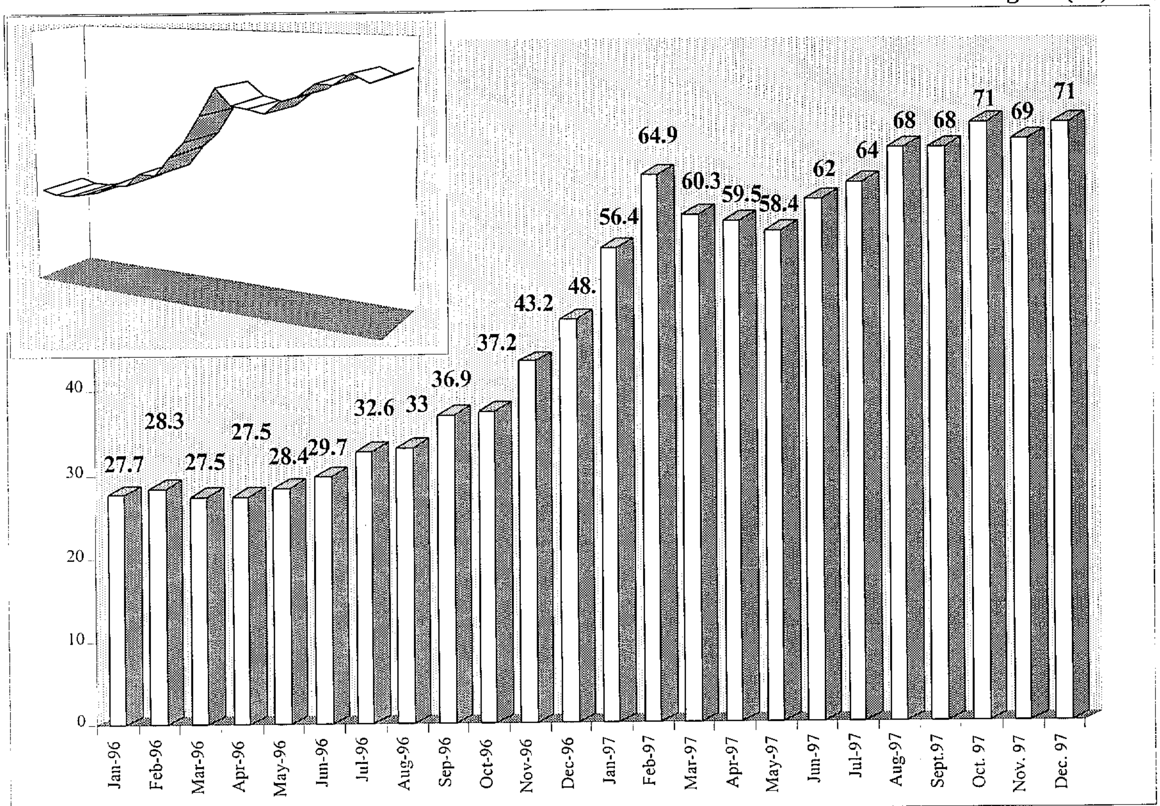
Source: Capital Market Authority; Presentation and Compilation by IBTCI.

3.4.4 Market Capitalization

Market capitalization increased in December to its highest level due to new private and public sector share flotations. Market capitalization rose from LE48 billion at the end of 1996 to LE58 billion at the end of May 1997 to LE71 billion at the end of December 1997. The increase during 1997 was approximately 48 percent. Figure 23 presents the market capitalization trend from January 1996 to December 1997.

Market Capitalization from January 1996 through December 1997 (LE billion)

Figure (23)



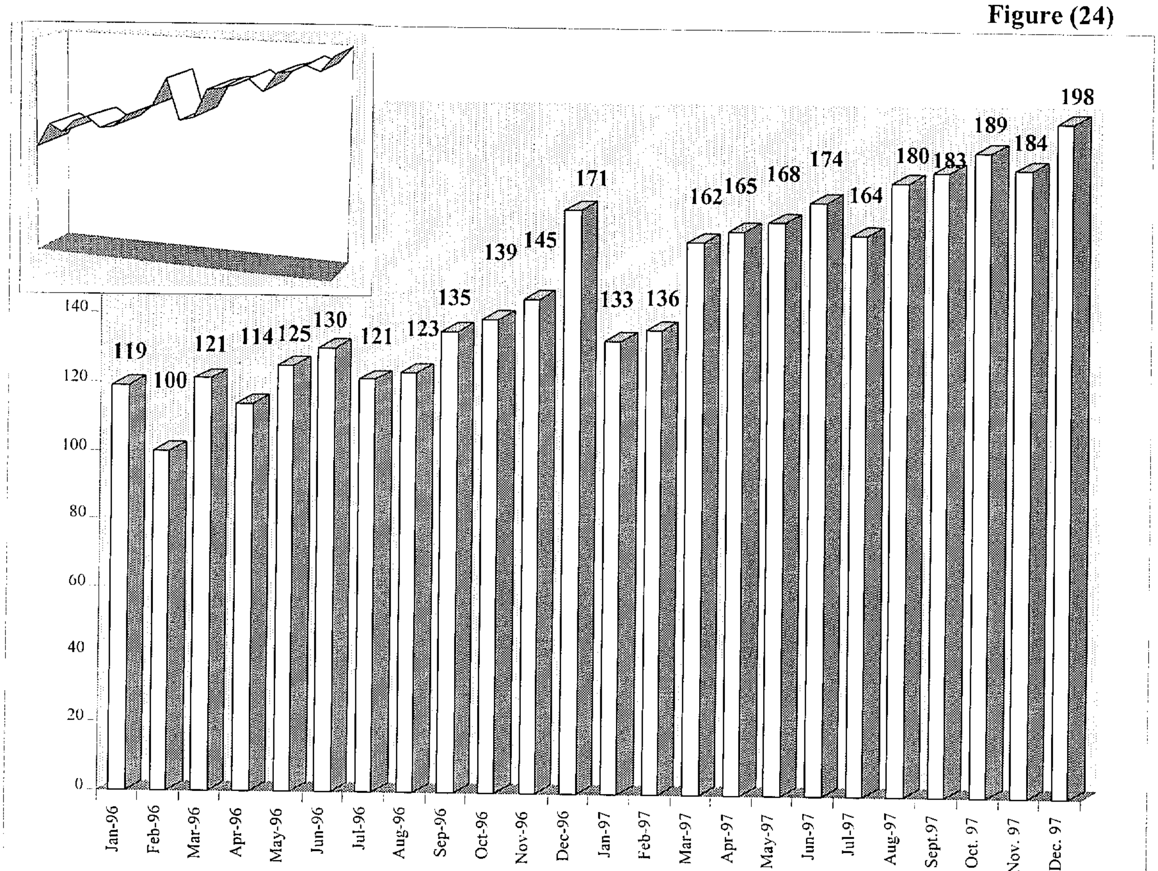
Source: Capital Market Authority; Presentation and Compilation by IBTCI.

3.4.5 Companies Actively Traded

The 198 companies actively traded during December 1997 represents the highest number ever actively traded since the stock market was resurrected in 1991. This is due largely to the introduction of new private and public companies to the stock market through the privatization program. The 198 actively traded firms in December 1997 represent a significant rise over the 168 shares traded in May 1997, as shown in Figure 24 which presents the number of actively traded companies by month from January 1996 to December 1997.

Number of Companies Actively Traded by Month from January 1996 through December 1997

Figure (24)



Source: Capital Market Authority; Presentation and Compilation by IBTCI.

3.4.6 Number of Companies Traded, Number of Shares Traded, Value of Shares Traded, and the Market Capitalization per Sector.

The most active major sector in the stock market during 1997 is manufacturing, as shown in Table 47 and Figure 25 which describes the number volume of shares traded, number of companies traded and the market capitalization. Manufacturing represents 39 percent of the number of companies traded, 42 percent of the volume of shares traded, 41 percent of the value of shares traded, and 48 percent of the market capitalization. In contrast with manufacturing, mining had the lowest level of activity during 1997. It should be noted that the market capitalization is 3.9 times the nominal value of the listed companies in the stock market.

Number of Companies Traded, Number of Shares Traded, Value of Shares Traded, and Market Capitalization per Sector during 1997.

Table (47)

Sector	No. of Co. Traded	% of Total	Volume of Shares Traded (million)	% of Total	Value of Shares Traded (LE million)	% of Total	Market Cap. (LE million)	% of Total
Agri., Forest & Fishing	31	4.77	22.60	1.22	165.8	0.91	925.3	1.31
Mining	5	0.77	0.20	0.01	69.2	0.38	69.2	0.10
Construction	69	10.62	23.70	1.28	715.2	3.91	2038.8	2.88
Manufacturing	252	38.77	783.10	42.23	7,457.0	40.77	34344.1	48.46
Transport, Elect., Gas.	28	4.31	484.00	26.10	1,532.0	8.38	2883	4.07
Wholesale & Retail Trade	56	8.62	51.30	2.77	426.6	2.33	756.8	1.07
Finance, Insurance & Real-estate	140	21.54	423.70	22.85	6,026.7	32.95	27186	38.36
Services	69	10.62	65.80	3.55	1,898.8	10.38	2669.9	3.77
Total	**650**	**100.00**	**1854.40**	**100.00**	**18,291.3**	**100.00**	**70,873**	**100.00**

Source: Capital Market Authority; Presentation and Compilation by IBTCI.

Market Capitalization Verses Nominal Value During 1997 (in LE billion)

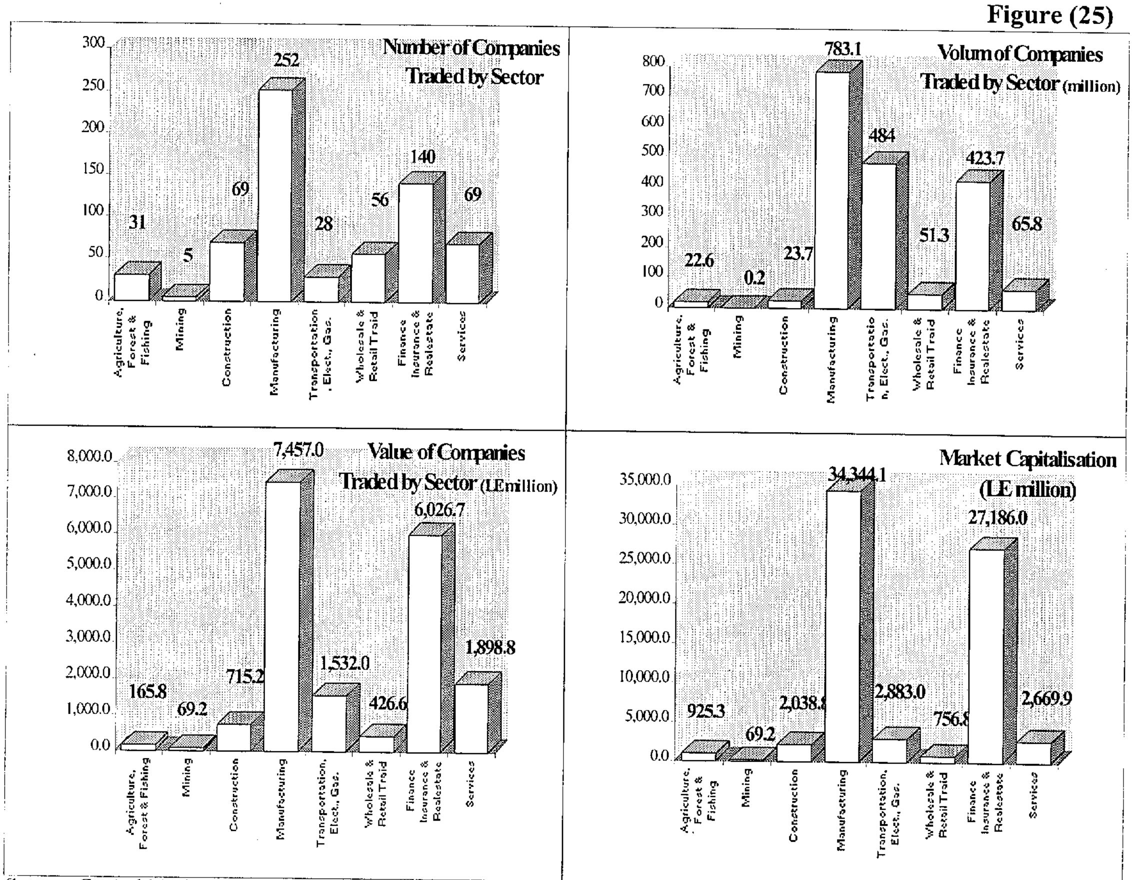
Table (48)

Sector	Offering Price	Market Capitalization	Market Capitalization/ Offering Price
Agriculture, Forest & Fishing	165.8	925.3	5.6
Mining	69.2	69.2	1.0
Construction	715.2	2,038.8	2.9
Manufacturing	7457	34,344.1	4.6
Transportation, Elect., Gas.	1532	2,883.0	1.9
Wholesale & Retail Trade	426.6	756.8	1.8
Finance Insurance & Real-estate	6026.7	27,186.0	4.5
Services	1898.8	2,669.9	1.4
Total	**18291.3**	**70,873.1**	**3.9**

Source: Capital Market Authority; Presentation and Compilation by IBTCI.

Number of Co. Traded, Number of Shares Traded, Value of Shares Traded, and the Market Capitalization per Sector during 1997.

Figure (25)



Source: Capital Market Authority; Presentation and Compilation by IBTCI.

Active Law 203 Companies in the Stock Market

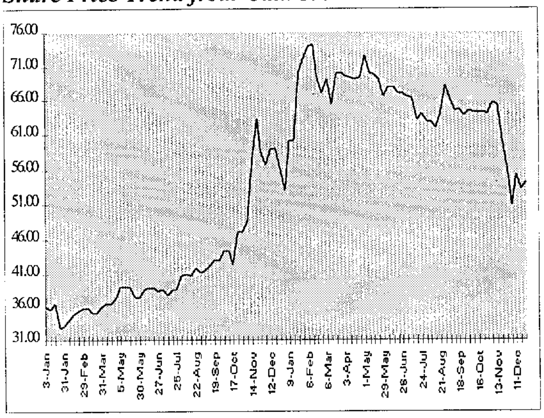
Alexandria Portland Cement Company

The company was established in 1984. It produces and distributes all varieties of cement. The company is 20.57 percent private.

Stock Market Data

Number of Shares in the Market:	205,600
Initial Flotation Price (LE):	32.00
Lowest Price (LE):	32.00
Highest Price (LE):	74.10
Price (LE) as of Dec. 26, 1997:	53.99
EPS:	6.05
P/E Ratio:	8.91

Share Price Trend from Jan. 1996 to December 1997



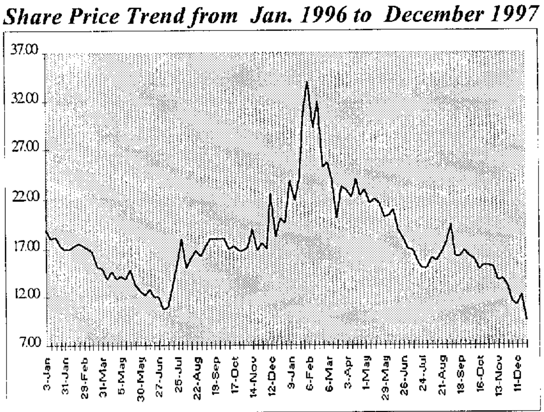
Misr Chemical Industries Company

The company was established in 1959. It produces essential chemicals. The company is 34.20 percent private.

Stock Market Data

Number of Shares in the Market:	4,784,000
Initial Flotation Price (LE):	5.00
Lowest Price (LE):	5.00
Highest Price (LE):	34.00
Price (LE) as of Dec. 26, 1997:	9.49
EPS:	.59
P/E Ratio:	16.05

Share Price Trend from Jan. 1996 to December 1997



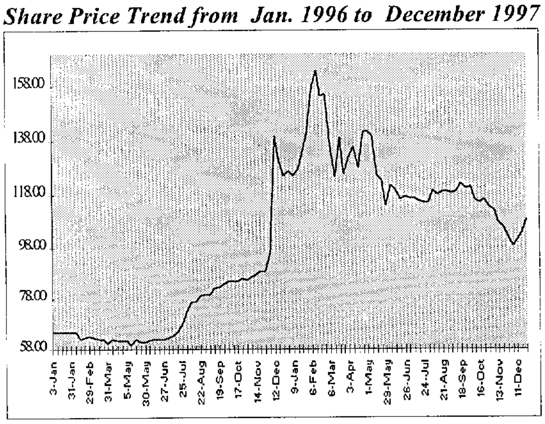
Paints and Chemicals Company

The company was established in 1958. It produces and distributes paints, varnishes, printing inks, and intermediate chemicals. The company is 54.00 percent private.

Stock Market Data

Number of Shares in the Market:	4,950,330
Initial Flotation Price (LE):	25.00
Lowest Price (LE):	25.00
Highest Price (LE):	164.00
Price (LE) as of Dec. 26, 1997:	109.14
EPS:	10.49
P/E Ratio:	10.40

Share Price Trend from Jan. 1996 to December 1997



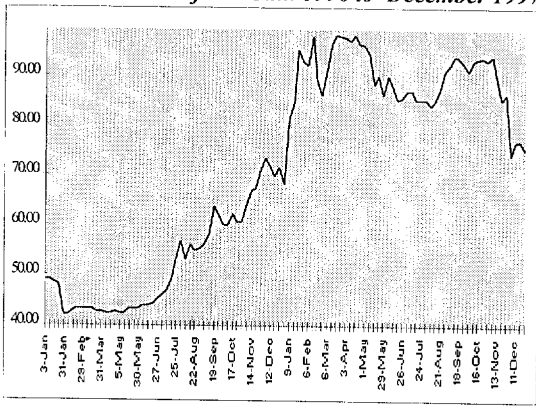
Tourah Portland Cement Company

The company was established in 1927. It produces and distributes cement and sacks from kraft paper. The company is 32.50 percent private.

Stock Market Data

Number of Shares in the Market:	7,748,000
Initial Flotation Price (LE):	31.00
Lowest Price (LE):	31.00
Highest Price (LE):	99.75
Price (LE) as of Dec. 26, 1997:	75.13
EPS:	13.04
P/E Ratio:	5.76

Share Price Trend from Jan. 1996 to December 1997



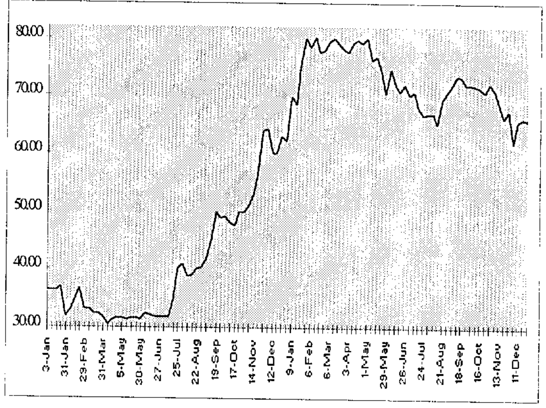
Helwan Portland Cement

The company was established in 1929. It produces and sells cement and building materials. The company is 52.27 percent private.

Stock Market Data

Number of Shares in the Market:	13,004,800
Initial Flotation Price (LE):	34.00
Lowest Price (LE):	30.46
Highest Price (LE):	84.00
Price (LE) as of Dec. 26, 1997:	71.98
EPS:	10.93
P/E Ratio:	6.58

Share Price Trend from Jan. 1996 to December 1997



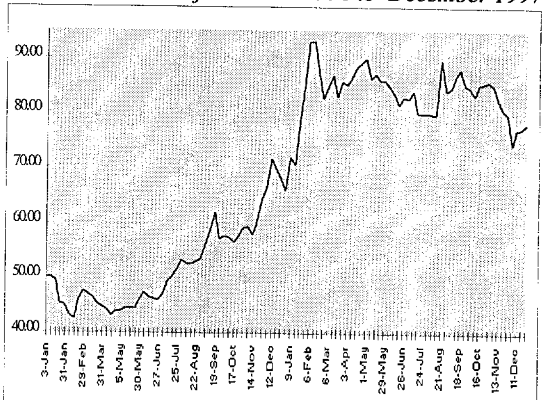
Amerya Cement

The company was established in 1989. It produces all types of cement. The company is 51.60 percent private.

Stock Market Data

Number of Shares in the Market:	10,320,000
Initial Flotation Price (LE):	27.00
Lowest Price (LE):	27.00
Highest Price (LE):	99.25
Price (LE) as of Dec. 26, 1997:	78.10
EPS:	8.32
P/E Ratio:	9.38

Share Price Trend from Jan. 1996 to December 1997



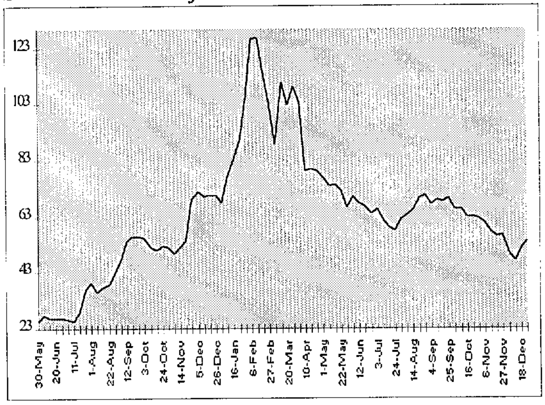
South Cairo & Giza Flour Mills

The company was established in 1966. It produces and distributes grain products. The company is 39.40 percent private.

Stock Market Data

Number of Shares in the Market:	1,183,530
Initial Flotation Price (LE):	26.00
Lowest Price (LE):	26.00
Highest Price (LE):	133.65
Price (LE) as of Dec. 26, 1997:	54.00
EPS:	7.46
P/E Ratio:	7.23

Share Price Trend from Jan. 1996 to December 1997



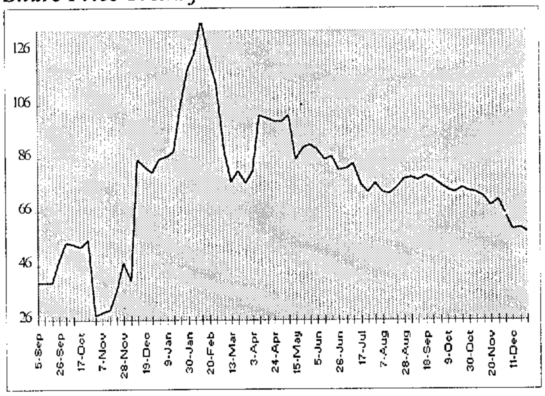
Middle & West Delta Flour Mills

The company was established in 1973. It produces and distributes grain products. The company is 61.01 percent private.

Stock Market Data

Number of Shares in the Market:	4,575,000
Initial Flotation Price (LE):	40.00
Lowest Price (LE):	27.80
Highest Price (LE):	138.50
Price (LE) as of Dec. 26, 1997:	58.31
EPS:	7.81
P/E Ratio:	7.46

Share Price Trend from Jan. 1996 to December 1997



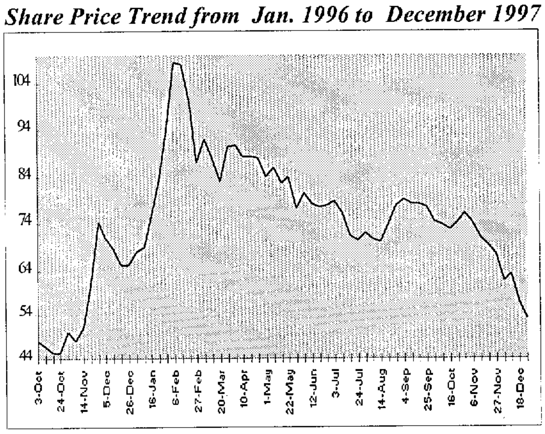
Upper Egypt Flour Mills

The company was established in 1967. It produces and distributes grain products. The company is 60.92 percent private.

Stock Market Data

Number of Shares in the Market:	4,267,015
Initial Flotation Price (LE):	40.00
Lowest Price (LE):	35.70
Highest Price (LE):	119.54
Price (LE) as of Dec. 26, 1997:	53.07
EPS:	6.15
P/E Ratio:	8.62

Share Price Trend from Jan. 1996 to December 1997



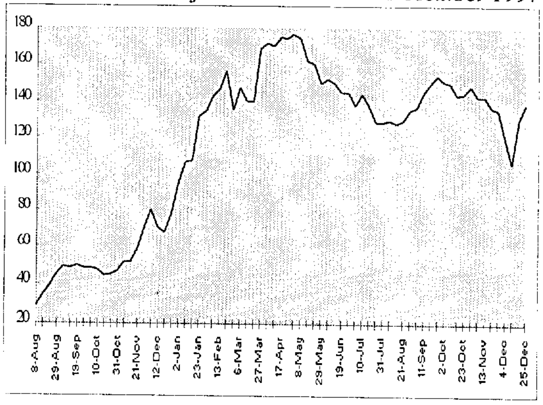
Kafr El Zayat Pesticides

The company was established in 1955. It produces and distributes pesticides. The company is 74.65 percent private.

Stock Market Data

Number of Shares in the Market:	897,280
Initial Flotation Price (LE):	29.00
Lowest Price (LE):	29.00
Highest Price (LE):	177.00
Price (LE) as of Dec. 26, 1997:	137.77
EPS:	8.55
P/E Ratio:	16.11

Share Price Trend from Jan. 1996 to December 1997



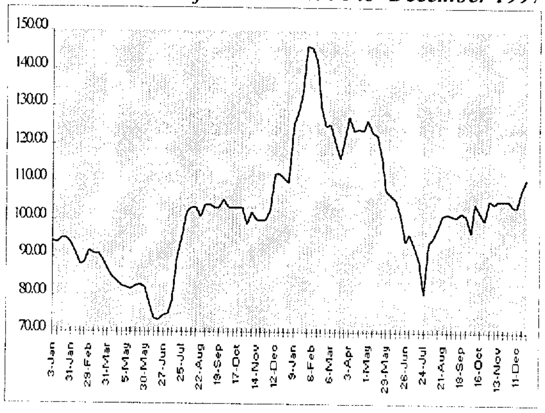
Electro Cable Company

The company was established in 1954. It produces power and telecommunication wires & cable and enameled wire. The company is 51.00 percent private.

Stock Market Data

Number of Shares in the Market:	1,683,000
Initial Flotation Price (LE):	91.00
Lowest Price (LE):	73.25
Highest Price (LE):	200.00
Price (LE) as of Dec. 26, 1997:	110.70
EPS:	11.12
P/E Ratio:	9.95

Share Price Trend from Jan. 1996 to December 1997



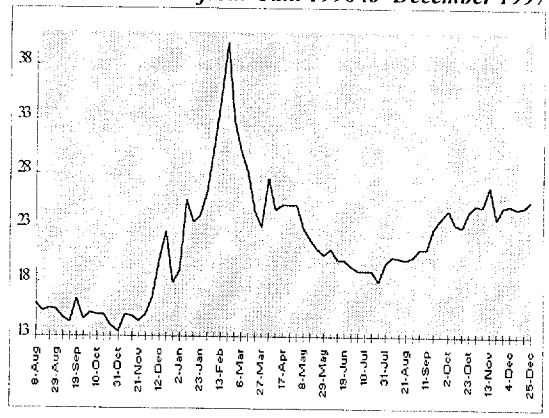
United Housing

The company was established in 1907 (its activity is housing and land development). The company is 8.80 percent private.

Stock Market Data

Number of Shares in the Market:	270,760
Initial Flotation Price (LE):	13.00
Lowest Price (LE):	13.00
Highest Price (LE):	41.93
Price (LE) as of Dec. 26, 1997:	25.47
EPS:	.86
P/E Ratio:	17.91

Share Price Trend from Jan. 1996 to December 1997



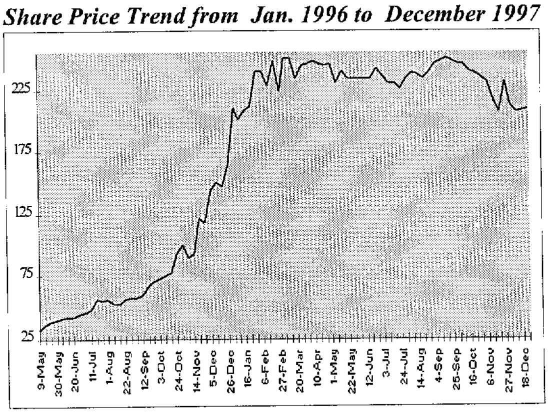
Madinet Nasr

The company was established in 1959. It works in real estate and develops housing complexes. The company is 74.80 percent private.

Stock Market Data

Number of Shares in the Market:	2,997,530
Initial Flotation Price (LE):	32.00
Lowest Price (LE):	32.00
Highest Price (LE):	250.50
Price (LE) as of Dec. 26, 1997:	209.46
EPS:	14.37
P/E Ratio:	14.57

Share Price Trend from Jan. 1996 to December 1997



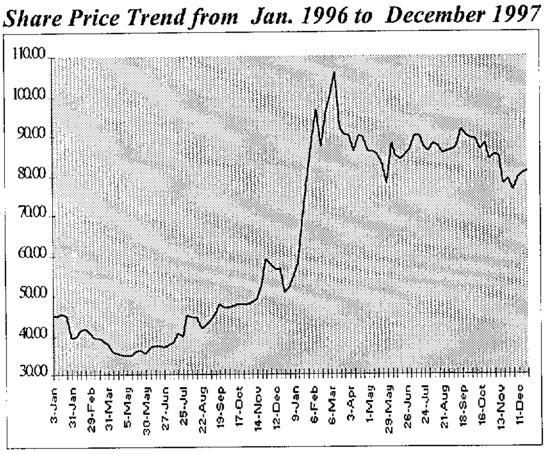
Eastern Tobacco

The company was established in 1920. It produces, manufactures, and trades tobacco products. The company is 33.60 percent private.

Stock Market Data

Number of Shares in the Market:	8,436,700
Initial Flotation Price (LE):	47.5
Lowest Price (LE):	47.5
Highest Price (LE):	106.00
Price (LE) as of Dec. 26, 1997:	91.67
EPS:	6.83
P/E Ratio:	16.94

Share Price Trend from Jan. 1996 to December 1997



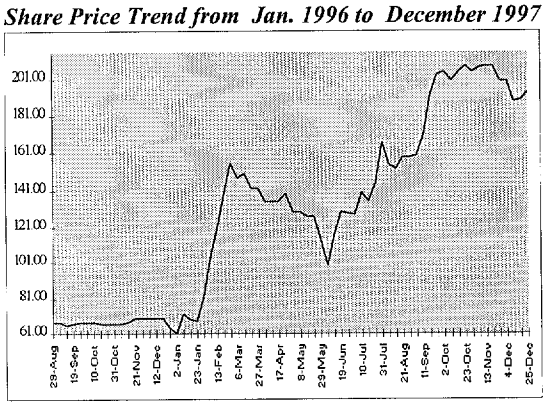
Al Ahram Beverage

The company was established in 1897. It is the producer of "Stella Beer" and many soft drinks The company is 15 percent private through the stock market. Total private share is 74.90 percent.

Stock Market Data

Number of Shares in the Market:	676,480
Initial Flotation Price (LE):	67.00
Lowest Price (LE):	61.00
Highest Price (LE):	208.00
Price (LE) as of Dec. 26, 1997:	194.00
EPS:	11.98
P/E Ratio:	16.19

Share Price Trend from Jan. 1996 to December 1997

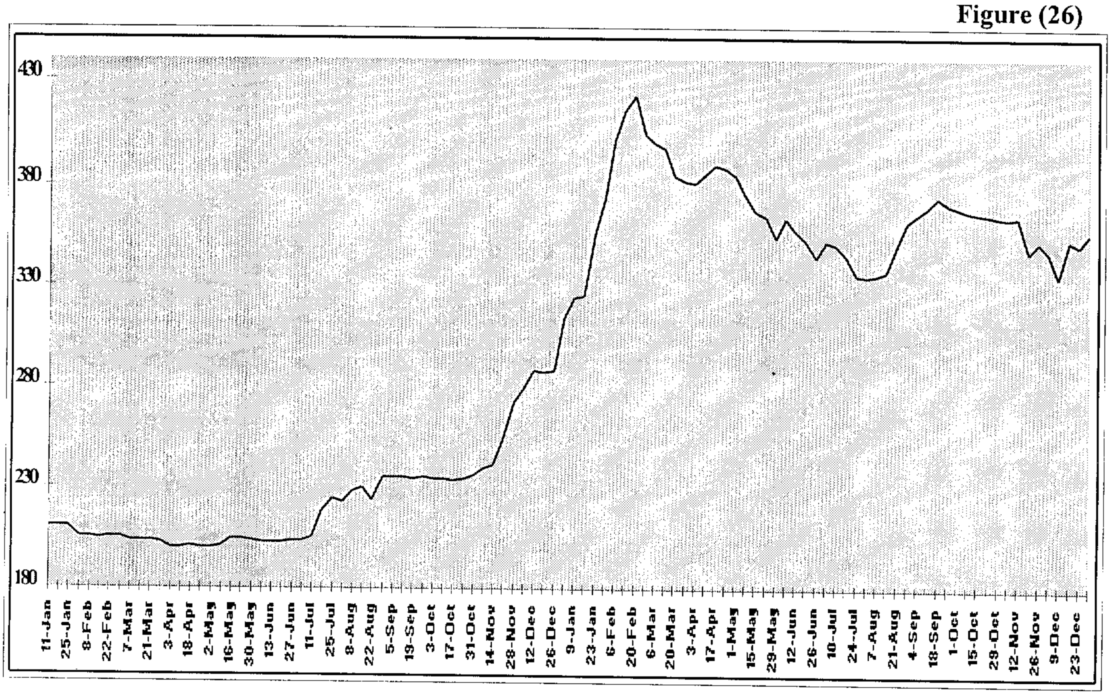


CMA General Index

The CMA General Index started its upward trend in August 1997 due to the new private and public share flotations. The General Index rose from 212.98 points at the end of 1995 to 296 points at the end of 1996, a 39 percent increase. The index peaked at 427.27 points in February 1997, and then dropped 91 points by the end of July to reach 336 points. In December 1997, the index rose to 356 points (20 points compared to July 1997). Figure 26 represents the General Index trend from January 1996 to December 1997.

General Index from January 1996 to December 1997

Figure (26)



4. PRIVATIZATION OF PUBLIC SERVICES, UTILITIES AND LARGE-SCALE INFRASTRUCTURE[40,41]

Various techniques have been adopted in other countries for putting public-owned enterprises into private hands, including private placements, public offerings, tender offers, mass privatization, debt-equity swaps, employee participation, contracting out and limited recourse[42] or project financing. Private placements were used early on in the privatization program for divesting a multitude of small and loss-making Egyptian public-owned enterprises. These were carried out largely for small micro-enterprises in Egypt's various governorates. Later, tender offers were made with very limited success to anchor or strategic investors. These were generally not successful in the initial stages for reasons described more fully in IBTCI's Quarterly Review for third quarter 1997. This approach was subsequently replaced with heavy reliance on public offerings, which have been successful and revived Egypt's long dormant stock exchange. Employee participation and buyouts were also utilized in Egypt. A recent IBTCI research team examined a limited sample of firms for the economic efficiency implications of privatizing through alternate techniques: anchor investors, public offerings and, employee buyouts.

To date, asymmetries of information, poor accounting practices, and inadequate methods of valuation have made Egyptian privatization a risky venture for both buyers and sellers. Despite these problems that are the natural outgrowth of the successful structural improvements being undertaken now in Egypt, the market remains the most efficient indicator of corporate behavior and value. However, there is no single, perfect divestiture technique. Each brings competing benefits and risks to accurate market valuation and the transfer of state-owned enterprises to private sector control, and the appropriate strategy depends on the particular circumstance of the enterprise.

One of the important outgrowths of the original privatization of Law 203 public-owned enterprises and joint venture banks has been the change in mentality of Egyptian decision-makers and the general public. Decision makers are now actively examining new and alternate ways of privatizing government owned enterprises that were formerly called "strategic" and earlier were off limits to any privatization initiatives. These new privatization efforts go substantially beyond the original scope of the privatization program, and appear to be on the threshold of offering Egyptians greater access to public services. Moreover, the quality and efficiency of the services are being substantially improved. As pointed out in the remainder of this section, these alternate divestiture and privatization approaches are flexible and allow the GOE great potential for providing and improving these services at lower cost and risks.

This section describes two broad divestiture techniques that, in addition to public offerings or other forms of divestiture, might be appropriate for public services, utilities and large-scale infrastructure. The first, contract-controlled privatization, seems to offer great potential as an appropriate technique for privatizing sectors such as public utilities and other monopolies and public works. The second, project financing, or limited recourse financing, is an efficient

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[40] Sections 4.1-4.2 were contributed by Dr. Richard Sines; Sections 4.3-4.6, by Samah S. Naguib.
[41] This section has relied heavily on Gerald Bisong Tanyi, Designing Privatization Strategies in Africa, Praeger Publishers, Westport, CT,1997.
[42] A "nonrecourse loan" is defined by John Downes and Jordon Elliot Goodman in Barron's Dictionary of Finance and Investment Terms [Barron's Educational Series, Inc., Hauppauge, NY (1995, p. 375)] as a "type of financial arrangement used by limited partners in a DIRECT PARTICIPATION PROGRAM, whereby the limited partners finance a portion of their participation with a loan secured by their owner in the underlying venture. They benefit from the LEVERAGE provided by the loan. In case of default, the lender has no recourse to the assets of the partnership beyond those held by the limited partners who borrow the money."

strategy for securing private participation in large-scale infrastructure, such as roads, bridges, natural resources, and telecommunications. If properly implemented, project financing can enable the GOE to structure a limited recourse financing package on very acceptable terms. This divestiture technique can balance (1) the need to encourage direct foreign investment, (2) the possible political need of maintaining at least minority GOE interest in the enterprise, and (3) the need to eliminate guaranteed government financing. Moreover, these techniques can lead to the decentralization and development of local public finance at the governorate and local levels, thus allowing Egypt's diverse communities to better deal with their own specific needs and problems.

As pointed out below and described briefly in the last section of IBTCI's Quarterly Review for third quarter 1997, Egypt is beginning to accelerate its use of some of these techniques for privatizing key sectors of the Egyptian economy. These privatization approaches appear to have great potential in raising overall efficiency and growth of the Egyptian economy. Thus, the time appears appropriate for first describing in broad terms these privatization divestiture techniques and in the future more closely monitoring their actual use in expanding coverage of the basic public goods and services in ways that are efficient, cost saving and appropriate for Egypt's limited resources. Moreover, the language presented below in this section could be used by GOE decision makers in preparing the initial concept papers and other documents to begin privatizing their existing operations or initiating new public services and infrastructure based on privatization principles. Most importantly, these approaches, by efficiently providing basic needs to regions and locales not currently covered, appear to be consistent and strongly support Egypt's social welfare goals of upgrading the quality of life for all Egyptians.

4.1 Contract-Controlled Privatization

4.1.1 Divestiture Technique[43]

In Egypt, services such as potable water, electricity supply, garbage disposal, and other public works are generally run as monopolies, often at the governorate or local level. These services are generally capital intensive and their cost structure alone, including production and distribution costs, might discourage private investors. Efficiency in these services could be boosted through contract-controlled privatization without completely removing public ownership. Through this technique, the private operator contracts with a government entity to provide the service in accord with certain performance standards. The government, in turn, guarantees the market for the services and maintains control by using payment of the service fee as leverage for performance. A balance is reached under which the private operator risks economic loss if it does not perform. At the same time, the government entity risks losing the service if it does not produce consumers who either pay directly or through the local government or pay a minimum fee even if customers do not fully utilize the service capacity.

Contract-controlled privatization could also take a variety of forms. It could, for example, be (1) a service contract that does not require any capital investment from the private contractor, (2) a management contract that delegates the core functions of management and investment planning to the private contractors, or (3) an operating lease or concession under which the private contractor, to varying degrees, is responsible for capital financing and asset rehabilitation.

Apart from the economies of scale that it offers, contract-controlled privatization

[43] Tanyi, pp. 84-85.

- Generates savings because competition arising from contracting leads to lower service costs and improved service quality.
- Limits the growth of employment in the public service and persons with specialized skills can be hired whenever their services are needed. As demand for the service increases, the size of the program can be adjusted without employee lay-offs, thereby making the full cost of the service more visible. This is very important in the context of Egypt, given the precarious situation of public finances and constraints imposed by public service salaries.
- Allows government officials to devote their attention to planning and monitoring rather than administering day-to-day operations, thus promoting better management and greater objectivity in evaluating current operations.
- Provides a powerful incentive that will boost overall efficiency because managerial decisions are borne more directly by the private operator. The effectiveness of this incentive derives from the situation that profits are at stake and losses cannot be automatically passed on to the tax-payers.
- Permits new projects to be undertaken without large initial capital outlays, thus facilitating experimentation with new services.

However, the technique of contracting out maintains the monopoly. Thus, it is susceptible to abuse. For example, the desire to obtain contracts can encourage bribery, kickbacks, and payoffs; or the profit motive may lead to cost-cutting practices that reduce the quality of the service. Similarly, competition may not exist in a particular service area. Thus, once a company is awarded a contract it may be renewed automatically, thus limiting competition. This often occurs where the cost of entry is high. Consequently, the individual consumer is relatively powerless to protect his or her interest as an individual. This immediately suggests the need for a system whereby the private operator provides services at the retail level and a public agency regulates the rates and charges.

Experience suggests that to be effective the award of these contracts or franchises should be based on the price and cost of service rather than on what the franchisee pays the government. Furthermore, the contract must clearly define the operator's service obligations, and the government must be in a position to closely monitor the contractor's activities to insure contract compliance. These tasks are substantially more manageable for the government than actually providing the service as a government-owned enterprise.

4.1.2 Divestiture Structuring: Privatization by Contract

Contract-controlled privatization should be encouraged were appropriate and seems to be a very good technique for privatizing sectors such as public utilities and public works.[44] Public utilities and other public services generally should be divested through contract-controlled privatization. This will generate revenue for the state and boost efficiency without ousting state ownership. Under these circumstances, contracting-out is appropriate because of the adverse effect that market failure would produce if an unregulated monopoly were transferred to private operators.

4.1.2.1 Examples for Public Services in the Information Industry

Contract-controlled privatization could, for example, be used to further privatize Egypt's information industry, an area in which Egypt has made enormous improvements over the past few years but could still be improved. Unlike Egypt, many countries beginning privatization do not have privately-owned newspapers. Political considerations usually make it difficult to privatize or liberalize the press in less stable, undemocratic countries. The government may

[44] Ibid, pps. 96-97.

fear that privatization may provide their political opponents with access to the media. Under these circumstances, privatization of the information industry will involve a trade-off between efficiency and freedom of the press. That is, as a condition for doing business, private operators may have to undertake to de-politicize their activities or, at least, give equal access to various political factions. Some basic issues involved in the various segments are as follows:

- **Newspapers**

There are a number of private-sector newspapers associated with opposition parties and other special interests. Examples in Egypt of newspapers associated with opposition parties to Egypt's current dominant political party include: *Al Wafd* (Wafd Party), *Al Ahali* (Tajamoa), *Al Shaab* (Labor Party), *Al Arabi* (Naserite Party) and *Al Ahrar* (Ahrar). Other private-owned newspapers include *Al Destour*, *Al Alam Al Youm* and *Al Osboua*. There is also an association of newspapers, that is overseen by a "high council" headed by a member of the Shara Council.

There is no empirical evidence that governments that encourage privately owned newspapers are more exposed to political unrest than governments that suppress the press. Political opponents and journalists in undemocratic societies are generally more vulnerable to arbitrary arrests than other private citizens. Suppressing the press can hurt a country politically even more that liberalizing it would. Apart from the sociopolitical and economic benefits that accrue directly to private citizens, de-politicizing and liberalizing the press generally improves a government's credibility and underscores it commitment to sustainable democracy. According to PEO officials, the privatization of newspapers began during the Sadat years, and a number of new 100 percent privately owned newspapers have been established in the past two years.

- **Television**

While all television stations are government-owned in Egypt, many of the programs are, according to PEO officials, provided by private contracts. This appears to have led to substantial improvements because major efficiency gains would be expected to accrue by contracting-out certain services to the private sector. For example, private individuals could be encouraged to compete for the provision of certain specialized services within the industry. In the future, arranging joint ventures or subcontracting arrangements with strategic investors would be a privatization option that would be expected to boost overall efficiency of the television industry. As the Middle East integrates its economy regionally in the direction of the freer movement of goods and services, competition among the national stations could lead to major efficiency gains. According to PEO staff, this is currently taking place through ART, a satellite channel that has been operating legally in Egypt for approximately 3 years. Under these circumstances, private operators may also be encouraged to compete directly with Egypt's state-owned television stations and other competing television stations in the Middle East region.

- **Radio**

Ideally, radio broadcasting should be privatized. However, if the state must maintain an ownership interest, efficiency gains in Egypt might accrue by restructuring the industry. A possible approach might be to first decentralize the service by transforming each station into a corporation. Whereas the enterprise's board of directors could be responsible for day-to-day operations, the relevant provincial government could be responsible for setting the operating guidelines of the corporation. In this setting, certain services could be contracted-out to the private sector. Private operators could also be encouraged to compete directly with state-owned radio stations.

4.2 Project Finance Strategy

4.2.1 Divestiture Technique

The term "project finance" usually refers to a financing technique that relies more on the performance of the project and the cash-flows generated by it post-completion than on the actual creditworthiness of the sponsors (i.e., the GOE). Project finance offers an analytical approach for risk identification, mitigation and allocation.

By accelerating its use of the project finance strategy, Egypt can more quickly build its economic infrastructure, including roads, bridges, tunnels, electricity and water supply. This technique has also been used effectively in other countries to develop its natural resources without expending its scarce financial resources. In most cases, the investor's security is derived directly from cash flows from the project, such as highway tolls or proceeds from the sale of the refined natural resources. Such projects can involve considerable legal and structural challenges. Political and country risk, such as expropriation, political uncertainty, convertibility and transfer of currency, and contract abrogation, and project risk, such as technological risk, completion and delivery risk, commercial and market risk and regulatory risk, can be identified and managed. Egypt's recently improved investment grade ratings by IBCA, Standard and Poor's, and Moody's Investors Service would be expected to allow for better terms than in the past. Continued improvements of the legal, regulatory and institutional environment would tend to lower the project risk in the future, as also described in the Executive Summary of IBTCI's Quarterly Review for third quarter 1997.

One "project finance" technique is the BOOT (build, own, operate, and transfer) contract. This strategy has successfully been used in Latin America and Asia to construct and renovate large-scale infrastructures, such as airports, bridges, tunnels, highways and rail facilities. It is now being used more frequently in Egypt. The BOOT strategy is a contract between strategic investors, and their local partners or subcontractors, and the state. Typically, foreign investors establish a local limited liability company and contract with the state to build, own and operate a facility such as a bridge, hydroelectricity plant, highways, etc., and to transfer the facility to the state free of charge upon the expiry of the contract. The advantages of the BOOT strategy have been succinctly summed up by G.L.Cowan:

> BOOT has a number of advantages particularly in capital intensive, high technology ventures, such as electricity utilities or communications facilities. It can be used in the high cost construction of toll roads and bridges. In most Less Developed Countries (LDCs), the governments and the private sector could not find the necessary financing under current conditions for such a large investment. But under BOOT, development plans can proceed that will enable smaller industries to grow up using the newly available power resources. Private sector initiative can be used in the industrial sector hitherto the exclusive preserve of government, and the project can be assured of the most modern available technology. Domestic partners are given the opportunity to gain experience through working with large international firms. While the transfer may be to the government, capital market development over the [contract period] may make possible transfer to the local private sector.[45]

[45] Cowan, G.L., Privatization in the Developing World, Greenwood Press, Westport, CT, 1990, pps. 58-59.

Incentive structures for the strategic investors usually include:

- Preferential tax treatment for the BOOT company, the foreign investors, and subcontractors, if any;
- The BOOT company may open and operate offshore bank accounts to satisfy certain requirements of lenders;
- Preferential treatment with regard to the conversion of the local currency into foreign currency to meet financing obligations;
- Permission for the BOOT company to mortgage certain assets including buildings and equipment and the right to use land, where necessary;
- Political risk insurance and third party guarantee of the obligations of the state under the contract;
- The right to export the finished product; and
- A fiscal stability regime and a contractual undertaking by the state not to subject the BOOT company to future unfavorable legislation.[46]

The BOOT technique may not be the most efficient strategy for financing or securing private participation in strategic products, such as nonrenewables with long term significance, such as precious metals and natural resources, or even telecommunications. This would depend on the extent to which the GOE may treat these industries as their crown jewels and, therefore, be reluctant to transfer ownership to foreign investors. However, the times in Egypt are changing and many key decision makers are telling IBTCI staff that industries that were earlier labeled as strategic are no longer being considered strategic, and thus should be considered as prime candidates for some type of appropriate privatization in the future. This appears to be a trend that is gaining considerable momentum in Egypt, and those decision makers refusing to consider privatization options appear to be out of step with the times. However, government decision makers must continue to be prudent and proceed rationally with a firm knowledge base of the privatization options. The main challenge for the GOE is to structure a limited recourse financing package, when appropriate, on terms that seek to create a balance among (1) the need to encourage private participation, especially if it translates into foreign currency, (2) the political need, if any, of maintaining at least a minority state interest in the project or enterprise, and (3) the need to eliminate guaranteed government financing.

The financing packages for these projects usually includes equity investments, senior debt (some of which may be convertible into equity) from a syndicate of banks, subordinated debt and completion guarantees. They also usually include indemnities from the state, and political risk insurance, which would be substantially lower in Egypt than in other emerging markets as reflected in Egypt's improving investment grade ratings. Limited recourse financing is attractive because lenders to the project typically do not have any direct recourse to the state post-completion.

Upon completion the senior debt is secured solely by the cash flows generated by the project and a security package comprising the project's assets and the state's interest in the project. Prior to completion, the state is required to provide a completion guarantee, such as a performance or payment bond, which guarantees that the project will be completed by a certain date and will operate at a specified output level of efficiency.

In practice, however, if the state undertakes to operate the project or enterprise, it would remain contractually bound to fulfil its obligations under such contract. Notwithstanding,

[46] White, Frazer, "A Special Report on the Foreign Investment Regime in Viet Nam," Emerging Markets, July 1994, pps. 51-52.

limited recourse financing is especially suitable for projects, such as power plants or oil refineries that have an assured source of repayment. Such projects typically enter into contractual arrangements with related industries to market the finished product. Consequently, it may not be feasible for financing telecommunications because, unlike an oil refinery that can have a contract with a pipeline project, there is no natural hedge against market risk. Such projects are typically financed, at least initially, on a full recourse basis.

Generally, the success of the project finance technique in securing private participation in state-owned enterprises would depend on the following factors:

- The nature of the project;
- The perceived creditworthiness and reliability of the revenue source;
- The perceived country and political risks;
- The availability, convertibility, and transferability of currency;
- Inflationary pressures;
- Support of the host country and the community for the project;
- Ability of the host government to earn an acceptable return on its investment;
- Perceived reliability of the host country's legal system;
- The developing of uniform accounting principle; and
- Ability to negotiate, execute and deliver enforceable and commercially reasonable project agreements.[47]

4.2.2 Divestiture Structuring

4.2.2.1 Large-scale Infrastructure and Mineral Deposits: The Project Finance Option

Project financing, or limited recourse financing, is an efficient strategy for securing private participation in large-scale infrastructure including roads, bridges, natural resources, and telecommunications. As pointed out above, if properly implemented, this technique can enable the GOE to structure a limited recourse financing package on terms that seek to create a balance among (1) the need to encourage direct foreign and domestic private-sector investment, (2) the political need, if any, of maintaining at least a minority state interest in the enterprise, and (3) the need to eliminate guaranteed government financing.

By adopting more quickly the project finance alternative as outlined above, the GOE could build its economic infrastructure, including roads and bridges, and further exploit its natural resources without expending its scarce financial resources. In most cases, the investor's security is derived directly from cash flows from the project, such as highway tolls or proceeds from the sale of the refined natural resource. This strategy can enable the government to devote its attention to planning and monitoring rather than administering day-to-day operations. It also insures better management and greater objectivity in evaluating projects, thus avoiding some costly and embarrassing projects that have been made by the GOE in the past and continue to have costly ramifications on Egypt's economic efficiency and growth. It also has the potential to boost private sector development and to create jobs in the short term. For example, privatization of public works through the BOOT technique could be expected to greatly improve the condition of highways or even city streets, which can be politically contentious at times. The BOOT technique could solve the problem of where to build the infrastructure because the decision to construct or maintain a particular highway or dam will depend on more objective criteria. For example, new airports would not

[47] Demasi, Deborah A., "Financing Projects in Emerging Markets," Emerging Markets, July 1994, p. 9.

be built if there were no economic justification for them. For this strategy to be politically attractive, the GOE should be in a position to monitor and manage the impact of levies on its citizens. It must also be willing to delegate certain powers to provincial or city governments, enabling them to contract-out, for example, the maintenance of city streets to the private sector, preferably to local entrepreneurs.

Project finance also offers great opportunities for Egypt's still unexplored natural resources. A well-structured limited-recourse financing package could reconcile the GOE's desire to maintain a stake in strategic enterprises and the need to encourage foreign investment. The success of these projects will generally depend on factors including the need: (1) to master the essential legal, sociopolitical and commercial elements of the project and to insure that decisions are informed by a sophisticated understanding of the legal, sociopolitical and commercial issues; (2) to clarify from the outset the principal objectives of the project, and to orient all the structuring, risk allocation and other elements of the transaction to the realization of those objects; (3) to manage the process efficiently by executing the project in an expeditious manner; and (4) to accommodate the laws and legal alternatives of each contracting party's jurisdiction to arrive at the best package.

4.2.2.2 Summary Comments

In sum, the involvement of private initiative and capital in projects such as infrastructure building represents an effective use of privatization to meet genuine public needs that cannot be met by the GOE. This is particularly important given the GOE's limited resources. IBTCI will increase its monitoring to cover new developments in these areas and report on their progress. The remainder of this section will report on new developments in the privatization of telecommunications, airports, ports, and power stations.

4.3 Privatization Activity in Telecommunications

With the 4.5 million working telephone lines, only 7 percent of the Egyptian population have access to telecommunication services. The telephone network is thus inadequate and can not sustain growth and development needed to allow for competition during the 21st Century. Major moves were made throughout the period covered by the report. Yet, a lot of confusion has been felt recently due to the hasty decisions made concerning the privatization of the telecom industry. Newspaper and magazine articles, and even authorities in the Ministry of Transportation and Communication have been sending conflicting signals to the public.

4.3.1 Telecom Egypt (formerly Arento)

In early December, the Cabinet unexpectedly decided to transform the state telephone agency into a joint stock company, in preparation for offering a minority stake of its capital for public subscription. The new company has been named Telecom Egypt, and will be incorporated under Law 159, the private companies' law, in order to offer part of its shares in an IPO. The Council of Ministers approved the draft law pertaining to the transformation of the Telecommunication Authority into an affiliate of the public enterprise sector.[48]

Telecom Egypt is expected to undergo extensive restructuring. A USAID official asserted that the newly installed switches are highly automated and only a fourth of the already existing employees are needed. Offering shares of Telecom Egypt is a dream for many private sector investors. Last year's net profits for Telecom Egypt covered around 90 percent of its initial investment cost, making it a very lucrative business – as noted by the Division of Power and Telecommunications in USAID. Presently, the company owns and operates the entire telephone network system in Egypt.

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[48] *Al Alam Al Youm*, December 21, 1997, p. 1.

4.3.2 Mobile Telephones

The portable global standard for mobiles (GSM) telephone system was introduced in a limited number of Egyptian cities in November 1996. In an attempt to speed up privatization, the GOE is moving forward with its plans to privatize the GSM telephone system. The Cabinet decided to privatize the Egyptian Mobile Telephone Company in order to give more room for the improvement and expansion of the existing service.

Many observers questioned the constitutionality of privatizing the cellular phone company. Law 153/1980 governs the telecommunication agency, and it does not allow any private sector company to establish or control the operation of a telephone network. Telecom Egypt was said to lack the authority to allow the privatization of the Egyptian Mobile Telephone Company. In response, a draft law has been approved that will allow for the private sector to participate in providing telephone service

Early January 1998, an IPO of 30 percent of Egyptian Mobile Phone Company was announced. The new company will be capitalized at LE600 million. The breakdown of shareholders after the IPO is shown in Table 49

Ownership Structure of Egypt Telecom after IPO

Table (49)

Shareholders	Number of Shares (in'000s)	% of total
Telecommunication Authority	16,800	28
National Bank of Egypt	4,800	8
Banque du Caire	4,800	8
Banque Misr	4,800	8
Bank of Alexandria	4,800	8
Social Insurance Funds	4,800	8
Closed Offering	1,200	2
IPO	18,000	30
Total	**60,000**	**100**

On the other hand, the GOE will grant another license for a second private mobile phone company. Currently international firms are bidding for this license. Bids for this new license were scheduled to be submitted by December 22, 1997 and has been postponed until February 2, 1998. The postponement was due to the strict rules governing the bid. The biding company should own a stake of at least 51 percent of an already existing mobile service company, install a minimum of 1 million lines, and have already installed this service in five countries. These stringent restrictions disqualify many international leaders in the telecommunications field, most notably AT&T and Motorola.

4.3.3 Public Payphones

As discussed in IBTCI's Quarterly Review for third quarter 1997, the GOE awarded two franchise licenses to establish payphone systems. The selected franchises are consortiums led by France Telecom and Switzerland's Landis & Gyr.[49] The 40,000 lines which are to be set up will be equally divided between the two consortiums: each will install 20,000 lines.

[49] Middle East Economic Digest, November 7, 1997.

4.4 Private Sector Entry into Airports

One of the basic features of the 1998 restructuring program is encouraging the private sector to enter new investment areas, such as airports. The government is promoting several private airport development projects aimed at reaching higher quality services and a healthy competition environment. Law 8/1997, the Investment Guarantees and Incentives Law, covers aviation transportation and the services directly connected thereto among fifteen other fields. The Executive Statutes of Law 8/1997, have in scope air transport for passengers and goods, whether regular or casual. They also encompass "establishment, preparation, operation, management, maintenance and exploitation of airports and landing grounds, or parts thereof, as well as the operation, management, maintenance and exploitation of existing airports and landing grounds, and other air transport directly related scopes comprising services such as repairing, catering, training and maintenance."

Bids are due to be submitted by April 7, 1998 for the private sector to construct three new airports under the BOOT system in (1) Ras Sidr, in the Sinai, (2) El Farafra Oasis, and (3) El Dakhla Oasis, both in the New Valley. Also, the Ministry of Transportation awarded three BOOT contracts to construction new airport facilities. One was awarded to the Kuwaiti-led El Khorafi Group, for the Marsa Alam airport on the Red Sea. This contract involves the construction of a terminal building, a control tower and a 3 km runway. The contract also gives the El Khorafi Group the right to operate the airport for a 40 year period, subject to renewal. Secondly, the Kato Tourist Investment Company will construct another airport facility in El Alamein, and lastly, the Hurghada airport will be expanded by NESCO, an Egyptian-Saudi firm.[50]

On November 2, 1997, the GOE announced a series of measures to open up the aviation sector in an effort to rationalize the transportation system and enhance export services. The measures include: (1) allowing private investors to set up and operate airlines, according to Ministry of Transport guidelines; (2) removing the 10 percent sales tax on imported aircraft and spare parts; (3) allowing the private sector to carry out ground services at airports; and (4) cutting customs duties on refrigerated airfreight from 45 to 5 percent.[51]

4.5 Private Sector Entry into Ports

The GOE long stated that export promotion is at the top of its agenda. Elements contributing to the sluggishness of the exports include the costs and quality of port and freight facilities. Removing the state monopoly and allowing the private sector to compete would undoubtedly result in a higher level of efficiency leading to improvement in the standard of services in seaports and consequently higher exports.

The World Bank's March 1997 Country Economic Memorandum, suggests that actions to terminate the legal and regulatory status of state monopolies in port services must be undertaken. In January 1998, a new Maritime Law was issued modifying the disreputable Law 12/1964. The later was designed to give the state a monopoly in maritime transport. As was recommended by the World Bank, other major institutions, and many Egyptian businessmen, the new Law 1/1998 permits private national and foreign companies to participate in this sector.

[50] *Al Alam Al Youm*, January 6, 1997.
[51] Middle East Economic Digest, November 14, 1997, p. 23.

Law 1/1998 amends Articles Numbers 6 and 7 of Law 12/1964, which are presented below:

- Article 6 mandated that all ministries, government agencies and companies where the state owned more than 25 percent use state owned maritime transport agencies for the transport of goods and passenger by sea. Only the Minister of Transport could grant exceptions. When the new law is enacted, any of these bodies will be free to ship any cargo or passengers on the carrier of its choice.

- Article 7 prohibited private sector participation in loading and unloading ships, supplying, maintaining, and repairing ships, and other maritime transport activities. Law 1/1998 abolishes this article.

Mr. Wael Leheta of EGYTRANS, a leading private transport firm, pointed out the significance of opening up this sector to both private national and foreign firms to improve the level of the already deteriorated standard of services provided. Still, the business community is skeptical of the legal regulations, which are to be issued by February 1998. They worry that it might adversely impact the spirit of the competition by levying extra tax and more restrictions for the non-government firms. In IBTCI's upcoming Quarterly Review for first quarter 1998, Law 1/1998 and Law 12/1964 will be compared in greater depth after the Executive Regulations are issued.

4.6 Private Sector Entry into Power Stations

The Minister of Electricity has been quoted several times during this quarter saying that the private sector alone will undertake the building of all additional electricity stations.[52] This does not necessarily imply that no privatization of power generation plants will take place; instead, the private sector will be allowed to participate in this sector. The approach to be adopted by the Egyptian Electricity Authority (EEA), the state electricity authority, will be through the BOOT system. Allowing private investment into this traditional government monopoly stems from a rising need for expanding electrical capacity, reducing the burden placed on the government budget, and signaling investors and institutions the commitment to change.

The way for private investors has been paved by, the Investment Guarantees and Incentives Law 8/1997 that provides for the "...establishment, management, operation and maintenance of power generating stations, as well as their distribution grids and networks." The government is going beyond allowing private investors to build electric power generation stations, per Law 100/1996. Under the new law, investors are being offered electricity project privileges and guarantees.

The first private power plant embodies two 325 megawatt (MW) steam electric generating units in Sidi Krir.[53] According to an American Chamber of Commerce study, in early July 1997, the EEA received 54 responses from international developers after it announced the power generation BOOT project. Only 34 developers were given the chance to participate in the following stage. In response to the "Request for Pre-Qualifications" issued by the EEA, 19 firms submitted the information in question in October 31, 1996. Next, the EEA issued the Request for Proposal (RFP). The license will be awarded to the selected firm by March 1, 1998, effective in August 1998. By December 31, 2001, the plant is scheduled to achieve commercial operation and will be linked to Egypt's electricity grid.

[52] *Al Alam Al Youm*, November 23, 1997, p. 1.
[53] Fahmy, Heba, "Private Participation in Power Generation Projects in Egypt, Build Own Operate & Transfer (BOOT)," a report published by the American Chamber of Commerce in Egypt, p. 10.

The GOE is considering two other projects. A wind power project in Zaafarana, Hurghada with a capacity of 300MW.[54] According to Mr. Raouf Youssef, Chief of the Division of Power and telecommunications at USAID, Zaafarana is an excellent site for a wind power facility because the wind speed there is 10 meters per second, believed to be the swiftest in the world. There are also the two 300MW pumped storage facilities, to be established in Mount Galala on the Red Sea.

Minister of Electricity and Energy Engineer Maher Abaza has announced that electricity purchased from private sector will be distributed at subsidized prices taking into account lower-income families. Yet, according to a USAID official, private sector firms will be able to produce electricity at a lower cost than the GOE's current facilities due to expected increased efficiency.

[54] Ibid, p. 9.

5. TOWARDS AN INVESTOR FRIENDLY POLICY ENVIRONMENT[55]

5.1 Overview

Experience demonstrates that privatization is an attractive alternative to an economy dominated by state-owned enterprises. Experience also shows that privatization per se is not enough to transform a stagnant economy into an efficient performer.[56] Egypt's success in privatization, as well as private sector development, depends critically on the development of an investor-friendly policy environment, as described broadly in the executive summary of IBTCI's Quarterly Review for third quarter 1997.

This includes achieving and then maintaining a solid macroeconomic environment which Egypt has developed in a remarkable way over the past few years. It includes maintaining basic law and order, which Egypt carries out successfully despite working in stressful conditions as demonstrated in the recent savage attack on tourists in Luxor. Significantly in Egypt, entrepreneurs are not threatened to give up their businesses at gunpoint, as is the case in some emerging markets that are attempting privatization.

Egypt still needs to develop a legal, regulatory, economic, internal organizational environment that is conducive to privatization, voluntary private market financing, and private sector development. The existence of a viable, effective and flexible institutional framework for private sector development is critical. The process of complying with formalities and regulations, or bureaucratic "red tape," remains an integral and unfortunate part of conducting business in Egypt. As such, it has a major impact on privatization and private sector development in terms of time, cost, and productivity.

Institutions, whether formal or informal, are entities devised by humans that shape human interactions. They are formal when specifically designed as such through the constitution, laws, decrees, regulations, and political systems. They are informal when they are derived from mores, conventions, codes of conduct, such as investment habits. Institutions usually have at least three principal features: (1) they structure incentives in human exchange, whether political, social or economic; (2) their change shapes the way societies evolve through time and thus is important to understanding historical change; and (3) the way they evolve influences economic performance over time.[57]

Privatization divestiture raises complex legal issues that should be resolved in a timely, consistent and satisfactory manner. The proper legal framework for privatization and private sector development involves respect for the rule of law, delegation of power, establishment of sound business laws, and an efficient mechanism for the enforcement of contracts, as described more fully in the executive summary of IBTCI's Quarterly Review for third quarter 1997.

The rule of law implies certain basic legal concepts that are sometimes taken for granted, including: (1) publicity of the rule of law, which enables all parties to have access to the laws and regulations that affect their activities; (2) clarity and certainty of the legal framework, which allows parties to understand the specific meaning of the law, and to understand which individual laws apply to their particular situation; (3) predictability in the application of the rule of law, which reduces the risks linked to changing interpretation, implementation, or enforcement of the laws; (4) systematic stability, which provides assurances that the

[55] Section 5 was contributed by Dr. Richard Sines.

[56] Truu, M.L., "Economics of Privatization," South African Journal of Economics, Vol. 56, No. 4, 1988, p. 255.

[57] Ibid, pp. 3-5.

government will not unilaterally and unfavorably change the legal and regulatory conditions that underlie investments; and (5) fairness, possibility of legal recourse, and due process, which provide access to independent recourse and dispute settlement mechanisms.[58] It also suggests that the state must redefine its role in the economy and its relationship with the private sector.

For the purpose of privatization, Egypt's laws relating to business must be continuously reviewed, and where necessary, revised in order to bring them in line with modern trends. From the international investors' standpoint the key aspects include the clarity of the laws and regulations and their enforceability. Contract law, labor law, and commercial law directly impact the attractiveness of a country to the international investment community, including both anchor investors and financial investors. Also of particular relevance in privatization are company law, competition law, trade laws, securities regulations, environmental law, and investment law.

IBTCI is currently in the process of reviewing and updating work that was prepared earlier by Egypt's major business associations, donors and key economic ministries, including the Ministries of Economy, Trade and Supply, and Agriculture. The purpose of this effort is to identify in one place the continued legal, regulatory and institutional constraints that continue to undermine privatization and private sector investment, and monitor their removal over time. IBTCI plans to identify the ministries, agencies, legislature and others who are responsible for removing the constraints. Where possible, IBTCI plans to identify whether the change needs to be made in the basic law, or more easily through ministerial or presidential decrees. When the baseline is established, IBTCI plans to monitor changes that are being made, and disseminate the findings in future quarterly reports. Major areas to be covered include reforms and institutional improvements in the commercial legal and judicial environment; investment laws, regulations, procedures and practices; sea, air, and land transport; trade and export services; labor laws; human resource development; information; pro-active programs for small and medium enterprises; privatization procedures, financial development: and capital markets.

5.2 Labor Law Reforms

Despite two decades of market-oriented reforms, many operating characteristics from the days of inward-oriented, import substitution policies under the centrally-planned economy continue to prevail. Domestic regulatory and bureaucratic procedures continue to permeate most areas of business in Egypt. The most commonly cited problem areas, according to a 1994 World Bank survey of 200 enterprises, are the excessively regulatory labor law, the highly restrictive legal framework for securitization, and the antiquated intellectual property rights laws. These problems particularly affect the industrialization process and their remedy would help to lay the foundation for accelerating privatization and private sector-led industrialization in Egypt.

Since 1991, the extent of direct intervention in the economy by the GOE through laws and decrees has been reduced. However, the regulatory environment for labor has not been substantially modified during the structural adjustment program that began in 1991. The importance of the labor law constraint was reflected in a 1992 World Bank comprehensive survey that pointed to constraints on private sector development that arise from labor regulations among others. These constraining labor laws and regulations are still binding.

Government intervention to foster employment and regulate labor relations remains a major deterrent to doing business in Egypt, and it has acted as a disincentive to the development of labor-intensive industries in which Egypt has a comparative advantage. Thus the current law

[58] Guislain, Pierre, Divestiture of State Enterprises: An Overview of the Legal Framework, Washington, D.C., World Bank Technical Paper No. 186, 1992, p. 9.

has fundamental negative ramifications for Egypt's future integration into the global economy as it approaches the year 2005 when it must fully comply with the conditions of the World Trade Organization.

Current labor regulations set out specific steps that must be followed in the hiring process. John Bentley[59] points out that a company hiring ten or more employees must notify the district labor office of vacancies and fill positions from prospective employees who have completed an "employment certificate form" at the Labor Office. The company must then register new employees at the Labor Office and maintain a certificate of registration for review by labor inspectors. Once employment terminates, the company is responsible to the same Labor Office for notification of the vacancy.

Termination of employment for disciplinary reasons, however, is extremely difficult, making dismissals virtually impossible. Consequently, employers often resort to informal termination payment arrangements. Only in a few cases of company closures are employee dismissals possible, but the process must be approved by an inter-ministerial "stoppage committee" where a waiting period of 2 years is the norm and 7 years is possible. Similar regulatory procedures dominate company labor relations and industrial safety committees. The provisions of the labor law are so detailed that compliance with each of the provisions is a highly time-consuming process that discourages labor-intensive industries from operating in Egypt. These types of regulations are not conducive to attracting foreign strategic investors to firms being privatized or new investments, or to encouraging Egypt's most dynamic small-firm entrepreneurs from incorporating or expanding investments. In other successful emerging economies, these smaller domestic businesses are often the ones that are sought after by foreign strategic investors seeking partners for joint ventures or subcontracting arrangements. The implications for privatization of reducing excess, redundant labor associated with the existing labor laws are highlighted further in IBTCI's Quarterly Review for third quarter 1997 that addresses the current timely restructuring problem associated with the early retirement program.

The following are key reform areas in labor law that have been identified by the Egyptian business community, as presented for example in the October 9-10 1994 conference, "Private Sector Development in Egypt: Investing in the Future," as in need of timely labor reform:

- **Permit Layoffs**

Labor law should permit the layoff of employees. The current law appears to have the opposite of its intended effect – it reduces employment as well as investment. Revise the labor law to allow employee layoffs.

- **Monitor and Control Activities of Labor Inspectors**

Closely monitor and control the activities of labor inspectors. This should be done to remove the enormous hidden costs nation-wide of doing business in Egypt where businesses must comply with existing, outmoded and overly-regulated labor laws. This key reform is analogous to a similar reform needed for monitoring and controlling the activities of tax inspectors.

- **Hiring Regulations**

Eliminate the requirement of Law 137/1981 that requires employers with 10 employees or more to select staff for most positions from among nominees of the labor office. Make notification to the labor office of vacancies and new employee options. Employees must have certificates from the labor office in order to enter the labor market. Employers failing to follow the legal hiring

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[59] Bentley, John, Egyptian Legal and Judicial Sector Assessment, Report and Recommendations, Vol. I-IV, USAID/Egypt, Cairo, 1994.

procedures are subject to a fine of LE10-20 for each worker. Amend Law 137/1981 to loosen restrictions on the private sector such as in setting policies on hiring and firing, wage rates, and bonuses. Reduce government interference with hiring and internal business relations with employees.

- **Sanctions and Firing**

Conditions and procedures for disciplinary sanctions and firing are outlined in Articles 60-70 of Law 137/1981. The Labor Office only approves sanction/firing regulations modeled directly on its own schedule of penalties. Allow individual firms to design their own disciplinary sanction schemes, which could possibly be negotiated between the enterprise and its workers. Establish separate regulations for firing for disciplinary sanctions, violations and for layoffs due to firm retrenchment. Firing for violations should be allowed with a fixed minimum compensation scheme.

- **Partial or Total Stoppage**

Amend Law 137/1981 (Article 107) and Prime Ministrial Decree 301/1982, establishing a governorate-level suspension/stoppage committee and central appeals committee to grant approval for laying off workers or for terminating workers at time of factory closure, to allow dismissal or layoff of workers while providing for adequate compensation, without requiring clearance from the labor office. The reform legislation should stipulate the compensation due to laid-off worker in terms of their monthly incomes.

- **Obtaining Work Permits For Expatriate Workers**

Establish low minimum investment thresholds above which investors automatically obtain residency status. Foreign work visas should be extended beyond the current 5-year maximum. Abolish performance requirements regarding number and salary percentages corresponding to expatriate versus local workers. The government should consider changing the administrative authority in charge of expatriate work visas from the Ministry of Manpower and Training.

- **Unions**

Free unions from all government control. Make union membership voluntary and allow employees to organize unions according to clear rules.

- **Progress to Date**

No labor policy reforms in the above labor areas were instituted during fourth quarter 1997, or since they were identified by the Egyptian business community during the high-profile October 1994 conference, "Private Sector Development in Egypt: Investing in the Future."

The new draft labor law has been approved by the Cabinet of Ministers, but requires approval by the Parliament before it can be put into effect. The new draft law would address some of the above constraints, but awaits action by the Egyptian Parliament, where it has been resting for the past several years. The draft law seeks to unify treatment of labor across sectors, with a few exceptions in the government.[60] The draft law was prepared by the International Labor Office (ILO), some businessmen, labor unions, the Ministry of Labor and Employment, Cairo University's research center dealing with legal studies. According to an Egyptian consultant dealing with labor law, a main reason for delay in passage of this law is its provisions that allow workers to strike.

IBTCI welcomes any comments or suggestions, particularly by representative business associations, government entities or other groups, on improving this list of key problem areas in need of labor law reforms as it relates to accelerating privatization or promoting private sector development.

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[60] Naguib, p. 6.

6. MACROECONOMIC OVERVIEW[61]

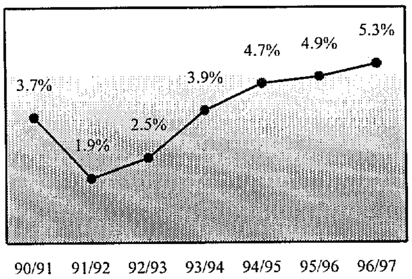
The Egyptian macroeconomy continues to grow at an estimated real growth rate of 5.3 percent per annum during Fiscal Year (FY) 1996/97, compared to 4.9 percent during FY1995/96. The other major macroeconomic statistics indicate continued overall stability that suggests sound macro-management of the economy. Over FY 1996/97, the most recent statistics obtained from the Central Bank of Egypt, the Ministry of Economy and the Information & Decision Support Center (IDSC) consistently suggest the balance of payments improved, foreign debt as a percentage of GDP continues to diminish, foreign currency reserves are rising, interest rates have continued to decline gradually, inflation has dropped, exchange rates have remained basically unchanged, and the discount and treasury bill rates are falling, as described below and in IBTCI's Quarterly Review for third quarter 1997. These improvements in the macroeconomic indicators suggest continued prudent conservative monetary and fiscal policies, and domestic and foreign trade liberalization. Yet challenges still exist regarding the sustainability of the reform program and achieving higher GDP growth rates.

6.1 Gross Domestic Product

Preliminary figures state that Egypt's Gross Domestic Product (GDP) stood at LE251.145 billion for FY1996/97 representing a 5.3 percent growth rate per annum as illustrated in Figure 27. In the second IMF review, real GDP growth rate was estimated to be only 5.0 percent per annum.[62] The discrepancy arises from the database used to determine macro variables. The GDP figure is still undergoing further revisions. The GDP per capita has grown to US$1,040, moving Egypt into the category of middle-income countries.[63]

Real GDP Growth Rate

Figure (27)



Source: Egyptian Ministry of Economy, Recent Economic Dev. & Statistics, October 199

In light of the November 17 Luxor attack, the IMF has reduced its estimated GDP growth in FY1997/98 to 5.0 percent down from 5.5 percent, and the GOE slightly higher at 5.2 percent.[64] To achieve the target growth rate. The GOE aims at the following key areas:

- Higher levels of domestic savings. The GOE is working to increase domestic savings through privatization, encouraging corporate saving, improving the capital market and establishing a more efficient pension system.

- Higher levels of investment. The GOE is amending and enforcing existing laws in order to improve the business climate. Also, increasing private sector participation is on top of the GOE agenda.

- Higher levels of exports. The GOE is adopting new export promotion measures. It is opening up areas such as maritime and airport services to the private sector to improve competitiveness in international markets.

61 Section 6 was contributed by Samah S. Naguib.
62 Egyptian Ministry of Economy, "Recent Economic Developments & Statistics," October 1997.
63 Internet (www.worldbank.org/html/extdr/offrep/mena/egyptbr.ht) p. 1.
64 "The Economy: Building on a Success Story," Egypt Focus, January 1998, pps. 3, 5.

6.2 Balance of Payments

As shown in Table 50, the overall balance of payments (BOP) for FY 1996/97 experienced substantial improvement, recording a net foreign capital inflow of around US$2 billion representing 2.6 percent of GDP against only 0.86 percent in the previous year. The improvement is mainly due to the transformation of the current account from a deficit of US$185 million to a surplus of US$566 million. Also, the capital and financial account increased by around 21 percent over the former fiscal year. The improvement in BOP led to a substantial rise in international reserves. Sections 6.2.1 and 6.2.2 analyze the different components of the BOP.

Balance of Payments
(in US$ million)

Table (50)

	1995/96	**1996/97**
Current Account		
Trade Balance	(9,498.10)	(9,793.30)
Exports	4,608.50	4,924.90
Imports	(14,106.60)	(14,718.20)
Net Services	5,792.10	6,213.70
Receipts	10,636.00	11,246.10
Payments	4,843.90	5,032.40
Total Transfers	3,521.20	4,145.20
Current Account Balance	**(184.80)**	**565.60**
Capital & Financial Account		
Direct Investment in Egypt	626.90	769.70
Portfolio Investment (net)	257.60	654.30
Other Investment (net)	132.80	(191.90)
Capital & Financial Account	**1,017.30**	**1,232.10**
Net Errors & Omissions	**(261.90)**	**114.60**
Overall Balance of Payments	**570.60**	**1,912.30**

Source: Egyptian Ministry of Economy, Recent Economic Developments & Statistics, October 1997

6.2.1 Current Account Balance

A significant improvement is denoted in the current account balance as it recorded a modest surplus of 0.77 percent of GDP during FY 1996/97 as opposed to a deficit of 0.28 percent a year earlier. This is mainly due to the growth of the balance of services by 7.3 percent and the increase of total transfers by 39 percent over FY 1996/97, which, compensate for the minor deterioration in the trade balance.

6.2.1.1 Trade Balance

The widening of the trade deficit over the FY 1996/97 is due to the rise in import payments by US$612 million while export receipts only increased by US$316 million. Yet, the trade deficit as a percentage of GDP decreased by around 1 percent, reaching 13.3 percent of GDP.

As part of the trade liberalization measures adopted, a decree was issued – effective January 1998 – removing textiles from the list of commodities banned for import.[65] The decision was faced by a wave of opposition from the inefficient domestic firms enjoying the protection from imported items. An import duty as high as 54 percent was imposed on textile imports counteracting the removal of the ban and appeasing local producers.

- Export Receipts. Export receipts rose by around 7 percent during FY1996/97. Yet, this is ascribed to the increase in petroleum exports – which accounted for around 16 percent of its FY1995/96 level – alleviating the 1.5 percent decline in non-petroleum exports over the same period. The Ministry of Economy held a seminar in October 1997 entitled *Economic Growth through Export Development*. In this seminar, and other various instances, the GOE showed firm intentions to pursue both financial and non-financial export promotion measures in order to boost the sluggish export sector. Financial export promotion measures boost exports by making them more attractive, which include pre- and post- shipment finance, factoring, development and marketing finance, and soft loans and grants to

[65] *Al Ahram*, December 28, 1997, p. 1.

exporters. Non-financial measures include access to information and market, and production support instruments such as technology, and research and development. Generating higher export levels is a top priority in the third phase of the stabilization program.

- Import Payments. Import payments increased by 4.34 percent, reaching US$14.718 billion in FY1996/97. The increase in import payments was expected from the GOE and many international financial institutions, as increasing investments should lead to higher levels of imports. Also, the reduction of tariff barriers could explain the slight increase in imports.

6.2.1.2 Balance of Net Services

The balance of net services improved by 7.28 percent during FY1996/97 compared with the previous year. Net services' share of GDP in FY1996/97 was 8.4 percent declining by 0.33 percent compared to the previous year.

- Receipts. Receipts increased by 5.74 percent reaching US$11.246 billion in FY1996/97. As such, tourism revenue increased by 21 percent during this period against its FY1995/96 level. With the tourism sector contributing around 5 percent to Egypt's 1996/97 GDP, the November 17 Luxor attack is likely to adversely affect growth prospects for the coming fiscal year. On the other hand, Suez Canal receipts decreased by around 2 percent of their FY1995/96 level.

- Payments. Payments only increased by 3.9 percent standing at US$5.032 billion against its FY1995/96 level, which amounted to US$4.844 billion.

6.2.1.3 Total Transfers

Total transfers rose by around 18 percent during FY 1996/97 against the previous fiscal year. Private remittances increased by around 16 percent over the FY1996/97 reaching US$3.256 billion. Also, official transfers amounted to US$890 million in the same period, increasing by 23 percent from its FY1995/96 level.

6.2.2 Capital and Financial Account

An improvement is denoted in the capital and financial account balance as it recorded a net inflow of US$1.232 billion in FY1996/97 against US$1.017 billion in the preceding year. To boost foreign direct investment, the Prime Minister issued a decree concerning the Executive Statutes of Law 8/1997 on Investment Guarantees and Incentives on August 9, a day short of the 90-day deadline.[66] The focus of the law is mainly on tax holidays and free zone incentives, reaffirming the guarantees and incentives for investors. Yet, diverse reactions from local investors and lawyers were received. While some defended the law, many businessmen were critical.[67] The regulations will be discussed in the next quarterly report.

The capital and financial account includes the following items:

Direct Investment in Egypt jumped by around 23 percent, registering US$770 million, up from US$627 million in FY1995/96.

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[66] Prime Ministerial Decree 2108/1997.

[67] Semi Annual Evaluation/Quarterly Review, January – June 1997, International Business & Technical Consultants, Inc., pps 79-80.

Portfolio Investment more than doubled during FY1996/97, recording US$654 million, up from US$258 million in FY1995/96.

Other Net Investments represent direct investment abroad, net drawings and repayments of loans and other net assets and liabilities. This item recorded a net outflow of US$192 million in FY1996/97 against a net inflow of US$133 million in FY 1995/96.

6.3 Domestic and External Debt

6.3.1 Domestic Debt

The indebtedness of the government and economic authorities reached LE148.1 billion, increasing by LE16.3 billion at end of June 1997 above the level recorded at the end of June 1996.

Structure of Domestic Government Debt (in LE million)

Table (51)

	95/96	% to GDP	96/97	% to GDP
Balance of bonds and bills	83.30	37.0	89.80	35.8
Credit balance with banking sector	(22.60)	(10.0)	(27.90)	(11.1)
Borrowing from NIB	71.20	31.6	86.20	34.3
Total Domestic Public Debt	**131.90**	**58.5**	**148.10**	**58.97**

Source: Egyptian Ministry of Economy, Recent Economic Dev. & Statistics, October 1997

Bonds and Bills. The rising foreign capital inflow exerts pressure on the real exchange rate of the pound. The GOE chooses to adopt a sterilization policy to ensure a stable nominal exchange rate. In this context, issuing public debt - treasury bonds and bills – in order to buy foreign currency in the same ratio that pounds were bought does sterilization of foreign capital. As shown in Table 51, the balance of bonds and bills increased by LE6.5 billion equivalent to US$1.9 billion representing the overall balance of payments for FY1996/97.

The economy incurs a high cost to maintain a stable nominal exchange rate. Issuing treasury bills and bonds – at a high rate – and buying dollars with the generated funds – earning low interest rate – results in a high differential cost. In the face of an increasing capital inflow, this strategy might not be sustainable for the long run. Adopting export promotion measures, such as those presented in the October 1997 seminar, *Economic Growth through Export Development*, could be expected to help promote Egyptian commodities in international markets.

Borrowing from NIB. The borrowing by governmental authorities from the National Investment Bank (NIB) represents the financial allocation for investments in the administrative system, local administration, and service and economic authorities, as presented in the 1996/97 GOE budget.[68]

6.3.2 External Debt

The outstanding balance of external debt amounted to US$28.774 billion at end of June 1997. The reduction of US$2.269 billion since the end of June is mainly due to the cutback made in the third tranche. Foreign debt now represents 41.2 percent of total GDP in FY1996/97.

As described in IBTCI's Quarterly Review for third quarter 1997, the government was planning to issue US$250-300 million worth of five-year bonds on the international market. The disturbance in emerging markets and the changed global conditions following the Asian

[68] Central Bank of Egypt, Economic Review, Vol.37, No.3, 1996/97, p. 33.

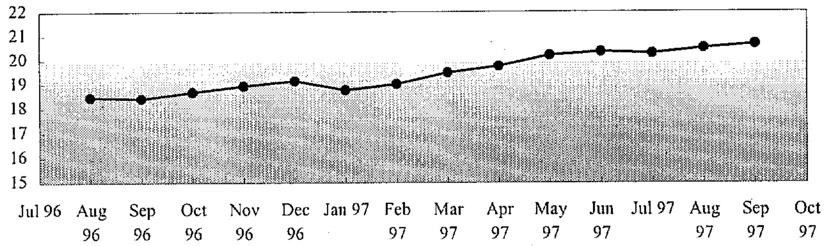
crisis have prompted the government to defer its first sovereign bond issue. Official sources have asserted that the Egyptian Eurobond issue was aimed at setting a benchmark for corporate borrowing by the private sector to tap the international bond markets, rather than raise needed funds. In an interview conducted by Business Monthly, a local magazine, the Minister of Economy, Dr. Youssef Boutros Ghali, pointed out that currently the government is still considering whether or not to issue a bond in the near future.[69]

6.4 International Reserves

The CBE reports that net international reserves grew to a level of US$20.6 billion by the end of September 1997.[70] This represents over 28 percent of Egypt's current annual US$75 billion GDP. The improvement is due to the increase in net foreign assets resulting from the writing off of the third tranche of Egypt's external debt.[71] The current level of international reserves represents 16.8 months of import payments for FY1996/97. As noted in the CBE report, the growth in reserves is a result of consistent current account surpluses and relatively low debt service payments. Figure 28 shows Egypt's net international reserves since August 1996.

Net International Reserves (in US$ billion)

Figure (28)



Source: CBE, Monthly Statistical Bulletin, December 1997

6.5 Monetary Policy

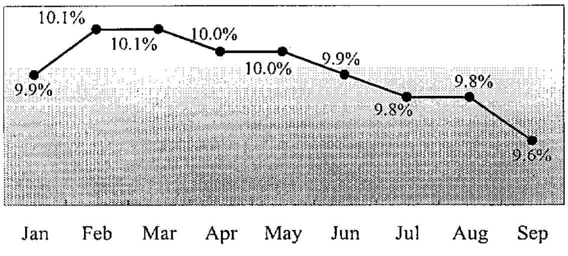
Monetary policies have led to a decline in interest rates, inflation rates, and discount and TB rates as described in this section.

6.5.1 Interest Rates

Figure 29 shows a declining trend of the weighted average of market interest rates in banks reaching a rate of 9.6 percent in September 1997.[72]

LE Three-Month Deposits Rate for 1997

Figure (29)



Source: CBE, Monthly Statistical Bulletin, December 1997

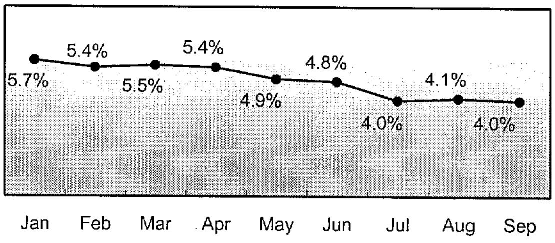
[69] Dowell. Andrew, "Q&A Shocks and Bonds," Business Monthly, Vol. 13, Issue 8, September 1997, p. 26.
[70] Central Bank of Egypt, *Monthly Statistical Bulletin*, No.9, December 1997,Table 1
[71] Central Bank of Egypt, Economic Review, Vol. 37, No. 3, 1996/97, p. 52.
[72] Central Bank of Egypt, *Monthly Statistical Bulletin*, No. 9, January 1998, Table 9.

6.5.2 Inflation Rate

Egypt's annual inflation rate has continued to follow a downward trend reaching an annual rate of 4 percent in September 1997. Inflationary pressure usually comes from higher foreign currency inflows, removal of subsidies, tourism booms, increases of private sector loans and wage increases. Figure 30 displays the downward trend of the annual inflation rate for the period from January until September 1997.

Inflation Rate for the Year 1997

Figure (30)



Source: CBE, Monthly Statistical Bulletin, December 1997

6.5.3 Discount and Treasury Bills Rates

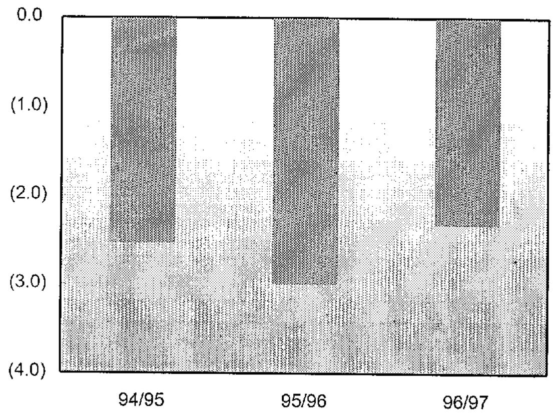
The Central Bank of Egypt has maintained the downward trend for the discount rate. The discount rate dropped to 12.25 percent in May 1997 and then stabilized through the end of 1997. Similarly, the rate for 91-day treasury bills has roughly stabilized at 8.8 percent since May 1997 with the exception of June, which recorded an 8.9 percent rate.[73]

6.6 Budget Deficit

A main achievement is the improvement in the budget deficit which fell to 0.9 percent of GDP in FY1996/97, down from 1.3 percent in the year earlier. Budget deficit reduction was achieved through rationalization of expenditures and improved administration and tax collection efforts. Figure 31 shows the overall budget deficit for the last three fiscal years.

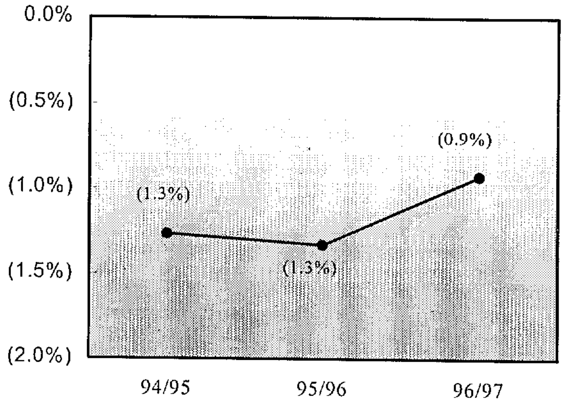
Overall Budget Deficit (in LE billion)

Figure (31)



Overall Budget Deficit as % of GDP

Figure (32)



Source: Egyptian Ministry of Economy, Recent Economic Developments & Statistics, October 1997.

[73] Ibid,, Table 9.

For FY 1996/97, the state budget shows that expenditures total LE66.8 billion or 26.6 percent of GDP. Public revenues amounted to LE64.5 billion or 25.7 percent of GDP for the same period. Consequently, as indicated in Figure 32, the public deficit amounts to around 0.9% of GDP.

The deficit in the state budget continues to be financed from domestic resources suggesting that the government's commitment to exclude foreign debt from its deficit financing alternatives. In fact, repayments to foreign financing items occurred over the period studied. Table 53 shows the breakdown of deficit financing:

Total Sources of Financing Bugdet Deficit
(in LE million)

Table (53)

	1996/97				1997/98
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Foreign financing (net)	-661	-682	-117	-115	-633
Domestic financing	2,098	1,207	272	326	2,469
Non-banking	203	1,514	1,933	3,149	225
Banking	2,933	1,345	1,661	3,475	4,938
Other	-1,038	1,038	0	0	-2,694
Total Sources of Financing	1,437	525	155	211	1,836

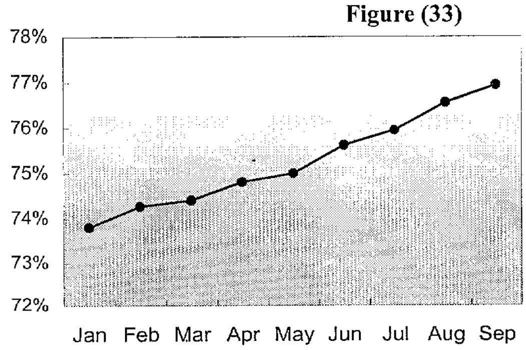
Source: CBE, Monthly Statistical Bulletin, December 1997

6.7 Banking Sector

The CBE states that total deposits in the banking sector reached LE203 billion in September 1997, an increase of around 9.3 percent since January 1997.[74] Note that the preference to save in Egyptian pounds remains dominant due to the divergence between the rates of return and also the stability of the Egyptian pound exchange rate against the dollar.

Local Currency Deposits as a Percentage of Total Deposits Held with banks (except CBE)

Figure (33)



Deposits Held with Banks (except CBE)

Figure (34)

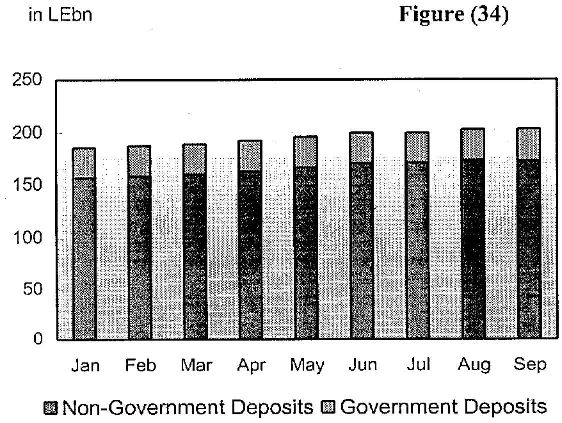


Figure 34 shows that non-governmental deposits including those from the general public sector, private sector, and individuals, rose from LE157 billion in end of January 1997 to LE170 billion in September 1997.

[74] Central Bank of Egypt, *Monthly Statistical Bulletin*, No.9, January 1998, Table 3.

6.8 Recognition and Ratings

Egypt's economic reform program won the praise of many international institutions. Newspaper articles several times cited IMF officials lauding the recent accomplishments of the GOE. The World Bank also acknowledged Egypt's overall achievements. Moody's sovereign rating of Egypt was upgraded. Both S&P and IBCA assigned Egypt a BBB- rating. IFC included Egypt on its Investable Composite Index (IFCI), and the World Bank issued a country brief for Egypt.

6.8.1 International Monetary Fund

In a report produced by the IMF after a review of its two-year stand-by agreement, Egypt was praised for meeting all targets included in its economic reform program.[75] The report notes the improvements achieved on many macroeconomic variables including both fiscal and monetary policies and trade liberalization. An IMF Middle Eastern Department working paper praised the successful Egyptian stabilization experience during the 1990s.[76]

6.8.2 World Bank

The September 1997 World Bank Country Brief on Egypt highlights its achievements over the past five years. It presents an assessment of the challenges facing the economy, which are mainly related to increasing and sustaining the real growth rate at above 6 percent annually. The report emphasizes the advantages of Egypt namely its large market and the competitive wage rate. The World Bank concluded the report with a final note stressing on the continued improvements of Egypt's business climate.

6.8.3 Moody's

Moody's has assigned a Ba1 grade for Egypt for bonds and notes and a Ba2 grade for bank deposits. Bonds allocated a Ba grade are defined to have speculative elements. As stated by Moody's investors service: "their future cannot be considered as well-assured."[77] Still, the rating is just below the Baa category, which is considered to be medium-grade obligation bonds. The rating is an upgrade of the Ba2 grade assigned to Egypt in October 1996.

With regard to its short-term ratings, Egypt is assigned a Not Prime (NP) grade. The NP is used to represent Moody's opinion that "the issuer may not have sufficient access to firm bank lines of credit or other forms of back-up funding to meet all of its short-term obligations in a period of market stress."[78]

6.8.4 Standard & Poor's

Standard & Poor's assigned Egypt a BBB- sovereign rating grade. As stated in the Standard and Poor's Ratings Definitions, the BBB rating is attributed to countries with ADEQUATE protection parameters. The rating attributed falls right after to the "A" category where the "obligator's capacity to meet its financial commitment on the obligation" ranges from EXTREMELY STRONG to STRONG. The minus sign shows that Egypt falls at a low relative standing position within the major rating category.[79]

[75] Cairo Review, (www.sis.gov.eg/pressrev/html/pv090198.htm).
[76] The Egyptian Stabilization Experience: An Analytical Retrospective, (www.imf.org/external/pubs/ft/wp/wp97105.pdf); p. 1.
[77] Moody's Investors Service, Internet (www.moodys.com/ratings/ratdefs.htm), p. 2.
[78] Moody's Investors Service, Internet (www.moodys.com/ratings/ratuse.htm), p. 2.
[79] ibid

6.8.5 IBCA

Following the Luxor tourist attack, IBCA, a European credit rating agency, asserted its BBB- long-term foreign currency rating for Egypt. In a December 1 press release, IBCA maintains that Egypt's adequate reserves will cushion the short-term negative effect on tourism earnings.[80] Yet, it expresses its fears by not being able to rule out further attacks. IBCA notes that with Suez Canal and workers' remittances stagnating and non-oil exports growing slowly, a powerful tourism sector is vital to Egypt in the medium term. The GOE commissioned the rating.[81]

6.8.6 IFC

The International Finance Corporation (IFC) included Egypt on its Investible Composite Index (IFCI) on November 3. As of January 1998, 28 stocks are included in the index out of a total of 1424 covered by the IFCI. Ideally, Egypt's inclusion in the IFCI would lead to a capital inflow from funds tracking the IFCI. The price index has been falling standing at 90.83 in January 16, 1998. The IFC attributes the drop in the index in part to the IPO of Egyptian Aluminum as investors are raising capital by selling their shares. Other factors are the instability on foreign markets and he November tourist attack in Luxor.

Egypt has already been included in the Global Composite Index (IFCG) since November 1996. Egypt's weight in IFC Global Composite Index, as at January 23, 1998, is 54 stocks out of a total of 1985 in the index.

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80 IBCA Press Release, Internet (www.ibca.com/p_release/971201_1.html), p. 2.

81 Dowell, Andrew, "Q&A Shocks and Bonds," Business Monthly, Vol.13, Issue 8, September 1997, p. 26.

7.1 Selected Criterion from the Sector Policy Reform II Matrix (SPR II)

Objectives	Policy Measures		Achievements to Date
	First Year	Second Year	
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 fourth quarter 1997: • There are 5 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 2 JVBs where the State Banks' ownership is above 50%.
		A.3. The GOE will reduce its share in at least one additional joint venture insurance company to achieve private sector majority ownership and control.	No activity was announced during fourth quarter 1997
B. Ensure financial system and social		**B.** The GOE will take actions to	• The debt settlement amounted to

7.1 Selected Criterion from the Sector Policy Reform II Matrix (SPR II)

Objectives	Policy Measures		Achievements to Date
	First Year	Second Year	
insurance solvency while facilitating privatization.		reduce the debts of state owned enterprises in order to encourage privatization.	approx. LE1.2 billion as of December 31, 1997 • Long term loans increased by 1.63%. • The GOE is negotiating with the banks to drop a part of the Law 203 Companies' debts amounting to approximately LE5 billion
C. De-monopolize shipping agencies and port services.			• Law 1/1998 was passed opening up the shipping industry to the private sector.
II. TRANSITION TO MARKET ECONOMY: *SUBGOAL:* Promote a competitive private market economy.			
A. Decrease the size of the state owned enterprise sector by divesting/liquidating existing public enterprises.	**A.** The GOE will transfer majority ownership and control to the private sector or liquidate at least 15 public enterprises whose total 1991 book value exceeds LE 2.7 billion.		• In 1997 - 28 companies were privatized (13 IPOs, 4 Anchor Investor Sales, 6 liquidations, and 5 sales to ESAs) • The total value of these sales amounted to approx. LE 3.5 billion.
B. Facilitate the investment and operations for profit and non-profit enterprises.			Law 8/1997 was issued, creating an environment more conducive for investment.

7.1 Selected Criterion from the Sector Policy Reform II Matrix (SPR II)

Objectives	Policy Measures		Achievements to Date
	First Year	**Second Year**	
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 negatively affect its financials. • To date, 3 textile companies were privatized 2 of which were privatized during 1997.

7.2 Selected Criterion from the Sector Policy Reform III Matrix (SPR III)

Objectives	Policy Measures		Achievements to Date
	First Year	**Second Year**	
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 fourth quarter 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 fourth quarter 1997.
B. Improve financial sector regulation to improve investor confidence			
C. Enhance the role of the private sector in the provision of financial services			

7.2 Selected Criterion from the Sector Policy Reform III Matrix (SPR III)

Objectives	Policy Measures		Achievements to Date
	First Year	Second Year	
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 fourth quarter 1997, 16 companies were privatized, 3 via IPOs, 2 by sales to Anchor Investors, 5 via sales to ESAs, and 6 liquidations.
	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 its 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.

8.1 Longitudinal Progress of State Banks and other Public Sector Entities' Divestiture of Shares in Joint Venture Banks
August 1995 - December 1997

No:	Joint Venture Banks	Four State Banks										NIB		Insurance Companies													
		NBE		Banque Misr		Banque du Caire		Bank of Alexandria		Total Public Banks Share		National Investment Bank		Misr Insurance Company		El Shark Insurance Company		El Ahlia for Insurance Company		Egypt Reinsurance Company		Other Public Entities		Total Public Share		Others*	Total
		Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Sept. 97	Dec. 97
1	Alexandria Commercial & Maritime Bank**	9.520%	0.003%					9.720%	0.000%	19.240%	0.003%	10%	10%	8.83%	8.83%							33.33%	33.33%	71.400%	52.163%	47.84%	100%
2	Alexandria Kuwait International Bank							71.680%	9.750%	71.680%	9.750%											1.62%	0.08%	73.300%	**9.830%**	90.17%	100%
3	Banque du Caire et de Paris					51.000%	22.000%			51.000%	22.000%											0.00%	0.00%	51.000%	**22.000%**	78%	100%
4	Cairo Barclays International Bank					51.000%	51.000%			51.000%	51.000%											0.00%	0.00%	51.000%	51.000%	49%	100%
5	Cairo Far East Bank					29.000%	29.000%			29.000%	29.000%					20%	20%					0.00%	0.00%	49.000%	**49.000%**	51%	100%
6	Commercial International Bank (CIB)	42.610%	19.610%							42.610%	19.610%											0.00%	0.00%	42.610%	**19.610%**	80.39%	100%
7	Credit Internationale d'Egypte	51.000%	19.500%							51.000%	19.500%											0.00%	0.00%	51.000%	**19.500%**	80.50%	100%
8	Egypt Arab African Bank					8.300%	0.000%	8.300%	0.000%	16.600%	0.000%						0.28%		0.97%	9.20%	9.50%	7.40%	7.40%	33.200%	**18.154%**	81.85%	100%
9	Egyptian American Bank (EAB)							51.000%	35.330%	51.000%	35.330%											0.00%	0.00%	51.000%	**35.330%**	64.67%	100%
10	Egyptian Gulf Bank					14.000%	0.000%			14.000%	0.000%			9.50%	24.40%							0.00%	0.00%	23.500%	**24.400%**	75.60%	100%
11	Egyptian Saudi Finance Bank	8.590%	7.690%	8.200%	0.000%	8.500%	8.500%	8.400%	8.400%	33.690%	24.590%			4.50%	4.50%		8.20%					0.00%	0.00%	38.190%	**37.290%**	62.71%	100%
12	El Togarioun Bank (Bk. of Commerce and Dev.)	16.998%	16.998%	16.020%	16.020%	16.510%	16.510%	9.710%	9.710%	59.238%	59.238%	25.70%	22.30%				2.43%				2.43%	12.39%	12.39%	97.328%	98.788%	1.22%	100%
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%	40%	40%									0.00%	0.00%	98.200%	84.460%	15.54%	100%
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%									5.56%	11.11%	45.83%	51.39%	77.770%	62.510%	37.49%	100%
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%											0.00%	0.00%	79.960%	79.960%	20.04%	100%
16	Misr America International Bank					32.800%	32.800%			32.800%	32.800%			32.81%	32.81%							17.00%	17.00%	82.614%	82.614%	17.39%	100%
17	Misr Exterior Bank			40.000%	19.500%					40.000%	19.500%											0.00%	0.00%	40.000%	**19.500%**	80.50%	100%
18	Misr International Bank			64.786%	24.800%					64.786%	24.800%			4%	4%							0.00%	0.00%	68.786%	**28.800%**	71.20%	100%
19	Misr Iran Development Bank							37.500%	37.500%	37.500%	37.500%			37.50%	37.50%							0.00%	0.00%	75.000%	75.000%	25.00%	100%
20	Misr Romanian Bank			51.000%	33.000%					51.000%	33.000%											0.00%	0.00%	51.000%	**33.000%**	67%	100%
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%	10.07%	6.70%	1.01%	1.01%	0.92%	0.92%			0.23%	0.23%	3.06%	3.06%	24.870%	**11.930%**	88.07%	100%
22	National Societe Generale Bank	30.400%	18.000%							30.400%	18.000%											0.00%	0.00%	30.400%	**18.000%**	82%	100%
23	Suez Canal Bank	19.134%	4.590%	11.220%	0.019%	11.130%	0.070%	10.890%	0.030%	52.374%	4.709%			11.73%	11.73%		0.43%				0.17%	0.00%	0.00%	64.104%	**17.039%**	82.96%	100%

N.B: * Others include local and foreign investors, local entities whose ownership structure varies because they are actively traded on the Stock Exchange, other specialized banks whose ownership structure is also unknown, and other public sector entities that might be holding shares for the benefit of individuals.

** Figures for the ownership structure of the Alexandria Commercial and Maritime Bank is as of June 30, 1997.

8.2 Longitudinal Progress of the Four State Banks' Divestiture of Shares in Joint Venture Banks August 1995 - December 1997

		NBE		Banque Misr		Banque du Caire		Bank of Alexandria		Total Public Banks Share		% of Public Banks Stake Sold
No:	*Joint Venture Banks*	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	Aug.95	Dec. 97	as of Dec. 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%	22.000%			51.000%	22.000%	29.000%
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	42.610%	19.610%							42.610%	19.610%	23.000%
7	Credit Internationale D'Egypte	51.000%	19.500%							51.000%	19.500%	31.500%
8	Egypt Arab African Bank					8.300%	0.000%	8.300%	0.000%	16.600%	0.000%	16.600%
9	Egyptian American Bank							51.000%	35.330%	51.000%	35.330%	15.670%
10	Egyptian Gulf Bank					14.000%	0.000%			14.000%	0.000%	14.000%
11	Egyptian Saudi Finance Bank	8.590%	7.690%	8.200%	0.000%	8.500%	8.500%	8.400%	8.400%	33.690%	24.590%	9.100%
12	El Togarioun Bank (Bk. of Commerce and Development)	16.998%	16.998%	16.020%	16.020%	16.510%	16.510%	9.710%	9.710%	59.238%	59.238%	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%	33.000%					51.000%	33.000%	18.000%
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%	4.590%	11.220%	0.019%	11.130%	0.070%	10.890%	0.030%	**52.374%**	4.709%	47.665%

8.3 List of Egyptian Local Funds, Fund Managers, and Fees Structure as of December 31, 1997

	Name of Funds	Inception Date	Size LE million	Fund Type	Fund Managers	Fee Structure
1	National Bank of Egypt (NBE) - I Fund	3-Sep-94	200	Growth Open Ended	National Fund Management (Al Ahli for Investment)	**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) - II Fund	3-Oct-94	300	Income Open Ended	National Fund Management (Al Ahli for Investment)	**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 non equity above 200 mm 0.7% on equity & 0.3% on non equity **Incentive fees:** None **Bank Fees:** 0.75% of NAV **Custodian Fees:** None
3	Egyptian American Bank (EAB) Mutual Fund	15-Oct-94	200	Growth Open Ended	Egyptian Fund Management Group (EFMG)	**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-Dec-94	200	Growth Open Ended	Egyptian Fund Management Group (EFMG)	**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 I Fund	1-Feb-95	500	Income Open Ended	Concorde Int. Investment Egypt	**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

8.3 List of Egyptian Local Funds, Fund Managers, and Fees Structure as of December 31, 1997

	Name of Funds	Inception Date	Size LE million	Fund Type	Fund Managers	Fee Structure
6	Banque Misr II Fund	17-Sep-95	300	Growth Open Ended	Concorde Int. Investment Egypt	**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-Feb-97	300	Income/Growth Open Ended	Hermes Fund Management (HFM)	**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-Mar-97	100	Income/Growth Open Ended	Hermes Fund Management (HFM)	**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-Nov-96	50	Growth Closed End	Egyptian Inv. & Finance Company (EIFC)	**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-May-96	50	Income/Growth Closed End	Hermes Fund Management (HFM)	**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

8.3 List of Egyptian Local Funds, Fund Managers, and Fees Structure as of December 31, 1997

	Name of Funds	Inception Date	Size LE million	Fund Type	Fund Managers	Fee Structure
11	Allied Insurance Mutual Fund	21-Aug-95	100	Growth Open Ended	Egyptian Anglo	**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-Nov-95	100	Growth Open Ended	Hermes Fund Management (HFM)	**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) I Mutual Fund	3-Jun-96	100	Growth +Semi Annual Prizes Open Ended	Prime Investments	**Subscription Fees:**LE 2.0 per cert. **Redemption Fees:** 1% of NAV **Mgmt.Fees:** 0.65 of NAV **Incentive fees**:7.5% of Net Profit exceeding 5yrs T- bonds **Bank Fees**:0.55% of NAV **Bank Incentive Fees**: **Custodian Fees**:
14	Suez Canal Bank Mutual Fund	5-Dec-96	100	Inome/Growth Open Ended	Egyptian Anglo	**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-Oct-96	100	Income Open Ended	Caito Portfolio Management	**Subscription Fees:** 0.75% of Cert. Price, min.LE 7 **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:**0.9%of NAV **Incentive fees**:9% Net profit exceeding annual average Cert. fund return for the market 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 **Custodian Fees**:0.25% of securities Value

8.3 List of Egyptian Local Funds, Fund Managers, and Fees Structure as of December 31, 1997

	Name of Funds	Inception Date	Size LE million	Fund Type	Fund Managers	Fee Structure
16	Societe Arab Internationale de Banque (SAIB) II Mutual Fund	23-Sep-97	100	Inome/Growth Open Ended	Prime Investments	**Subscription Fees:**LE 2.0 per cert. **Redemption Fees:** 1% of NAV **Mgmt.Fees:** 0.65 of NAV **Incentive fees:**7.5% of Net Profit exceeding 5yrs T- bonds **Bank Fees:**0.55% of NAV **Bank Incentive Fees:** **Custodian Fees:**
17	Misr International Bank Fund	15/1/1998	250	Growth Open Ended	Concorde Int. Investment Egypt	**Subscription Fees:** LE 1 per cert. **Redemption Fees:** 0.75% of NAV **Mgmt.Fees:**:1% of NAV **Incentive fees:** None **Bank Fees:** 1% of NAV **Bank Incentive Fees:**None **Custodian Fees:**0.25%
18	Misr Exterior Bank Fund	12-Nov-97	100	Inome/Growth Open Ended	Lazard Asset Management	**Subscription Fees:**0.5% of Cert. Price **Redemption Fees:** 1% of Redemption Value **Mgmt.Fees:** NA **Incentive fees:** NA **Bank Fees:** NA **Bank Incentive Fees:** **Custodian Fees:**

8.4 DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

Donor	Holding Company	Affiliate Company	Privatization Support
Privatization Project (PP)	*Agricultural Development*	1. El Wady Company for Exportation for Agricultural Goods	Anchor Investor Transaction
		2. Nubariya Seed Production Company (Nubaseed)	Anchor Investor Transaction
	Chemicals Industries	3. Egyptian Shoes Company (BATA)	Anchor Investor Transaction
	Engineering Industries	4. Nasr Engineering & Refrigeration Company (Koldair)	Anchor Investor Transaction
		5. El Nile Co. For General Engineering	Anchor Investor Transaction
	Mining & Refractories	6. El Nasr Glass & Crystal	Anchor Investor Transaction
		7. El Nasr Co. For Particle Board Resins	Anchor Investor Transaction
		8. Egyptian Gypsum, Marble & Quarries Co. (GYMCO)	Anchor Investor Transaction
		9. El Nasr Co. For Refractories & Ceramic (SORNAGA)	Anchor Investor Transaction
		10. General Co. For Ceramic & Porcelain Products (SHEENI)	Anchor Investor Transaction
	Metallurgical Industries	11. Misr Aluminium	Anchor Investor Transaction
		12. Erection & Industrial Services (ERISCOM)	Anchor Investor Transaction
	Textile Manufacturing & Trade	13. The Clothing & Consumer Products Co. (SEDNAWI)	Anchor Investor Transaction
		14. El Nasr Wool & Selected Textile Co. (STIA)	Anchor Investor Transaction
		15. Omar Effendi	Anchor Investor Transaction
	Spinning, Weaving & Ready Made Garments	16. El Delta Cotton Ginning Co.	Anchor Investor Transaction
	Housing, Tourism & Cinema	17. Misr Hotels	Anchor Investor Transaction
European Community (EU)	*Housing Tourism & Cinema*	1. ETAP Luxor Hotel	Anchor Investor Transaction
		2. Egotel Luxor	Anchor Investor Transaction
		3. Sultana Land Project Luxor	Anchor Investor Transaction
		4. Aamoon Island Hotel Aswan	Anchor Investor Transaction
		5. Kalabsha Hotel Aswan	Anchor Investor Transaction
	Maritime Transport	6. The Alexandria Shipyard Company	Anchor Investor Transaction
		7. Egyptian Shipbuilding & Repairs Co.	Anchor Investor Transaction
	Transport	8. Nile Co. For Transport Works	Anchor Investor Transaction

8.4 DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

Donor	Holding Company	Affiliate Company	Privatization Support
		9. Auto Repair Company	Anchor Investor Transaction
	Metallurgical Industries	10. General Nile Co. For Water Transport	Anchor Investor Transaction
		11. General Nile Co. For River Transport	Anchor Investor Transaction
		12. General Metal Company	Anchor Investor Transaction
		13. Egyptian Ferro Alloys Company	Anchor Investor Transaction
		14. Egyptian Iron & Steel Company	Anchor Investor Transaction
		15. Delta Steel Mill Company	Anchor Investor Transaction
		16. National Metal Industries Company	Anchor Investor Transaction
		17. El Nasr Steel Pipes and Fittings Company	Anchor Investor Transaction
	Engineering Industries	18. Nasr Automotive Manufacturing Co. (NASCO)	Anchor Investor Transaction
		19. Egyptian Light Transport Manufactring Co. (El Tramco)	Anchor Investor Transaction
		20. Misr Engineering & Tools Co. (Micar)	Anchor Investor Transaction
		21. Spring & Transport Needs Manufacturing Co. (Yayat)	Anchor Investor Transaction
		22. El Nasr Forging Co.	Anchor Investor Transaction
		23. El Nasr TV & Electronics Co. (Nasr TV)	Anchor Investor Transaction
		24. The Tractor & Engineering Company	Anchor Investor Transaction
		25. The Egyptian Mechanical Precision Industries (SABI)	Anchor Investor Transaction
		26. Transport & Engineering Company (TRENCO)	Anchor Investor Transaction
		27. El Nasr Co. for Rubber Products (NARUBIN)	Anchor Investor Transaction

8.4 DONORS ACTIVITIES UNDER THE PRIVATIZATION PROGRAM OF EGYPT

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

8.5 PUBLIC SHARE FLOTATION OF LAW 203 COMPANIES AS OF DECEMBER 26, 1997

Page 1

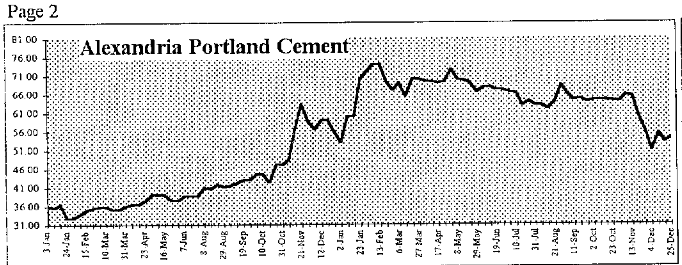
Holding Co./Affiliated Co.	Initial Flotation Price (LE)	Lowest Price	Highest Price	Market Price (LE) on 19/12/1997	Market Price (LE) on 26/12/1997	Change (LE)	Change (%)	Private Share
Holding Company for Chemical Industries								
Alexandria Portland Cement	32.00	32.00	74.10	53.05	53.99	0.94	1.77%	20.57%
Misr Chemical Industries	10.75	9.49	34.00	12.24	9.49	-2.75	-22.47%	29.90%
Paints & Chemical Industries	25.00	25.00	164.00	103.47	109.14	5.67	5.48%	54.00%
Kafr El Zayat for Pesticides & Chemicals	29.00	29.00	177.00	129.93	137.77	7.84	6.03%	74.65%
El Nile for Matches & Prefabricated Houses	27.00	23.00	31.50	22.97	23.28	0.31	1.35%	64.97%
Holding Company for Engineering								
Egyptian Electro Cables	90.00	73.25	200.00	107.90	110.70	2.80	2.59%	30.00%
Telemisr	30.00	28.50	46.00	36.14	35.73	-0.41	-1.13%	76.40%
Holding Company for Food Industries								
Extracted Oils	45.00	26.45	45.00	26.90	30.47	3.57	13.27%	22.50%
North Cairo Flour Mills	42.00	38.50	199.00	97.76	95.55	-2.21	-2.26%	40.00%
Middle Egypt Flour Mills	18.00	18.00	81.00	30.00	27.67	-2.33	-7.77%	40.07%
Egyptian Starch & Glucose	35.00	32.99	60.37	33.96	33.63	-0.33	-0.97%	59.81
El Nasr for Dehydrating Agricultural Products	38.00	29.76	73.50	33.06	33.63	0.57	1.72%	61.34
Misr for Oil and Soap	31.00	26.03	33.95	25.00	25.50	0.50	2.00%	61.07
Holding Company for Rice, Mills and Silos								
Storage & Silos	39.00	39.00	109.14	74.70	80.34	5.64	7.55%	40.00
South Cairo & Giza Flour Mills	26.00	26.00	133.65	51.47	54.00	2.53	4.92%	39.40
Middle & West Flour Mills	40.00	27.80	138.50	59.87	58.31	-1.56	-2.61%	61.01
Upper Egypt Flour Mills	40.00	35.70	119.54	57.02	53.07	-3.95	-6.93%	60.92
East Delta Flour Mills	31.00	31.00	94.75	48.12	41.25	-6.87	-14.28%	60.7[illegible]
Holding Company for Metallurgical Industries								
Amereya Cement	27.00	27.00	99.25	77.44	78.10	0.66	0.85%	51.60
Holding Company for Mining & Refractories								
Eastern Tobacco & Cigarettes	47.50	34.80	106.00	80.28	80.83	0.55	0.69%	33.6[illegible]
Helwan Portland Cement	34.00	30.46	84.00	73.29	71.98	-1.31	-1.79%	52.27
Torah Portland Cement	31.00	31.00	99.75	76.91	75.13	-1.78	-2.31%	32.5[illegible]
Egyptian Financial and Industrial	30.00	30.00	227.94	189.27	204.68	15.41	8.14%	74.7[illegible]
Holding Co. for Housing Tourism & Cinema								
El Ahram Beverage	67.00	61.00	208.00	190.00	194.00	4.00	2.11%	89.0[illegible]
United Housing	13.00	13.00	41.93	24.89	25.47	0.58	2.33%	8.[illegible]
Development & Popular Houses	32.50	23.77	47.00	35.57	37.09	1.52	4.27%	62.[illegible]
Holding Company for Pharmaceuticals								
Alexandria Pharmaceutical & Chemical Industries	66.15	55.00	163.21	161.58	163.21	1.63	1.01%	40.[illegible]
Nile Pharmaceutical & Chemical Industries	56.70	45.00	62.00	45.08	49.08	4.00	8.87%	35.00
Memphs Pharmaceuticals & Chemicals	50.00	50.00	99.45	84.69	87.62	2.93	3.46%	26.4[illegible]
Arab Drug	40.00	40.00	60.43	53.02	49.18	-3.84	-7.24%	39.[illegible]
Holding Company for Spinning & Weaving								
Nasr Clothing & Textiles (Kabo)	100.00	60.88	108.00	102.00	101.01	-0.99	-0.97%	71.02
Holding Company for Textile Manufacturing								
Alexandria Spinning & Weaving	42.00	19.00	67.53	28.95	29.06	0.11	0.38%	45.60
United Arab Spinning & Weaving	44.00	32.00	90.25	25.01	25.56	0.55	2.20%	60.40
Holding Company for National Construction								
Madinet Nasr For Housing and Development	65.00	32.50	250.50	208.46	209.46	1.00	0.48%	74.[illegible]
Misr El Gedidah (Heliopolis) Housing & Development	52.50	50.00	550.00	424.25	428.00	3.75	0.88%	25.00
Holding Company for Cotton & Foreign Trade								
Arab Ginning Company	27.00	27.00	62.84	60.00	60.00	0.00	0.00%	62.60

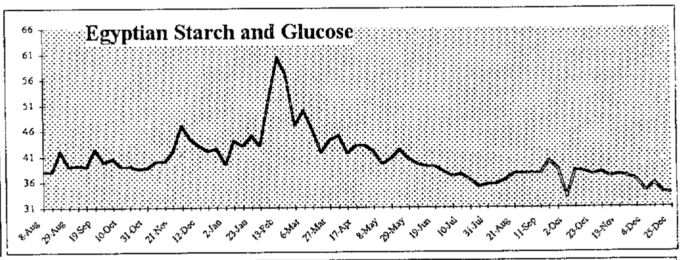
Summary of the Above Table

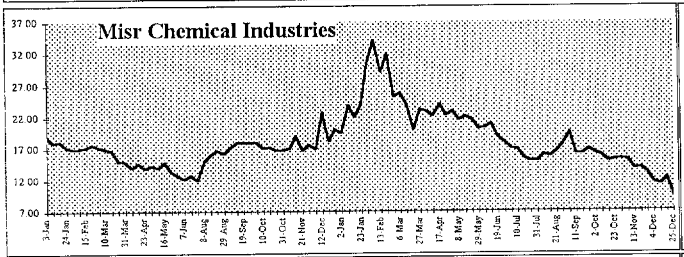
Item Description	Numbers/Names of Companies
Share Prices increase (weekly)	21
Share Prices Decrease (weekly)	12
Share Prices Remained Constant (weekly)	1
Market price Below the Initial Flotation Price	8
Highest Increase (LE) in Share Prices (weekly)	Egyptian Financial and Industrial
Highest Increase (%) in Share Prices (weekly)	Extracted Oils
Highest Decrease (LE) in Share Prices (weekly)	East Delta Flour Mills
Highest Decrease (%) in Share Prices (weekly)	Misr Chemical Industries

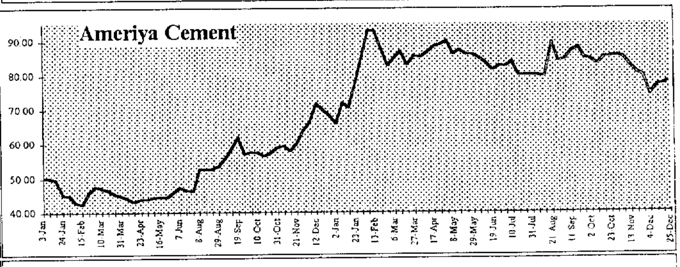
8.5 WEEKLY STOCK MARKET PRICES FROM APRIL 1996 TO DECEMBER 1997

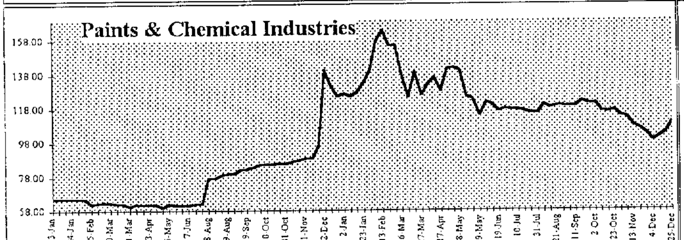
Page 2

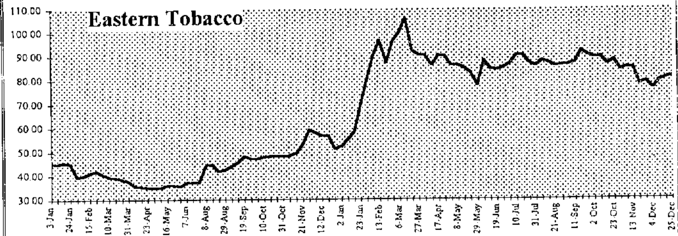


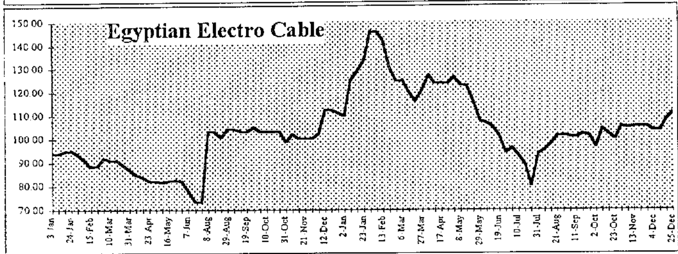


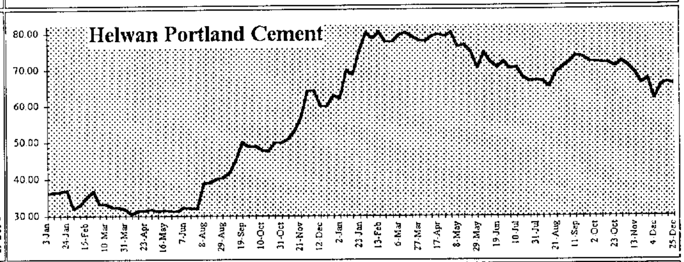


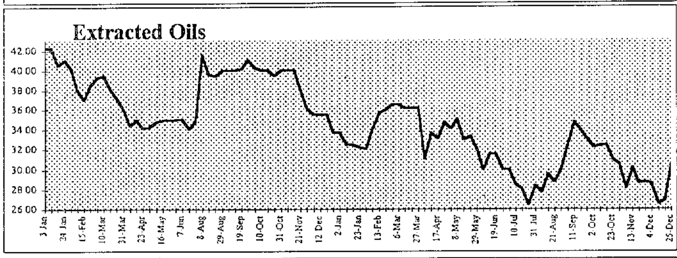


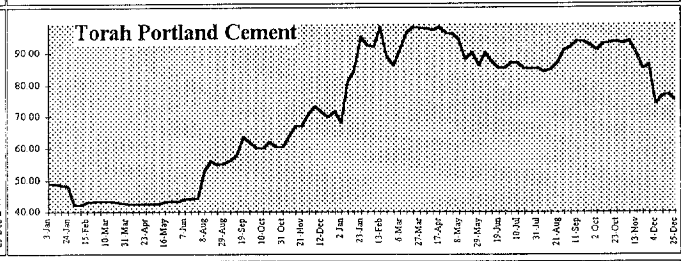


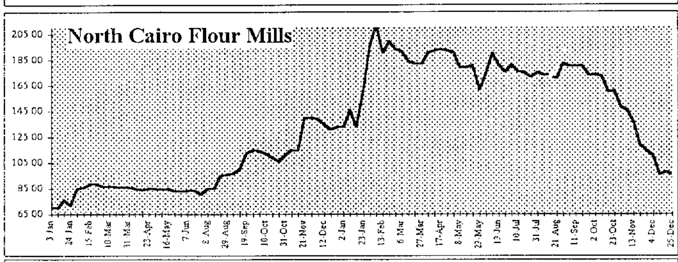


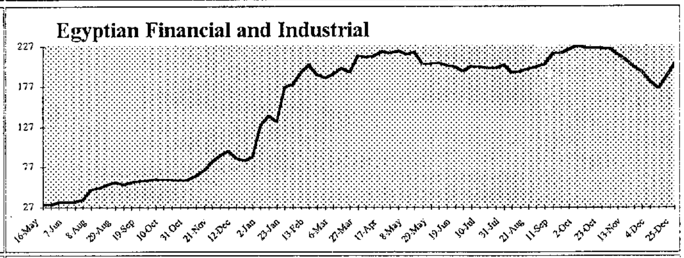


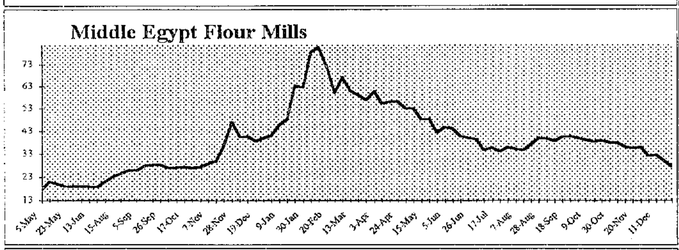


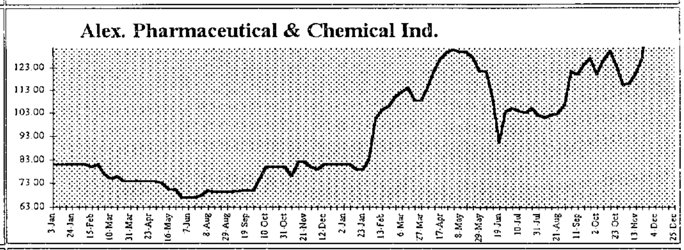


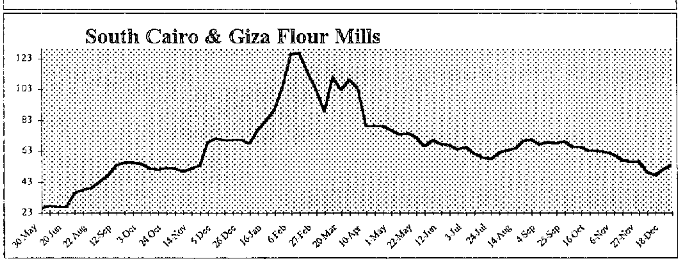


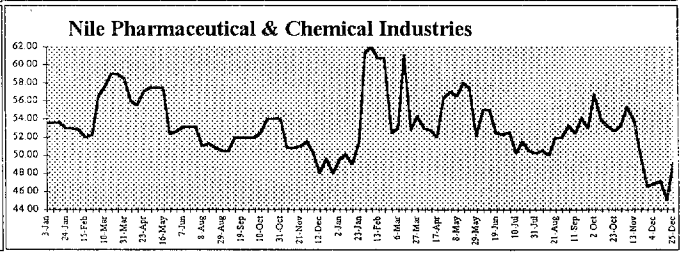




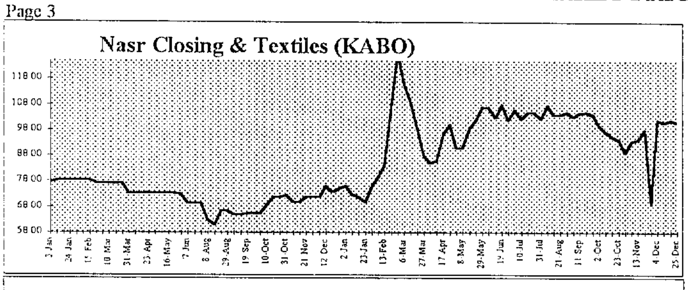


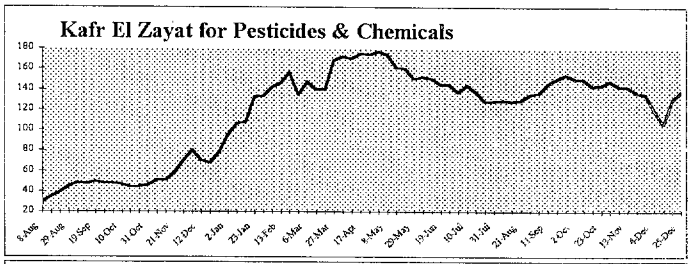


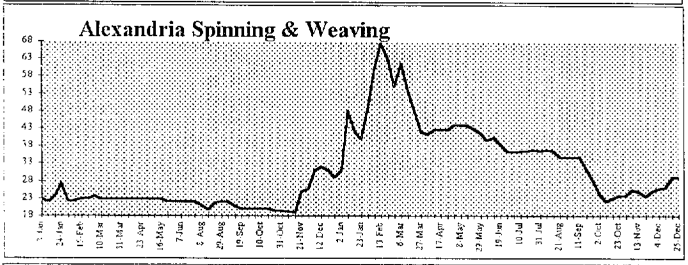


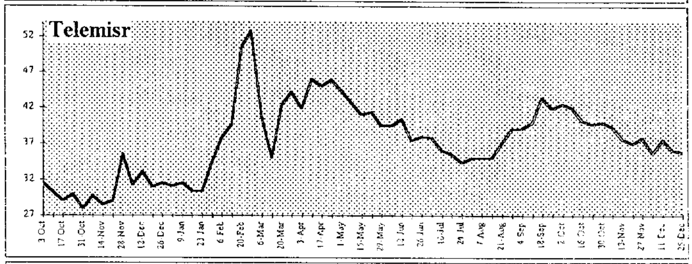


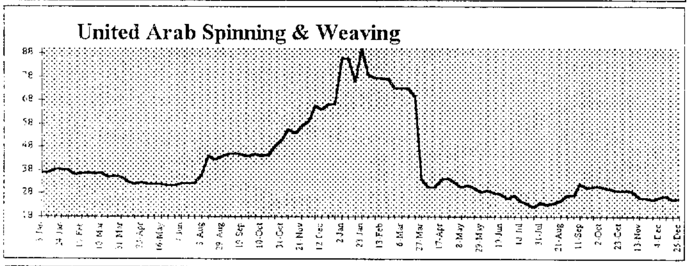
8.5 WEEKLY STOCK MARKET PRICES FROM APRIL 1996 TO DECEMBER 1997

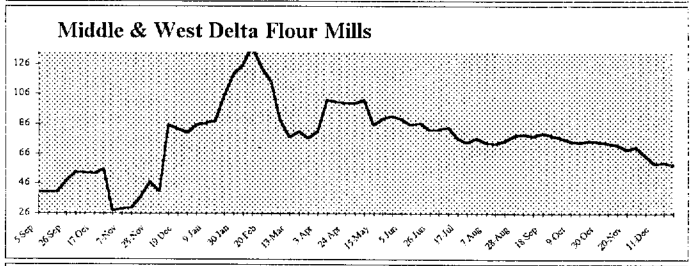

Nasr Closing & Textiles (KABO)

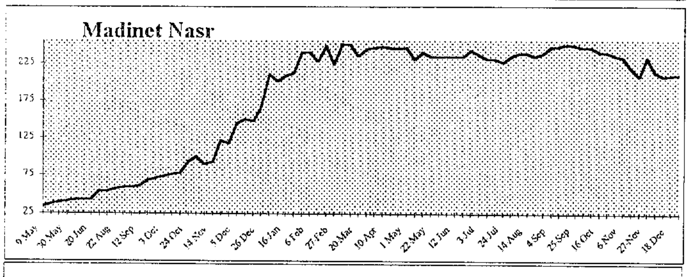

Kafr El Zayat for Pesticides & Chemicals

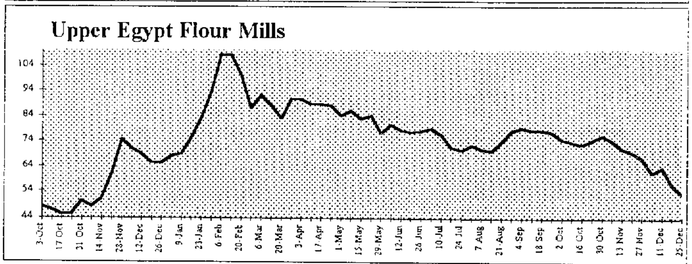

Alexandria Spinning & Weaving

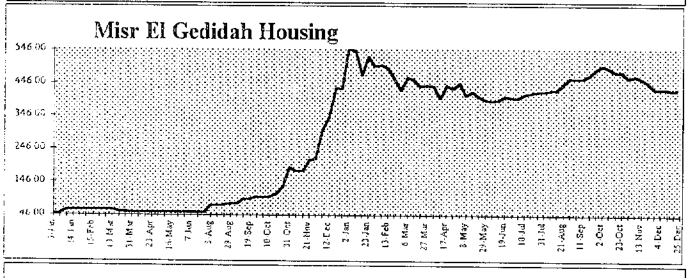

Telemisr

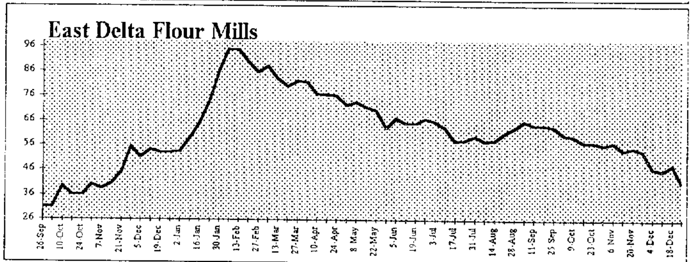

United Arab Spinning & Weaving

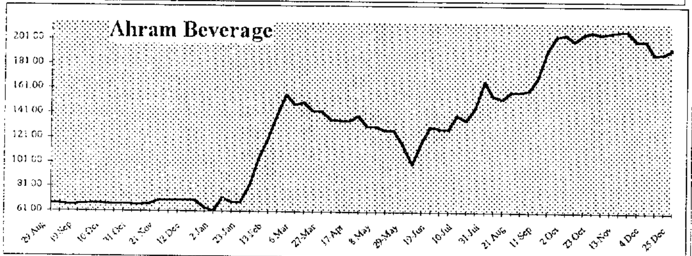

Middle & West Delta Flour Mills

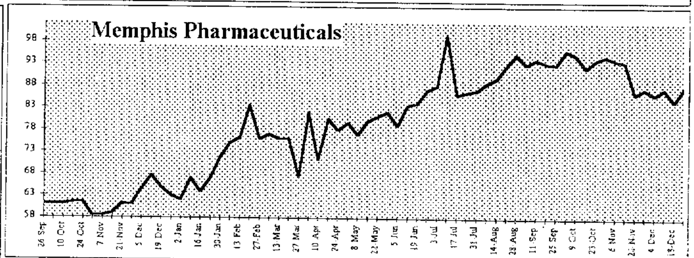

Madinet Nasr

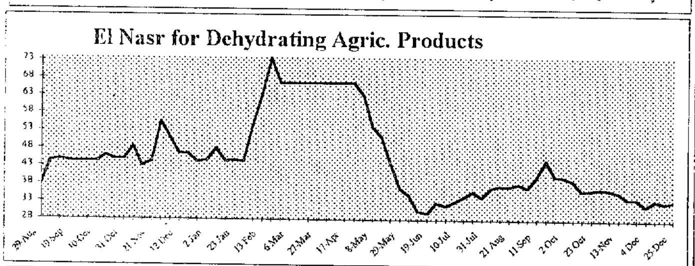

Upper Egypt Flour Mills

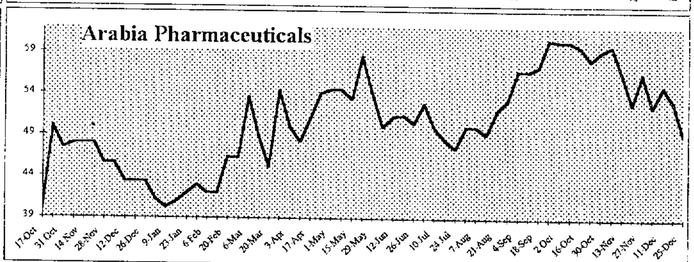

Misr El Gedidah Housing

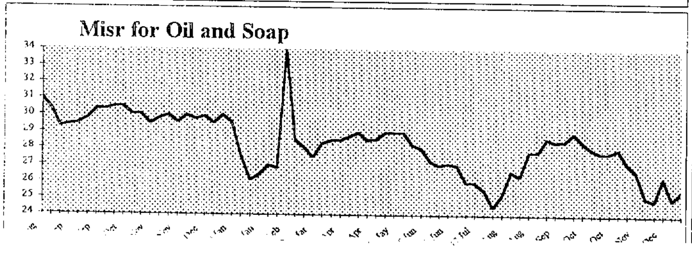

East Delta Flour Mills

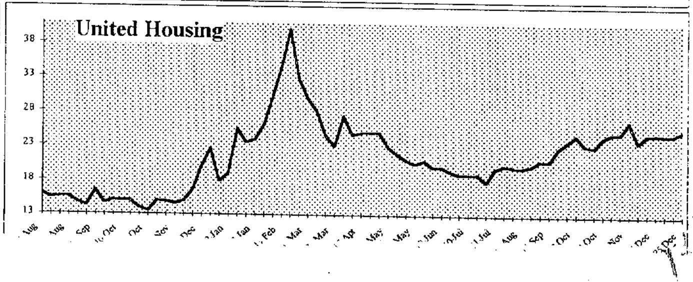

Ahram Beverage


Memphis Pharmaceuticals


El Nasr for Dehydrating Agric. Products


Arabia Pharmaceuticals


Misr for Oil and Soap


United Housing

8.5 WEEKLY STOCK MARKET PRICES FROM APRIL 1996 TO DECEMBER 1997

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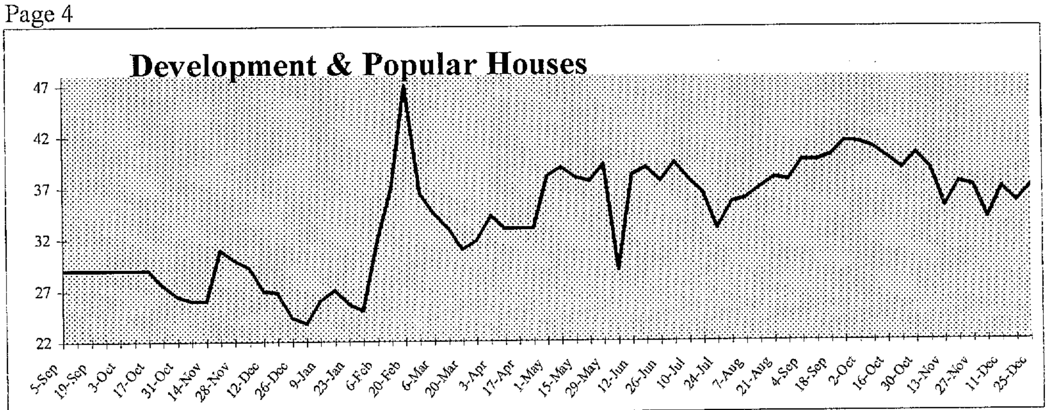
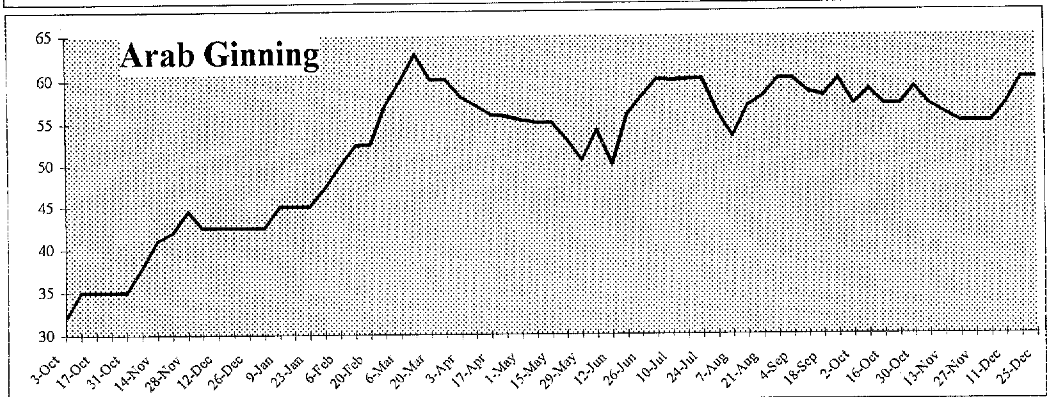
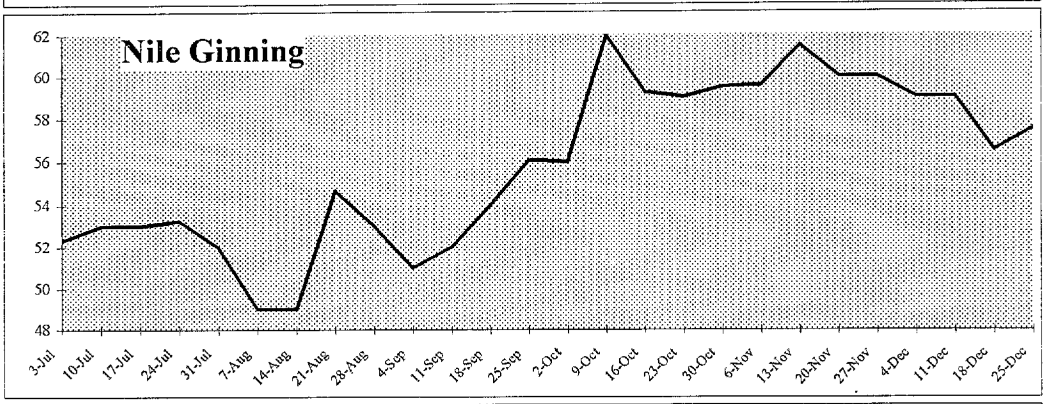
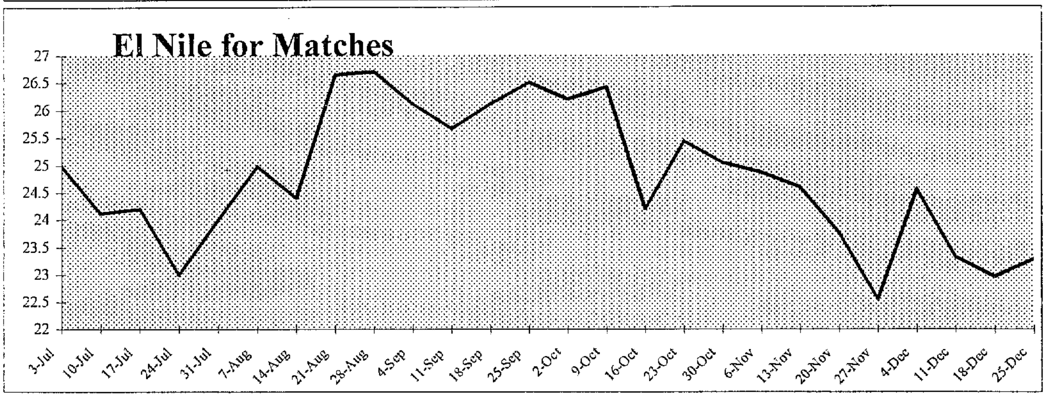
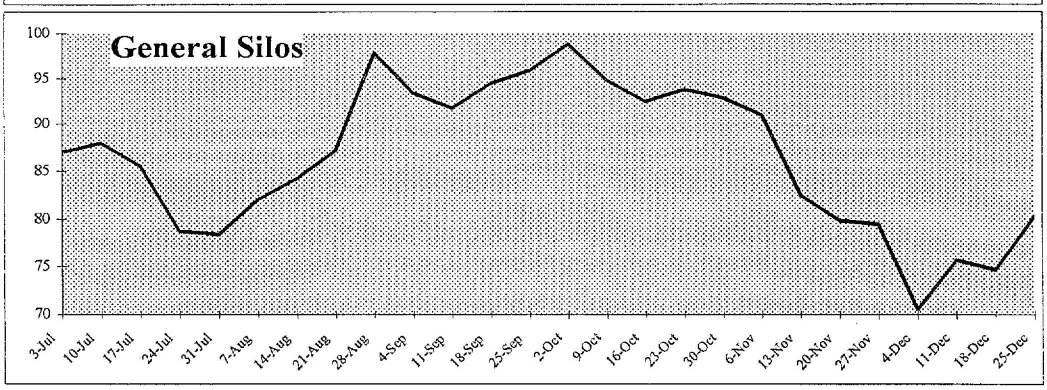










8.6 LAW 203 COMPANIES ACTUAL SHARES SOLD THROUGH THE STOCK MARKET SINCE THE BEGINNING OF THE PRIVATIZATION PROGRAM UNTILL DECEMBER 1997

P.1

Holding Co. / Affiliated Company	Years of Privatization	% of Shares Sold	No. of Shares Sold	Share Sale Price	Sale Value (LE million)
Chemical Industries					
-Misr Chemicals	**1994**	**29.90%**	**4,784,000**	5	**23.92**
-Paints and Chemicals*	**1994**	**54.00%**	**5,400,000**		**896.80**
Public (First Tranch)		10.00%	1,000,000	250	250.00
Public (Second Tranch)		2.50%	250,000	620	155.00
Public (Third Tranch) 'with a stock split'	Jan-97	14.50%	1,450,000	116	168.20
GDR	Oct-97	27.00%	2,700,000	119.85	323.60
-Alexandria Portland Cement	**1994**	**20.57%**	**2,056,000**		**64.88**
Public (First Tranch)		16.06%	1,606,000	32	51.39
Workers		3.08%	307,500	32	9.84
ESA		1.43%	142,500	25.6	3.65
-Kafr El Zayat Insecticides	**Aug-96**	**74.65%**	**896,280**		**25.64**
Public (First Tranch)		48.70%	584,680	29	16.96
Financial Institutions		19.77%	237,350	29	6.88
Workers		1.18%	14,250	29	0.41
ESA		5.00%	60,000	23.2	1.39
-El Nile for Matches & Prefabricated Houses	**Aug-96**	**64.97%**	**1,291,460**		**34.87**
Public (First Tranch)		40.00%	791,720	27	21.38
Financial Institutions		12.48%	249,775	27	6.74
Investment Funds		12.49%	249,965	27	6.75
-SIMO	**Jul-97**	**84.94%**	**2,550,000**		**55.44**
Public (First Tranch)		55.70%	1,671,437	22	36.77
Financial Institutions		17.40%	524,063	22	11.53
Investment Funds		1.84%	54,500	22	1.20
ESA		10.00%	300,000	19.8	5.94
HC Subtotal			**16,977,740**		**1,101.55**
Mining & Refractories					
-Tourah Portland Cement	**Nov-94**	**32.50%**	**7,748,000**		**232.19**
Public (First Tranch)		16.70%	3,964,000	31.00	122.88
Investment Funds	Apr-94	5.00%	1,200,000	42.83	51.40
Financial Institutions		0.80%	200,000	42.83	8.57
Workers		5.00%	1,192,000	23.00	27.42
ESA		5.00%	1,192,000	18.40	21.93
-Eastern Tobacco	**Jun-95**	**33.60%**	**8,436,700**		**555.31**
Public (First Tranch)		8.60%	2,155,000	47.50	102.36
Public (Second Tranch)		3.70%	930,000	96.00	89.28
Investment Funds (First Tranch)		1.40%	350,000	47.50	16.63
Investment Funds (Second Tranch)		4.00%	1,006,700	96.00	96.64
Financial Institutions		5.90%	1495000	96	143.52
Workers		5.00%	1,250,000	47.50	59.38
ESA		5.00%	1,250,000	38.00	47.50
-Helwan Portland Cement	**Nov-95**	**52.27%**	**13,004,800**		**535.09**
Public (First Tranch)		15.90%	3,966,000	34.00	134.84
Public (Second Tranch)		22.40%	5,538,800	58.00	321.25
Investment Funds		0.97%	241,700	34.00	8.22
Financial Institutions		3.00%	758,300	34.00	25.78
Workers	Dec-94	5.00%	1,250,000	20.00	25.00
ESA	Dec-94	5.00%	1,250,000	16.00	20.00
-Egyptian Financial & Industrial Co.	**May-96**	**74.70%**	**2,427,517**		**70.88**
Public		51.40%	1,659,775	30.00	49.79
Investment Funds		11.30%	378,690	30.00	11.36
Financial Institutions		2.00%	64,200	30.00	1.93
ESA		10.00%	324,852	24.00	7.80
HC Subtotal			**31,617,017**		**1,393.47**
Agricultural Development					
-El Nobaria for Eng. & Mechanical Equip.	**Jun-97**	**89.40%**	**893,750**		**20.93**
Public (First Tranch)			666,150	27.00	17.99
Investment Funds			35,000	27.00	0.95
Financial Institutions			92,600	21.60	2.00
ESA			100,000		
- El Wady for Export Agriculture	**Aug-97**	**30.00%**	**1,200,000**	**31.00**	**37.20**
HC Subtotal			**2,093,750**		**20.93**
Electricity Distribution					
-Engineering and Industrial Projects.	**Oct-97**	**90.00%**	**5,400,000**	**56.70**	**298.06**
HC Subtotal			**5,400,000**		**298.06**

8.6 LAW 203 COMPANIES ACTUAL SHARES SOLD THROUGH THE STOCK MARKET SINCE THE BEGINNING OF THE PRIVATIZATION PROGRAM UNTILL DECEMBER 1997

P.2

Holding Co. / Affiliated Company	Years of Privatization	% of Shares Sold	No. of Shares Sold	Share Sale Price	Sale Value (LE million)
Textile Manufacturing & Trade					
-United Arab Spinning & Weaving	**Jan-97**	**60.40%**	**154,850**	**65.49**	**108.72**
Public (sold over Tranch)	1994	34.45%			
Public (First Tranch)		4.25%	241,850	65.49	15.84
Public (Second Tranch)	Jan-97	21.70%	1,238,460	75	92.88
- Alex. Spinning & Weaving*	**1994**	**51.70%**	**96,400**		**14.88**
Public (First Tranch)		33.40%	85,000	83.00	7.06
Public (Second Tranch)		12.30%	11,400	86.00	0.98
ESA		6.00%	231,073	29.60	6.84
HC Subtotal			**251,250**		**123.60**
Spinning and Weaving					
- El Nasr Closing & Textile Co. (Kabo)	**Feb-95**	**71.02%**	**2,052,005**		**221.02**
Public (First Tranch)	Feb-95	8.00%	122,005	198.00	24.16
Public (Second Tranch)	Jun-97	28.46%	871,675	102.00	88.91
Investment Funds	Jun-97	22.41%	686,200	102.00	69.99
Financial Institutions	Jun-97	12.15%	372,125	102.00	37.96
HC Subtotal			**2,052,005**		**221.02**
Engineering Industries					
- Egyptian Electro Cable**	**Feb-95**	**51.00%**	**1,683,000**		**159.72**
Public (First Tranch)		20.00%	660,000	91.00	60.06
Public (Anchor Investor Participation)		21.00%	693,000	105.00	72.77
Workers		5.00%	165,000	91.00	15.02
ESA		5.00%	165,000	72.00	11.88
- Telemisr	**Sep-96**	**76.40%**	**1,525,310**		**45.76**
Public (First Tranch)		64.00%	1,276,635	30.00	38.30
Investment Funds		1.20%	24,000	30.00	0.72
Public (Second Tranch)		11.20%	224,675	30.00	6.74
- IDEAL***	**Dec-97**	**25.00%**	**1,250,000**		**75.45**
		15.00%	750,000	67.00	50.25
		10.00%	500,000	50.40	25.20
HC Subtotal			**4,458,310**		**280.93**
Food Industries					
-Extracted Oil Company	**Apr-95**	**22.50%**	**1,179,000**		**50.70**
Public (First Tranch)		12.50%	655,000	45.00	29.48
Workers		5.00%	262,000	45.00	11.79
ESA		5.00%	262,000	36.00	9.43
- North Cairo Flour Mills	**Apr-95**	**40.00%**	**2,400,000**		**98.28**
Public (First Tranch)		30.00%	1,800,000	42.00	75.60
Workers		5.00%	300,000	42.00	12.60
ESA		5.00%	300,000	33.60	10.08
- Middle Egypt Flour Mills	**Apr-96**	**40.07%**	**3,746,545**		**64.07**
Public (First Tranch)		25.92%	2,423,520	18.00	43.62
Financial Institutions		1.30%	121,550	18.00	2.19
Investment Funds		2.85%	266,475	18.00	4.80
ESA		10.00%	935,000	14.40	13.46
- Starch & Glucose	**Jun-96**	**59.81%**	**2,755,160**		**93.21**
Public (First Tranch)		39.70%	1,828,675	35.00	64.00
Workers		1.13%	52,100	35.00	1.82
Investment Funds		5.58%	256,710	35.00	8.98
Financial Institutions		3.40%	157,675	35.00	5.52
ESA		10.00%	460,000	28.00	12.88
- Misr Oil & Soap	**Aug-96**	**61.07%**	**3,664,625**		**109.88**
Public (First Tranch)		32.06%	1,923,600	31.00	59.63
Investment Funds		6.91%	415,000	31.00	12.87
Financial Institutions		12.10%	726,025	31.00	22.51
ESA		10.00%	600,000	24.80	14.88
- El Nasr for Dehydrating Agri. Products	**Aug-96**	**61.34%**	**475,750**		**17.47**
Public (First Tranch)		47.11%	364,560	38.00	13.85
Investment Funds		3.60%	26,150	38.00	0.99
Financial Institutions		0.63%	5,040	38.00	0.19
ESA		10.00%	80,000	30.40	2.43
HC Subtotal			**14,221,080**		**433.61**

* Alexandria Spinning & Weaving was privatised through an Anchor Investor (48.3%)

**Egyptian Electro Cable was privatised through an Anchor Investor (49%)

***IDEAL was privatised through an Anchor Investor (49%)

8.6 LAW 203 COMPANIES ACTUAL SHARES SOLD THROUGH THE STOCK MARKET SINCE THE BEGINNING OF THE PRIVATIZATION PROGRAM UNTILL DECEMBER 1997

P.3

Holding Co. / Affiliated Company	Years of Privatization	% of Shares Sold	No. of Shares Sold	Share Sale Price	Sale Value (LI million)
Rice & Flour Mills					
-South Cairo Flour Mills	**May-96**	**39.40%**	**1,183,530**		**29.00**
Public (First Tranch)		20.40%	614,090	26.00	15.97
Financial Institutions		4.00%	129,450	26.00	3.37
Investment Funds		5.00%	139,990	26.00	3.64
ESA		10.00%	300,000	20.08	6.02
- Middle & West Delta Flour Mills	**Sep-96**	**61.01%**	**4,575,000**		**177.00**
Public (First Tranch)		41.10%	3,081,175	40.00	123.25
Financial Institutions		0.46%	34,650	40.00	1.39
Investment Funds		9.45%	709,175	40.00	28.37
ESA		10.00%	750,000	32.00	24.00
- Upper Egypt Flour Mills	**Sep-96**	**60.92%**	**4,267,015**		**165.08**
Public (First Tranch)		41.60%	2,914,135	40.00	116.57
Financial Institutions		5.07%	355,080	40.00	14.20
Investment Funds		4.25%	297,800	40.00	11.91
ESA		10.00%	700,000	32.00	22.40
- East Deta Flour Mills	**Sep-96**	**60.70%**	**3,644,860**		**108.79**
Public (First Tranch)		40.71%	2,444,860	31.00	75.79
Workers		7.54%	452,500	31.00	14.03
Investment Funds		2.45%	147,500	31.00	4.57
Financial Institutions		10.00%	600,000	24.00	14.40
- Storage & Silos	**Nov-96**	**40.00%**	**4,000,000**		**148.20**
Public (First Tranch)		19.60%	1,960,000	39.00	76.44
Investment Funds		10.00%	1,000,000	39.00	39.00
Financial Institutions		10.00%	1,000,000	31.20	31.20
ESA		0.40%	40,000	39.00	1.56
- Alexandria Mills	**Jun-97**	**39.00%**	**1,571,885**		**111.89**
Public (First Tranch)		23.00%	931,460	75.00	69.86
Investment Funds		2.00%	60,800	75.00	4.56
Financial Institutions		4.00%	179,625	75.00	13.47
ESA		10.00%	400,000	60.00	24.00
HC Subtotal			**19,242,290**		**739.96**
Pharmaceutical & Chemicals					
-Alexandria Pharmaceutical & Chemicals	**May-95**	**40.34%**	**806,000**		**53.02**
Public (First Tranch)		10.34%	206,000	66.15	13.63
Public (Second Tranch)		10.00%	200,000	75.00	15.00
Farco (Second Tranch)	Jun-96	10.00%	200,000	68.00	13.60
Workers		5.00%	100,000	55.00	5.50
ESA		5.00%	100,000	52.90	5.29
-Nile Pharmaceutical & Chemicals	**May-96**	**35.00%**	**1,050,000**		**55.71**
Public (First Tranch)		10.00%	300,000	56.70	17.01
Public (Second Tranch)		15.00%	450,000	59.00	26.55
Workers		5.00%	150,000	45.00	6.75
ESA		5.00%	150,000	36.00	5.40
-Memphis Pharmaceutical & Chemicals	**Sep-96**	**26.49%**	**1,000,114**		**47.51**
Public (First Tranch)		10.00%	587,784	50.00	29.39
Financial Institutions		4.10%	102,530	50.00	5.13
Investment Funds		2.39%	59,800	50.00	2.99
ESA		10.00%	250,000	40.00	10.00
- Arab Drug	**Sep-96**	**39.95%**	**479,952**		**18.24**
Public (First Tranch)		27.30%	328,074	40.00	13.12
Financial Institutions		1.30%	15,633	40.00	0.63
Investment Funds		1.35%	16,245	40.00	0.65
ESA		10.00%	120,000	32.00	3.84
-Cairo Pharmaceutical & Chemicals	**Nov-96**	**39.98%**	**1,416,000**		**61.88**
Public (First Tranch)		25.00%	885,000	46.00	40.71
Financial Institutions		4.20%	149,325	46.00	6.87
Investment Funds		0.78%	27,675	46.00	1.27
ESA		10.00%	354,000	36.80	13.03
HC Subtotal			**4,752,066**		**236.35**

8.6 LAW 203 COMPANIES ACTUAL SHARES SOLD THROUGH THE STOCK MARKET SINCE THE BEGINNING OF THE PRIVATIZATION PROGRAM UNTILL DECEMBER 1997

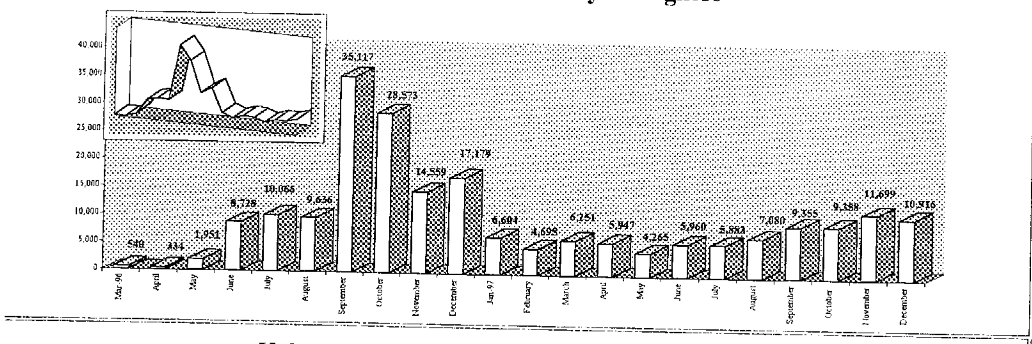
P.4

Holding Co. / Affiliated Company	Years of Privatization	% of Shares Sold	No. of Shares Sold	Share Sale Price	Sale Value (LE million)
Housing, Tourism & Cinema					
-United Housing	**Jun-96**	**8.80%**	**270,769**		**2.92**
Public (First Tranch)		1.30%	40,000	13.00	0.52
ESA		7.50%	230,769	10.40	2.40
-Al Ahram Beverages	**Jul-96**	**15.00%**	**676,480**		**45.32**
Public (First Tranch)		3.50%	156,480	67.00	10.48
Financial Institutions		11.50%	520,000	67.00	34.84
-Cairo Housing	**Mar-97**	**54.80%**	**2,806,375**		**69.37**
Public (Second Tranch)		37.00%	2,306,175	24.72	57.01
Investment Funds		3.10%	200,000	24.72	4.94
Financial Institutions		4.70%	300,200	24.72	7.42
ESA		10.00%			
-Development & Popular Houses	**Sep-96**	**97.83%**	**3,424,814**		**103.92**
Public (First Tranch)		12.90%	451,955	29.00	13.11
Public (Second Tranch)		25.25%	883,659	36.50	32.25
Investment Funds		46.46%	1,626,200	29.00	47.16
Financial Institutions		3.22%	113,000	29.00	3.28
ESA		10.00%	350,000	23.20	8.12
-Misr Free Shops	**Jan-97**	**76.76%**	**2,687,310**		**104.69**
Public (First Tranch)		44.66%	1,563,350	40.00	62.53
Investment Funds		6.64%	232,600	40.00	9.30
Financial Institutions		15.46%	541,360	40.00	21.65
ESA		10.00%	350,000	32.00	11.20
HC Subtotal			**9,865,748**		**326.23**
Metallurgical Industries					
- Ameriya Cement	**Jan-95**	**63.86%**	**12,772,200**		**665.58**
Public (First Tranch)		10.00%	2,000,000	27.00	54.00
Public (Forth Tranch)	Dec-96	18.86%	3,772,200	67.00	252.74
Investment Funds (Second Tranch)	Apr-95	2.50%	500,000	53.40	26.70
Public (First Tranch)	Jun-96	12.50%	2,500,000	46.00	115.00
ESA		10.00%	2,000,000	21.60	43.20
Investment Funds		10.00%	2,000,000	86.97	173.94
HC Subtotal			**12,772,200**		**665.58**
Cotton & Foreign Trade					
-Arabia Ginning	**Sep-96**	**62.60%**	**1,404,565**		**36.71**
Public (First Tranch)		42.20%	947,135	27.00	25.57
Financial Institutions		10.40%	233,250	27.00	6.30
ESA		10.00%	224,180	21.60	4.84
-Nile Ginning	**Jan-97**	**61.00%**	**3,028,000**	**44.00**	**133.23**
HC Subtotal			**4,432,565**		**169.94**
NTL. Construction Development					
-Heliopolise for Housing & Development	**Jul-95**	**25.00%**	**1,359,846**		**131.10**
Public (First Tranch)		10.00%	618,100	52.50	32.45
Public (Second Tranch) 's.p.'	Dec-96	5.00%	247,240	314.00	77.63
Workers		0.50%	24,750	52.00	1.29
ESA		9.50%	469,756	42.00	19.73
- Madinet Nasr for Housing & Development	**May-96**	**74.80%**	**2,997,530**		**189.64**
Public (First Tranch)		39.70%	1,590,730	65.00	103.40
Investment Funds		14.60%	585,100	65.00	38.03
Workers		10.50%	421,700	65.00	27.41
ESA		10.00%	400,000	52.00	20.80
- Upper Egypt Contracting	**Jul-97**	**83.71%**	**251,345**		**9.45**
Public (First Tranch)		67.30%	202,095	38.50	7.78
Investment Funds		0.76%	2,300	38.50	0.09
Financial Institutions		5.65%	16,950	38.50	0.65
ESA		10.00%	30,000	30.80	0.92
- El Giza Contracting & Investment	**Sep-97**	**80.00%**	**720,000**		**33.17**
Public (First Tranch)		43.54%	391,830	47.25	18.51
Investment Funds		22.75%	204,760	47.25	9.67
Financial Institutions		3.71%	33,410	47.25	1.58
ESA		10.00%	90,000	37.80	3.40
- El Giza Contracting & Investment	**Dec-97**	**79.75%**	**1,594,912**		**54.42**
Public (First Tranch)		49.07%	981,344	35.00	34.35
Investment Funds		4.12%	82,350	35.00	2.88
Financial Institutions		16.56%	331,218	35.00	11.59
ESA		10.00%	200,000	28.00	5.60
HC Subtotal			**6,923,633**		**417.78**
Grand Total			**135,059,654**		**6,429.00**

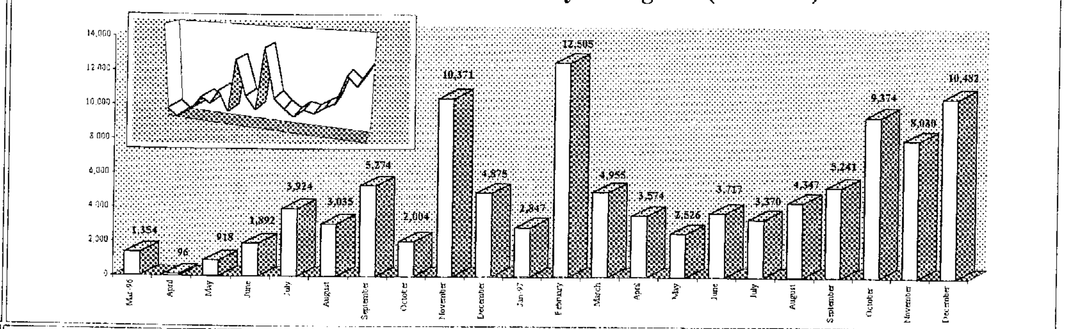
8.7 Breakdown of the Number and Value of Shares Traded from March 1996 to December 1997

Item Description	Number of Transactions				Number of Shares Traded (LE 000)				Value 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
lar-96	540	18,557	19,097	2.83%	1,354	4,800	6,154	22.01%	30,881	164,214	195,095	15.83%
ril	334	26,335	26,669	1.25%	96	7,361	7,457	1.29%	7,342	205,950	213,292	3.44%
ay	1,951	59,842	61,793	3.16%	918	9,772	10,690	8.59%	65,173	453,138	518,311	12.57%
ine	8,728	108,589	117,317	7.44%	1,892	20,149	22,041	8.58%	157,330	593,379	750,710	20.96%
ly	10,066	38,034	48,100	20.93%	3,924	7,969	11,892	32.99%	572,640	234,051	806,691	70.99%
igust	9,636	238,083	247,719	3.89%	3,035	13,315	16,350	18.56%	175,476	486,199	661,675	26.52%
ptember	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%
ctober	28,573	178,075	206,648	13.83%	2,004	8,463	10,467	19.15%	161,421	522,205	683,626	23.61%
ovember	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%
ecember	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%
in-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%
bruary	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%
arch	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%
pril	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%
lay	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%
ine	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%
ily	5,883	77,622	83,505	7.05%	3,370	14,868	18,238	18.48%	309,325	928,978	1,238,303	24.98%
ugust	7,080	49,058	56,138	12.61%	4,347	12,063	16,410	26.49%	435,502	842,678	1,278,180	34.07%
ptember	9,355	116,227	125,582	7.45%	5,241	18,301	23,542	22.26%	513,598	1,063,090	1,576,688	32.57%
ctober	9,358	122,985	132,343	7.07%	9,374	20,491	29,865	31.39%	870,469	1,269,670	2,140,139	40.67%
ovember	11,699	61,548	73,247	15.97%	8,030	22,979	31,009	25.90%	607,849	1,026,290	1,634,139	37.20%
ecember	10,916	46,220	57,136	19.11%	10,482	22,201	32,683	32.07%	725,458	1,367,935	2,093,393	34.65%
Total	**214,696**	**3,177,710**	**3,392,406**	**6.33%**	**104,710**	**341,544**	**446,254**	**23.46%**	**9,259,659**	**19,013,512**	**28,273,170**	**32.75%**

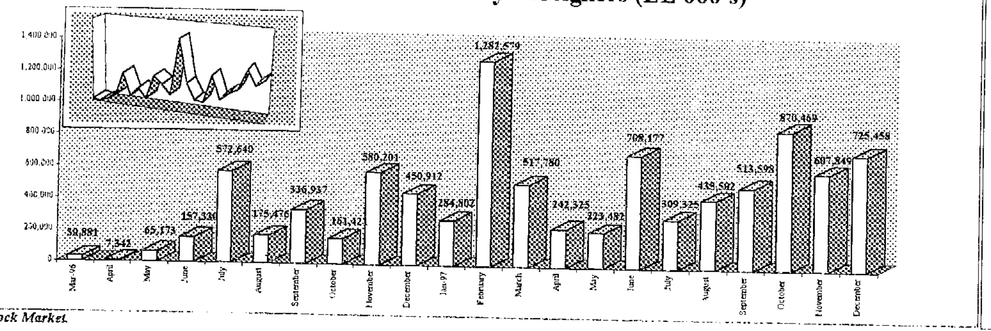
Number of Transactions by Foreigners



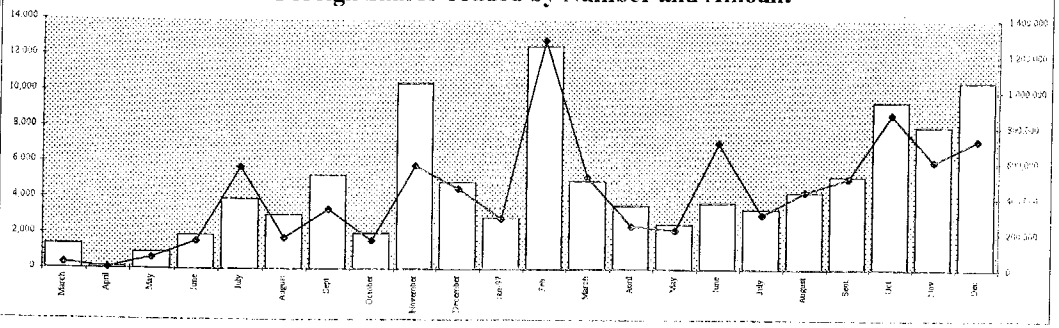
Number of Shares Traded by Foreigners (thousand)



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



Foreign Shares Traded by Number and Amount



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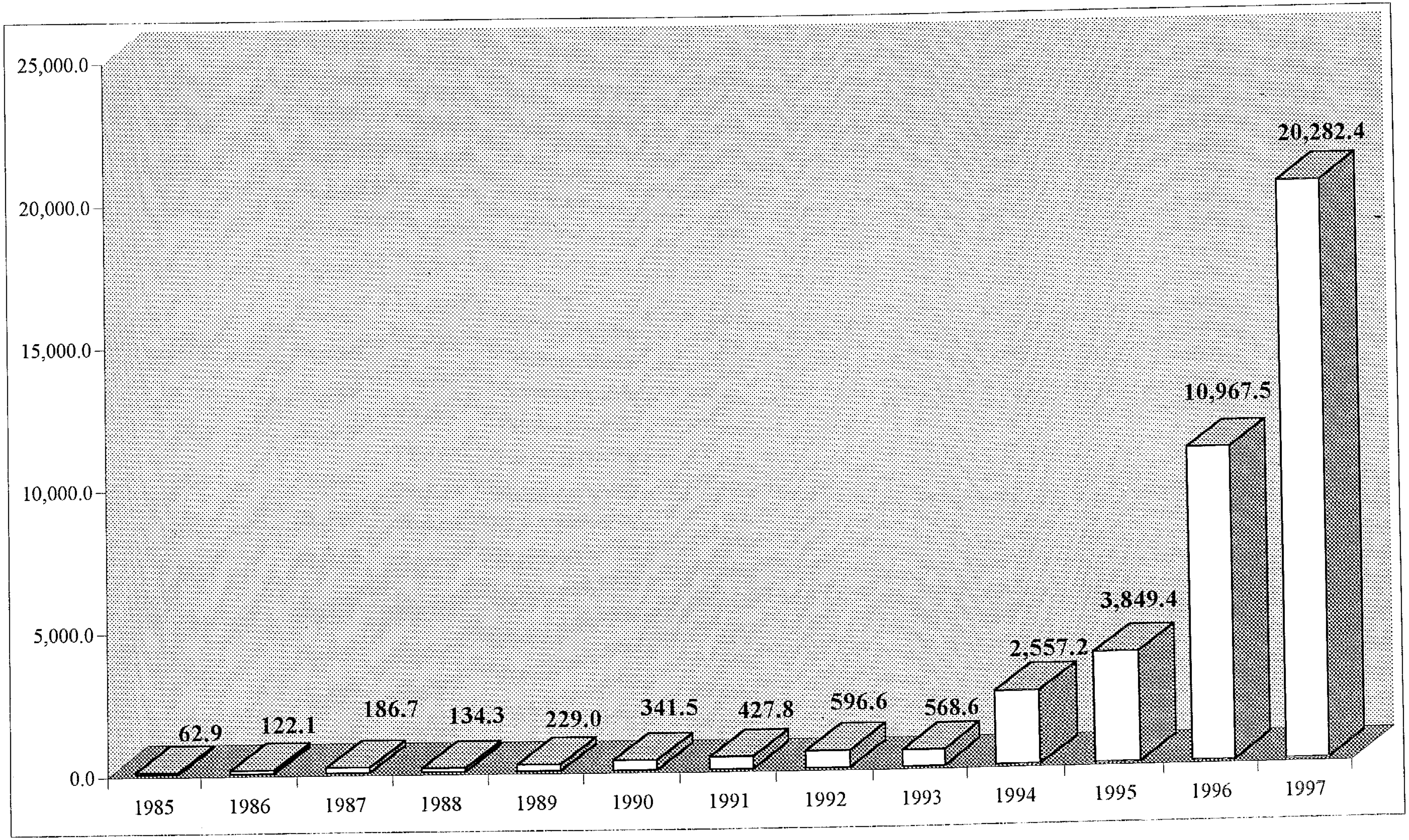
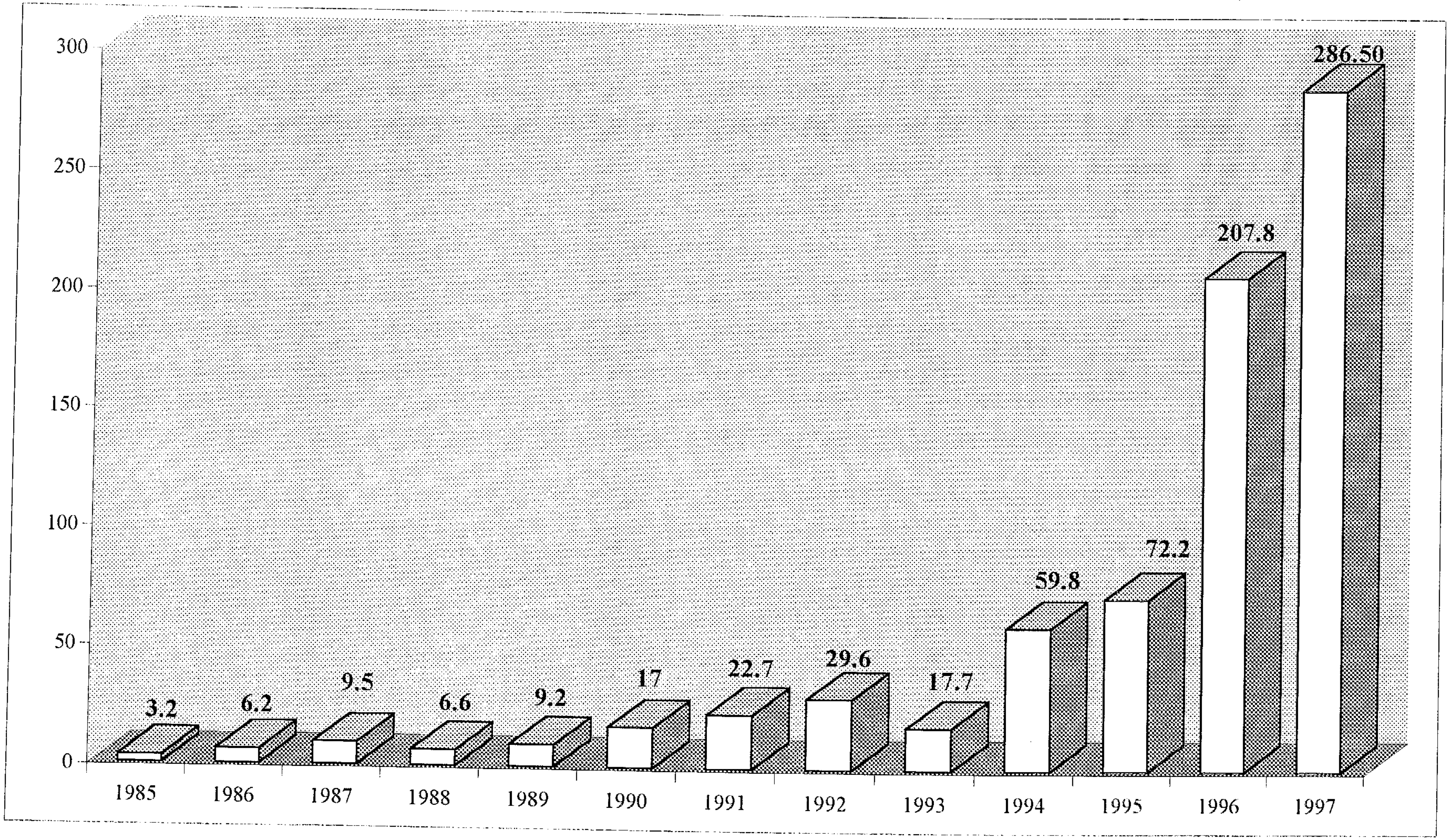
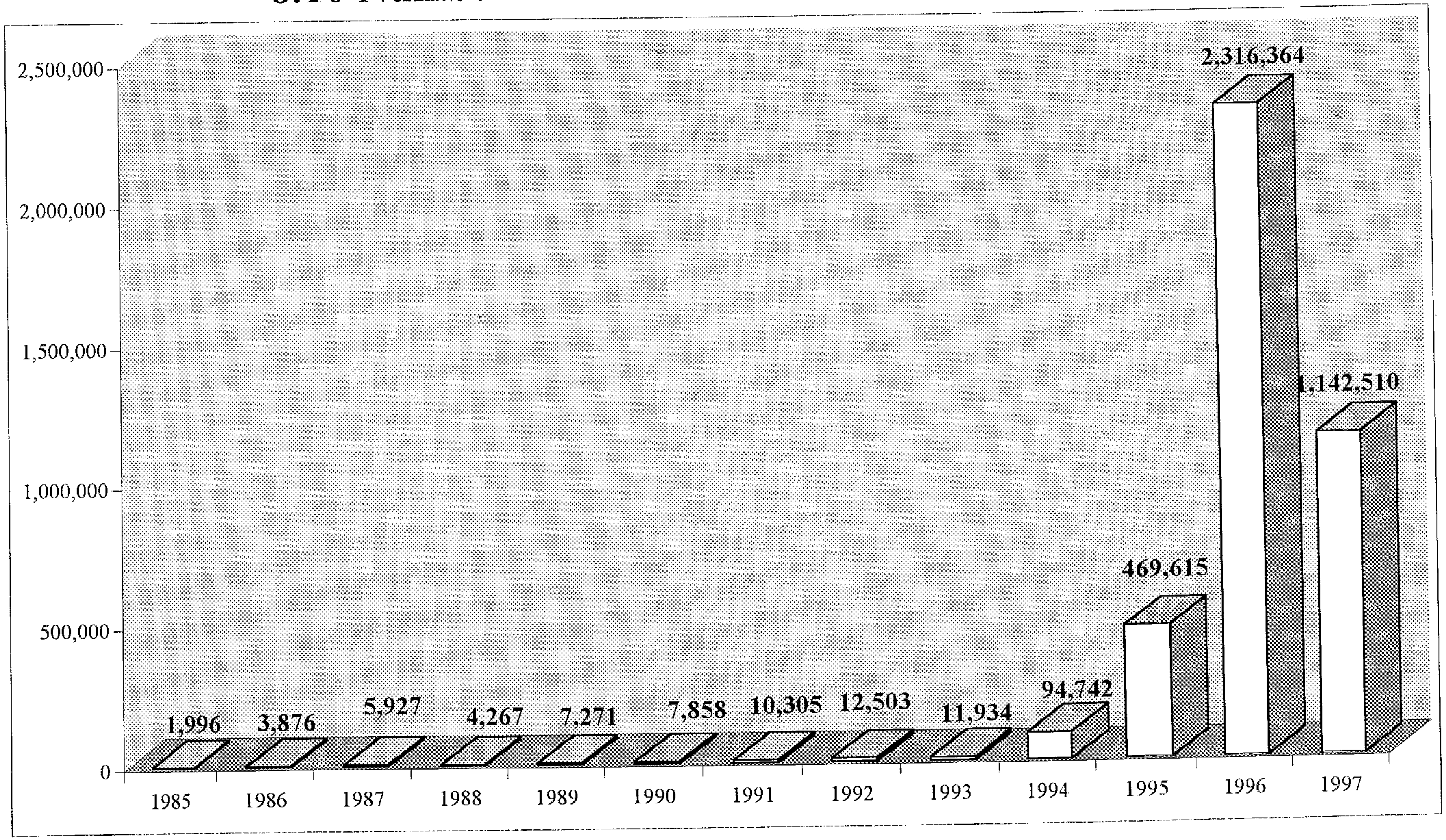
8.8 Value of Shares Traded From 1985 to 1997 (LE million)



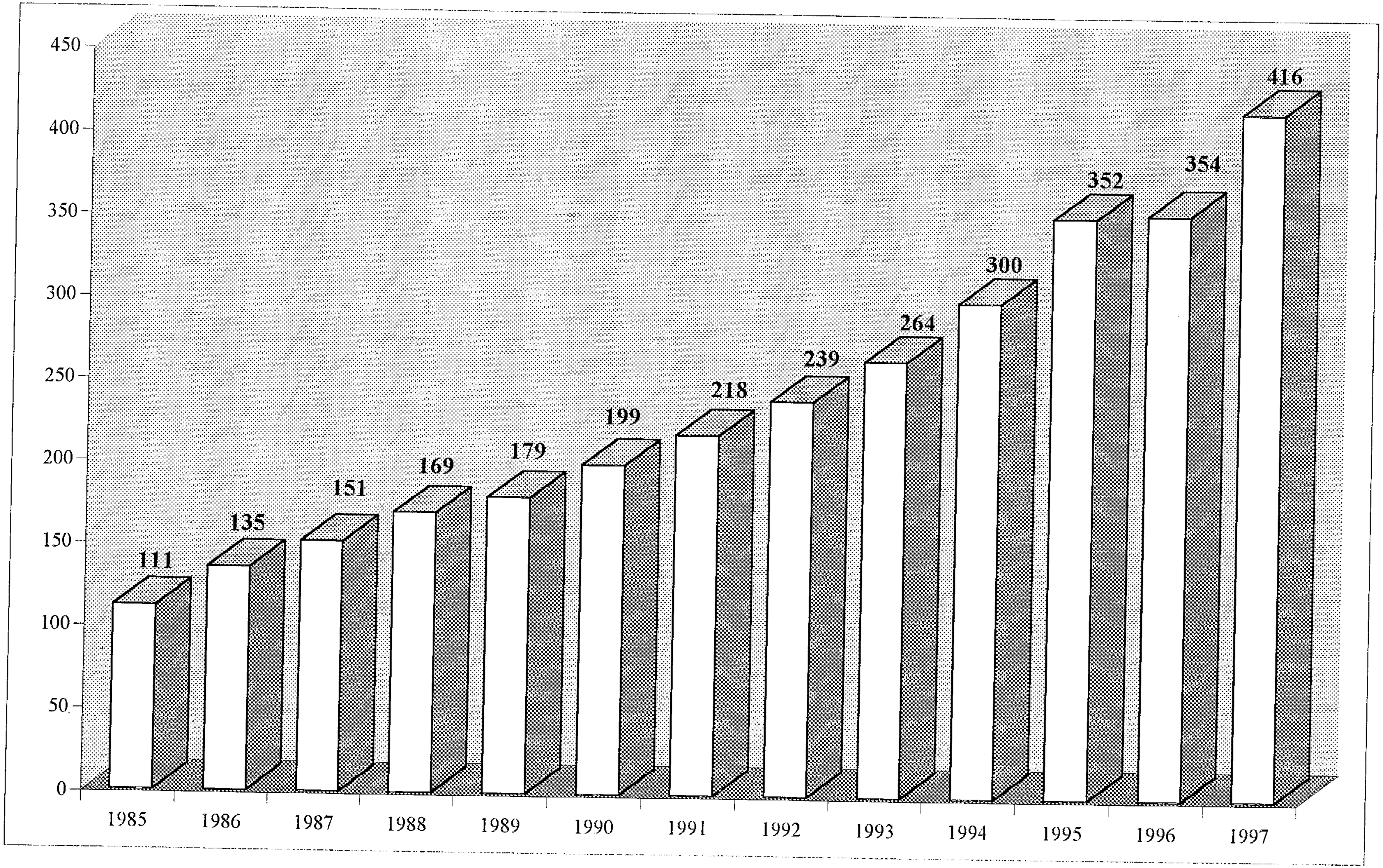
8.9 Volume of Shares Traded From 1985 to 1997 (LE million)



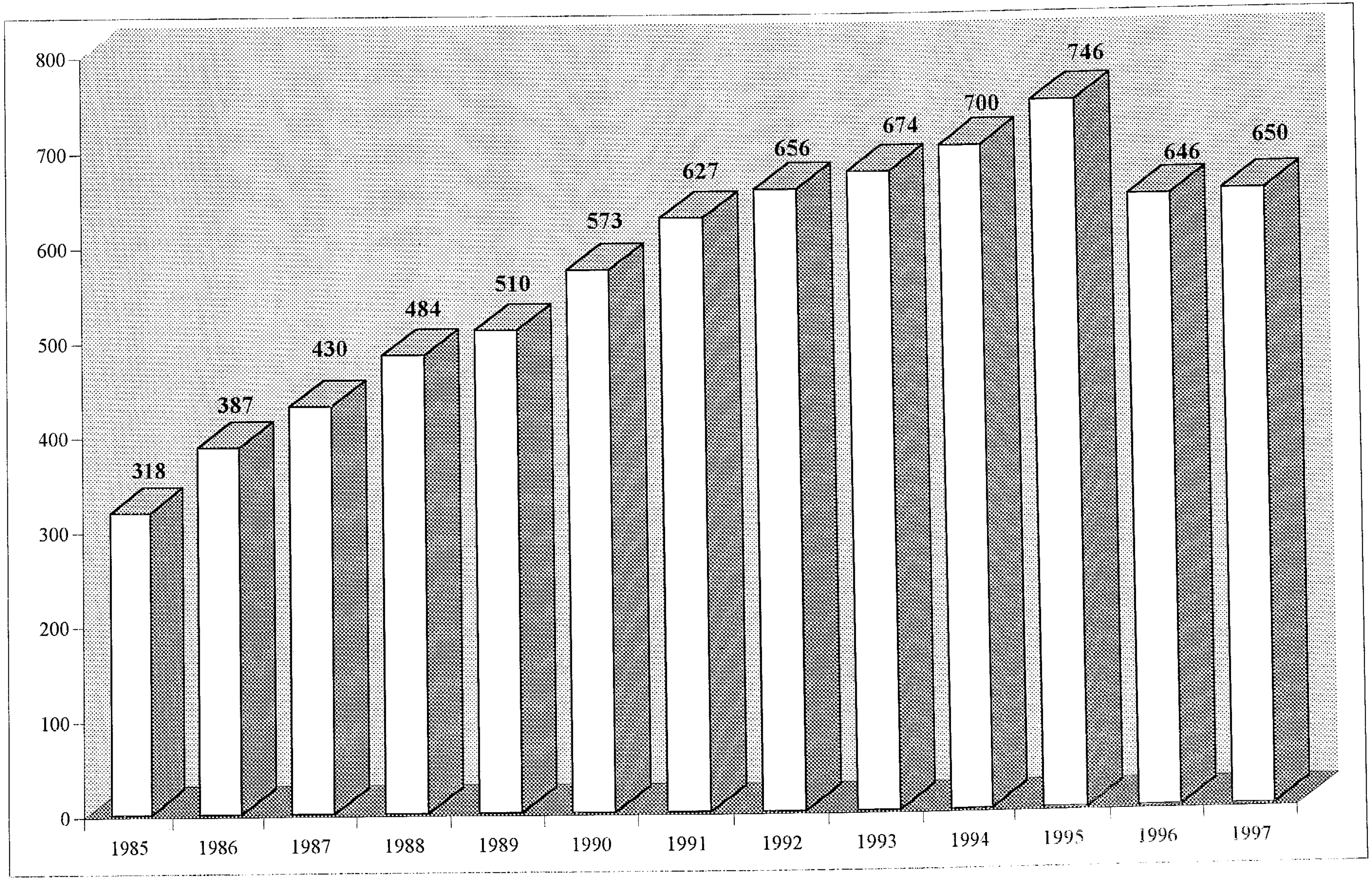
8.10 Number of Transactions From 1985 to 1997



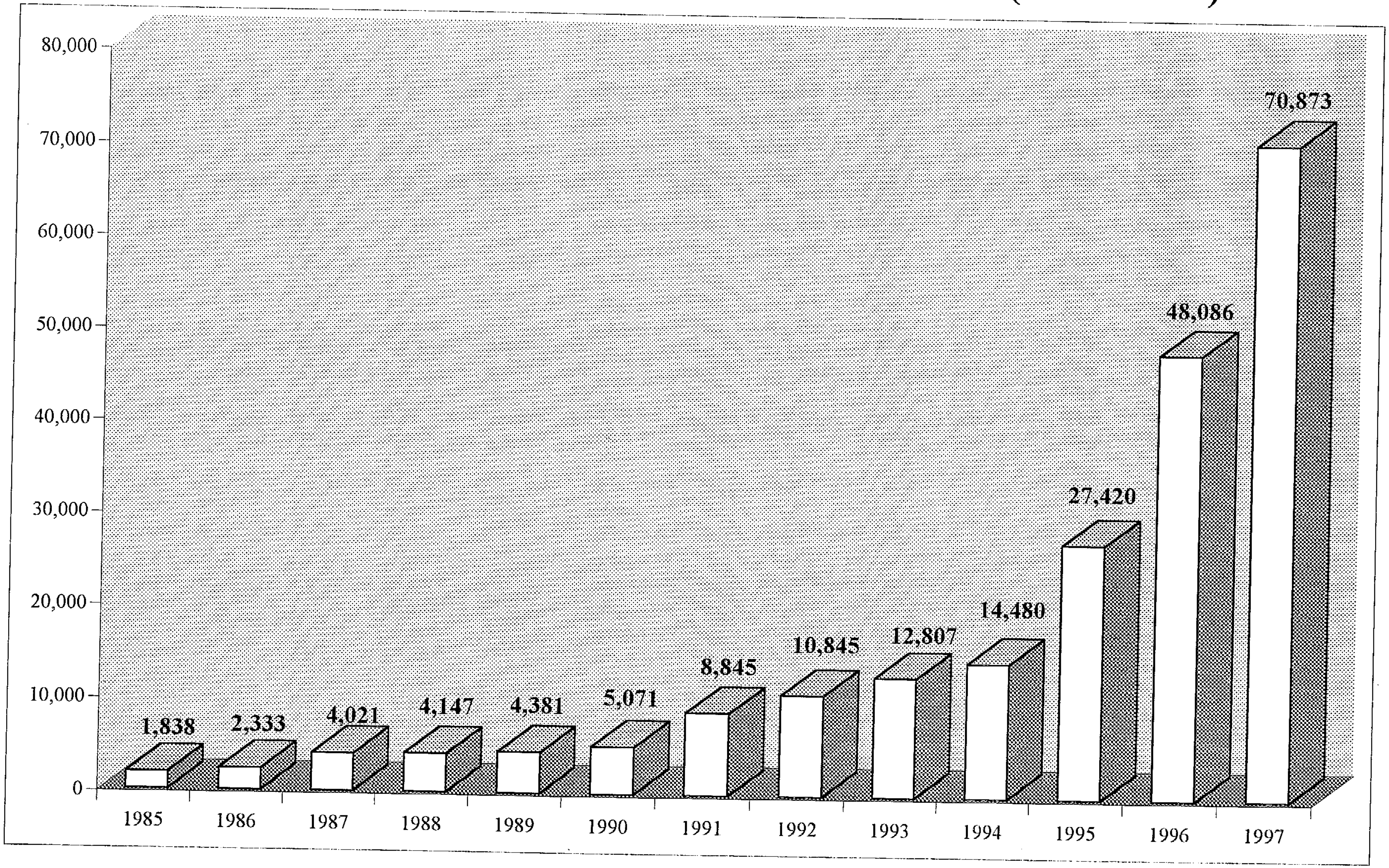
8.11 Number of Traded Companies from 1985 to 1997



8.12 Number of Listed Companies from 1985 to 1997



8.13 Market Capitalisation from 1985 to 1997 (LE million)



8.14 Announced Sales of Affiliated Company Assets during Fourth Quarter 1997

Affiliated Company	Holding Company	Date		Planned/ Managed	Actual Distribution
		Announ -cement	Selling		
	International Trade & Cotton	10/1	10/13	Sale of Assets	Closed Bids: Land + Weaving Factory at Shobra El Kheima 17,682 m^2 Land ginning factory at Sohag 87,648 m^2
Omar Effendi		10/10	10/30	"	Closed Bids: Branch in Roubi St. Branch in Haythami St.
Egyptian Co. for Maritime Navigation	Maritime Transportation	10/11	10/27	"	AUCTION: Sale of Ship Mariut Sale of Ship Mansoura
General Co. for Great Cairo Bakeries	Mills & Silos	10/11	11/8	"	Closed Bids: Tiba Macroni Factory at Giza
Sand Bricks Co.	Mining & Refractories	10/12	10/30	"	Auction: Land 25,805 m^2 at Nasr City
Benha for Electronic Industries		10/15	11/12	"	Lease: Warehouse at Damanhour
Misr Al Gadida for Housing & Urbanization	Construction & Urbanization	10/17	10/19	"	Utilize: Show land Casino at Heliopolis
The Dyestuffs and Chemical Co.	Chemical Industries	12/9	2/5/98	"	Lease or Management of Production Lines in whole or in part
Egyptian Co. for Meat & Dairy Products Production	Agricultural Development	10/17	10/26	"	Auction: 8 Integrated animal production projects
National Co. for Spinning & Weaving	Textile Manufacturing & Trade	9/26	10/11	" NBE	Private Auction: Demolish & sale of rubble of buildings in Alexandria
Nobasseed		12/12		"	Auction: Agric. Land on Genaclis Rd. 163 feddans & 20 feddans Desert land 2,400 feddans Pieces of land for Agric. projects Construction land + different seeds, etc.
	Food Industries	12/9	3/2/98	"	Closed Bids: Saleheya Agric. Project: Lands of 21,318.14 feddans. Machines and equipments, warehouses 24 buildings at Saleheya City 2 shops at Obour market
Alexandria Cooling	Agricultural Development	11/7	11/17	"	Auction: Ownership & Use: Beni Suef + Menya + Qena Refrigerators + Kom

Affiliated Company	**Holding Company**	**Date**		**Planned/ Managed**	**Actual Distribution**
		Announ -cement	**Selling**		
			11/24		Ombo ice factory Zagazig ice factory Damietta + Mansoura + Damanhour refrigerators
South Tahrir Agriculture Co.	Agricultural Development	12/7	12/16	Under Liquidation	Auction: Allocations of construction land in all villages 43 at Kom Hamada
Bisco Misr	Food Industries	11/11	12/4	"	Closed Bids: Ika & Ismaileya Factories
General Co. for Agricultural Products & Services	Agricultural Development	11/10	11/24	"	Auction: Gardens At Assiut Governorate Beheira, Gharbeya Governorates Gardens at Menoufeya, Sohag & Sharkeya
South Cairo Mills		11/6	11/20	"	Lease through Closed Bids: Haram barn 6,000 m^2 Handouk barn 899 m^2 Saft barn 6,791 m^2 19110 m^2
Sand Bricks Co.	Mining & Refractories		11/9	" NBE	Private Auction: Piece of land 16,5 feddans at Sharkeya 3 pieces of land at Quessna of areas: 3344 m^2, 8020 m^2 & 25603 m^2
Alexandria Cooling	Agricultural Development	10/31	11/18	"	Auction: Ownership of administrative building 3,483 m^2 at Boulaq Utilization: Show room down town 125 m^2 + 100 m^2 Flat (as office) 220 m^2 down town. Outlet 53 m^2 down town
West Delta Autos Co.		10/26	10/29		AUCTION: Sale of buses + spare parts + old cars, etc at Semouha – Alexandria

Source: Al Ahram, Al Alam Al Youm