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FINAL EVALUATION OF USAID PROJECT
TO TRANSFORM THE FEDERATION OF EGYPTIAN INDUSTRIES
INTO A "PRIVATE" INDUSTRIAL ASSOCIATION COMPATIBLE
WITH A MORE OPEN AND MARKET-ORIENTED ECONOMY 1994 TO 1999

Prepared for

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By

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**Final Evaluation Of USAID Project To Transform
The Federation Of Egyptian Industries (FEI)
Into A "Private" Industrial Association Compatible With A More Open And Market-
Oriented Economy 1994 To 1999**

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CIPE Business Association Diagnostic Guideline, by Larry S Milner, CAE, with Virgilio LeVaggi, David Cooley, Gregory L Davis, and Arthur A Roberts, September 1998 Actual diagnostics of FEI were conducted in 1998 and 1999 with a Subsequent Report on the Diagnostic Survey of the Federation of Egyptian Industries summarized by CIPE/Egypt staff
On file at CIPE Available upon request
- D FEI Advertisement "Join the Federation of Egyptian Industries, whatever your field "
- E Al Ahram Article Outlining Recent Changes in Egyptian Chambers of Commerce

CURRENCY EQUIVALENTS

Date	Official Rate	Unofficial Rate
December 1999	LE3 42 = US\$1	LE3 42 = \$1

ABBREVIATIONS AND ACRONYMS

AC	Law 203 Affiliated Company owned by the GOE (over 100 have been privatized)
AmCham	American Chamber of Commerce
APRP	USAID's Agricultural Policy Reform Project
CIPE	Center for International Private Enterprise (An Affiliate of the United States Chamber of Commerce)
EBWA	Egyptian Business Women Association
EU	European Union
ERSAP	GOE's Economic Reform and Structural Adjustment Program
FEI	Federation of Egyptian Industries
GDP	Gross Domestic Product
GNP	Gross National Product
GOE	Government of Egypt
IBTCI	International Business and Technical Consultants, Inc
IMF	International Monetary Fund
LE	Egyptian Pound
LOP	Life of Project
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
PMU	Project Management Unit
QUANGO	Quasi Non-Governmental Organization
SOE	State Owned Enterprise
SPR	USAID's Sector Policy Reform Program
TA	Technical Assistance
US	United States
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Main Findings The Center for International Private Enterprise's (CIPE's) Egyptian project, funded by the United States Agency for International Development (USAID), is facilitating the rapid institutional improvement of the very important but still transitional Federation of Egyptian Industries (FEI). The FEI was expected to become a representative and advocate on behalf of Egypt's private sector. This it has become. This project was funded because of Government of Egypt's (GOE's) desire to privatize FEI and to allow it to provide needed services to its then 13, now 14 and soon to be 15, industrial chambers and their member firms.

Despite early major problems in the Project's design and management that led to its institutional collapse in January 1997, a combined effort by CIPE, USAID and particularly FEI through its new leadership turned the Project around. The recovery has been particularly impressive since October 1997 when FEI's new board of directors, chairman and deputies took over. The Project was completely reorganized during a transition period in 1997 as described below. As a result, over the past 18 months FEI has developed remarkably as an institution that supports Egypt's private industrial firms, as reflected and described in detail in a diagnostic test developed over the years by the US Chamber of Commerce that was recently completed on FEI.

The FEI diagnostic is presented in Annex C with a discussion comparing the impressive progress of the past year to findings from the previous year. The overall score of FEI, as a private business association compared to an international standard for rating private sector business associations, rose sharply from 119 out of a total 550 (or 21.6 percent) in September 1998 to 274 out of a total of 550 (or 49.8 percent) in October 1999. Rises occurred for FEI in 9 of the 10 performance criteria.

1 Vision, Mission, Objectives	Rise from 13 to 28 out of a total 50 possible points
2 Public Policy Advocacy	Rise from 6 to 37 out of a total 50 possible points
3 Industry Standard Setting	Rise from 0 to 20 out of a total 50 possible points
4 Employees	Rise from 33 to 44 out of a total 50 possible points
5 Activities	Rise from 4 to 23 out of a total 50 possible points
6 Infrastructure	Rise from 9 to 26 out of a total 50 possible points
7 Governance	Rise from 21 to 22 out of a total 50 possible points
8 Finances	Rise from 23 to 43 out of a total 50 possible points
9 Membership Recruitment	Steady at 5 out of a total 50 possible points
10 Public Relations	Rise from 5 to 26 out of a total 50 possible points

Moreover, since the diagnostic was completed, there has been a major attempt by the FEI Board of Directors to raise memberships in the only performance area in the diagnostic that remained steady, membership recruitment. The FEI Board recently acted to expand membership by permitting the inclusion of affiliated companies such as banks, insurance companies, and other firms that provide goods and services to member firms. They also are now admitting private sector business associations as members. See Annex D for the recent announcement that promotes new types of members.

As a result FEI generally achieved, or is achieving, most important stated goals and objectives and as described below, it appears to be providing major economic, social and political payoffs to Egyptians and Americans alike. There have been major problems in terms of reaching all its goals.

The first major failure of FEI in terms of meeting the original project goals was because of inappropriate design and management. The Project fell apart completely in January 1997 and many of the benefits, or much of the value of project payoffs that have accrued from the redesigned Project, were lost because of its effective late start.

The second major failure is not passing the privatization or "independence" law that is now being discussed in the legislature¹. Thus, in contrast to the original agreement, FEI has not yet been "privatized" in a way that would remove its current requirement of mandatory membership. A business association cannot be a forceful advocate of its members if the government enforces mandatory membership as is the case with FEI. Independence is needed. However, FEI is not necessarily dominated now by the GOE. Two-thirds of its 14 chambers' boards of directors are elected, and those resulting boards of directors for the 14 individual chambers choose 14 of the 21 members of the central FEI board of directors. Most importantly, in terms of GOE control, the Chairman and both Vice Chairmen of FEI are among those appointed by the GOE. However, the elected members recommend many GOE appointees. So in many ways, FEI acts as if it had been privatized but along the lines of the German approach that requires mandatory membership for its major industrial business association. However, in Egypt, mandatory membership remains a problem not only because it can effectively undermine its role as an advocate for reform but also because it provides one more bureaucratic obstacle that discourages the many informal firms that dominate some Egyptian sectors from legally registering². However, for reasons discussed below, it appears that premature privatization of FEI might have actually undermined many Project benefits by weakening FEI's ability to successfully achieve other Project goals via a younger, more dynamic leadership. Thus, early privatization might not have been in the best interest of Egyptian and US efforts to promote the private sector and raise Egypt's economic growth rate.

Despite not yet being privatized in terms of free elections of all board members, voluntary membership and self-sustainability, FEI is making progress towards raising its revenue base, which is a key criterion for being self-sustaining as a private sector business association with non-mandatory participation. It has developed a financial sustainability plan with a revised transparent membership policy and dues schedule. Other sources of revenue include advertisements in an FEI yearbook and publications, conference fees, exhibitor fees, corporate affiliate memberships areas such as law, accounting, shipping consulting, banking and insurance, multinational corporate memberships, and sale of directory, marketing guides and business reports. Thus, in many ways FEI acts as if it was a private-sector association, and it appears to be currently moving towards becoming self-sustaining. Examples are the recent FEI Board decision to more than double or triple its membership fees in most categories and to allow new classes of affiliate entities to become members. Moreover, its upgraded programs and information services associated with participating in CIPE training in such areas as managing associations, managing firms, and accrediting skilled workers are expected to allow it to raise future participation fees. The evaluator's discussions with all but the smallest members suggested almost universal consensus that the rise in membership fees is worth the improved services being provided, particularly because of FEI's advocacy role in policy reform. This improvement in quantity and quality of services is reflected strongly by a quantum leap rise in its recent U.S. Chamber diagnostic rating which in the past three years rose slowly initially and then soared to almost 50 percent in 1999. See Annex C for more details on what is summarized in the third paragraph above.

¹ The Project's early anticipation of FEI privatization was an error in judgement that realistically underestimated the time it takes to get legislation passed in Egypt, even in cases that are not controversial. And FEI privatization has been controversial. The FEI needed the money for their ambitious program to revitalize FEI in its new building on the Nile. It was already engaged in advocacy of policy reforms and wished to develop other business services. The FEI leadership appears to have agreed to the terms without worrying about the difficulties in passing a controversial privatization law for associations. Realistically, the first wave of real privatizations of parastatal Law 203 for industrial firms didn't occur until 5 years after ERSAP was put into effect.

² These informal firms, in terms of actual production, dominate many sectors. Because the firms are technically illegal, it is difficult to gather information on this informal sector that would allow more rational decision making by both the public and private sectors. The FEI's current mandatory membership policy adds another cost to becoming legal and discourages the informal sectors entry as a legal firm that can participate and take advantage of Egypt's modern business activities and services. At the same time, FEI policy advocacy to reduce barriers to entry such as unnecessarily high and confusing tax policies is working to encourage these firms to register and become legal.

This diagnostic indicates that substantial progress was made in many areas, especially over the past year

In 1996, the CIPE Project supported the development of a comprehensive policy agenda that used suggestions by Egyptian businessmen and many available, diverse and often USAID-funded policy studies, and placed the findings into a single "action agenda" document Many Egyptian businessmen and commercial legal experts sharpened the document, and subsequently it was widely, though informally, disseminated throughout Egypt to such groups as the Presidents Council The agenda for action was approved by the FEI board of directors and published, but not formally distributed either because it was viewed as being too critical of the GOE or because the newly elected board of directors viewed it as only the previous Chairman's personal view However, it was a base for reform efforts viewed as politically feasible, such as the de-monopolization and privatization of the maritime port services Because it was comprehensive, it had policy positions for most key issues that the private sector leaders might be asked by the GOE to comment on Its comprehensiveness also indicated the wide range of reforms that still needed to be addressed in Egypt The FEI positions on policy reforms subsequently allowed FEI to continue playing the key role as a leader and representative, single voice of other industrial associations, particularly with regard to broad policy reforms that impact all firms The organization, through its members, plays an increasingly important advisory role to the GOE on policy reform issues that have led and continue to lead to high broader-based sustainable economic growth rates For example, members have met as a group with many ministers in the newly appointed Cabinet to express their views on priority reforms in a systematic way previously unheard of in Egypt Thus, the critical support from the CIPE-Egypt Project was almost certainly one key complementary factor in the overall success of Egypt's economic transition and subsequent high economic growth

Leadership of the FEI is now dominated by a private sector mentality In particular, GOE appointees into the board of directors of FEI and its affiliated industry chambers were often younger businessmen with skills and vision that complemented the elected "old guard" leaders Its leadership's special mix has led to a constructive relationship with the GOE that now allows both the public and private sectors to work as partners along with donors to transform and modernize Egypt's industrial sector and supportive institutions The almost 80 year old FEI is a former private sector business association that was nationalized in the 1950s like practically every other firm or organization during the Nasser era Only now, more than forty years after being nationalized, is there an attempt to transform FEI back into a private sector business association without mandatory membership The FEI supports its members through its 1) advocacy for policy reforms, 2) provision of an increasing range of training programs, 3) development of an accreditation system for key skills, 4) provision of information services, 5) support of Egypt's many budding new sector or geographical private sector business associations, and other business services The special position of FEI stems from the fact that it is the only representative group in Egypt that speaks for the whole industrial sector, including factories and firms owned or operated by U S citizens in Egypt

Over the past year and a half, after recovering from what appeared to be a fatal misstep in its institutional transformation and the firing of all its new Project-funded staff, FEI with CIPE and USAID management fundamentally changed its institutional governance and project design in a manner that led to its remarkable recovery The FEI subsequently positioned itself as a potential forward thinking private sector business association that increasingly provides substantial mutual economic, political and social benefits for the US, Egypt and the Middle East³ The FEI's role in policy reform led to this USAID-funded Project with economic rates of return that appear to be high Economically this becomes evident when one recognizes that the Project without CIPE would

³ Not only does improvements in FEI in Egypt indirectly influence other countries in the region, some of the FEI programs directly impact technology and quality control in the region as seen by the FEI program distributing a document on what changes are taking place in ISO 2000 over the current quality control standards, and a description on how to deal with them as described in Section III

have relied on status quo policies advocated by the "old guard" FEI leadership with its socialist mindset that only recently has been changing

Development of such a large and increasingly private sector type representative quasi-government group, or Quasi Non-Governmental Organization (QUANGO), in a former socialist country with minimal experience in private sector business associations is remarkable. The FEI's credibility is quickly rising by being associated with the training services of CIPE and by the increasing professionalism of their policy advocacy and their services such as the system of accreditation of skilled professions. In particular, FEI leadership over the Project's past five years has played a key role, sometimes in partnership with the US, in improving the business environment. The FEI, as a group and through its individual members, was a key political factor in transforming the Egyptian economy from one in which the public sector allocated Egypt's scarce resources to one that relies more heavily than in the past on the private sector and market allocations.

The FEI leadership prepared the new law for its privatization without mandatory membership and submitted it to the Minister of Industry. But FEI leadership agrees that only now is the time approaching to promote FEI's privatization without mandatory membership. Why? Over the past year and a half, FEI leadership has been active in privatizing GOE controlled organizations other than FEI, namely the Egyptian Chambers of Commerce. The privatization of the Egyptian Chambers of Commerce was not a stated goal or ever an explicit agenda item of this Project. However, leaders of FEI who are also leaders on the Egyptian Chambers of Commerce became exposed to ideas, such as time limits for those serving on the board of directors and allowing non-Egyptians to become members, during the July 1998 CIPE watershed Cyprus conference dealing with managing business associations.⁴ Because of the enthusiasm for these ideas, the FEI leadership inadvertently became embroiled with the current transitional move toward privatization of Egyptian Chambers of Commerce that comprises 3 million members – a much larger organization than FEI. After almost a year and a half of highly publicized and politically sensitive maneuverings, the Chambers of Commerce reformists led by key FEI leaders apparently made a major breakthrough “transition” compromise with the Chambers' "old guard." The compromise would make the Chambers more privatized. For example, the compromise package would raise the percentage of board members that would be elected from only 50 percent to a clear majority of 75 percent, representing a major move toward strengthening the democratic underpinnings of Egypt's largest business association. It would also allow non-Egyptians to become members.⁵ See Annex E for more details.

The leadership of FEI was then hesitant to press for passing the FEI privatization legislation. Because of the CIPE project, FEI is more institutionally advanced than the Chambers. Passing the FEI privatization law at the same time as the Chambers' might lead to parity between the laws of the two organizations and thus greatly weaken the final FEI privatization law.⁶ Thus, pushing for the

⁴ Discussions with many participants including old guard elected chamber members, FEI leaders, executives of private sector associations and others suggested that this first session on managing private sector associations was an eye-opener. It showed association staff and members of boards of directors how an association could be effectively managed in a way that would benefit its members. Many attendees, particularly among the “old guard,” said they had been skeptical about spending a week in intense isolated training. All participants indicated they left with enthusiasm and this enthusiasm appears to have had positive institutional development impacts, such as those in the Egyptian Chambers of Commerce. Participants of the subsequent Hurgada week-long training program, which continued the program at Cyprus and provided a second advanced course building on the training provided at Cyprus, also indicated great enthusiasm for the overall program including public policy advocacy and practical management techniques such as revenue raising activities which they learned.

⁵ In addition to the political change associated with the changes in the Chambers of Commerce, there is also social change. As an indicator of social change, the compromise package expected to be passed soon by the legislature, would also allow women to hold for the first time executive positions.

⁶ The new governance laws of the Chambers would become only slightly stronger than FEI's current by-laws, but still substantially more progressive and representative as only 25 percent of the boards of directors would be GOE appointed, down from 50 percent. The current law for FEI has one third of the 21 board members.

politically controversial privatization legislation over the past year, according to FEI leadership, would probably have yielded a privatization law that would have been much weaker than that envisioned in the future by the FEI leadership. Moreover, given the transitional situation of FEI, the privatization of FEI now might lead to elections that would be dominated by the FEI old guard and would exclude key younger leaders that are adding so much of the current vision and dynamic impetus to FEI.

In addition, given the declining but still substantial parastatal members, many of the public sector firms, that after privatization have a smaller minority share of membership in the industrial chambers, would not be represented with 100 percent elected positions. This would discourage their important political support for the changes currently taking place in the "privatization." Their workers have traditionally been among the strongest political backers of President Mubarak and the current regime. Keeping them involved in FEI's transformation is helping to ease their own transformation as privatization of their firms progresses, particularly given the recent elevation of Minister Ebeid who previously as Minister of Public Enterprises was directly responsible for the successful privatization taking place throughout Egypt.

Given the positive support for the private sector by the GOE, the appointed members with some representation of public firms are overwhelmingly younger, successful, private sector types who would not be elected to leadership positions if the FEI privatization law were passed tomorrow. The elected "old guard" have confirmed this but also have indicated that these younger appointments, who are often chosen at the suggestion of the elected "old guard", are viewed as providing the dynamic spark that is transforming FEI into a formidable and powerful agent for change. Thus during this transition, maintaining the GOE appointments actually strengthens the private-sector orientation of FEI and allows it to more efficiently advocate private-sector reforms and provide badly needed training services to private-sector business associations and member firms.

This Project aimed at transforming FEI into a private representative business association began weakly for a variety of reasons:

- FEI membership was dominated by GOE owned parastatals,
- privatization had not yet taken off and overall mentality of FEI members was public sector oriented,
- an overall dearth of private sector business association experience in Egypt and thus appropriate skilled and experienced business association personnel,
- lack of any understanding by most members of the power of association advocacy,
- lack of CIPE experience in transforming public associations into private ones in former socialist countries,
- lack initially of a CIPE expatriate manager with substantive knowledge of business associations and inadequate CIPE understanding of Egypt.

However, the whole area of transforming a socialist business organization into a private one is cutting edge in the sense that there has been limited experience anywhere in this activity that has been extremely innovative on the part of USAID in Egypt, CIPE and the GOE.

This, however, led to a weak and inappropriate project design including fatal mistakes such as placement of the new staff with a high wage structure working in close proximity to the initial staff with very low GOE wages which created enormous personnel problems. A second fatal mistake in developing FEI as a business association was the organization structure. The design of the cooperative agreement with USAID relied too much on CIPE and not enough on the FEI institutional

appointed by the GOE, and under the law being discussed before the legislature, only 1 of the 21 board members would be appointed by the GOE. The law before the legislature is viewed by FEI leadership as transitional towards eventually all 21 being elected.

leadership The original cooperative agreement assumed that CIPE would be managing the funds because FEI was and remains a government organization

That flaw was corrected The CIPE decided to revert to its usual practice of providing subgrants to business associations It also examined similar USAID funding procedures in the Ministry of Economy and in the Private Enterprise Office of the Ministry of Public Enterprises that handles privatization As a result, the Project's structure changed so that the PMU was created During the later part of the Project, CIPE only indirectly manages Project funds Project proposals are developed and submitted by FEI Then, CIPE approves each with an associated budget Then CIPE transfers the funds to FEI The FEI is then in charge of carrying out all the processes such as the procurement and the implementation of programs Thus, instead of managing the project directly as before the institutional collapse, CIPE now plays an oversight function of insuring that FEI, which is now managing the Project's activities, is properly managing funds in ways consistent with USAID policies and procedures This revised improved arrangement that transpired midway through the Project also assists USAID because FEI is currently managing a LE18 million local currency fund provided by USAID for the FEI building which is not covered by the CIPE Project and thus this evaluation

The design and management was further exacerbated by too much reliance on CIPE project management in Washington that did not clearly understand the situation in Egypt As a result of these and other factors, the CIPE Project as an FEI institution builder collapsed completely in early 1997 with the firing of almost all the USAID-funded FEI Egyptian professional staff that aimed to

- Secure new legislation that would establish FEI as an independent business association in lieu of its status as a QUANGO
- Equip FEI's Board and staff to become advocates for market-oriented reform to the legislative and executive branches on behalf of the Egyptian private sector
- Establish a full complement of business services for Egyptian firms to enable them to function in Egypt's globalizing economy
- Assist the FEI to become financially self-sufficient based on a voluntary membership in lieu of its existing mandatory membership status

Up to this midway point, the Project had produced several preliminary documents including a draft policy action plan that had been informally distributed to public and private decision-makers in Egypt Moreover, a draft export strategy was prepared for discussions at the first meeting of the High Council on Exports, which was chaired by President Mubarak The action plan also provided FEI positions that supported private sector development, when asked by the GOE or the press to comment on certain positions It also aimed to allow FEI leaders to avoid political problems such as not adequately dealing with policy issues as occurred when the former Chairman of the Board was asked to comment on the politically sensitive issue of Intellectual Property Rights Thus this initial policy reform document provided substantial policy guidance beginning in the summer of 1996 when Egypt just began to make great strides in transforming its economy through the first initial explosion of privatization of important, state-owned enterprises and the reactivation of the Egyptian stock market The Chairman of the Board was operating essentially as a key advisor to the GOE on how to encourage private sector investments, and the policy document was informally circulated to key public and private sector decision makers including those on the Presidents Council The policy guidance allowed private sector leaders to focus their efforts on key reforms that they felt they had the political capital to achieve For example, one was the de-monopolization and privatization of the maritime port services and to a lesser extent, the airports

The catharsis of the firings of FEI staff led to a replacement of the CIPE country director and a change in CIPE project management in Washington It also led to a new Memorandum of Understanding (MOU) with FEI Also the GOE, which was interested in promoting a private sector industrial sector, appointed new FEI leaders different from "old guard" leadership from the socialist era However, the general situation remained static after the firings in early 1997, at which time CIPE's new project

management and USAID made an important decision to open up the Project's funds to private sector business associations operating under Law 32/1964 and to some of the 14 specific FEI chambers. The new FEI leadership, then appeared to realize that the grant funds were going elsewhere and not exclusively to FEI, appeared to move into action. The FEI, along with CIPE and USAID oversight, regrouped and began to redesign the Project, rehire and move ahead. The new FEI leadership hired new highly qualified staff, improved the institutional arrangement by creating a Project Management Unit (PMU) in the new FEI building, developed new operating and financial procedures, and placed control, direction and initiative more with the FEI leadership and less with CIPE. Moreover, CIPE moved their office away from the PMU now in the FEI building, and subsequently acted as a facilitator for FEI initiatives. This new institutional arrangement placed more management on FEI leadership and less on CIPE or USAID. However, it gave FEI more ownership of the Project and training for future sustainability.

CIPE and USAID, in an effort to further prod FEI into action, set up a watershed training program on business association management which was attended by 126 persons in Cyprus, including such Egyptian leaders as FEI executive committee member and former Vice Chairman Mamdouh Thabet Mekki, who was also a member of the legislature and the Egyptian Chamber of Commerce. Mr. Mekki, whose tanning chamber is made up of smaller industries, is one of the important voices of smaller business persons in Egypt. The enthusiasm of people like Mekki concerning aspects of the conference, such as limiting membership on boards of directors to less than a lifetime, was introduced to the Egyptian Chambers of Commerce the following week and has subsequently sparked the privatization of the Egyptian Chambers of Commerce which after about 17 months appears to have led among other positive changes to a compromise position in changing its governance from 50 to only 25 percent of the board members being chosen by the GOE.⁷

The FEI provides an effective lobby for business and economic reforms that enhance the performance and profitability of US companies that are rising in number in Egypt. All US industrial companies in Egypt, since they are legally registered firms, are members of FEI. Many new US industrial companies are expected to be opening up operations in Egypt over the next few years and would be members of FEI. Also FEI is opening up membership to affiliate companies, including banks and insurance companies, in an effort to raise its revenues and thus FEI sustainability, as described more fully below. Many of these new affiliates would be fully or partly US-owned such as the US insurance giant ALICO, which has already applied for membership.

The FEI, which has a close relationship and considers itself a partner to the US, after a difficult start has made and continues to make great institutional improvements over the past 18 months that in turn are yielding powerful economic, social and political benefits. The US support through CIPE has facilitated a process by which FEI leadership is transforming the organization institutionally into is one of the most powerful agents for economic and business reform in Egypt. While still transitional and financially vulnerable as an institution, FEI is developing into an organization providing countrywide and sector-wide information, business services and policy reform advocacy that supports efficient private sector alternatives to the former state-dominated economy. For example, Egypt had essentially no experience with private business associations. Most of the new private business associations are at the most a few years old. As a result, as Egypt transforms itself into a market economy it lacks the important role of an efficient network of private business associations. At this time, the expertise provided by the USAID-funded CIPE Egypt Project to FEI

⁷ The FEI leaders, such as Mamdouh Mekki and FEI Board Chairman Abdul Moneim Seoudi who are also leaders within the Egyptian Chambers of Commerce, are working to change the Chambers law during a "transition" period to look more like the current FEI law. This is clearly a compromise between the "old guard" in the Chambers and the revisionists including FEI leadership. For example, the number of government appointed board members would decline from 50 to 25 percent. This is actually less government control than the government has now over FEI in which a third of the board members from each of the 14 FEI chambers are appointed by the government, and 8 of the 24 members of the main FEI board of directors are appointed by the GOE. They are not proposing voluntary membership. They are not proposing privatization and replacing of existing GOE staff.

and other business associations is the major vehicle for developing this important network of institutions that support Egypt's private sector, including those firms owned fully or in part by US citizens. Thus CIPE support, particularly for FEI, is a catalyst for private sector change that greatly complements and enhances the potential success of other US supported projects such as those supporting privatization, the capital market and the proposed USAID/Egypt project that would provide support for private sector business associations.

The FEI is the single major representative of industry in Egypt and has a history of collaborating with the US in policy reforms that are improving business conditions, including those of US firms. The FEI with approximately 15 thousand members is the major representative of all Egyptian industry and its 14, soon to be 15, chambers provide in varying degrees a similar role at the sector level. The strong and increasingly important advisory role of FEI with the GOE is expected to increase in light of the strong economic orientation of the new Prime Minister and his Cabinet. Moreover, the FEI now has a strong relationship with the US that has been built up over the past 5 years of the CIPE Project. The FEI is now one of the most effective lobbies for positive private-sector reforms and thus is a strong supporter of the US strategic plan for Egypt. For example, FEI's previous leadership worked closely with the US through its \$200 million a year Sector Policy Reform (SPR) program to de-monopolize and privatize maritime port services and the airports. The privatization of services at new port facilities, according to the FEI Board Chairman, has already led to cost reductions of \$300 per container. These cost savings are expected to increase the global and regional competitiveness of Egyptian-based firms, including those owned by Americans. Those savings per container are expected to rise with the further de-monopolization and privatization of the port facilities being supported by FEI. The FEI now feels it is a partner with the US in accomplishing these types of key reforms that are rapidly changing the face of Egypt.

The FEI is now rapidly undergoing positive institutional change and has in place a generally excellent, professional and dedicated staff that provides extremely valuable services including those of interest to US taxpayers such as improving the business climate and improving the environment. These important services include 1) lobbying for policy reforms, 2) supporting efforts in marketing and exporting, and 3) strengthening management and technical skills. It also benefits from its close relationship with CIPE, which is among other things training staffs of private sector business associations. The FEI also has a new ongoing program developing skills accreditation in conjunction with partnerships with developed country counterparts, and an economic and commercial computerized information gathering system to replace the outmoded GOE one. The FEI also has an effective program, supported by the addition of an environmental specialist to its professional staff. This program supported directly by the Project provides information and training to FEI's many polluting members on how to comply with Environmental Law 4/1998 that went into effect during February 1998.

The FEI also provides substantial services to smaller and medium size businesses, including those owned and operated by women. For example, the leadership of the approximately 2-year old Egyptian Business Women Association (EBWA) that represents approximately 150 businesswomen indicated that FEI is their most important resource at this critical early point in their association's development. They are the only women's business association in Cairo with dedicated office space and staff for business association activities. They point out specific FEI publications that are helping them enhance exports by their member firms. They also indicate that FEI training is helping their firms become more competitive and their business association to be more effective as a private sector lobby and as a better service provider to their members. Moreover, this FEI support is enabling the EBWA to support newly formed women's business associations in 14 Egyptian governorates and to play a critical role as a founding member in a new federation currently being formed with business women associations in the other Arab countries. The EBWA leadership indicated that because of the great job that FEI is now doing, they intend to join FEI as a dues-paying associate member when it is formally allowed.

The FEI, through its overlapping leadership and through US-funded CIPE training in managing developing business associations, is at least indirectly supporting the high-profile politically sensitive positive transformation, or as some Egyptians say "revolution," currently taking place in Egypt's Chambers of Commerce as discussed above. These new changes that are expected to be incorporated in the new by-laws would lower the percentage of appointed leaders and for the first time in Egypt's history, allow women to be members in the Egyptian Chambers of Commerce which now has an estimated 3 million members. In contrast, businesswomen up to now have been particularly supportive of FEI that, unlike the Egyptian Chambers of Commerce, have women among some of the 14 Chambers' boards of directors.

The FEI is taking full advantage of the economic orientation of the new Prime Minister and Cabinet to push for an acceleration of economic policy reforms that will make it easier for new US investments and for existing US businesses. More generally, the FEI conference last May that unveiled its FEI national business agenda was attended and applauded by over 700 attendees, many who have actively worked on parts of the agenda in groups that often totaled more than a hundred business persons. Eight key Egyptian ministers dealing with economic and commercial matters attended sessions dealing with their areas. The FEI is actively following up this reform agenda. For example, during the past week, about 80 FEI members met with the new Minister of Finance to argue for specific key reforms and rationalization of Egypt's industrial tax law. Approximately 60 members met with the new Minister of Communications to free up access and centralize economic and business information for all FEI members, including US companies. They are also lobbying for upgrading computer training and services, and in adopting protection of Intellectual Property Rights, whose law is expected to be passed during First Half 2000. Speeding up the passage of reforms, for example, on labor alone would more than justify the approximately \$10 million spent on this Project over the past 5 years. If the Project stops on 31 December 1999, total funding will be below the over \$13 million expected amount on which FEI leadership based their plans and which they felt would provide a safety net for this critically sensitive transition period while FEI was becoming a truly representative private-sector business association.

Moreover, USAID funding would be transitional as FEI is rapidly moving toward and soon expects to be self-sustaining. The new USAID-funded FEI building, a source of pride and affection for the US, is expected to be finished in November 2000 and is expected to generate substantial increased revenues from office space and other facility rentals as pointed out in the FEI financial sustainability plan. In addition, as pointed out earlier, membership is increasing in number and membership fees are increasing in amount for all size categories, with the largest 150 to 200 member firms increasing their current annual fees from a range of LE 2,000 to LE 3,000, depending on the industrial chamber, to a uniform LE10,000 and the smallest member firms membership fees are rising from LE 50 to LE 200. Moreover, the 3,000 to 5,000 new factories under construction will also be substantially enhancing the membership base. Another source of increased revenues is expected to be the training sessions that are viewed by members and their affiliates and other business associations as extremely valuable. Fees for these sessions are expected to rise. All of this is expected to soon make FEI financially sustainable.

While FEI has not yet been privatized, it certainly acts like a private sector business association and provides key services similar to a private sector association. The Chairman of the Board expects FEI to be privatized by June 2000. Its new law to privatize has been drafted and reviewed and the highly effective Chairman of the Board expects it to be passed during First Half 2000. A major reason that FEI was not privatized over the past year as pointed out above has been because of the FEI leadership's involvement with the privatization revolution that has taken place in the Egyptian Chambers of Commerce, representing an estimated 3 million persons. That activity has led to a compromise position between the revolutionaries, led largely by FEI overlapping leadership, and those representing the status quo. The unexpected window of opportunity for revolutionizing the Chamber of Commerce has led to the lag in passing the new FEI privatization law. Much political capital is being spent by FEI leadership in privatizing the Federated Egyptian Chambers of Commerce, where GOE appointments to leadership positions is now expected to drop from 50 to 33

percent, and thus power has shifted to private sector representatives. This is expected to rise to 100 percent private sector representation after a relatively short transitional period. As pointed out above, for the first time in Egypt's history women will be allowed to be members in the Egyptian Chambers of Commerce.

Given domestic political realities and the spirit of compromise in Egypt, passage of the new privatization law⁸ for FEI may require a transition period during which there is but token GOE-appointed leadership. Passage of the new law has been postponed because of political uproar and FEI's spent political capital on positive reform efforts taking place within the Egyptian Chambers of Commerce. Moreover, the FEI is much more institutionally developed and effective. So FEI does not want its privatization law ratified at the same time as that of the Chambers for fear its passage during this period would dilute its private sector provisions. If the FEI law is passed in the coming legislative period, or the next, it appears that the USAID CIPE/Egypt Project will have led to the privatization of both the FEI, with its estimated 15 thousand industrial firms, and speeded up the privatization of the Egyptian Chamber of Commerce with its 3 million members.

Other donors, including the European Community (EC) and in particular Germany, are already positioning themselves to fill the expected vacuum that would occur with curtailment of the CIPE program. Moreover, FEI leadership has indicated that it would be a shame for the US not to finish a job well done and at the end relinquish their key role to the EC and specific countries such as Germany. According to GOE officials, a similar event occurred recently with Germany's attempt to fill a vacuum from the perceived pull out by the Americans from Egypt's Public Enterprise Office. Such an effort would more likely lead to "private" business associations more on the German lines. For example, all German industrial firms are required to be members of its industrial association, as is now the case now for FEI. Thus, one of the Project's key goals of avoiding mandatory membership might not be achieved if CIPE funding is terminated. This forced membership would undermine one of the FEI leaderships' main aims of establishing voluntary membership. Replacing the US with the German approach of maintaining mandatory participation in FEI expectedly would continue to exclude the informal sector, estimated to produce more than half of all production in a number of sectors, by maintaining one more bureaucratic cost in the form of FEI membership costs. This would discourage them from formally registering as a business and becoming legal.

Lessons learned for this Project are based on the problems, particularly in the initial part of this Project, and the substantial triumphs throughout the Project. The extraordinary gains of the Project are related to the fact that even small triumphs or benefits in an important influential organization like the FEI can have wide ranging benefits that go substantially beyond FEI itself. Small gains in policy reform in just one key area like labor reform or privatization can by itself greatly outweigh the relative small costs of this Project compared to the economic gains associated with a country of over 60 million. Moreover, those benefits encompass political and social benefits in addition to economic benefits, and often influence the institutional development of other key organizations. A key example is the Project's impact on the Egyptian Chambers of Commerce which is expected to have the social impact of allowing women for the first time into leadership positions, the political impact of reducing GOE appointed members from 50 to 25 percent and thus a minority control, and the economic and institutional impact of ultimately eliminating the past appointments for life with two 5-year terms that should make that organization more responsive and useful to its estimated 3 million members. Other key lessons learned during this Project include

- 1) have personnel in country that understand well the concept of a representative business association and how it works,
- 2) have authority and management in the hands of the Executive Board of the association, and not in the hands of the Project managers who should oversee and facilitate,

⁸ The FEI leadership prefers to use "Independence Law" as they feel that privatization is more relevant to a state owned enterprise that is being transferred or sold to the private sector.

- 3) avoid placing two categories of workers together in close proximity when one group are paid substantially less than the other group,
- 4) anticipate initial start up costs of learning to work in Egypt,
- 5) provide quality products or services, and place realistically timed goals into the Project

In sum, the consensus among all business groups in Egypt is that FEI is not just another business association. Through the USAID-funded CIPE Project, FEI is now one of the most dynamic and influential business associations in Egypt. Moreover, unlike any other, FEI speaks for all Egyptian industry. Its importance for US business, for example, was reflected by the new Executive Director of the American Chamber of Commerce who indicated AmCham's effectiveness would be substantially curtailed if FEI, their partner in reform, cut back its services and lobbying efforts and was allowed to regress to its pre-CIPE state. Cutting back US support at this critical point in FEI transition could lead to a collapse of this still transforming business association. More likely, the void will at least partly be filled by the European Union and particularly the Germans whose view of privatization, in contrast to FEI's under CIPE support, is mandatory membership. Thus, if FEI does privatize, it could likely be inconsistent with the US version of privatization. Moreover, there is a chance that the cut in US funding could lead to a complete collapse of the institution. This in fact occurred already approximately midway through this Project. The enormous expected benefits associated with continued funding of this Project, or an alternative through an expected short transition period, greatly outweighs the relatively small costs of this Project which are very low compared to overall US support funding levels for Egypt. Moreover, to the extent FEI continues to strengthen the Egyptian economy, overall USAID funding support can be curtailed more quickly.

Main Recommendation USAID should continue to support FEI through the CIPE/Egypt Project, or a suitable alternative, and provide more time for its transformation to a private sector business association without mandatory membership. Any decision to cut the funding of this Project, so popular among almost all segments of the Egyptian business community, would be premature and risk cutbacks of many of FEI's most important services including its key role as an advocate of policy reform. The high expected benefits of this Project would greatly outweigh the costs, which over the past five years have totaled about \$10 million.

I BACKGROUND AND PROJECT DESCRIPTION**I 1 Background****I 1 1 Improved State of the Egyptian Economy During Life of Project**

When the Project began in 1994, little privatization had begun and Egypt's preliminary reforms were not yet attracting new investments. Economic growth rate was low. In contrast, Egypt's economy is now robust and growing at rates expected to be in the 5 to 6 percent rate per annum. The Egyptian economy is increasingly market oriented and now focused on opening up the country to foreign trade as reflected in the late 1998 decision to de-monopolize and privatize maritime port facilities. This current and healthy economic structure with the private sector increasingly allocating more of Egyptian resources contrasts directly to the beginning of the Project in 1994 when the economy was primarily state-controlled. That economy was ushered out through Egypt's successful structural adjustment program that began in 1991 in cooperation with the World Bank and International Monetary Fund (IMF). As a result of successful development, Egypt concluded the formal IMF structural adjustment program on 30 September 1998.

The IMF country assessments typically tend toward being too conservative and critical. The IMF, however, provided a very positive overview of the state of the Egyptian economy as the GOE approached the termination of the formal part of its structural adjustment process and the continuation of the economic transformation under strictly Egyptian stewardship. The IMF assessment, which reflects a very healthy state of the Egyptian economy, begins as follows:

By the standards of recent experience with economic stabilization, Egypt in the 1990s is a remarkable success story. Determined macroeconomic policy, together with some favorable external developments, has brought much reduced inflation, led to improved public finances, a stable currency, and a strengthened banking system, together with a sound balance of payments position. On the heels of a severe contraction in 1991/92-1992/93, given yearly population growth of over 2 percent, there is now increasing evidence of renewed private sector confidence manifested in rising investment, accelerating growth, and increased incomes.

Against the background of impressive progress on stabilization, there has also been a reinvigoration of a program of structural reform. The objective, most evident since 1996, has been to promote private sector development and roll back the once pervasive scope of state controls. Building on reforms implemented earlier in the decade, considerable progress has been made in privatization, deregulating protected sectors, reducing distortions from pricing and subsidy policies, and removing other obstacles to trade and investment. Private investment is responding positively to liberalization and is increasingly the motor for growth.⁹

The Egyptian economy continues to improve steadily since this 1998 IMF assessment, as verified in such documents as the USAID-financed International Business and Technical Consultants, Inc (IBTCI) quarterly reviews for the first and second quarters of 1999. Egypt's economy is expected to continue growing as a result of the GOE support for private sector development of which one important component is the modernization, development and privatization of FEI, and its importance in leveraging support for the private sector transition of other business associations through overlaps in its membership such as the case of the current "revolution" in the Egyptian Chambers of Commerce, through training and information on how private sector business associations operate in modern mixed economies and through such areas as advocacy of policy reform. The GOE in partnership with the private sector has increased the level of real economic growth and continues to adhere to the foundation set by the IMF structural adjustment program by supporting a greater role for the private sector, which remains the one constant principal policy directive throughout the transformation.

⁹ IMF, Staff Team led by Howard Handy, Egypt, Beyond Stabilization, Toward a Dynamic Market Economy, Washington DC, May 1998, p 1

Egypt's economy was long considered weak, supported by American aid flowing from the 1979 Camp David Accords and foreign currency earned from the Suez Canal and tourism. This perception is rapidly changing. The GOE, under President Hosni Mubarak, strengthened Egypt's finances, lowered its budget deficit to one percent of Gross Domestic Product (GDP) and cut inflation to about five percent annually. Consequently, investors see Egypt as a promising emerging market with increasing demand and economic growth at 5 to 6 percent. Steady economic growth is expected in the future given Egypt's foreign currency reserves, estimated last Spring at around \$20 billion¹⁰. Moreover, foreign investment spurred by robust economic growth, estimated at 5.7 percent last year, reached \$2.5 billion in 1998. Key industrial sectors, such as pharmaceutical, consumer-products, and building-material companies, led this international investment interest. Overall, the positive economic trends and increased foreign investment are consistent with the objectives attributed to the major USAID strategic initiatives, of which support of FEI has been a key component.

A major goal of the Project not yet achieved is higher nontraditional exports. But, substantial policy reforms continue to remove legal and regulatory barriers and improve institutional support for external trade, including a new law to allow the privatization and de-monopolization of the GOE monopoly on maritime port services that has long been an anathema for international trade in Egypt. Support from the CIPE/Egypt Project to modernize FEI and support the development of Egypt's new budding business associations is expected to considerably support future Egyptian exports.

I 1 2 Progress Across Many Areas

A critical element of Egypt's macroeconomic success has been its private sector development, which has been supported by key market reforms in finance, tax policies, and international trade and in institutional development. These reforms and other proposed ones have been advocated by such organizations as FEI that has been supported by this Project. During the course of the Project, FEI under the leadership initially of Chairmen Mohamed Farid Khamis and later Abdel Moneim Seoudi, former Vice Chairman Mamdouh Thabet Mekki and current Vice Chairman Ahmed Ez, and others, have been instrumental in shifting economic policies to support the private sector. These leaders have good basic instincts but are not trained in economic policies and were not aware of available information and studies, but know what is undermining the profitability of their own firms and those of the FEI members. This Project provided FEI leaders with the substantive information they needed for dealing with the GOE and the press in their roles as advocates of policy change.

As the rest of the economy faltered in the early 1990s, success in privatizing the agriculture sector ushered in market reforms, which supported efforts to continue developing the private sector in Egypt's industrial sector, including such USAID funded projects as privatization and the development of the FEI. The privatization work in the industrial sector officially began in 1991 with Egypt's Economic Reform and Structural Adjustment Program (ERSAP). The World Bank and IMF provided over \$10 billion in debt relief for successful compliance with reforms, of which privatization was a key component. Initially, non-agricultural privatization between 1991 and through 1993 was limited to small enterprises at the governorate level and seven liquidations of Law 203 firms. At the time, however, sales to foreign anchor investors were still politically unacceptable. Efforts in this area were initially left uncompleted. However, privatization increased in number in the initial years of this Project from 1994 through 1998, during which 93 former GOE-owned Law 203 Affiliated Companies (ACs) were privatized. By 31 December 1998, 16 of 23 former GOE-majority owned joint venture banks had also been privatized. Currently, the GOE is trying to sell its remaining ACs and its shares in more than 363 joint venture firms. One of the great turning points in the transformation of the investment climate was the GOE political decision to sell majority shares of a number of its key industrial ACs to Egyptians. In doing so, the Egyptian stock market was reactivated. The first public offerings of Law 203 ACs revitalized Egypt's stock market, which had been dormant for over three decades.

Today, these former ACs form the backbone of shares traded on the Egyptian stock market and have boosted market capitalization from LE14 billion in 1994 to LE91 billion as of 28 February 1999. Moreover, the stock market has attracted increasing interest from foreign investors. For example, the

¹⁰ This figure has reportedly dropped in subsequent months during the current slump that has led to shortfalls in foreign exchange.

value of shares traded by foreigners represented 35 percent of the total value of shares traded from March 1996 through February 1999. The rising interest of foreign investors was demonstrated during Fourth Quarter 1998 when the value of shares traded by foreign investors rose to 42 percent of the total market value. Thus, foreign investment is substantially helping to maintain or at least lessen the drop of market values in the Egyptian Stock Market vis-a-vis the share values in other emerging markets. The resurging stock market is one reason why talented Egyptians, with expertise in investment and who had emigrated to the West or the Gulf, are now returning to Egypt. The reactivated stock market and associated privatization in Egypt are major factors in changing investors' attitudes.

The GOE, with the advice of leaders of FEI and other business associations, is continuing to strengthen the processes for improving the underlying legal and regulatory structure for privatization, as documented in Section VI of the IBTCI quarterly reviews for first and second quarter 1999. For example, laws have recently been enacted that permit the privatization of the Big Four GOE-owned commercial banks, that control over 80 percent of Egypt's demand deposits, the GOE-dominated insurance firms, and the GOE monopolies of maritime port services. The leadership of FEI with CIPE support was a key factor in eliminating the monopolies of the maritime port services. Legal reforms now permit pension funds of the GOE employees to be invested in the private sector, rather than in just GOE-owned enterprises. In addition, the industries that were formerly considered strategic and off-limits to privatization only four years ago, in sectors such as maritime ports, power, telecommunications, airports, roads, railroads, potable water and other public utilities and services, are now being privatized or developed through the private sector. Many of these industries are closely affiliated with FEI member industries.

The liberalization of trade and the stabilization of the macro-economy are being complemented by numerous other legal, regulatory and institutional reforms that have dramatically improved the market- and investment-climate in Egypt. These reforms are taking actual production and service provision out of the hands of the GOE, which can now focus its limited managerial capacity on the type of indicative planning carried out in modern mixed market economies. Many of the reforms have been and are expected to be carried out by FEI support such as its national business agenda. The wide range of new developments in this area over the past year is well documented in Section VI of recent IBTCI quarterly reviews. Thus, past reforms have ushered in Egypt an economic resurgence whose sustainability requires continued economic reform and institutional development.

I 1 3 CIPE/Egypt Support for FEI is part of a USAID Strategic Approach that has Consistently Supported Egyptian Privatization and Private Sector Development to Great Effect Since the Later 1980s

The USAID consistently supported Egypt's exceptional and steady transformation from a public sector dominated economy to one relying more heavily than in the past on the private sector and market signals. Initially, USAID, which had a long productive working relationship with the Ministry of Agriculture and Land Reclamation, provided substantial financial and technical support to the GOE as it began privatizing agriculture in the mid-1980s.

This major effort was followed with USAID-supported studies to continue privatizing agriculture, as well as studies and efforts to begin privatizing and modernizing Egypt's industrial and financial sectors and create a solid policy and institutional environment for the expanding private sector. While this was not USAID's primary area of Technical Assistance (TA), like agriculture, the preliminary studies for the privatization of the industrial and financial sectors anticipated the collapse of Egypt's state controlled macro-economy by the early 1990s. By 1991, USAID, through its TA program, was prepared to support the GOE's ERSAP and the wide ranging reforms prescribed by the World Bank and the IMF, including substantial ones in privatization, whose compliance would allow Egypt to achieve massive foreign debt reduction. Consequently, USAID was well positioned to take advantage of this window of opportunity for transforming the Egyptian economy.

In terms of the number of privatizations and thus the general transformation of the economy, Egypt had achieved limited success by spring 1994, in part because the process was being driven less by Egyptians and more by donors, in direct contrast to privatization and private sector development in Eastern Europe or former Soviet countries. Additionally, there was little public support in Egypt for privatization, particularly by the politically powerful industrial work force. However, two external factors contributed

to the acceleration of the privatization process. The Paris Club's decision for full reduction of the remaining third tranche of over \$10 billion in debt relief to Egypt for its successful compliance with economic reforms was a key component to privatization facilitation. Also, this huge debt reduction, purportedly associated with compliance with policy reforms, was provided in full in the summer of 1994 and in large part for political reasons associated with Egypt's critical support during the Gulf War. This massive debt relief was the last monetary "carrot" for privatization that would be provided by the World Bank or IMF. Essentially, this left USAID, with its \$200 million a year Sector Policy Reform (SPR) project and its available funding for other key TA for the private sector, as the primary support for helping Egyptian decision makers to continue and to focus on the most important areas of privatization and private sector development.

Privatization reforms, as led by USAID, were carefully supportive of the World Bank and IMF policy recommendations. However, by working closely with the GOE and private sector policy advocates to limit the reforms to a doable number in the most important economic areas, the USAID SPR program supported GOE efforts to focus privatization on those areas with the highest economic and social payoffs.

Furthermore, the USAID SPR cash for policy reform program continues to channel at least \$50 million annually for compliance with the mutually agreed upon GOE privatization and private sector development reforms, which is still the primary short-run financial incentive for the GOE to continue privatization. The rest of the SPR funds support mutually agreed upon market policy reforms to liberalize finances, raise the tax base, and open up the Egyptian economy to international markets. These SPR reforms have required TA that in turn has been supported over the years by a variety of other USAID TA programs. A smaller funded TA program provided help in areas of public promotion, organizational development and policy reform in support of the SPR project. This TA aimed to enable the GOE to reach the policy targets set out by the SPR project. The concept of cash for policy reform associated with the SPR project was later incorporated in the four-year \$200 million USAID-funded Agricultural Policy Reform Project (APRP), aiming to remove policy barriers to private enterprise in agriculture.

Thus, USAID became the primary supporter of privatization of the public enterprises in the industrial sector, which contained only eight percent of the work force but held the key to Egypt's full economic transition into international markets. It was in also in this area that the USAID-funded CIPE/Egypt Project supporting FEI was expected to provide additional support for the development and modernization of Egypt's industrial sector. Similar to the start of the ERSAP program, USAID support was in place when the political opportunity arose in 1994 to make a giant step in privatization and to accompany actual privatization with a major political advocacy for both the actual privatization and for developing the business climate that has now led to Egypt's economic renaissance. As the political window of opportunity opened, the GOE decided to privatize key Law 203 ACs through public offerings on the stock exchange. This process from June 1994 to June 1995 and was funded by the USAID Privatization Project. Thus, CIPE-Egypt Project provided much of the crucial complementary leadership and political support for the policy and institutional reforms that supported the privatization effort. That support is still strong as seen in the explicit privatization proposals discussed in FEI's May 1999 conference policy agenda that has been followed up by meetings with the relevant unveiling its recent ministers.

I 2 Project Description

I 2 1 Overview of FEI and Efforts for its Re-Privatization

The Federation of Egyptian Industries (FEI) is the oldest business federation in the Middle East. Established almost 80 years ago, FEI is also the premier industrial business federation in Egypt with almost 15 thousand member companies encompassing all legally registered small, medium and large industries as represented through its 14, soon to be 15, sector chambers. Talaat Harb, founder of Egypt's national private sector industry during foreign dominance of Egypt's economy, established FEI originally as a non-governmental organization. However, FEI did not escape the nationalizations of the 1950s and 1960s, when it affiliated with the Ministry of Industry. This affiliation, during a period of centralization, along with dominance of the public sector within its membership base, and the lack of management systems and human and financial resources capable of delivering services, transformed FEI from a real to a symbolic representative of Egyptian industry. Since ERSAP began in 1991, led by forward thinking

private sector oriented leaders appointed by the GOE, FEI began to rectify its status from a socialist organization to a business association that has acted in some ways like it was a private sector business association. This transformation began in earnest with the USAID-funded CIPE Egypt Project.

After CIPE's beginning in 1994 to conceptualize the Project, USAID/Cairo and the FEI in 1995 agreed that Egypt's private sector industrialists needed a more effective voice in Egypt's development decisions than the existing FEI could provide. They agreed that CIPE, an affiliate of the US Chamber of Commerce, would be brought in by USAID under a Cooperative Agreement to assist FEI in its transformation into a voluntary membership based business association able to provide its members with valued services. Commitment to the Project was taken within the context of the overall reform package that USAID was urging President Mubarak and his administration to undertake.

Specifically, USAID and the GOE strengthened its resolve that privatization of Egyptian industry was required for its future development. In this context both the Egyptian government and USAID concurred that the revitalization of the Federation of Egyptian Industry (FEI) and its privatization were a key part of overall reform, as resource allocation shifted toward private sector decision-makers. This message was conveyed to the FEI's Board of Directors by the USAID Mission Director at a FEI Board meeting in September 1995 and by the US Ambassador in subsequent meetings.

The Project's initial goals were to

- Secure new legislation that would establish FEI as an independent business association in lieu of the existing quasi-public status
- Equip the FEI Board and staff to become advocates for market-oriented reform to the legislative and executive branches on behalf of Egypt's private sector
- Establish a full range of business services for firms in Egypt to enable them to function in a more global economy
- Assist FEI to become financially self-sufficient based on a voluntary membership in lieu of its existing mandatory membership status

The FEI's leadership agreed to act based on the above goals. However, much internal debate about this major change continued throughout the Project period. Much debate stemmed from concerns that an independent FEI, stripped of its GOE subsidy, such as its mandatory membership, could not be sustained. At several points in the Project, these debates rose and threatened to undermine the entire Project. At the insistence of CIPE's Board and USAID's leadership in Cairo and after the initial Project had collapsed, FEI finally agreed to carry out the plan of action.

1.2.2 Review of Criteria for Privatization of Business Associations

This subsection based on CIPE documentation clarifies the definition of "privatization" by describing the fixed and variable criteria for what it means for a business association to be privatized. Thus for FEI to be privatized requires the two fixed criteria to apply to FEI. In the case of the USAID-funded Project, there is an additional criterion that membership be voluntary. This is an appropriate additional qualification for Egypt because of the widespread informal sector activities that make it difficult to gather information for making rational decisions. The goal of the FEI has been to transform itself into a business association with no GOE appointees and in which all membership is voluntary. However, while this may be the American criterion for privatization, it is not necessarily that of other countries. An association cannot be an effective force for policy reform, and at the same time rely on the government to enforce mandatory membership. Or in other words, a mandatory membership association is limited in its ability to lobby effectively.

The fixed criteria for privatization are simply

- 1) **Self-governance** This involves total independence from the government or other organizations in all governance aspects, including, but not limited to the decision making process, hiring of staff, budgeting, etc. and

- 2) **Democratic elections** Election of the board of directors, including the chairman and his deputies, should arise from the grass root membership base. However, due to the unique structure of FEI, it is expected to have appointed members within its board to compensate for thematic and geographic representation as well as technical expertise.

Other criteria for being privatized are not necessary. For example, two major variable criteria of privatization are:

- 1) **Membership** The FEI is similar to the German model of mandatory membership with nominal dues offering voluntarily paid quality services. This guarantees a large membership base including all Small and Medium Enterprises (SMEs) with no considerable financial burden to members, and
- 2) **Funding from Government** Debate on impact of accepting funding from any organization, governmental or otherwise on self-governance is a continuous one. Examples of private associations receiving funding from their governments include the German Chamber of Commerce.

Although FEI does not receive, at present, direct funding from the GOE. It receives funds for its projects and activities from foreign governments such as those of the USA, the EU, Germany and Denmark. The FEI elected to accept funding from the GOE or any other country, when such funding is unconditional and does not interfere with its self-governance.

I 2 3 The CIPE Egypt Project to Strengthen FEI

I 2 3 1 Agreements and Workplans

The GOE and Government of the United States agreed to implement this USAID Project, beginning on August 30, 1994, with a cooperative agreement between the United States Agency for International Development (USAID) and the Center for International Private Enterprise (CIPE). The TA would aim to modernize the FEI in order to become a representative and advocate of Egypt's private sector. The assistance provided by USAID was based upon the GOE's expressed desire to privatize the FEI and allow it to provide needed services to its then 13, now 14, industrial chambers and their member firms¹¹. In early 1995, CIPE established an office within the FEI and inaugurated the TA in Cairo. Subsequently, there have been a whole series of incremental cooperative agreements and amendments, memoranda of understanding, and workplans that lay out the basic goals, purposes and workplans that have directed this project. The basic agreements are laid out broadly in the remainder of Section II and the findings are presented in Section III.

In March 1996, CIPE and the FEI signed an MOU in which CIPE and FEI agreed to collaborate in managing the implementation of a strategic workplan. The MOU was intended to implement the provisions of the Cooperative Agreement between USAID and CIPE. In essence, the MOU outlined the institutional relationship between the CIPE and FEI's leadership required to implement the Project. The nature of this initial relationship is described as follows:

All funding for FEI management and administrative expenses and workplan program costs will pass through CIPE to insure the highest degree of accountability, cost efficiency and compliance with USAID policies and procedures. Gradually, as the FEI staff members are trained and reliable financial procedures and controls are instituted, CIPE will delegate greater decision making authority to FEI while remaining the financially responsible party¹².

During the latter 9 months of 1996 and 1997 several developments at the FEI affected progress on the Project. Conflict on the FEI Board of Directors led to firing the majority of staff hired to work on the Project. Subsequently, election of a new Board of Directors produced a significant change in FEI's leadership. The CIPE took aggressive action to get the Project back on track and make up for lost

¹¹ Subsequently, a fourteenth chamber was created when pharmaceuticals split from the chemicals industrial chamber.

¹² Amendment No. 4, 28 February 1996 of Cooperative Agreement 263-02250A-000-4083-00 Page 6

momentum. The action included placing greater accountability for Project progress on FEI, improving FEI's governance, revising the FEI Project staff structure, setting deadlines for hiring Project staff, and improving FEI's financial management capabilities. These items were incorporated in to a second MOU that reconfirming both parties' commitment to the Project's goals. The MOU identified several distinct objectives to assist the FEI in pursuing the overall goal of the Project. One part of the agreement called for the creation of a Project Management Unit (PMU) as a separate unit within FEI to manage work plans activities and related financial matters.

To date, the Project has spanned approximately 5 years with a total expected spending level of approximately \$13.8 million of which approximately \$10.5 million is expected to have been spent as of 31 December 1999.

1.2.3.2 Project Goals and Directed Activity Areas

The project evolved over time and overall funding grew incrementally. The original 30 August 1994 Cooperative Agreement between USAID and CIPE¹³ states:

USAID has determined that the Federation holds tremendous promise in terms of its ability to

- Effectively represent the private sector to the GOE on policy issues of importance to the liberalization of the economy,
- Provide effective services to its members for the purposes of improving industrial productivity,
- Play a key role in the GOE strategic decision to promote and expand Egyptian exports, and
- Become an effective and sustainable private sector organization.

The Project was also expected to support USAID's Growth Through Globalization (GTG) strategic objective as bound in the CIPE documentation which includes:

- Accelerated private sector-led, export-oriented economic growth.

To ascertain the degree to which CIPE and FEI have been successful in meeting the objectives listed above, the evaluator specifically examined CIPE and FEI's performances in carrying out activities stipulated in the cooperative agreement, subsequent amendments, MOU's and all work plans, as summarized sequentially below:

The original Cooperative Agreement of 30 August 1994 on pages 10-13 included such activities as:

- Coordinate the performance of a diagnostic and survey to determine the needs of the organizational membership and the organizational changes they support (months 1-5)
- Board retreat to ensure maximum feasible participation of members in the decision-making process for revitalizing the federation (month 6)
- Develop a strategic workplan based on the resolution of the board retreat (months 7-9)
- Develop a legislative advocacy strategic plan (month 7-8)
- Implement the strategic workplan/institution building (months 9-12)
- Model department of international trade and technology transfer
- Federation management interns

To achieve the Project goals, the Project's Amendment No. 4 of 28 February 1996 (pages 7-20) and the Project's workplans focused on eight areas. For example, those include the September 1995 strategic workplan activity areas:

- 1 **Government Relations** Organize a government relations committee of the FEI Board with representatives from all sector chambers that meet on a regular basis to review the status of the FEI's

¹³ IBID

"National Business Agenda," articulate policy positions, make recommendations to the Board and serve as the voice of Egyptian industry, develop a government relations office within the FEI to institutionalize government representation activities. Establish an office of government relations to provide staff support for the committee and programs. Five programs are described in the workplan.

- 2 **Public Affairs** Expand and strengthen the FEI public affairs with additional human and financial resources. Form and adequately staff a public affairs committee of the FEI Board to set priorities for the public affairs office and propose, review and evaluate programs to enhance the image of the private sector. Eleven specific programs are in this workplan.
- 3 **Exporting and Marketing Services** Become more active in export market development. FEI Board established a task force on exports, made up of FEI and chamber representatives. Design an export expansion program in which the respective roles of the FEI, chambers and GOE are clarified and agreed upon. Task force oversees departmental programs and communicates its outputs to the High Committee for Exports and other GOE authorities. Establish an export and marketing service office within FEI and with qualified professionals to carry out the Task Force's recommendations and other activities. Seven specific programs are identified.
- 4 **Economic Information** Upgrade and expand the FEI economic information center to enable the FEI to become the premier source of industrial economic information in Egypt. Hire and train qualified staff to design and build a comprehensive economic information system in conjunction with the Management Information Systems (MIS) department. The FEI was to establish a library of printed information including books, GOE statistics, specialized national and international magazines, newspapers, newsletters, international financial institution publications, properly supervised and maintained by trained professionals, publish a regularly updated listing of available information services and library reference materials, Publish a monthly analysis of economic indicators to be used by member companies for planning purposes.
- 5 **Technology Transfer** More actively promotes and facilitates technology transfers and prepares for the eventual transfer of the QUALTEC program from IESC to its offices. Hire specialists to staff a newly created technical assistance office and spearhead the following activities during the first year. Five specific programs are listed.
- 6 **Vocational and Management Training** More actively support private sector vocational and management training. Establish a vocational and management training office within the new FEI newly created a technical assistance office. Provide qualified staff to be responsible for undertaking the following activities during the first year of operation. Five specific programs are listed.
- 7 **Financial Services** Revise policies and procedures manual for the financial services department that includes specific recommendations to create a controlled environment for business operations including budget and accounting, organizational chart, training needs assessment, computerized accounting system, procurement policies, and accounting records. Three specific tasks are identified: computerize the financial accounting system, identify training needs for departmental managers and staff and provide training, obtain periodic technical assistance from qualified financial management experts to insure that recommended changes are implemented correctly.
- 8 **Management Information Systems** Install and operationalize a modern information system within the Federation and its 13 chambers. Use information obtained from its own members and build the most up-to-date and accurate industrial databases in Egypt which can then be used to provide needed information to members and supply data to other internal departments, such as economic information, government relations and public affairs. Specifically, develop and operationalize FEI and chamber membership data, macroeconomic indicators and information on Egyptian and world economies to assist industrial firms in planning, in-depth commercial information and sector-by-sector industrial data, and technology sources. Begin constructing secondary databases with information of interest to members including export statistics, sources of raw materials, financial and credit information, trade contacts, including listings of international trade fairs, training program information and resources, including vocational and management training, government regulations and laws, packaging, donor assistance programs. Concentrate efforts the following information capabilities: word processing for

all departments, data processing including an economic information center, export and marketing services office, desk top publishing primarily in the public affaires department, computerized accounting system in the financial services department Provide appropriate computer skills to current and new staff Provide on-going training Develop a detailed operations manual for the input, output and computerized departments with each of the chambers to facilitate the exchange of information

As the staff was hired, the individual offices prepared their own office workplans For example, the workplan of the "technology transfer" office for the period from June 1996 through February 1997 had as its primary goals

- Deliver effective technology awareness-raising events designed to generate the demand for technology transfer services These services will support firms by supplying the information and assistance needed to access and acquire appropriate technologies
- Develop a technology transfer infrastructure, which will include highly trained and motivated staff managed by a dedicated business-oriented management team
- FEI will provide technology awareness-raising events, technology-focussed business diagnostics, and technology transfer resource services Specific assistance includes information, standards, markets, suppliers, buyers, etc , partners, licensing, venture, marketing, etc , technology equipment, designs, etc , technical assistance productivity, planning, marketing, quality, etc , training planning, negotiating for technology, etc , reconnaissance services trade shows, visits to companies, etc , on-going support in upgrading technology
- FEI focuses services on three keys areas of assistance technology awareness-raising events to assist firms in their understanding of what is technology, why is it important and how is it acquired, technology-focussed business diagnostics to support a firm in its efforts to determine the most appropriate technology and transfer mechanism for them, and technology transfer resource services to help firms collect the information to identify sources of technology and locate the assistance needed to acquire and install the new technology Specific services include technology transfer seminars, industry update round table discussions, publications such as newsletters and other materials, creation of a quality "award of merit"

Later the FEI workplan for the period from November 1997 to October 1998 changed to focus on new aspects of the Project that have posed continuing challenges

- 1 **Privatization Legislation** The FEI will prepare a written statement on steps to be taken to promote the passage of the legislation as soon as possible (This has not yet been achieved as of December 1999)
- 2 **Improved FEI's Governance** By streamlining and establishment of clear lines of authority (This was done through establishing a Project Management Unit (PMU) within the FEI that is responsible for developing and implementing a FEI program of work The first step in operationalizing this plan was to finalize a new MOU between CIPE and FEI that included a clear delineation of management responsibilities FEI clearly demonstrated that that was a top priority It developed an organizational chart and firing plan It recruited new staff CIPE worked with outside counsel to insure that the PMU is legally and appropriately established Continuation of the Project was conditional upon execution of the new MOU mutually agreed upon by both CIPE and FEI that defined the structure and role of the PMU In terms of corporate governance, the board of directors was to have strategic vision, a sense of fiduciary responsibility and a commitment to an organizational structure that promotes efficiency and effectiveness need for long term success The Board was to deal with the following specific governance issues such as broader issues of overseeing a private organization

- 3 **Improved FEI Project Management Structure** A new Project Management Unit within the FEI would be established with clear lines of authority and responsibility for the Project's activities
- 4 **Improve the Environment** In the strategic workplan of April 1997, the overall work areas remained essentially the same, except an extra component was added improving the environment. Specifically the business agenda includes improvements in such policy issues as commercial legal and judicial reforms, air, sea and land transport reforms, export system reforms, import system reforms, export services improvements, privatization, improvements in investment laws, regulations, procedures and practices, financial and capital market reforms, proactive programs for small and medium enterprises, labor law reforms, human resource development, improvements in market information, and environment

Three memoranda of understanding (MOUs) were developed between March 1996 and December 1997. The first of these, the MOU of 12 March 1996 dealt with program management and implementation, and financial management. The general items have been complied with in dealing with program management and implementation and financial management.

The second, the MOU of 21 August 1997 between FEI and CIPE, dealt with FEI transforming itself into a modern, active, and self-sustained, private business association to become an effective industry representative in discussions with the GOE, and to enhance its role in furthering the development of an export-oriented, private-sector led industrial base. The primary objectives of this cooperative effort is to strengthen the FEI's capabilities to

- Effectively represent the industrial sector before the GOE on policy issues of importance to the liberalization of the economy,
- Provide services to its 14 industrial chambers so that the underlying membership of 18,000 industrial firms can improve their productivity, and
- Become an effective and sustainable private sector organization

The third, the MOU of 10 December 1997, laid out the overall project goals. The overall goal of the Project is to revitalize the Federation of Egyptian industries so that it becomes a self-sustaining, full-service, independent membership organization working to strengthen Egyptian industry, reinforce and support competitive markets, and, in the process, contribute to the economic development of the nations. In pursuing this goal, the project has several distinct objectives:

- Improved effectiveness of the Federation's representation of the industrial sector before the GOE in efforts to improve policies, laws and regulations
- Modernization of the Federation's governance systems to make it consistent with the global community of business associations
- Strengthening the Federation's constituent Chambers,
- Improve services to members by developing and operationalizing a program of work within the FEI that represents those elements of service normally provided by a modern industrial federation
- Modernization and automation of FEI management systems
- Raising the caliber of the staff to meet global standards
- Passage of legislation that will formalize the transition of the FEI into an independent organization

This TA package, like other USAID programs such as the USAID privatization project, aimed to provide complementary support for the \$200 million a year Sector Policy Reform (SPR) policy reforms generally aimed at improving the business climate in Egypt.

The Project purpose was broadly to strengthen FEI as a modern industrial association that would increasingly represent its private sector constituency to the GOE, the donors and the general population.

I 3 Evaluation Objectives

The purpose of this final evaluation is to examine the extent to which the Project has achieved its goals. In essence, the goals of the Project, according to a 28 June 1999 letter from John Bohn, Chairman of CIPE's Board to Brian Atwood, USAID Administrator at the time, are described above in the project description.

As pointed out earlier in this section, this Project was intended to be flexible so as to effectively adapt to the difficult institutional changes that were expected in FEI, that were being driven by economic, social and political processes. Thus, in April 1997 as FEI was somewhat static, an effort was made to expand the Project's assistance to any private sector business associations in an effort to get the FEI moving. Thus, according to the latest USAID agreement with CIPE, services could be expanded to include other business associations and chambers. The methodology or general approach for this Project is described in the next section.

In addition to examining the extent to which the Project has achieved its purposes, described above, the evaluation is consistent with USAID's strategic plan.

Thus the objective of this evaluation is to assess the progress made to date under the Project, and to provide lessons learned, conclusions and recommendations concerning future private-sector business association activities in Egypt or in undertaking similar activities in other countries. In this regard, the evaluation assesses the appropriateness of the design of PP, its management by USAID, FEI and CIPE, and the contribution of the TA to the broader GOE economic reform program.

This final evaluation took place and was drafted during December 1999 and draws heavily on the ideas and experience of the active participants directly involved with the Project.

I 4 Evaluation Methodology

It is probably still too soon to see many results of the Project. For example, much of the work of FEI has only recently become useful as a base for improving FEI member firms. Moreover, not all the complementary structural reforms for strengthening Egypt's private sector are yet complete. For example, the laws for privatizing and de-monopolizing the maritime ports and the airports have only been passed over the past year and a half and the lag time for actual privatization of this infrastructure can be long. As part of the overall effort to strengthen the private sector, many of the benefits to the macro-economy are already seen as substantial, such as rising economic growth and the declining budget deficit. These can be tied directly to the improved business climate that has been supported by this Project as a key part of a broader reform effort. But we still do not know clearly which are the direct results of this Project to strengthen FEI.

Despite successful major economic trends, measurement by reference to ultimate objectives, such as increases in private consumption, or per capita GDP, is inappropriate. For example, the Project's brief, relative to the long, lead time for developing an efficient institution and many of the economic indicators such as the privatization and de-monopolization of the maritime port services on, say, significantly increasing Egyptian exports. It also requires a disentangling of privatization and other policy impacts from other influences on short- and medium-term changes in economic performance, such as world-wide general economic downturns, terrorist attacks on tourists and world price fluctuations of key commodities.

Perhaps most important, quantitative assessment of a program like this Project requires overcoming the "attribution problem." Many actors have now contributed to the reform effort, in addition to USAID. The IMF and World Bank were a leading external player particularly in the early part of the 1990s. Later, Canada and the European Community and its individual member countries became active players. Moreover, many separate projects and programs associated with then numerous donors also contributed together to the successful reform effort.

By far, the most important actor has and continues to be the Egyptian reformers as a group, and this includes President Mubarak, the Prime Minister, the Ministerial Privatization Committee, the People's

Assembly, the Ministry of Public Enterprises, the Ministry of Economy, Ministry of Supply, Ministry of Trade, the Ministry of Agriculture and Land Resources, the Ministry of Justice, and other key GOE ministries and agencies that help improve the business climate. Of course, the Egyptian private-sector business community commands an important position among Egypt's reformers. And foremost among them are the leadership of FEI who have worked tirelessly and effectively with other private sector leaders that through advocacy have brought about the reforms needed for the dramatic improvements in the economy as summarized by the IMF report on Egypt's economic performance as quoted above.

All this means that the evaluation has to be essentially qualitative, with all the limitations this entails in subjectivity and the uncertain generalizing of conclusions. However, examination of the actual Project can shed light on whether it appears to have contributed significantly. To the extent that no impacts of Project are discerned in some areas, they cannot be identified nor should they be associated directly or indirectly with supporting Egypt's privatization. The general approach or methodology is presented in Annex B.

II PERFORMANCE OR ASSESSMENT OF OVERALL PROJECT OBJECTIVES**II 1 General Performance as Measured Against the Goals End of Project Status Is that FEI is Still in Transition with most Goals Being Met, With the Big Exception That FEI Has Not Been Privatized, Its Membership Remains Mandatory**

As pointed out by one USAID manager, Mohamed Farid Khamis was to have been the last Chairman to be appointed by the GOE. This clearly has not been the case. Also a third of the individual chambers boards of directors are still appointed by the GOE. This also runs contrary to the original agreement. Moreover, in contrast to the original goals, all industrial firms are still required to join FEI. Thus, the GOE has clearly not lived up to its side of the bargain. This slow progress has led to the events leading up to the termination of the Project on 31 December 1999. USAID staff has indicated that the termination of the Project will permit FEI to compete with other private sector business associations in Egypt. Moreover, USAID has indicated that the Growth through Globalization program is being phased out and USAID wants to review other possible uses of a declining amount of USAID funds for Egypt. The \$13.8 million was only an estimate, according to USAID officials, and not an earmark for USAID funding for this Project. Thus, FEI should not have necessarily expected to obtain this total level of funding.

Despite not meeting the privatization requirement, and despite a collapse midway through this Project, much has been accomplished particularly in FEI's institutional development over the past 2 years that have enabled it to move far toward accomplishing other Project goals laid out above.

After the collapse and the election and appointment of new board members in October 1997, there was a move to phase the Project out prematurely. The FEI worked to save the Project. The newly elected FEI Vice Chairman, who had been designated by the Board Chairman to oversee the Project, was invited to address the CIPE Board twice in 1998 to report on the conclusions of FEI's internal debate concerning the unmet privatization issue and to report on how FEI intended to proceed. On FEI's behalf, the Vice Chairman promised and then delivered four few items:

- Professional staff,
- National business agenda,
- Financial sustainability plan, and
- Draft legislation on privatizing FEI and allowing membership to be voluntary.

The USAID staff agreed that FEI had met the tests for not cutting off Project funding.

Highlights of the renewed project were that the new staff with assistance and training from CIPE accomplished a very significant public demonstration of the impact of the USAID support, by developing FEI's "Business Agenda 2000" enunciating its formal positions on major issues facing Egyptian industry. Most impressive was when, for the first time even, FEI distributed and publicized its Agenda at a conference held on 29-30 May 1999, attended by about 700 individuals. Members of all FEI's sector chambers, other business associations, eight ministers and other policy makers, as well as representatives of USAID, European donors, and the media attended the opening session. This was followed by 7 sessions over the two days in which private sector FEI members and Egyptian Ministers conducted policy dialogue on the FEI policy positions. Each session had attendance of over 400, and was chaired by an FEI board member with the relevant Ministers in preparation for May's conference.

Media coverage of the May conference was unprecedented compared to previous FEI events and compared to events of similar organizations. The attendance, participation, and involvement of FEI board members were impressive, and the sense of ownership was very evident.

Also under the Agreement, CIPE staff assisted FEI Chambers to

- Hold a conference attended by the Minister of Finance to bring more members into the formal sector (Cereals Chamber),
- Redefine and hence increase, its membership while completely restructuring its staff (Leather Chamber), and

- Hold a conference to explain to the Minister of Economy why GOE support to public sector printing firms was unfair (Printing Chamber)

Fuller details of other support for specific industrial chambers and private sector business associations are presented in Section II 4

In addition to these demonstrated advocacy accomplishments, FEI is far along on accomplishing the other aspects of the program. Specifically, draft legislation has been submitted to the executive branch that would create an independent FEI. That legislation, though delayed by the internal debates within FEI, is a bold and courageous step for an Egyptian organization to undertake. Also, the FEI Board, its staff and its constituent chambers have participated in several rigorous training programs with the result that productivity has increased markedly, as reflected in the development of accreditation programs for key skilled jobs such as electricians.

The FEI has made great progress because of exceptional leaders who are willing to take professional risks. These include the Chairman, Abdel Moneim Seoudi, the Vice-Chairman, Ahmed Ezz, and Mr Mamdouh Thabet Mekki, a key member of the Board. Each of these Board members not only placed their own credibility on the line but committed substantial amounts of their time or personal funds to see through the FEI's transformation. Many other Egyptian business leaders contributed to the Project including the former Chairman, Mohammed Farid Khamis. Finally, the majority of FEI's new core staff left good positions in Egyptian industry or the GOE to work with the FEI in belief that the transformation of the FEI was of fundamental importance to Egypt and that it had the backing of the United States Government.

Regrettably, according to CIPE, the funding cut off by USAID on 31 December 1999 represents a renege on its commitment to the FEI and the CIPE Board to see FEI's transformation through. In effect, it abandons FEI midcourse citing only the overall reduction in US assistance to Egypt, failure to privatize and need to support all "private sector associations." CIPE was told that because of funding termination, activities needed to be quickly phased down. Thus services must be cut. For example, the current work plan provides for no further assistance to FEI's Chambers, which are an integral part of FEI. To withdraw USAID support at this critical point, as opposed to earlier when the Project collapsed, seems particularly ill timed.

While US foreign aid to Egypt is being decreased, termination of this activity is probably not a good decision. When the program began, CIPE and USAID staff agreed that although the Project was a very high risk, it was a risk worth taking. It was understood that the Project would be designed for a 3-year period but that it was extremely unlikely that all aspects of the program, especially financial self-sufficiency could be attained in less than 5 to 6 years. Throughout the Project there was an understanding that the CIPE/FEI Project could be extended depending on performance.

What makes the decision harder to explain to the FEI and its thousands of small business members is that USAID initially promised \$13,760,290 in writing but is now saying that less than \$10,938,650 will be spent. Restoring the difference (\$2,821,640) and extending the program by a minimum of two years would have been a reasonable decision. It would send the signal that when the US Government makes a commitment, means are found to honor that commitment, even in difficult times.

Further, if funding is cut off this year and not replaced in other TA, substantial money that USAID has invested so far may well be lost. The most qualified staff may resign or have to be let go. The FEI will be unable to retain sufficient qualified staff to continue providing service to members. Donor assistance identified is less comprehensive than required by FEI and its Chambers. Donor support for 2 more years at a level of at least \$1 million per year appears to be vital to FEI becoming financially self-sustaining without cutting back on its most important functions and services.

The speed of privatization of FEI appears recently to have been hindered by current efforts of FEI leadership that have been by happenstance redirected at reforming the other major socialist white elephant association of the Nasser years: the Egyptian Chamber of Commerce with an estimated membership is 3 million. During this evaluation, the reforms of this potentially key organization have been reported in the press. The recent progress in the institutional development of FEI is being used to show what can be

done to transform the Egyptian Chamber of Commerce into an effective business association for its members. For example, FEI Board Member and former Deputy Chairman of the Board and current Chairman of the FEI Tanning Association is a dynamo of reform. In addition to being one of the key leaders for FEI's dramatic transformation over the past two years, he is also on the Board of Directors of the Egyptian Chamber of Commerce. Mekki attended the key CIPE business association meeting in Cyprus and the second one held in Hurgada. As an FEI Board Member, his presence and intense participation in these meetings led not only to greater participation by other board members and key leaders, but to an intensity within the meetings to pick up useful information for strengthening business associations. Mr Mekki, as leader along with at least 4 other colleagues, has led to a revolution within the Egyptian Chamber of Commerce that has involved new elections of the Executive Committee and Mekki's election as the new Chairman of the Board of the Chamber of Commerce. This led to a challenge from the old leadership in which now there are two executive boards, two executive committees and two chairmen of the boards. The original leadership has challenged the legality of the new elections and all rulings from the Minister and others seems to favor the legitimacy of the new elections which have taken place in the presence of weak governance rules that don't stipulate anything about the elections.

The sustainability issue is of concern to many FEI Board Members. The salaries of the 42 persons total approximately LE 3 million per year.

The purpose of this section is to provide an assessment of the performance of the Project in achieving overall Project objectives. Three key periods of CIPE/FEI activities can be examined.

II 1 1 Phase I October 1994 to December 1995

The FEI and CIPE signed a cooperative agreement to assist the FEI to become a viable institution. CIPE completed a diagnostic of FEI that resulted in a workplan. As pointed out elsewhere, the plan has several fatal flaws described below in the next phase. However, the groundwork was set for providing FEI leadership with a substantive information base for advising the GOE on changing the business environment in a way that would increase domestic and foreign investment and that would enable Egypt to eventually take fuller advantage of regional and global trading opportunities.

During this critical period FEI, under the leadership of FEI Chairman Mohamed Farid Khamis, played a key leadership role in the policy reforms as demonstrated by Khamis' leadership role at the mega World Bank conference in October 1994 co-hosted by Egypt's seven largest business associations. Khamis was a doer, and his forte was working as a lobbyist for reforms that would enhance Egypt's industrial sector. Khamis was chosen by the other groups to act as chairperson and key facilitator at the widely publicized conference. While Khamis had good business insights, he had little technical training on policy reform. USAID made a key but risky decision to support FEI, realizing the potential problems of providing support for privatizing a GOE-controlled organization but creating a true advocate for improving the business and investment environment in Egypt. This period is characterized by FEI membership being more dominated by parastatals and with a leadership composed of many of the "old guard" from the socialist period. Representational policy advocacy from such a group could easily have worked to undermine the policy and regulatory framework needed to promote private sector development, including privatization. Khamis with a small important minority of the leadership worked to set the seeds for improving FEI as an institution and for upgrading the policy framework. However, this was difficult when the GOE leadership was still dominated by the "old guard." Mohamed Farid Khamis also worked to provide technical experts into FEI by introducing workshops on quality control, which became the base for later work as described in the sections dealing with technology transfers and training.

II 1 2 Phase II January 1996 to January 1997

The initial Cooperative Agreement was extended by USAID for an additional three-years to implement the strategic workplan developed in the initial phase of the Project. This extension provided continued support in helping FEI to privatize and modernize itself as a voluntary membership organization. During this period, there were significant delays in implementation, and consequent failure to achieve primary objectives that resulted from a workplan with fatal flaws and from a membership base that was continued to be dominated by parastatals with managers essentially working to maintain the status quo. The FEI

leadership, which lacked a strong substantive base for establishing policy dialog, was provided wide-ranging information for policy reforms to fill the important role as a representative private sector advisor to the GOE a role that had been thrust on Khamis since his leadership at the World Bank conference in October 1994. Khamis' role extends to personal conversations with President Mubarak. Progress was made on developing the professional staff for providing the services in the key areas described under Project goals and purposes above. However, the Project had several basic flaws with its plan and execution.

First, the Project's staff with its much higher wages was physically located too close to the much lower paid regular FEI staff. This flaw in Project execution caused enormous political and managerial difficulties and undermined the work. Second, the presence of CIPE staff and active management of the new Project staff undermined the FEI's ownership in the Project. Most FEI membership viewed the new professional staff as belonging to CIPE and not FEI, especially since CIPE project management was doing much of the management and organization. This is coupled by a Chairman that often made unilateral decisions or decisions based in part on the advice of some of his executive board. Despite progress on the policy agenda, blue print for action, export policy recommendations and active support for key reforms, a series of business luncheons with key GOE and private sector leaders, the Project fell apart. In late 1996 and early 1997, essentially all the staff is fired because the board of directors did not wish to deal with what had become a difficult political issue.

II 1 3 Phase III February 1997 to September 1997

The legal opinion on the best approach for establishing the PMU as well as the draft MOU was developed during the period before September 1997. After the collapse and the firing of FEI new staff, a new approach was taken. In this new approach to CIPE-FEI partnership, the plan was to subcontract responsibility for specific program activities to FEI. This approach will engage FEI in developing and carrying out its own work program within the overall scope of the Project. The CIPE was to work closely with the FEI management to insure that funds provided to FEI are managed with the highest degree of accountability and cost efficiency, and in full compliance with USAID requirements.

The Project activities were at a standstill during the period – a period of apparent stagnation in FEI. However, CIPE and FEI were studying how to correct the organizational structure by looking at similar situations in other GOE entities in which funds were managed directly by the GOE but with oversight by the US contractor. The new plan appears to be based on CIPE's long standing successful experience in many other countries in providing assistance through a series of program contracts. It also appears to be similar to the approach used by the Public Enterprise Office (PEO) which was working on privatization of GOE-owned parastatals and the Ministry of Economy that had a high powered group working on ways to improve the economic policy environment in Egypt. Thus during this period, the whole institutional situation was studied to see how to regroup and carry out the overall goals of the Project. FEI leadership still uses the information base prepared in the previous period to fill its role as advisor to the GOE on issues related to reforms for improving the business climate. With the exception of informal policy advocacy, little progress was made on achieving the Project goals, despite the enormous changes that have begun to take place in the economy with the first key privatizations and the reactivation after more than thirty years of the Egyptian stock market.

II 1 4 Phase IV October 1997 to Present

A new FEI Board and executive committee are elected. New leadership is appointed by the GOE. A new workplan is developed that aims to correct the fatal flaws of the earlier plan. In other words, USAID, CIPE and FEI renew the task of building FEI as a private sector representative business association. The CIPE hires a new Chief of Party and physically moves to a location where they will not manage the Project's employees, but rather will act as a facilitator of projects initiated by FEI. The FEI leadership employs new staff, relocates them in the new offices away from the original FEI employees, and restructures its office. The FEI's new leadership appears to be more private-sector oriented and more amenable to a Project Management Unit (PMU) concept to parallel and eventually replacing the FEI management core. The FEI leaders hired new staff for the PMU.

There was a problem with new choice of executive director of the PMU, which was remedied, in the first 45 days with an apparent solid executive director who appeared to be exceptionally able to deal with conflicts among the competing interests and personalities among the FEI Board of Directors. One non-FEI business association executive indicated that initially there was the same standstill that had occurred before the institutional collapse which was a lack of communication between the few that knew what should be done and the many who did not. Moreover, FEI leadership appeared to place very capable staff in the other key professional staff positions, particularly given the dearth of professionals in Egypt that had ever worked for a business association. Still there was initially no movement toward rectifying the privatization law.

By December 1997, the newly created PMU with entirely new staff began making progress towards development of a strong institution that is still a GOE controlled entity. All key staff positions are eventually filled except the export promotion and marketing specialist whose tasks are picked up by the government relations and management information system specialists. Each staff member begins slowly but steadily making real accomplishments in the key Project areas: government relations, public affairs, export and marketing, economic information, technology transfer, vocational and management training, and financial services. A draft privatization law was developed under the new FEI leadership.

In retrospect, it appears that FEI set up a good organizational structure that, when combined with good staff and leadership on the part of FEI, have contributed greatly to the recent apparent success of the Project. This was coupled with the change in CIPE project management in Washington and in Cairo, that attached to the Project persons more knowledgeable and experienced on how a representative business association works and how it might be expected to work in Egypt.

Despite progress at the institutional level, there was slow progress on actual use of funding for training and other services. Thus in an effort to spur on FEI leadership, CIPE and USAID agreed to expand the scope of the Project to include support to other organizations. The CIPE instituted a monthly seminar series and a series of workshops that was widely attended. A watershed was the July 1998 Cyprus workshop on managing business associations whose fuller implications are discussed elsewhere in this evaluation.

In March 1999, USAID notified CIPE and FEI of its decision not to extend the existing CIPE Cooperative Agreement beyond an additional 7 months through 31 December 1999. The FEI was also notified that further cost overruns or new FEI building renovations would be shouldered within the agreed budget under the Agreement, or from FEI's own resources. At the time, CIPE was informed that as a result of USAID's reduced levels for FY1999 and FY2000, all activities were being carefully scrutinized in terms of their impact and evolving strategy in Egypt.

On 8 April 1999, CIPE submitted a revised workplan that USAID reviewed and approved. USAID provided incremental funding for the 7-month extension to allow FEI and CIPE to complete some remaining activities. Prior to May 1999, USAID had set aside local currency, LE 20 million, or \$5.8 million, for the renovation of the existing FEI building. In May, FEI held its first Business 2000 conference. The FEI publicly announced its advocacy effort over the next 2 years. The USAID continued to be concerned that FEI has not made a serious effort to address its privatization.

According to USAID, as it phases out its support for FEI, it is currently reassessing its support for the private sector during the new strategy period. This will allow USAID to further define its future institutional support to leading private sector business associations and institutions to better direct its industries to global competitiveness and employment creation. New activities initiated under the new strategy period will allow CIPE and other qualified firms and organizations to equally compete and provide the needed support to achieve USAID results.

II 2 Performance as Measured against the End of Project Status of Major Areas of Project Purpose

According to Amendment No. 2 of 28 February 1996, pp. 7-20, and with details in the Strategic Workplan of September 1995, FEI would work in the substantive areas discussed more fully in Section I. Some of the main activities that subsequently took place are described below and in fuller detail in the

FEI diagnostic in Annex C The vehicle for providing the FEI services is its Private Management Unit (PMU) currently made up of 42 persons The Project appears to have modern accounting systems and has monthly reporting and accounting Moreover, there are written job descriptions for all 42 employees

II 2 1 Government Relations

Under provisions of Presidential Decree 452, FEI is accorded the right to consult with appropriate GOE authorities before issuance of economic policies or other measures Earlier, there were few reasons to exercise this right, but with private sector now being asked to assume a growing role in the country's industrial development, FEI must institutionalize and make its government relation activities more professional

The FEI organized a government relations committee of the FEI board with representatives from all sector chambers to meet on a regular basis to review the status of FEI's National Business Agenda, articulate policy positions, make recommendations to the board, and serve as the voice of Egyptian industry The FEI developed a government relations office within FEI to institutionalize its government representational activities and provide staff support for the committee and programs It also publishes an FEI National Business Agenda on those issues that affect the industrial community as a whole It also issued periodic white papers on selected agenda topics such as anti-dumping The FEI publicized and organizes now an annual conference setting a national business agenda to highlight FEI's ongoing legislative program, report on progress made to date in industrial reform policies, identify emerging issues and present sector industry reports It prepares and disseminates a newsletter that regularly updates the 14 chambers¹⁴ on the "white paper" or agenda issues of FEI and the chambers It establishes a close working relationship with the FEI Public Affairs Department to coordinate a variety of activities, including printing and dissemination of the newsletter and developing media relation efforts to support specific FEI advocacy activities It established a working relationship with the FEI Economic Information Center to obtain information and technical support for the preparation of position papers and materials used in advocacy activities

The FEI has held since 31 August 1998 three roundtables dealing with labor issues The first dealt with the child labor issue The purpose was to make people aware of the problem in Egypt The main vehicle for publicizing this issue was the Al Ahran weekly magazine A second issue dealt with the new GOE procurement law and the problems of the GOE providing equal treatment to both the public and private sectors A third roundtable dealt with meeting the conditions to achieve ISO 2000 levels of quality and a fourth roundtable dealt with trade liberalization and particularly with the patent cooperative treatment that would greatly strengthen protection of intellectual property rights in Egypt

More generally from December 1998 to May 1999, FEI had 36 discussion groups on 20 policy reform topics that culminated with the May 1999 workshop attended by over 700 and including 8 Ministers By the time of the conference, the number of policy areas had declined to 15 The Project dealt with rationalizing Egypt's industrial tax structure and simplifying customs and other procedures The Project in addition to funding the actual May conference funded the preparation of background papers and other information needed to reach and support the FEI's position on what ended up being FEI positions in 15 substantive areas Another white paper was developed for anti-dumping The document was translated into 5 languages

The FEI has followed up those advocacy activities with meeting with key Ministers including two with the new Minister of Finance and another with the new Minister of Communications during the time of the evaluation Many Egyptians still are looking for GOE direction The FEI is now taking the lead in providing the information and recommendations for GOE in this area Additional details in this area and how the past year performance has improved over the previous years are provided under the category 2 criterion of "Public Policy Advocacy "

¹⁴ There are now 14 industrial chambers since pharmaceuticals split from chemicals to form its own chamber Soon there are expected to be 15 industrial chambers when computer information technology splits from engineering

II 2 2 Public Affairs

FIE has communicating a message to a variety of audiences that it has attempted to influence. This has entailed media relations, publications and events described more fully under the category 10 criterion of "Public Relations" in Annex C, where the past years performance is compared to that of the previous year.

II 2 3 Export and Marketing

A key activity was the development of an exporters directory in which the FEI is gathering detailed information on exports indexed by type of product or service that can be used by overseas entrepreneurs seeking sources for imports. The FEI is also involved in providing information to its members on the implications of adopting fully with the World Trade Organization in which Egypt is a member. This area has been split between the government relations and computer systems sections within FEIs.

II 2 4 Economic Information

The new computerized system gathers key information on markets and the macroeconomic situation prepared elsewhere including statistics from CAPMAS which is the main GOE office providing statistics in Egypt. Additional details on FEI's recent performance is provided under criteria 2 and 5 in the diagnostic test presented in Annex C and compare the past years performance with that of the previous year.

II 2 5 Technology Transfer

With the arrival of new personnel in the PMU, FEI for the first time has staff to work on technology transfer and vocational and management training. The FEI dealt with technical issues by working with consultants. The new staff work with other USAID programs to help industries work with the Center for Quality Assistance and to develop an awareness of the new quality control standards including ISO 2000. The program reached industrial firms in the Middle East and North Africa. Specifically it dealt with what would be the new changes needed to achieve an ISO 2000 and how to deal with the changes. A document dealing with the issues was distributed. Of the 10,000 copies, 7 thousand were distributed in Economic Magazine in Europe and 3 thousand by FEI in Egypt. Copies were sent to every business association in the Arab World. See a discussion in the next subsection that describes the related FEI training program.

Details on progress in this area are provided under Criteria 3 and 5 in the diagnostic test in Annex C with a comparison of the past years performance in these areas with those of the previous years.

II 2 6 Vocational and Management Training

To fully develop the above services for the business community, it was acknowledged that the FEI must strengthen the staff and structure of the department's organization. Thus it had done very effectively, and the effective programs in this area appear to be ones that would be terminated or postponed with USAID funding cuts.

In relation to the quality standards described in the previous section, FEI started a training program dealing with how to attain ISO 2000 quality standards, and were able to charge those who attended. The training included how to improve product quality and system quality. One hundred and thirty seven attended the full course and each paid LE50. The FEI is now attempting to provide additional competition in this area and hopefully through more competition will be able to lower such future training costs. After the seminar, according to the FEI technical staff, those people are now in the Egyptian industrial sector and comprehend at least the basics of upgrading product and system quality. Moreover, prepared handouts paid by one of the best quality consultants in Egypt were paid for by the Project.

Another important area for FEI workshops was in training industries on what was required to meet the new environmental standards of Law 4 which is Egypt's new comprehensive environmental law that went into effect in February 1998. Since August 1999, FEI has had 5 paid workshops funded through the

CIPE Egypt Project and the Danish funded one in which attendees did not have to pay that. In this regard, the FEI is concerned with the 55 vocational center in Egypt and how they can be upgraded to deal with these environmental issues.

There is also the problem of weak skilled workers and the need to upgrade skills. In this regard, FEI prepared trainers and trainees manuals for 5 crafts that were funded completely by CIPE. This was one of the 9 grants and totaled \$120,000. One of the weak points for FEI is the need to better market itself. Before the actual studies were carried out, a study was conducted that attempted to determine which crafts were in greatest need for certification. A craft Certificate Manual and Needs Assessment Report in February 1995 had 150 attendees at the conference to discuss the findings of the study and to make people aware of the need for certification. Subsequently 5 manuals were based on the above study. For example for one of the skill, electrical maintenance, the manuals dealt with 3 skill levels. Thus 7 manuals, including trainer manuals for 3 skill levels and trainee manuals for 3 skill levels, were prepared for each of the 5 crafts.

One additional but very important output of this effort was that the Project created a group of consultants in Egypt that now know how to prepare a craft manual and a trainer and trainee manuals. The key contribution of this particular program funded by the Project was that it created a system. Before the project there were many vocation trainers in Egypt, but only an outdated system for training. This project created in Egypt for the first time a system with associated manuals and a cadre of experts could replicate the system for other crafts or industries.

The project had been prepared to go the next step an accreditation group in Egypt and later to establish partnerships or working relations with similar accreditation groups in developed countries. Moreover, the FEI had prepared itself to follow the systems already developed and to replicate the project for possibly 100 other crafts. The expected curtailment of funding of the Project will probably lead to a slow down of this portion of FEI activities, given the absolute importance of FEI's role as an advocate of policy reform in Egypt.

The success of FEI in the above work was highlighted when the GOE decided to pass the work onto FEI as the manager of the Project. The third phase would be to create a certification body to certify trainees. The FEI had already started negotiations with Scotland and England to set up such a working relationship to help bring the accreditation to world standards.

The above training program is closely related to those of "Technology Transfer" in the previous section. For more details, see criterion 3, "Industry Standard Setting," and criterion 5, "Association Activities."

II 2 7 Financial Services

The findings here suggest compliance with the Project purposes. For details see criterion 8, "Association Finances," for an examination of performance over the past year with that of the previous years in the FEI diagnostic in Annex C.

II 2 8 Management Information Systems

This substantive category appears to comply with the Project purposes. One of the major goals of this FEI section was to create a computerized list of members to determine which firms were actually registered firms in Egypt. It would aid them in determining the membership base for purposes of obtaining membership fees. In addition, FEI has developed internal capacity to gather data from members to provide its members and others with information for making rational business decisions. The FEI has just created a new web site on which data on FEI, such as a list of its services and a schedule of past and future roundtable and workshops will be available to members and others. These often involve new technologies not currently used in Egypt such as the use of "bar codes" that help firms save in such areas as inventory and warehousing.

This section would also be developing a detailed information base on its member firms that could be used by both public and private sector decision-makers to make more rational decisions. This would be coupled with FEI tapping into established data banks such as those of CAPMAS, the GOE statistical unit,

and to obtain CDs for word trade data produced by groups such as International Trade Council (ITC). They would also be able to access directly approximately five hundred thousand trading and industrial companies in Europe through Europage. This allows Egyptian companies to know what companies produce what goods.

The FEI also provides seminars that were also associated with data from the computerized information system. One seminar provided information for dealing with Y2K. Another seminar dealt with electronic commerce. The FEI is in the process of getting sponsorships. They got LE17,500 sponsorships in addition to fees for participants.

Another service being developed by FEI is its trade and export opportunity project to help potential investors or traders to determine Egyptian firms with which might be candidates for joint venture or subcontracting arrangements.

The FEI has a modern management information system that is used tapping into information sources, as described under criterion 5, "Association Activities," and under criterion 9, "Membership Recruitment," in which all members are now on the computerized information system. See Annex C for more information.

II 2 9 Environment

The FEI is providing training and information on how its members can comply with the Environmental Law 4 that was activated in February 1998. To support improving the environment, FEI added capability to assist member companies in assessing the impact of environmental legislation, both in Egypt and abroad on their businesses. The plan establishes a new environmental office within the newly created technical assistance office with new qualified staff hired that has carried out the following activities:

1. Conduct seminars in major cities to inform Egyptian industries about the requirements and impact of environmental legislation, both domestic and foreign, on their businesses and the tools and instruments to overcome their negative impact such as eco-efficiency, ISO 14000, eco-labeling, recycling and dematerialization, etc. ,
2. Assist member companies in locating appropriate cleaner technologies, as well as possible funding assistance sources within the international and donor communities,
3. Support funding of outreach offices, with other Egyptian and international organizations, to assist companies in obtaining information on these environmental requirements, sources of appropriate technologies and sources of support funding, and
4. Include appropriate articles on environmental issues that affect Egyptian industry in the FEI magazine and newsletters.

II 3 Institutional Development of FEI Particularly Over the Past 18 Months Has Been Remarkable

Despite early major problems in the Project's design and management that led to its institutional collapse in January 1997, a combined effort by CIPE, USAID and particularly FEI, through its new leadership, turned the Project around. The recovery has been particularly impressive since October 1997 when FEI's new board of directors and new chairman and deputies took over. The Project was completely reorganized. As a result, over the past 18 months FEI has developed remarkably as an institution that supports Egypt's private industrial firms, as reflected and described in detail in the diagnostic, developed over the years by the US Chambers of Commerce, and recently completed by FEI.

The FEI diagnostic is presented in Annex C with a discussion comparing the impressive progress of the past year with findings of the previous year. The overall score of FEI, as a private business association compared to an international standard for rating private sector business associations, rose sharply from 119 out of a total 550 (or 21.6 percent) in September 1998 to 274 out of a total of 550 (or 49.8 percent) in October 1999. Rises occurred for FEI in 9 of the 10 performance criteria.

1	Vision, Mission, Objectives	Rise from 13 to 28 out of a total 50 possible points
2	Public Policy Advocacy	Rise from 6 to 37 out of a total 50 possible points
3	Industry Standard Setting	Rise from 0 to 20 out of a total 50 possible points
4	Employees	Rise from 33 to 44 out of a total 50 possible points
5	Activities	Rise from 4 to 23 out of a total 50 possible points
6	Infrastructure	Rise from 9 to 26 out of a total 50 possible points
7	Governance	Rise from 21 to 22 out of a total 50 possible points
8	Finances	Rise from 23 to 43 out of a total 50 possible points
9	Membership Recruitment	Steady at 5 out of a total 50 possible points
10	Public Relations	Rise from 5 to 26 out of a total 50 possible points

Since the diagnostic was completed, there has been a major attempt by the FEI Board of Directors to raise memberships in the only performance area in the diagnostic that remained steady. The FEI Board's recently acted to expand membership by permitting the inclusion of affiliated companies such as banks, insurance companies, and other firms that provide goods and services to member firms. They also are now admitting private sector business associations as members. See Annex D for the recent announcement that promotes new types of members.

As a result FEI generally achieved or is achieving its most important goals and as described below appears to be providing major economic, social and political payoffs to Egyptians and Americans alike.

With regard to the MOU of 10 December 1997, in the area of organization, the FEI created a separate project unit within its organization, the PMU, to manage the workplan activities and related financial matters. The FEI established and follow now clear lines of authority and responsibility within the PMU. The structure of the PMU is delineated in a chart presented in this MOU. The Executive Director oversees the PMU, assumes responsibility for all staffing, contracting, program and financial management, and compliance with all contractual obligations. The Executive Director reports directly to the FEI Chairman or Deputy Chairman and the Board of Directors.

In the area of program management, implementation of FEI's strategic workplan has been carried out through a series of program contracts developed along departmental lines such as public affairs, technology transfer, export and marketing services, government relations, economic information and environment programs. These are carried out by the relevant units within the PMU. The program contracts are negotiated and executed between CIPE and FEI. Nine contracts were originally envisioned: government relations, public affairs & chambers relations, export and marketing, economic information, technology transfer, human resources and training, environment programs, and management systems.

In the area of staffing, human resource development and technical assistance, FEI identifies, interviews and hires qualified individuals for the PMU. The CIPE is responsible for CIPE/FEI Project-funded training of the PMU staff in modern business association management and providing an ongoing series of seminars and other activities to develop the staff. To insure effective programs to meet FEI needs in a timely fashion, CIPE discussed and sought the endorsement of the PMU Executive Director on the training programs that it delivered to FEI. Both CIPE and FEI have been jointly responsible for insuring that other skills training needs are identified and met. To assist, CIPE arranges for a Human Resources Contractor to identify current FEI staff capabilities, ascertain their transferability to the PMU, and identify areas in which the FEI could develop future retraining programs to integrate current FEI personnel into the PMU.

CIPE has provided TA to the PMU as requested by the PMU Executive Director or according to proposals presented by CIPE and approved by the Executive Director. The Scope of TA and the experts provided by CIPE must be responsive to FEI needs and should therefore be jointly developed and agreed to.

In the area of financial management, CIPE has overall fiduciary responsibility to USAID for management of the funds under its cooperative agreement. The PMU was responsible for effectively managing subcontracted Project funds. This included payment of PMU staff salaries and other expenses approved

and incorporated into the budgets of the FEI contractual arrangement with CIPE. The FEI's PMU maintains a separate bank account and accounting system for these Project funds. The PMU established and apparently follows the financial management accounting procedures agreed to in the new PMU Policy and Procedures Manual.

With regard to the preparation for execution of program contracts, the FEI has formalized financial structures and systems within the PMU including procurement, accounting, wage scales, financial authorities and hiring additional staff, as documented in a FEI Policies and Procedures manual. The CIPE, in turn, completes assessment of the PMU's financial and accounting capabilities, insures that the PMU is fully equipped with computers, faxes and photocopiers to begin work immediately after the FEI and CIPE execute the program contracts, and commission annual audits of the USAID-funded activities contracted by CIPE to the FEI if necessary to insure compliance with the terms and conditions of the program contracts.

In implementing the program contracts, the FEI submits documentation supporting commitments, expenditures and actions taken under the program contracts pursuant to the requirements of each program contract, and CIPE reviews documentation submitted by the FEI and verifies that the FEI is in full compliance with all contract requirements. The CIPE does not disburse funds to FEI unless FEI is in full compliance with all contract requirements.

II 4 Project Support for Sector Chambers and Private Business Associations

The project has provided management training for a variety of business associations covering a variety of areas. The participants interviewed universally expressed favor with the services whose recipients and service descriptions are provided next.

II 4 1 Management Training

In summer 1998, CIPE held a weeklong seminar in Cyprus, followed by two week long seminars in Hurgada in which the Cyprus seminar was repeated, and a second "advanced" seminar built on the initial seminar. They aimed at providing management training for business associations, including FEI, which covered

Association training focussing on

- Role of Business Associations in a Democratic Society
- Delivering Needed Services to Members
- Need for Professional Staff

Advocacy training focusing on

- Use of Committees to Develop an Advocacy Agenda
- Conducting a Stakeholder Analyses
- Designing a Media Campaign
- Meeting with Legislators and Other Opinion leaders

Governance training focusing on

- Use of Committees to Increase Member Interest in a Business Association
- The Division of Responsibilities between Professional Staff and Board of Directors
- Building Consensus with Members on Policy Issues
- Design and Use of Monitoring Systems for Professional Staff
- Need for Outside Audits
- Management Systems

Seminar leaders included leading business association trainers from the US and the Confederation of Indian Industries. Attendees were encouraged to submit sub-grant proposals to CIPE from which CIPE would fund approximately \$250,000 of proposals. Proposals were to be screened to select those which

would likely lead to business associations becoming more independent and/or effective associations. Strengthening some of these business associations would be in support of USAID's Strategic Objective One's Intermediate Result 1.3.3 which supports increased private participation in policy dialogue.

This training was further developed in a second management training course held in Hurgada.

The following business associations, FEI industry chambers and related groups have received management training in the above programs for association management training and other types of training:

Federation of Egyptian Industries
 Chamber of Cinema Industry
 Chamber of Food Industries
 Economic Reporters Business Association
 Horticultural Exports Improvement Association
 Egyptian Business Women Associations
 USAID
 Chamber of Woodworking Industries
 Chamber of Leather Tanning Industries
 Chamber of Printing Industries
 Chamber of Textile Industries
 Chamber of Leather Industries
 Egypt's Social Fund for Development
 Egyptian Center for Economic Studies
 American Chamber of Commerce
 Egyptian Businessmen Association
 Egyptian Dairy Association
 10th of Ramadan Business Association
 Milk Producers Association
 Federated Chambers of Tourism
 Chamber of Cereals Industry
 Egyptian Seed Association
 Egyptian Travel Agents Association
 Assiut Investors' Association
 Sadat Investors' Association

II 4.2 Monthly Seminars

In addition CIPE has put on a series of monthly seminars covering substantive topics such as:

Non-dues Income for Business Associations
 Stakeholders Analysis
 Role of Business Associations in Promoting Exports and International Trade
 Membership Development for Business Associations
 Strategic Planning and Programs of Work
 Public Policy Advocacy and the Role of Business Associations
 Role of Business Associations in Democratic Societies
 Marketing for Business Associations

II 4.3 Grants to Industrial Chambers and Private Business Associations

According to CIPE staff, during spring 1998 when there was still a lull in FEI activities, CIPE with the concurrence of USAID, in an effort to spur on FEI activities, decided to open up the Project funds to other private sector business associations and industry chambers with good project proposals. According to CIPE staff, this new direction aimed at pointing out to FEI leadership that if they didn't start activities using the Project fund for their own initiatives, the funds would be redirected toward other competing groups.

This decision by CIPE and USAID appears to have been very successful. Over the past two years, CIPE has awarded 11 grants to FEI, its constituent chambers and a few other business associations. Those organizations include the Chamber of Leather Industries, the Chamber of Food Industries, the Chamber of Cereals Industries, the Chamber of Printing, Binding and Paper Products, the Egyptian Businesswomen Association, the Egyptian Seed Association, the Egyptian Textile Manufacturers Federation and the Horticultural Export Improvement Association (funds were never disbursed).

Interviews with four of the business associations and chambers indicated that the funding appeared to address some of their important special concerns. For example, the Seed Association was able to double their membership in less than 9 months. The Printing Chamber was able to make the GOE aware that subsidizing their public sector competitors undermined the private sector's profitability and thus growth. The Leather Chamber was able to brainstorm ways of raising the quality of locally produced hides in an effort to lower costs, raise competitiveness and reverse the recent trend of declining exports. The new directions also allowed representatives of these business associations and chambers, and other such as representatives of the Dairy Producers, to participate in the training programs and monthly seminars that were being conducted through the Project by CIPE.

While the original cooperative agreement allowed financial support for the individual chambers that are affiliated to the FEI, in fact little funding was directed toward the individual chambers. It appears, from discussions with FEI board members, that the decision to open up to other associations did in fact encourage much of the positive institutional changes that occurred over the past 18 months that have been discussed in this evaluation. For example, see the FEI diagnostic in Annex C.

Findings on the specific grants for two private sector business associations, the Egyptian Business Women Association and the Seed Association, and two of the industrial chambers, leather and printing, that received grants are summarized next.

II 4 3 1 Leather

The leather chamber is one of 14 chambers affiliated with the FEI. This chamber received a \$60,000 grant in September 98 that funded three seminars and some upgrading of supplies and equipment, including computers, for carrying out chamber activities. This chamber appeared to be running very effectively, in contrast to others. Most of the funding went to underwrite three seminars. The first seminar provided technical training that was tied to an on-going training program funded and run by the German aid agency (GTZ). It dealt with technical issues for leather workers attempting to cut costs. For example, it provided training on the use of computerized pattern cutters that can reduce costs of raw materials by better usage of available leather hides.

A second seminar dealt with market issues, mostly in the domestic area. The seminar addressed specific problems for leather such as their big problem of no wholesalers because the former GOE tax structure essentially removed wholesalers. The problem is how the industry could reintroduce wholesalers, or their equivalent, after the law was rescinded. Thus the seminar aimed to get people in the industry to sit down together and brainstorm on how to recreate distribution channels and to find solutions for getting profit margins to levels that will attract wholesalers back to the industry. The seminar came up with a variety of practical ideas, such as having factories work together to supply marketing that a single factory could not. The chamber is now doing a pilot to see if it works and the feasibility of replicating it. Another suggestion that came out of the seminar was to have local exhibition. Subsequently, the chamber has had two shows. They learned substantially from the mistakes in the first show. The second exhibition was more of a success with the Minister attending. The second one attracted many traders including those from such diverse regions as Assuit and Tanta.

A third 2-day seminar dealt with Egyptian procedures for exporting leather goods. This seminar dealt with Egyptian leather exports, which are decreasing in value every year. The members of the seminar formed four subgroups dealing with various key issues and brainstormed in an effort to deal with the problem. They invited the Ministers of Trade and Industry, who did not attend but sent representatives to the seminar. This seminar according to the executive director was very successful and dealt with such issues as management, training, and producing cost analyses. There were over 150 attendees. A committee was formed to examine GOE regulatory and economic policies that are egregiously curtailing

leather exports from Egypt. One common problem is that there is a lot of waste, particularly with regard to hides from Egypt. Many of the cattle are treated as if they were only used for meat, and their hides are often damaged. Part of the problem is that slaughterhouses are GOE operations, and their managers are not very price sensitive. Much of the problem is making those who raise cattle aware that they are scarring the hides and thus obtaining lower economic yields on the hides.

There is currently a GOE effort to move tanners to Badr City, which is about 30 kilometers from Cairo on the way to Suez. It is felt by the GOE that the move will deal with the problems. But members of the leather association think this will not be the case. Also, Italian consultants are studying the situation. Egyptians consider Italians to be the best experts on producing leather goods. Informal sector firms who are not registered and thus not legal entities in this industry in Egypt dominate this sector. The costs associated with mandatory membership are among the many regulatory costs that are preventing many firms from becoming legal by registering.

II 4 3 2 Printing

This chamber received a grant to put on a big conference to discuss the problems facing Egypt's private sector printing industry. Three hundred attended the conference. The purpose of the conference was to point out clearly to the GOE that their subsidies for GOE printing parastatals, like Al Ahram, that compete directly with the private sector, were undercutting the growth and development of the private sector printing industry. This "crowding out" of the private sector by the public sector is one of the most inhibiting factors to private sector profitability and growth in printing and in other sectors. Members of the Printing Chamber tried to convey to the GOE that subsidies such as free rent or use of land or special tax considerations give their public sector counterparts an unfair advantage. The Ministers of Finance, Industry and Labor, or their representatives, attended the conference. The member firms advocated that in lieu of dropping subsidies to their public sector competitors, that the GOE consider reducing the heavy and ad hoc tax system, including stamp fees that plagues printing and other private sector firms. The members have not yet received a positive response from the GOE. This is an area where this chamber will seek the broader support of FEI for making progress on this issue that faces other sectors besides printing.

II 4 3 3 Egyptian Women Business Association

The approximately 2-year old Egyptian Business Women Association (EBWA) represents approximately 150 businesswomen. Their leadership indicated that the Project is their most important resource at this critical early point in their association's development. They are the only women's business association in Cairo with dedicated office space and dedicated staff for association activities. The executive director pointed out specific Project publications are helping their member firms raise exports. They also indicate that training is helping their firms become more competitive and their business association to be more effective as a private sector lobby and as a better service provider to their members. Moreover, they point out that the training sessions allow them to mix with FEI members. The synergy of meeting with different groups enables the EBWA to support newly formed women's business associations in 14 Egyptian governorates and to play a critical role as a founding member in a new federation currently being formed with business women associations in the other Arab countries.

The EBWA leadership indicated that because of the great job that FEI is now doing, particularly as an advocate of policy reform, they intend to join FEI as a dues-paying associate member. In contrast to the Egyptian Chambers of Commerce, they are comfortable with the FEI in part because there are at least a few women holding positions on the boards of directors of individual chambers, if not on the board of directors of FEI itself. The FEI, with its overlapping leadership and through US-funded CIPE training in managing developing business associations, is at least indirectly supporting the high-profile politically sensitive positive transformation, or as some Egyptian say "revolution," currently taking place in Egypt's Chambers of Commerce. These new changes that are expected to be incorporated in the new by-laws would lower the percentage of appointed leaders and for the first time in Egypt's history allow women to be members in the boards of directors of Egyptian Chambers of Commerce that number an estimated 3 million members.

II 4 3 4 Seed Association

This business association received a grant of \$65,000 to help the association increase its members and to help with strengthening its offices through equipment including computers. A series of workshops have been held and since March and with the help of the Project their business association has grown from about 60 members to 123 members. They have two types of members who pay an initial fee, equivalent to a year in membership fees, and annual membership fees. Full members pay LE1,500 and affiliates pay LE300. They closely follow the agricultural laws, and in particular have been supportive of its Intellectual Right Protection provisions which are critical for participating in the World Trade Organization (WTO) and thus trade. They are also working closely with other new specialty associations like the Egyptian Horticulture Exporters Association. The executive director said that members have participated in the monthly seminars, and plan to participate in the next training session for managing private sector business associations. Because of their work as policy reform advocates and as a provider of information and training, their staff indicated interest in joining FEI as an affiliate.

II 5 The GOE Continues to Play the Main Role in Economic Transition

The GOE has been and continues to be, the leader in bringing about Egypt's remarkable economic transformation as evidenced by the May 1999 conference and the subsequent follow up discussions between FEI members and the Cabinet ministers. That also includes its transformation of FEI from a socialist white elephant to a smoother operating industrial association, which is increasingly acting like a private sector association. One FEI government appointed leader, who is also a top private-sector businessman, pointed out that a continuing disappointment within FEI is its failure to legally change FEI into a private sector organization. He also indicated that in fact all the key policy reforms and other FEI benefits are now clearly "private sector" and not "public sector."

The GOE, appropriately sensitized by social and political considerations, has adroitly undertaken hard decisions to transform its economy into one that is efficient and market driven – one that few would have expected a few years ago. The adeptness of the GOE is bringing about changes that improve the lives of most if not all Egyptians. Moreover, the GOE has been skillful at bringing about this transformation without the destructive turmoil that has taken place elsewhere and that could have halted privatization and created an emergency situation, which would have increased costs to Egyptians and donors alike.

II 6 Reform Agenda Strengthening FEI As Integrated with Privatization, Finance, Tax, Trade and Other Reforms and Institutional Improvements

The broad ranging economic reforms, as reported in IBTCI quarterly reviews, have worked systematically and steadily to transform Egypt's former inward-oriented, GOE-controlled economy into one that is market driven and more export oriented. The reforms to date have substantially reduced the size and role of the GOE in the economy, while increasing the private sector's role. Through privatization of non-financial enterprises, privatization of the banking system, privatization of insurance and other financial activities, and privatization of infrastructure and public utilities, and in the case of this Project the attempts to privatize business associations, the GOE has slowly and carefully reduced the extent to which it controls the economy. The strengthening and future privatization of FEI has been and is expected to continue being a major factor in the successful transformation of an economy from public to private sector resource allocation.

The transformation of FEI is a key illustration that the GOE privatization program has not taken place in a haphazard way, as it has in some other emerging markets, and has been done in a manner that insures economic and political stability. Great effort, for example, has been taken to set up an appropriate legal and institutional environment for privatization, and again FEI has taken a leadership position in this area. This was evidenced by Mohamed Farid Khamis', the FEI Chairman at that time, elected role as leader among Egypt's seven major private business associations in 1994 that was the first major session in which Egypt's private sector helped identify and prioritize investment constraints for a World Bank Conference involving government decision makers, donors and business leaders. The focus was on reducing the GOE's share in the economy by a means of legal and institutional reforms.

A further example of FEI's role in privatizing the economy was Mohamed Farid Khamis' far-sighted leadership in de-monopolizing and privatizing the port and airport facilities, which are critical for Egypt's to successfully take full advantage of the World Trade Organization of which it is a member. Mohamed Farid Khamis, representing FEI, met with donors as a representative of Egyptian industry. For example, he invited the US Ambassador to his home and argued that the de-monopolization of the ports, as well as the airports, should be included as key policy reforms on the USAID \$200 million a year Sector Policy Reform (SPR) program. He indicated that the Egyptian industrial firms, as represented by FEI, would support these policy reforms. This was a continuation of FEI advocacy of such reforms in the 1994 World Bank conference and was subsequently introduced in the initial draft business agenda that was widely circulated to groups as the Presidents Council. The results have been striking as exemplified by the passage of Law 22/1998 that allows concessions to be granted to domestic and foreign investors for the establishment of general or specified ports or platforms in existing ports, which has opened the infrastructure to development by the private investors. Moreover, substantial improvements and institutional reforms have been instituted to continue strengthening the market as an alternative to the state allocation of resources. This is documented in the IBTCI Quarterly Review for Fourth Quarter 1998. Similar, areas for private sector provision of airports has also taken place recently, as documented in the IBTCI Quarterly Review for First Quarter 1999.

The IMF states that privatizing its seven remaining state-owned joint venture banks and one of its Big Four commercial banks would reduce the public sector's role in industrial sector activity by about 25 percentage points, from 38 percent to 13 percent. This is an enormous improvement in the more efficient role of the private sector in the industrial sector, which over a decade ago was heavily dominated by the state. The speed of progress is in large part due to the leadership role of FEI in fully and effectively supporting the GOE's leadership in this policy and institutional reform area.

Moreover, tax reforms and decreased subsidies to former state-owned enterprises and other reforms allow the GOE to increase expenditures for productive social programs, such as potable water, education and health, while helping its budget deficit to decline to less than one percent of GDP. This has also contributed to inflation dropping below levels of five percent per annum, which in turn further acts to stabilize the macro-economy. In addition to lowering the budget deficit, improvements in tax collections have permitted a reduction of tariff barriers and the privatization or de-monopolization of inefficient GOE maritime port services.

II 7 Major Expected Economic and Social Benefits of this Project

The economic impact of the Project purposes laid out earlier led to benefits to Egypt that appear to far exceed the total \$10 million in Project funding expended over the past 5 years. In terms of expected economic rates of return on investment, this project, by making FEI a successful advocate of good economic policies, has the potential of being a very successful project with rates of return that are probably substantially above those elsewhere in the Egyptian economy. However, just as the Project is finally moving forward and is at a critical part in its transition, USAID has cut funding for the Project that was expected to reach nearly \$14 million.

The establishment of a modern business association as an advocate to the private sector provides a powerful tool to support the reforms in the private sector including support for a functioning stock market. The shift of former GOE-owned enterprises to the private sector had a significant impact on improving economic efficiency in the privatized firms, the remaining state-owned firms, and the macro-economy. The IBTCI quarterly reviews and Special Studies' reports suggest that these new developments raised the efficient allocation of Egypt's scarce resources. Additionally, they attracted new foreign investments, diminished high and inflationary budget deficits brought about by financing unproductive state enterprises, and began changing the general public's vision of where the Egyptian economy and society were heading.

These benefits are continuing to accrue to Egypt as more and more foreign investors engage themselves in new productive initiatives. The stock market's remarkable performance, given that it was only recreated in 1996, has been a magnet in attracting substantial private sector investment to Egypt. Its success also had enormous spillover effects in encouraging the GOE over the past few years to begin privatizing strategic sectors, ones that had been considered off limits to domestic and foreign investors.

The economic benefit of encouraging private sector participation in the development of public infrastructure and public utilities provides additional economic gains to Egyptians. Moreover, the privatization of basic infrastructure and utilities has enormous social implications for expanding basic human services, including communications, transport, potable water, education and health, to all Egyptians – not just to the rich. This can occur directly through such techniques as Build, Own, Operate and Transfer (BOOT) operations, which can provide services such as potable water to segments of the population that might not ordinarily receive them, especially if the GOE had to rely on its own scarce resources. It also provides additional social services through a reduction of the budget deficit brought about by reduced spending on inefficient GOE-owned enterprises.

Thus, over the last two years of this Project, if it continues after USAID funding is cut off, has huge expected social and economic rates of return through the enormous benefit stream accruing to Egyptians over the past five years. These rates of return apply to international investors, who are increasingly investing in Egypt where they see an increasing return relative to risk. Further success also permits USAID to curtail its foreign aid to Egypt, which indirectly provides additional gains to US taxpayers. Over time, this Project appears to have been part of a complex series of factors that have or will have encouraged higher economic growth, more exports, additional higher paying jobs, higher tax revenues, and more funds available for productive educational and health programs. Moreover, there are great political gains with the stability associated with remarkable macro-economic transformation of this country with a population exceeding 62 million and geographically situated in one of the most politically and economically important regions of the world.

Another major benefit of the Project has been its ability to leverage USAID funds by encouraging substantial additional TA by the European Union, Canada, Germany and other individual European countries.

III LESSONS LEARNED, CONCLUSIONS AND RECOMMENDATIONS

III 1 Lessons Learned and Conclusions

The following lessons learned are based on experiences that appear to have had positive economic payoffs or whose appropriate consideration could have increased the Project's effectiveness

III 1 1 Lessons Learned Relating to the Government of Egypt

- **A poor business climate and lack of information by Egypt's private sector can undermine the private sector's efficiency and competitiveness in global and regional markets** Members of FEI pointed out that they supported FEI because of its advocacy role for policy reform and as a provider of information, services and training This attests to the importance of improving the business climate and providing information by all classes of businesses The partnership between GOE and private sector appears to have been very effective at bringing about the types of change needed to revitalize a socialist economy into one that relies more heavily on the private sector and markets
- **Solid collaboration between the GOE, private sector business associations and the donors can have enormous benefits, particularly in the areas of improving the business environment** This has been seen in Egypt over the past 5 years of the project beginning with the October 1994 initial formal meeting in which Egypt's 7 largest business associations formally described to the GOE what was needed to stimulate new private sector investment This process continues at present with continued meetings between FEI members and the new ministers The economic payoffs are seen clearly in Egypt's rapidly improving economic indicators including the overall economic growth rate
- **Avoid placing both high paid workers paid by a donor-funded project too close to low paid workers already working at GOE rates** This was done in the first part of the Project and created tensions that were a major contributor to the Project's collapse in January 1997

III 1 2 Lessons Learned Relating to the Private Sector

- **Private sector development is led by a combination of social, political and economic factors** The basic problem of privatization of FEI is that the Project is intertwined with competing efforts and changing priorities of the GOE and Egypt's private sector The FEI leadership in fact appears to have had the flexibility to keep up with the movements of the GOE and by windows of opportunity, which in turn are motivated by a combination of social, political and economic factors It is difficult to keep tabs on how these dynamic factors can abruptly change over time Consequently, USAID and CIPE need to monitor both economic and non-economic factors and maintain a close relationship with GOE decision-makers They need to keep good lines of communication open The Project should keep in mind the overriding goal of supporting private sector development and thus be flexible enough to respond in a timely fashion to facilitate the new openings in the privatization process including that for business associations The private sector appears to be fully in favor of "privatization" without mandatory membership but feels that it should not be pressured into privatizing prematurely Moreover, the leadership now has a different tone than the leadership at the beginning of the Project The pressure to privatize and the decision to cut back funding before the expected funding level was reached is difficult for the FEI members to understand, particularly given that the project is transitioning so well As pointed out over the past year, there has been a continuous change in priorities or windows of opportunities, as related to the privatization transition within the Egyptian Chambers of Commerce See the Al Ahram article in Annex E

III 1 3 Lessons Learned Relating to USAID

- **USAID should have insisted that project management had staff experienced in working with representational associations and in developing countries** Much of the early FEI problems stemmed from lack of experience in working with developing countries For example, putting workers with vastly different wages together was courting for problems in an environment as political as FEI Fortunately, FEI brought managerial or technical staff with the skills needed for their

particular jobs and put the resulting PMU in a separate location. Moreover, FEI leadership appeared to match the new PMU staff by aligning their skills with their respective jobs. Thus, the early part of the Project was characterized by a lack of cultural sensitivity and weak intercultural relations. This was corrected two years ago when high and low paid workers were not put together, and the Egyptians themselves took over the leadership and management of the professional staff.

- **USAID needs to continue to recognize that the private sector is the Project's primary client.** Correction of this deficiency requires a much more flexible approach. The Private Sector approached the entire Project counting on the expected \$13.8 million. It planned along those lines.
- **An inferior project design can undermine the program's effectiveness, if management does not effectively and in a timely manner deal with the weaknesses.** There were a number of general lessons learned on the design, some of which have been discussed earlier. Any future TA assistance to strengthen Egypt's proposed private sector business associations project should consider the following: 1) Be clear on what it takes to do the job, 2) Be clear on how to do the job, 3) Base the project on a clear concept, at least to USAID, as to how support can be accomplished, 4) Base the project on clear priorities, 5) Set up to satisfy both the GOE and the USAID interests.
- **USAID should attempt to staff a project with someone with actual experience working with business associations.** There seems to be confusion and little understanding among USAID staff as to what the functions of a business association are. It would be useful to have staff managers with actual business association experience in order to avoid among other things the poor start of this project, and that realized after the project took off that this was a project with high economic payoffs.
- **Developing support for industrial firms by policy advocacy and provision of important business services is long and costly with frequent delays, unforeseen complexities and hidden social or political issues that require resolution before a successful transaction can occur.** Flexibility and the evolutionary nature of development projects requires the continuous reassessment of goals, objectives, and deliverables and the willingness on the part of project management to look beyond predetermined objectives for possible positive project impacts not originally envisioned. For example, CIPE, USAID and FEI leadership was particularly adept at completely restructuring the project when it collapsed.

III 1 4 Lessons Learned Relating to CIPE

- **It is critical for the TA provider to determine early in the process the major institutional impediments.** Failure to identify that problem suggests at best inappropriate personnel working on these key decision making constraints. In this Project, CIPE project management should have had substantive knowledge of business associations and substantive knowledge of Egypt to avoid the problems incurred with the Project's design. Moreover, CIPE should have identified other applicable organizational designs such as those used by the GOE's Public Enterprise Office and Ministry of Economy.
- **Management in Egypt should be very experienced and located in Egypt, not Washington.** The project unfortunately needed more experienced managers in Egypt that could have recognized the problems and adjusted the Project earlier. The problem was solved in 1997.
- **Don't reinvent the wheel.** The CIPE should have spent more time initially checking out how other projects with similar characteristics were run in Egypt, and avoided the major problems that could have been avoided. While this was the first project of its kind, some of the design flaws could have been avoided by examining other projects with similar characteristics such as that of the Private Enterprise Office, which introduced a QUANGO and could have contributed to the plan of this Project.

III 1 5 Lessons Learned Relating to FEI

- **FEI should not have agreed to privatize FEI and have voluntary membership if it was politically impossible** This has been a flaw that has tended to undermine the effectiveness of the business association
- **In the initial stages the Project should have focused sooner on the process of the institution building** Again, the Project was initially a one-man show with a focus on the policies and not much on institution building In addition, CIPE prepared the documents and the FEI Chairman reviewed and then supported the policies through his interpersonal connections rather than by group consensus or majority vote This created enormous problems with developing a sustainable institutions

IV 1 6 Conclusions Project's Expected Economic Payoff In Large Part Is at Jeopardy With the Earlier Than Expected Cutoff in USAID Funding

- **Main Conclusion** At the turn of the millennium, the United States Agency for International Development (USAID) / Center for International Private Enterprise (CIPE) - Egypt Project is facilitating rapid institutional improvement of the very important, but still transitional, Federation of Egyptian Industries (FEI) that increasingly provides substantial mutual economic, political and social benefits for the United States, Egypt and the Middle East
- **The FEI is the single major representative of industry in Egypt and has a history of collaborating with the US in policy reforms that are improving business conditions including those of US firms** The FEI with approximately 15 thousand members is the major representative of all Egyptian industry and its 14, soon to be 15, chambers provide in varying degrees a similar role at the sector level The strong and increasingly important advisory role of FEI with the GOE is expected to increase in light of the strong economic orientation of the new Prime Minister and his Cabinet Moreover, the FEI now has a strong relationship with the US that has been built up over the past 5 years of the CIPE Project The FEI is now one of the most effective lobbies for positive private-sector reforms and thus is a strong supporter of the US strategic plan for Egypt For example, FEI leadership worked closely with the US through its \$200 million a year Sector Policy Reform (SPR) program to de-monopolize and privatize maritime port services and the airports The privatization of services at new port facilities according to the FEI Board Chairman has already led to cost reductions of \$300 per container These cost savings are expected to increase the global and regional competitiveness of Egyptian-based firms, including those owned by Americans Those savings per container are expected to rise with the further de-monopolization and privatization of the port facilities being supported by FEI The FEI now feels it is a partner with the US in accomplishing these types of key reforms that are rapidly changing the face of Egypt
- **The FEI now is rapidly undergoing positive institutional change and has in place a generally excellent, professional and dedicated staff that provides extremely valuable services including those of interest to US taxpayers such as improving the business climate and improving the environment** These important services include 1) lobbying for policy reforms, 2) training staffs of private sector business associations, 3) supporting efforts in marketing and exporting, and 4) strengthening management skills The FEI also has a new ongoing program developing skills accreditation in conjunction with partnerships with developed country counterparts, and an economic and commercial computerized information gathering system to replace the outmoded GOE one The FEI also has an effective program to help their members comply with Environmental Law 4/1998 that became effective in February 1998
- **The FEI also provides substantial services to smaller and medium size businesses including those owned and operated by women** For example, the leadership of the approximately 2-year old Egyptian Business Women Association (EBWA) that represents approximately 150 businesswomen indicated that FEI is their most important resource at this critical early point in their association's development They are the only women's business association in Cairo with space and staff dedicated to the business association They point out specific FEI publications

that are helping them enhance exports by their member firms. They also indicate that FEI training is helping their firms become more competitive and their business association to be more effective as a private sector lobby and as a better service provider to their members. Moreover, this FEI support is enabling the EBWA to support newly formed women's business associations in 14 Egyptian governorates and to play a critical role as a founding member in a new federation currently being formed with business women associations in the other Arab countries. The EBWA leadership indicated that because of the great job that FEI is now doing, they intend to join FEI as a dues-paying associate member when it is formally allowed. The FEI, through its overlapping leadership and through training on developing business associations, is at least indirectly supporting the high profile, politically sensitive, positive transformation, or as some Egyptian say "revolution," currently taking place in Egypt's Chambers of Commerce. These new changes that are expected to be incorporated in the new by-laws would lower the percentage of appointed leaders and for the first time in Egypt's history allow women to be members in the Egyptian Chambers of Commerce, which now has an estimated 3 million members.

- **The FEI is taking full advantage of the economic orientation of the new Prime Minister and Cabinet to push for an acceleration of economic policy reforms that will improve the overall business climate and in particular make it easier for new US investments and for existing US businesses.** More generally, the FEI conference last May that unveiled its FEI national business agenda was attended and applauded by over 700 attendees, many who have actively worked on parts of the agenda in groups that often totaled more than a hundred business persons. Eight key Egyptian ministers dealing with economic and commercial matters attended sessions dealing with their areas. The FEI is actively following up this reform agenda. For example, during the past week, almost 100 FEI members met with the new Minister of Finance to argue for specific key reforms and rationalization of Egypt's industrial tax law. Approximately 60 members met with the new Minister of Communications to free up access and centralize economic and business information for all FEI members, including US companies. They are also lobbying for upgrading computer training and services, and in adopting protection of Intellectual Property Rights, whose law is expected to be passed during First Half 2000. Speeding up the passage of reforms, for example, on labor alone would more than justify the approximately \$10 million spent on this Project over the past 5 years. If the Project stops on 31 December 1999, total funding will be below the \$13 million expected amount on which FEI leadership based their plans and which they felt would provide a safety net for this critically sensitive transition period while FEI was becoming a truly representative private-sector business association.
- **Moreover, USAID funding would be transitional as FEI is rapidly moving toward and soon expects to be self-sustaining.** The new USAID funded FEI building, a source of pride and affection for the US, is expected to be finished in October 2000 and would generate substantial increased revenues from office space and other facility rentals. In addition, as pointed out earlier, membership is increasing in number and membership fees are increasing in amount for all size categories, with the largest 150 to 200 member firms increasing their current annual fees from a range of LE2,000 to LE3,000, depending on the industrial chamber, to a uniform LE10,000, and the smallest member firms membership fees are rising from LE50 to LE 200. Moreover the 3,000 to 5,000 new factories under construction will also be substantially enhancing the membership base. Another source of increased revenues is expected to be the training sessions that are viewed by members and their affiliates and other business associations as extremely valuable. Fees for these sessions are expected to rise. All of this is expected to soon make FEI financially sustainable.
- **While FEI has not yet been privatized, it certainly acts like a private sector business association and provides key services similar to a private sector business association. The Chairman of the Board expects FEI to be privatized by June 2000.** Its new law to privatize has been drafted and reviewed and the highly effective Chairman of the Board expects it to be passed during First Half 2000. A major reason that FEI was not privatized over the past year has been because of the FEI leadership's involvement with the privatization revolution that has taken place in the Egyptian Chambers of Commerce, representing an estimated 3 million persons, that has led to a compromise position between the revolutionaries, led largely by FEI overlapping leadership, and those representing the status quo. The unexpected window of opportunity for

revolutionizing the Chamber of Commerce has led to the lag in passing the new FEI privatization law. Much political capital is being spent by FEI leadership in privatizing the Egyptian Chambers of Commerce, where GOE appointments to leadership positions is now expected to drop from 50 to 25 percent, and thus power has shifted to private sector representatives. This is expected to rise to 100 percent private sector representation after a relatively short transitional period. As pointed out above, for the first time in Egypt's history women will be allowed to be members in the Egyptian Chambers of Commerce.

Given domestic political realities and the spirit of compromise in Egypt, passage of the new privatization law¹⁵ for FEI may require a transition period during which there is but token GOE-appointed leadership. Passage of the new law has been postponed because of political uproar and FEI's spent political capital on positive reform efforts taking place within the Egyptian Chambers of Commerce. Moreover, the FEI is much more institutionally developed and effective. So FEI does not want its privatization law ratified at the same time as that of the Chambers for fear its passage during this period would dilute its private sector provisions. If the FEI law is passed in the coming legislative period, or the next, it appears that the USAID CIPE/Egypt Project will have led to the privatization of not only the FEI, with its estimated 15 thousand industrial firms, but also the Egyptian Chamber of Commerce with its 3 million members which will also be augmented with its admission of women members for the first time in Egyptian history.

- **Other donors including the European Community and in particular Germany are already positioning themselves to fill the expected vacuum that would occur with curtailment of the CIPE program.** Moreover, FEI leadership consistently expresses their sincere appreciation for the strong support that the USAID has given them. They also indicated that it would be a shame for the US not to finish a job well done and at the end relinquish their key role to the European Community and specific countries such as Germany, especially given the different approaches to how to organize a business association. A similar situation occurred recently with Germany's attempt to fill a vacuum from the perceived pull out by the Americans from Egypt's Public Enterprise Office. That situation was corrected by USAID.

In sum, the FEI is not just another business association. It is now one of the most if not the most dynamic business associations in Egypt. Moreover unlike any other, FEI speaks for all Egyptian industry. Its importance for US business, for example, was reflected by the new Executive Director of the American Chamber of Commerce who indicated AmCham's effectiveness would be substantially curtailed if FEI, their partner in reform, cut back its services and lobbying efforts and was allowed to regress to its pre-CIPE state. Cutting back US support at this critical point in FEI transition could lead to a collapse of this still transforming business association. Such a collapse is possible and in fact occurred already approximately midway through this Project. The enormous expected benefits associated with continued funding of this Project through the expected short transition period greatly outweighs the relatively small costs of this Project which are minuscule compared to overall US funding levels for Egypt.

The Project had a weak institutional start due to an overall lack of private sector business association experience in Egypt and thus appropriately skilled personnel, deficiency of CIPE experience in working with state controlled business associations and transforming them into private sector ones, absence initially of an CIPE expatriate manager with substantive knowledge of business associations, and an inadequate understanding of Egypt. These factors contributed to a weak and inappropriate project design. Under the initial Project, new appropriately skilled staff with substantially higher wages worked in close proximity to the previous FEI staff very low GOE wages. This created enormous personnel problems that in turn created difficulties among members of the FEI Board. CIPE management in Washington office that did not understand what was taking place in Egypt and was not aware of other problems associated with this Project's design and management. As a result of these and other factors, the CIPE Project as an FEI institution builder collapsed completely in December 1996 when all almost all the USAID-funded CIPE Egyptian professional staff were fired.

¹⁵ FEI prefers to use Independence Law as they feel that privatization is more relevant to a state owned enterprise that is being transferred or sold to the private sector.

with a one month's notice. Up to this midway point, the Project had produced a draft policy action plan that had been widely distributed to decision-makers in Egypt including those on the Presidents Council. Moreover, a draft export strategy was prepared for discussions at the first meeting of the High Council on Exports, which is chaired by President Mubarak. The action plan also provided FEI positions that supported private sector development, when they were asked to comment on certain positions. It also allowed them to avoid political problems such as occurred when asked to comment on this issue of Intellectual Property Rights. Thus the document provided substantial policy guidance during the early stages of privatization and private sector development, which subsequently allowed private sector leaders to focus on key issues such as the de-monopolization and privatization of the maritime port services.

The catharsis of the firings of FEI staff led to a replacement of the CIPE country director and a change in CIPE project management in Washington. In October 1997, two-thirds of the FEI Board were elected and the GOE appointed the other third including a new FEI Chairman and two Vice Chairmen. As the situation remained static after the firings, CIPE's new management and USAID made an important decision to open up the funds to other business associations which appeared to act as a catalyst for FEI to regroup, redesign, rehire and move ahead. The new FEI leadership hired new staff that were highly qualified in their given areas of expertise, improved the institutional arrangement by creating a Project Management Unit in the new FEI building, placed control, direction and initiative more with the FEI and less with CIPE, moved CIPE away from the new PMU and subsequently, let CIPE essentially act as a facilitator of FEI initiatives. This new institutional arrangement placed more management on FEI leadership and less on CIPE or USAID.

- **The FEI provides an effective lobby for business and economic reforms that enhance the performance and profitability of US companies that are rising in number in Egypt.** All US industrial companies in Egypt are members of FEI except those in the duty free industrial areas. Many new US industrial companies are expected to be opening up operations in Egypt over the next few years and would be members of FEI. Also FEI is opening up membership to affiliate companies, including banks, in an effort to raise its revenues and thus FEI sustainability, as described more fully below. Many of these new affiliates would be fully or partly US-owned.
- **The FEI, which has a close relationship and considers itself a partner to the US, has after a difficult start made and continues to make great institutional improvements over the past 18 months that in turn are yielding powerful economic, social and political benefits.** The US support through CIPE has facilitated a process by which FEI leadership is transforming the organization institutionally into one of the most powerful agents for economic and business reform in Egypt. While still transitional as an institution, FEI is developing into an organization providing countrywide and sector-wide information, business services and policy reform advocacy that supports efficient private-sector alternatives to the former state-dominated economy. For example, Egypt has had essentially no experience with private business associations. Most of the new private business associations are at the most a few years old. As a result, as Egypt transforms itself into a market economy it lacks the important role of an efficient network of private business associations. At this time, the expertise provided by the USAID funded CIPE Egypt Project to FEI and other business associations is the major vehicle for developing this important network of institutions that support Egypt's private sector, including those firms owned fully or in part by US citizens. Thus CIPE support, particularly for FEI, is a catalyst for private sector change that greatly complements and enhances the potential success of other US supported projects such as those supporting privatization, the capital market and the proposed USAID/Egypt Project that would provide support private-sector business associations.

III 2 Recommendations

Main Recommendation Continue USAID Support of FEI through the CIPE/Egypt Project or a Follow-On Project During FEI's Current Transition Period. This project effectively started less than two years ago. It appears to be on track to become a powerful positive agent for economic growth, but as an institution it is still very vulnerable.

III 2 1 General

Support for FEI should be considered in the context of other key programs that are part of the USAID funded reform program including the Sector Policy Reform (SPR) program, capital markets project, privatization, environment, developing private sector business associations or others business related support programs

- **FEI, USAID and other donors should continue to work more collaboratively to support policy reforms and institutional development, as was more clearly the case in the first part of this Project**
- **FEI should continue working collaboratively with USAID through groups like CIPE to provide more higher quality training and technical support for business associations**
- **USAID and other donors should work collaboratively with FEI to support the institutional and policy reform effort with continued cash transfers and mutually agreed upon policy conditions along the lines of the USAID Sectoral Policy Reform (SPR) Program and aimed at removing key policy and institutional constraints to private sector development**

There are a number of policy areas that need continued support by conditionally associating them with USAID Cash Transfers. Some high priority ones are found in the FEI policy agenda presented in the May 1999 FEI conference

III 2 2 In Relation to Policy Reforms and Removing Key Constraints

- **USAID should negotiate with the GOE, with close consultation with FEI and other representative business associations and investment groups, conditions to improve the business and investment climate for private firms. See the FEI policy agenda for one set of reforms**
- **USAID should negotiate with the GOE on conditions that would remove "barriers to entry" of smaller less politically connected private business associations. Many small firms gather in informal relationships that cannot take full advantage of the increasing advantages of formal business associations. All effort must be made to remove barriers to their entry into the formal business sector**

III 2 3 In Relationship to Modernizing FEI as an Institution

- **USAID should not place so much emphasis on just privatization of FEI given its transitional nature and its substantial development and increasing representational support for private sector development**

This Project was overly ambitious from the beginning particularly with regard to its quick privatization. It is particularly difficult to transform an entity dominated by large public sector enterprises into a truly representative private sector group. Now, there have been major attitudinal changes that make a representational approach more appropriate. First, major privatization of GOE parastatals has taken place over the past 4 years. Secondly, there has been a major change in attitude as to where the economy is going that much more represents a private-sector mentality. This is reflected in the recent appointment of Minister Abeid, former Minister of Public Enterprises, as the new Prime Minister, and his proteges in many key economic positions. Given his success in privatization, this is a clear indication that privatization is continuing in a way that was originally outlined in 1991 by the World Bank and IMF policy matrix.

III 2 4 In Relation to Institutional Development of FEI

- **USAID or other donors should negotiate with the FEI to provide a safety net during its transition toward becoming a private entity with voluntary membership. Under this approach,**

the contractor involved with coordination work with other USAID resources could insure that appropriate financing and TA is provided to deal with the immediate problem

- **USAID or other donors should support FEI leadership by complementing its TA with training and accreditation systems as being developed by the technical group within FEI** To support privatization, FEI might consider working with donors to provide training programs for the Holding Companies and their Affiliated Companies on how to complete the privatization of their companies, possibly in conjunction with the Institute for International Education in subjects such as information memoranda, valuation, corporate finance, and negotiation. Training can only be effective if provided and managed by professionals in the field and would have more credibility if sponsored by FEI

III 2 5 In Relation to the Scope of Project

- **USAID or other donors should support GOE leadership and work within the relevant GOE ministries to reestablish a more active public awareness and education program for developing private sector business associations** Given the lack of public knowledge and acceptance of the policy reforms, skill training, management training, associations training by the general public, not to mention the lingering doubts among a minority of decision-makers, any new effort should provide sufficient funding for a public awareness campaign. This is less a problem than when this Project began five years ago, but there is still a need for support in this area. Currently, the private sector reforms are being discussed in public by individuals that are not fully informed of the most current and up-to-date facts, and this can lead to inappropriate actions by major decision makers and general investors and undermine the GOE's ambitious targets for economic growth and social reform
- **FEI should examine new areas for strengthening private sector activities such as regulatory agencies in which FEI could provide substantial industry expertise. USAID should negotiate with the GOE on mutually agreed upon conditions to complement privatization activities by continuing to de-monopolize strategic sectors. This involves removing old economic regulations and price controls while concurrently installing modern regulatory agencies along the lines of those used in developed mixed economies, or in other words, strike a balance between deregulation or de-monopolization and privatization or divestiture** Regulatory agencies, such as the Capital Market Authority (CMA), have been created to regulate economic activities such as the Egyptian stock market. Regulatory agencies in modern economies are responsible for diverse areas in such sectors as interregional land transportation, antitrust, consumer protection, food, drugs, cosmetics, interregional communications, civil aviation, railroad safety, airline safety, consumer products, physical environment, auto safety, fuel economy, gas emissions, worker safety and health, civilian nuclear reactors, oil, gas and wholesale electric power. Many of these sectors in Egypt are experiencing or will encounter increasingly private sector participation over the next few years. Many of these areas are natural monopolies. In democratic governments, regulatory agencies are commonly viewed by legislatures as responding to the shortcomings of both the legislature and the courts. These broad branches of the government are unable to maintain constant, informed supervision of economic activities. As a result, agencies are created that have administrative, quasi-legislative and quasi-judicial powers. In modern economies a staff of lawyers, economists, and other relevant professionals serve these commissioners. Currently, USAID is supporting work on the CMA, but might consider other industries in which privatization would lead to a monopoly or oligopoly that would most appropriately be governed by a regulatory agency. USAID, in its negotiations with the GOE, may wish to consider adding more weight to regulatory and deregulatory efforts and legal assistance that would accelerate in the privatization effort. Passage of the Capital Markets Law provides modern regulation of the capital market. It was critically important for deregulation associated with privatization. So too was the passage of regulatory reform measures for the banking industry. So too will be the regulatory changes necessary for the privatization of the insurance industry. Furthermore, regulatory efforts in the area of anti-trust will be necessary and conditional before the privatization of existing monopolies and cartels can be undertaken. Any future Cash Transfer with conditions should strongly support this type of deregulation. The GOE continues to heavily regulate business in most sectors of the economy. While important in all industries, it is particularly critical in Egypt's key most strategic sectors. This is closely related to continuing efforts to lower or remove international trade barriers to provide domestic industries with overseas competition as described above. This can include passing and then

enforcing an anti-trust law in Egypt to make non-competitive business practices illegal. The Ministry of Supply was working on such a law. It would also require continuing to remove the legal, regulatory and institutional barriers that prevent Egypt's smaller dynamic companies from becoming medium-sized dynamic companies capable of creating more competitive markets. In this regard, also see the discussion above of providing more finance to small and medium industries. This could involve proactive programs to encourage new private sector players by permitting freer entry rights in the provision and production of all services and goods. In the long run this will probably be one of the main vehicles for privatizing the Egyptian economy.

- **USAID or other donors should work closely and collaboratively with relevant FEI staff and members to provide Technical Assistance to gather Egyptian industry information that would allow the monitoring and evaluating of private sector development country-wide, and to monitor where public sector subsidies to parastatals are creating an unfair advantage for competing private enterprises.** For example, this would include monitoring and evaluating public sector printing enterprises and determining subsidies they are provided. Efforts should be made to eliminate or reduce those subsidies. This could include monitoring and evaluating those public sector subsidies.
- **Donors should work with FEI by providing Technical Assistance to help it monitor and evaluate private sector development as a process and not just numbers.**

III 2 6 USAID Should Have a Solid Clear Project Design that Supports Representative and Democratic Business Associations

The USAID should probably reexamine the contracting process for supporting business associations. More options should be allowed to extend contractors that are doing a good job near the end of their projects, given the high start up costs of setting up an effective program in this area.

- **USAID should provide substantial technical assistance and financial support to smaller specialized private sector associations along the lines provided by the CIPE Egypt Project. The support should be transitional. More support should be given to the associations made up of smaller and medium-sized firms.**

Interview List**FEI**

- 1 Chairman
- 2 Deputy, Ahmed Ezz
- 3 Deputy, Adel Mozy
- 4 Mamdouh Mekki
- 5 Mohamed Farid Khamis
- 6 Samir Allam
- 7 Galal El Zorba
- 8 Executive Director
- 9 Director, Government Relations and Public Affairs
- 10 Director, Information Center
- 11 Director, Technical Affairs

FEI Chambers (Executive Director and Board)

- 1 Chamber of Leather Industries
- 2 Chamber of Printing
- 3 Chamber of Cereals Industries

Other Chambers

- 1 American Chamber of Commerce

Other Associations

- 1 Egyptian Business Women Association
- 2 Egyptian Seed Association
- 3 Milk Producers Association

USAID

- 1 Mona Kaldas
- 2 David Delgado
- 3 Amal Amin

CIPE

- 1 Stephen Klaus
- 2 Randa Al Zoghbi

**Proposed Workplan
for
Evaluation of the CIPE-FEI Egypt Project**

(6 December 1999)

After reviewing five large and comprehensive notebooks of relevant documents sent to Frankfurt and described in the scope of work, the consultant would identify general and specific purposes, objectives and goals of the Project summarized in the scope of work. Randa Al Zoghbi of CIPE/Egypt would accompany the consultant to the interviews. The consultant tentatively would meet with the attached list of Project participants and beneficiaries. These would include management and staff of the FEI Project Management Unit (PMU), CIPE and USAID/Egypt, and finally other individuals or representatives of other business associations that are familiar with FEI or have received grants from the CIPE Egypt Project.

At the beginning of the interviews, top priority would be for meetings with CIPE and PMU staff, followed by selected members of the FEI board of directors and other Egyptian participants and direct beneficiaries of the Project. Lowest priority would be for representatives of entities that are possible future members of FEI. The FEI board of directors has recently approved their entry for direct membership. The list and timing would be flexible to obtain as many interviews as possible within the short time span of the evaluation that is occurring largely through Ramadan when most Egyptians are difficult to reach for interviews. Thus, all effort would be made to meet early with key Egyptians to avoid problems associated with vacations during Ramadan.

The attached list ("Schedule) of potential interviewees should be viewed as tentative and would be augmented or adapted as needed to fill information gaps. The information obtained from these meetings would be augmented, as appropriate and as needed, by telephone conversations, existing surveys and studies, or other information sources.

Questions asked during the early meetings with CIPE and PMU staff would focus on establishing the range of PMU or CIPE-related activities and services and their effectiveness, and on determining the extent to which they support the Project's goals and objectives that can be determined as described above. The questions would also focus on management issues involving the transformation of FEI from a socialist era "white elephant" organization into one that might be more appropriate and effective in Egypt's new more open and market-oriented economy. This new economy relies more heavily than in the past on private- rather than public-sector decision-making. The interviews would also address the effectiveness of actual CIPE Project activities and services in supporting the Project's goals and objectives. The interviews would also determine important highlights of the Project.

The actual questions would ultimately depend on who would be asked and where the answers would subsequently lead. Initial questions to all interviewees would include broad questions, as outlined below, that would encourage the interviewee to describe what went right and what went wrong with the Project. The focus would be on direct beneficiaries, but where possible the evaluator will attempt to examine the resulting services on individual Egyptian member firms. Examples of the broad questions are

- What are or have been the major benefits or the most important services of the CIPE Project or PMU your industry? Or where appropriate, what in your opinion are the most important services or benefits of the Project on Egyptian manufacturing or in attaining higher broad-based economic growth in Egypt. When possible given the time limitations, the interviews will examine the impact of the project on the indirect beneficiaries. Egypt's manufacturing firms?
- What have been the least important or beneficial services, as compared to costs, provided by the CIPE Project or the PMU to your industry. Or as relevant what in your opinion are the least important services or benefits, compared to costs, of the Project for Egyptian manufacturing in general?

- Is the FEI through the PMU providing better or worst services to your industry or Egyptian manufacturing in general now compared to FEI services 5 years ago? In what ways? How do you rate the PMU's efficiency and responsiveness to industry or industry association needs now compared to 5 years ago?
- What other services or benefits in your opinion could the PMU either improve upon or provide in the future, as appropriate, to your industry or Egyptian manufacturing in general? Is FEI an appropriate service organization to provide these services or benefits?

These interviews would begin with the above general questions, and would subsequently focus on other benefits or services provided by the Project that had not yet been discussed earlier during any particular interview. For example, if workshops had not been mentioned, the interviewee might be asked specifically whether the workshops had been useful to his industry? Similarly, the interviewee might be asked if the FEI policy initiatives and private-sector industry dialog with the government are useful to improving economic efficiency and profitability of firms in his or her industry? The questioning would also examine the appropriateness of FEI in providing its services vis-a-vis other possible service providers. For example, the interviewees could be asked if other organizations or individuals were providing the service or would be more appropriate in providing the service? This line of questioning would be expected to yield important issues that would be appropriate and useful for the evaluation.

The questioning would also focus on how the Project has leveraged USAID funding by encouraging complementary funding by other donors or most importantly by Egypt's private sector manufacturing firms. To what extent do the interviewees, if FEI members, view the services useful enough to pay for them? For example, are entities willing to pay to attend workshops or to obtain information from FEI? Would potential members be willing to pay to obtain the services of FEI? The evaluation would also address the benefits of the project on U.S. interests.

Thus to summarize in slightly different terms, the evaluation's general approach in the questioning would examine the value of the more important discounted past and expected future benefits of the Project. This would be compared to the approximately \$10 million expenditures or costs of the Project over the past 5 years. In addition, and very importantly, the questioning would focus on the institutional change that has taken place within the FEI over the 5-year course of the project, and determine the extent to which this supports the Project and USAID's strategic goals. Is the organization moving toward being self-sustaining? The evaluation would examine what change is expected in the near future, and the extent to which the early termination of the Project might be expected to impact expected future net benefits. The evaluation would also examine the appropriateness of USAID management decision to terminate this Project in what appears initially to be a critical transitional period of FEI's institutional transformation from a fully funded government entity into one that is funded by FEI members.

The questioning would contrast in general terms and with specific examples the general state of FEI at the beginning of the project with what is taking place in FEI now or where FEI as an organization appears to be heading? Has there been significant improvement in the quantity and quality of services to Egyptian manufacturing industries? Have the benefits been broad-based or focused on specific sectors or individual firms? Has there been improvement in corporate governance that allows FEI to be more accountable to and provide better services for its member firms and industries? Has there been increased representative participation in decision making? What might occur when the USAID/Egypt CIPE Project is terminated?

The findings obtained from the consultant's trip to Egypt from 4 to 23 December would subsequently be the base for the initial and final draft final evaluation of the CIPE Egypt Project to be finished by the consultant at home in Frankfurt, Germany.

December 28, 1999

Eng Loutfi Mazhar
Executive Director
Federation of Egyptian Industries
28A Corniche El Nil
Cairo, Egypt

Dear Mr Mazhar

As you are aware, for the past few years CIPE has used a diagnostic tool to measure the institutional capacity of business associations. The diagnostic quantifies how close a business association is to an ideal, international model by examining ten criteria, listed below, and in particular it was designed to track improvements in those areas that may be attributed to CIPE's support. The diagnostic, is usually administered by an independent, objective third party (consultant), and assists CIPE and the target association in identifying strengths, weaknesses and opportunities within the ten areas, in order to determine what steps the association should take to enhance its institutional capacity.

Mr Milner was the experienced independent consultant contracted by CIPE to undertake the diagnostic analysis. In October 1998, when he first administered the diagnostic, he found that FEI met 21.6% of the criteria for a model international business association. A retroactive assessment of FEI's state of development as of October 1997 indicated that FEI would have met 15.6% of the criteria then. In September 1999 the diagnostic was again administered by Mr Milner to determine to what extent FEI's institutional capacity had improved with CIPE's technical and financial assistance. Between October 1998 and September 1999, FEI's overall score increased by 28.2% - to a score of 49.8%, reflecting improvement in all ten criteria. According to Mr Milner, this improvement can be attributed to "a total change in staff, facilities and philosophy since 1995. (Moreover), FEI management is now addressing the two challenges, (identified in the 1998 diagnostic) 1. lack of coordinated direction, and 2. under-utilization of association management principles."

An analysis of FEI's improvement in each of the ten criteria can be found in the attached report. The report also provides guidance on where FEI may wish to concentrate its resources to further improve itself.

FEI's staff and board both deserve congratulations. Achieving improvement across the board in so large an association is a truly remarkable achievement.

Sincerely,

Stephen A. Klaus
Chief of Party

cc Amal Amin, Activity Manager
FEI Executive Committee Members
Roberta Mahoney, Associate Director

Report on the Diagnostic Survey of the Federation of Egyptian Industries

TEN CRITERIA OF THE BUSINESS ASSOCIATION DIAGNOSTIC

Vision, Mission and Objectives
Public Policy Advocacy
Industry Standard Setting (*if applicable*)
Employees
Activities
Infrastructure
Governance
Finances
Membership Recruitment
Public Relations

Criterion One Vision, Mission, Objectives

Under this criterion, the association's mission statement, bylaws, charter, strategic plan, and committees' job descriptions and minutes are evaluated. FEI's score for this criterion increased from thirteen points on the 1998 diagnostic to twenty-eight on the recent diagnostic (out of a total possible score of fifty points), and the association received more points for almost every item mentioned above.

With respect to the mission statement, in particular, during the past year, the FEI staff carefully drafted a completely new statement, which was formally approved by the Board of Directors and subsequently shared with the members. Therefore, the score for this item increased from two to eight points. In addition, in 1998, FEI received zero points for strategic plan because it had no plan, however, a score of five was earned on the recent diagnostic because a financial sustainability plan has been written and adopted by the Board, but has not yet been published for general consumption.

The FEI's score for its bylaws increased from two to five points because the FEI reviewed them and has made some modifications, in particular, it has declared its intention to move from mandatory to voluntary membership. However, the association did not receive full points because its bylaws are those that are issued by the Egyptian government. Other private associations in Egypt (e.g. Egyptian Businessmen's Association, American Chamber of Commerce in Egypt) have developed their own bylaws with clear policies and procedures to ensure sound governance. With regard to the last two items—charter and job descriptions and minutes for committees, there was little or no change in the association's score.

Criterion Two Public Policy Advocacy

Under this criterion, the association's agenda of public policy issues, positions adopted, issue briefs, research reports, and lobbying reports are evaluated. FEI's score for this criterion increased remarkably, from six to thirty-seven points, out of a total possible score of fifty points.

In 1998, the FEI had an informal agenda of policy issues that it brought before the government, as well as positions on those issues. It held periodic roundtables to discuss policy issues with government decision-makers, however, most lobbying was undertaken one-on-one, through personal contacts between the FEI's board members and decision-makers. Since then, the FEI has developed a formal business agenda, publishing a booklet that contains the association's positions on fourteen different issues. The agenda was approved by the entire Board of Directors, and then it was shared with members, government decision-makers and the general public at a two-day conference that took place in early 1999. The FEI plans to conduct an aggressive policy advocacy campaign in 2000.

The only item under this criterion for which the FEI received no points is *lobbying reports of its policy advocacy activities*, since the association has not yet produced any

Criterion Three Industry Standard Setting

Under this criterion, an organization's publications about its standards programs, research documentation, job descriptions for members of the standards committees, committee meeting minutes, and industry standard certification program are evaluated. The FEI's score for this criterion increased from zero to twenty points, out of a total possible score of fifty points. In 1998, the FEI had no program for setting industry standards, but it planned to develop one, and its mission statement included language to this effect. In the past year, the FEI developed a system to certify industrial crafts, such as metalworking and operating boilers. Extensive research was conducted by a consultant, and five manuals for various skill sets were drafted. The FEI held a seminar to introduce members to the new certification program, and feedback was positive. In fact, members indicated that they would be interested in adding other skill sets to the program, and that they might be willing to pay for it.

The FEI received ten points for its research documentation, which is of high quality, but only five points for its descriptive publications and certification program, since the program is still in the preparatory stage. On the other hand, the FEI received no points for job descriptions for members of the standards committees nor committee meeting minutes, since these documents do not exist. The FEI plans to implement its certification program in 2000, and to expand it to include additional skill sets if there is enough member interest and funding.

Criterion Four Association Employees

Under this criterion, the association's staff job descriptions, personnel files, personnel procedures manual, performance evaluation form, job application form, employee time sheets, and staff hiring and retention are evaluated. FEI's score for this criterion increased from thirty-three points on the first diagnostic to forty-four on the second, out of a total possible score of seventy points.

Individual scores for staff job descriptions, personnel files, procedures manual and employee time sheets increased moderately, reflecting small improvements in each of these areas. On the other hand, scores for the performance evaluation and job application forms increased from zero to six, since these documents did not exist at the time of the first diagnostic, and now they exist but are not fully implemented. However, the score for staff hiring and retention actually decreased from seven to five points, because the association has had greater staff turnover during the past year than an association would normally experience. Current staff members have indicated that they are also exploring the job market, because they fear that when USAID's cooperative agreement with CIPE terminates at the end of 1999, there will not be sufficient funding to support the current level of staffing.

Criterion Five Association Activities

Under this criterion, the association's program of work, membership directory, annual reports, policy manual and list of programs, products and services are evaluated. FEI's score for this criterion increased substantially from four points on the first diagnostic to twenty-three on the second, out of a total possible score of fifty points.

In 1998, the FEI received only four points for its program of work, which consisted of a six-month plan for specific departments within the Project Management Unit (PMU). On the current diagnostic, the FEI's score for the program of work actually decreased to three points, since the FEI has only begun to develop a program of work for 2000. On the other hand, the FEI received ten points for its policy manual, which has been approved by the Board and is fully implemented. It received five points for the membership directory, which was updated during the past year and is available in hard copy or on CD Rom, but has not yet been distributed to all of the FEI's members. Three points were earned for the

annual reports, since a simple annual report has been produced, but it is not published and distributed as a marketing tool for the association. Finally, two points were earned for lists of programs, products and services, because lists are available but, again, they are not produced and distributed as marketing tools. The association has not yet fulfilled its plan to produce a slick brochure for its membership programs and services.

Criterion Six Association Infrastructure

Under this criterion, the association's organization chart, list of board members, list of committee chairmen, orientation material for committee chairmen, and orientation material for committee members are evaluated. FEI's score for this criterion increased from nine points on the first diagnostic to twenty-six on the second, out of a total possible score of fifty points.

During the past year, the FEI improved the lists of both the board members and the committee members, and the current lists contain all of the necessary information: committee and other assignments, terms, contact information, etc. Therefore, the FEI received ten points for each of these items. On the other hand, the association still has no orientation material for committee chairman and members, so it received, again, zero points for these two items. This is a grave oversight, because the association's volunteers should be well aware of their responsibilities – where they begin and end.

Finally, the FEI's score for its organization chart increased moderately from five to six points, because the current chart includes all of the association's staff members and clarifies functional responsibilities. However, the chart does not specify reporting responsibilities, nor does it include a box for members at the top, as the entity with the highest level of authority within the organization.

Criterion Seven Association Governance

Under this criterion, the association's list of officers, orientation material for board members, job descriptions for officers and directors, board minutes, and executive committee minutes are evaluated. FEI's score for this criterion increased slightly, from twenty-one on the first diagnostic to twenty-two points on the second, out of a total possible score of fifty points.

FEI's score for list of officers increased from five to seven points because the list contains all of the necessary contact information, it has been made readily available to members and others through the membership directory, and it includes length of terms for each officer. The association did not receive full points on this item because there are no term limits for officers. Term limits are important in order to bring new blood - new ideas - into the leadership of the organization and to allow other members an opportunity to volunteer and lead.

The FEI earned, again, zero points for orientation material, since these are still lacking. Orientation material is critical, because board members should be well aware of their responsibilities and limits to their authority. On the other hand, the score for officers' and directors' job descriptions increased from zero to five points, since descriptions were prepared during the past year, however, they do not adequately specify duties and authorities, which are necessary in order to ensure effective, smooth management.

The score for board minutes increased from eight to ten points because the Board consistently records, in great detail, the minutes of its meetings. However, the score for executive committee minutes decreased from eight to zero points, since minutes are, apparently, no longer taken. Minutes should be taken consistently and filed at the FEI, in order to ensure that the committee's activities, particularly with regard to decision-making, are completely transparent. If there is ever be a need to investigate one of the committee's decisions, the lack of minutes would be quite problematic, to say the least.

Criterion Eight Association Finances

Under this criterion, the association's financial reports, current budget, audit, dues schedule, financial policies, and financial/accounting processes are evaluated. FEI's score for this criterion increased from twenty-three on the first diagnostic to forty-three on the second, out of a total possible score of sixty points.

FEI's score of six points for its current budget is only one point higher than its score on the 1998 diagnostic, reflecting a slight improvement in the organization's preparation and use of an annual budget and other documents, such as a cash flow statement. The FEI did not receive all possible points for this area because it has not successfully developed a budget for the coming year, one which makes reasonable estimates of the association's income and expenses. However, the FEI showed greater improvement in other areas, for example, its score for the most recent financial reports increased from six to ten points, because it regularly prepares all of the standard reports—balance sheets, income statements, etc., and it uses accrual accounting.

With regard to its financial policies, the FEI's score increased from two to seven points, because the association developed detailed and transparent financial policies and has been implementing them stringently for the past year. For its financial and accounting processes, also, the score increased substantially from two to ten points, since the accounting and finance department is now fully automated. On the other hand, the FEI's score for the audit decreased from eight to five, while its score for the dues schedule remained the same—zero. By law, the FEI is required to have an annual audit, however, the audit report is not shared with and approved by the General Assembly nor the Board. The association does not have a written dues schedule, although it intends to develop one.

Criterion Nine Membership Recruitment

Under this criterion, the association's membership brochure, membership application, membership list, new membership orientation material, orientation presentation and handouts, committee preference cards, and volunteer recognition devices are evaluated. FEI's score for this criterion did not change at all between the first and second diagnostics, meaning that no progress was made. Out of a possible seventy points, the association earned five for its membership list, which has been updated and is computerized, but has not yet been published for widespread distribution. Although the FEI has begun to develop a membership application and brochure, neither is currently in use.

The FEI's Board has made the decision to move the association to voluntary membership, and this decision is reflected in the new law that the FEI submitted to Parliament for approval. If this law is passed and the association becomes voluntary, it will have to make a concerted effort to maintain and develop its membership, in order to ensure adequate income flow. Therefore, it is critical that the FEI develop membership marketing material.

Criterion Ten Public Relations

Under this criterion, the association's newsletter, magazine, action bulletins, program brochures, and news releases and/or media kit are evaluated. FEI's score for this criterion increased from five points on the first diagnostic to twenty-six on the second, out of a total possible score of fifty points.

During the past year, the FEI developed a newsletter to inform members of activities, events, and important political, economic or industry-related issues. Several installments of the newsletter were distributed to members, government decision-makers, international organizations and the media. The FEI's score for its newsletter increased from zero to ten points.

Likewise, the FEI's score for program brochures increased from zero to eight, and the score for the news releases/media kit climbed from five to eight. Throughout the year, the FEI produced quality brochures.

for its events and programs, such as the Business Agenda conference and the crafts certification seminar. Moreover, the FEI sends press releases to all of the major Egyptian dailies prior to all of its events, and it has been successful in attracting journalists to its activities. However, the association lacks a formal media kit, such as the one that the US Chamber of Commerce distributes. Such a kit might include an introductory letter from the Chairman of the Board, a collection of previous press releases, positive news articles about the organization, a brochure explaining FEI's history and mission, a list of the board members and directors, etc.

On the other hand, the FEI received zero points for action bulletins and the magazine, since it currently produces neither. Public relations are one of the most important activities of a business association, therefore, it is critical that FEI continue to develop and utilize its communication tools – with both its members and the general public. The FEI should continue to keep its members informed of activities, new services, important events, etc., in order to assure them that the organization is working hard on their behalf and that membership truly is a benefit. Likewise, the staff and directors should be communicating actively with the public, working to get FEI's message out, improve the association's image, and increase its influence.

Comparison of Diagnostic Scores Over Time

Criterion	Total Possible Points	Retroactive Diagnostic (Oct 97)	1st Diagnostic (Sep 1998)	2nd Diagnostic (Oct 1999)
I Vision, Mission, Objectives	50	11	13	28
II Public Policy Advocacy	50	0	6	37
III Industry Standard Setting	50	0	0	20
IV Employees	70	17	33	44
V Activities	50	0	4	23
VI Infrastructure	50	9	9	26
VII Governance	50	21	21	22
VIII Finances	60	18	23	43
IX Membership Recruitment	70	5	5	5
X Public Relations	50	5	5	26
Total Points	550	86	119	274
Percentage Score	100%	15.6%	21.6%	49.8%

Participate in making Egypt's decisions ...

Join the Federation of Egyptian Industries, whatever your field.

Who said that membership is open only to industrial companies?

Today financial establishments banks investment companies insurance companies travel agencies hotels airlines transport companies, navigation and marine companies, joint chambers and investors associations hospitals and medical service projects and other service oriented companies may become members of the Federation of Egyptian Industries (FEI)

What does your membership mean to you?

- The opportunity to open a new market directly among more than 20 000 of the Manufacturers of Egypt
- A guaranteed documented bank of information, crucial to your future growth
- ~~Face-to-face audience with the decision makers whose decisions affect your business~~
- Guaranteed continuous training for your business by the experts
- You receive the biggest possible privileges facilities and advantages to participate in all major local and international trade shows exhibitions and conferences
- Join the businessmen's delegations to all markets
- Become in contact with all equivalent international organizations

How you become a member?

Contact our new members department to determine the fastest and most suitable path to membership

Federation of Egyptian Industries

28 A Kornish ElNile St., Ramlat Boulag, Cairo. Tel: 5796590 /2 - 5797073/6 - Fax: 5796593/4



شارك في صنع القرار في مصر

وانضمهم إلى عضوية اتحاد الصناعات المصرية أياً كان نشاطك

سواءً أنت ان المساهمة فقط الشركة؟

من اليوم التوسعات الآتية من بيوت وشركات الاستثمار المالية وشركات تيم وشركات السياحة والماذج والنضار وشركات النقل والإحقة لكافة أوضاعها تعرف انتشاركم وجمعيات المستثمرين والمستثمرين والكره ومشروعات الخدمات الطبية وغيرها من الشركات العاملة في مجال الخدمات يمكنها الآن أن تصبح صمورا في التصحاحات الصناعات المصرية

ماذا تعني عضويتك في الاتحاد؟

- يتوقع سسوقا حديريدة ومساودة لمشاطك بين أكثر من ٢ الف من صناعات مصر
- تخصص بنكا موقفا للمعلومات التي توثق على حجبك بشاطك ومستقله
- تطبيع حيزها لوجيسته صناعية بوليتي التي كوتروفي بشاطك
- تخصص كدرويا متوصلا على أيدي أكثر المصنعه تشسركتلك
- تحصل على أكثر تسهيلات في التطعيم للإشتراك في كافة العارض والتغيرات الحالية والادوية
- شاركت في وفود رجال الأعمال التي كاهوه الأستورق
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كيف تصبح عضواً؟

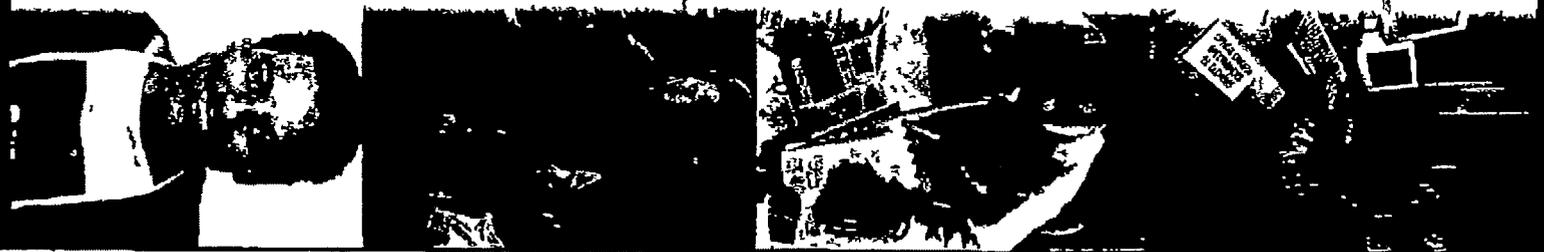
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Annex D

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Chambers seek greater autonomy

The Federation of Chambers of Commerce is preparing a draft law aimed at revitalising activities **Mona El-Fiqi investigates**

Board members of the Federation of Chambers of Commerce met this week to discuss a draft law intended to revitalise their activities before presenting it to the Ministry of Supply and Internal Trade. Conditional on being approved by the ministry the law will be submitted to the People's Assembly.

During the meeting, members of 26 chambers of commerce, representing three million traders and businessmen, were unanimous in the belief that the current law no 189/1951 should be amended.

Mahmoud El-Arabi, chairman of the Federation of Chambers of Commerce said that board members had been commissioned by the minister of Supply and Internal Trade to prepare a draft law as soon as possible.

During their meeting board members agreed to retain several articles in the current legislation, but to change outmoded articles. The current law, for instance, deprives women from voting which is patently at odds with the constitution. The new draft law will allow women the right to participate in chamber elections, which in future will be subject to judicial supervision.

The draft law reportedly, contains 14 new articles.

Most chambers face budgetary constraints on their activities given low annual fees, currently set at LE2. The draft law raises fees to 0.002 per cent of the trader's capital with a minimum of LE12 and a maximum of LE2,000.

The draft law will also set

quotas on board members — no more than 25 per cent will in future be appointed by the Ministry of Supply and Internal Trade as opposed to 50 per cent at present. The remaining board members will be elected by the chamber's members. And in order to create stability in chambers policies, the draft law extends the board session to five years instead of four. And while, according to the draft law, it will be prohibited to replace boards without the approval of the minister of Supply and Internal Trade, the new law will give chambers the right to spend money without first gaining ministerial approval.

A social fund will also be formed to provide financial assistance to traders and businessmen in trouble. A health insurance system for traders has also been included in the new draft law.

Earlier this year four members of the Cairo Chamber of Commerce who are also MPs submitted a paper including some amendments to the chambers law. Discussion of the paper was postponed at the time but according to Mamdouh Thabet Mekki, deputy chairman of Cairo Chamber of Commerce and one of the MPs concerned the paper will be resubmitted to the Peoples Assembly this session. "Parliament," he said, "has the right to approve the federation's draft law or ours."

To further complicate the picture a third draft law was prepared by the Ministry of Supply and Internal Trade before the cabinet reshuffle.

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