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FINANCING ENERGY CONSERVATION PROJECTS IN EGYPT
Market Sounding Report : Equity & Bond Special Purpose Funds

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The International Investment Advisor (TIIA)
Investment Banking & Privatization Specialists

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Preface

As per scope of work dated May 13th, 1997 this report is the second, of the three phased approach to implementing three financial products to finance energy conservation projects in Egypt. These are Equity and Bond Special Purpose Funds (SPFs) and Corporate bonds.

The first of these phases was concluded with the delivery of the report titled, ***Financing Energy Conservation Projects in Egypt - Concept Papers : Equity Fund, Bond Fund & Corporate Bonds,*** dated July 31st, 1997. The report discussed the key success factors for establishing the SPFs in Egypt and summarized the ideas for each financial product to include the investment policy, eligibility criteria, process flow and stakeholders.

As a continuation to phase 1, the purpose of this phase is to assess these concepts and initial structures with the results of the market sounding. This, would lead to the fine tuning of these packages to their final form ready for the implementation phase.

The market sounding involves interviews with financial intermediaries such as fund managers, commercial banks, investment companies, etc. Although the original scope of work did not include sounding out the customer market, TIIA believes that tit is an important aspect to add substance to the marketability of these products.

Table of Contents

Executive Summary

1. The Financial Intermediaries

1.A. The Approach
1.B. Selection Strategy - Financial Intermediaries
1.C. Profile of Primary Investors
1.D. Profile of Potential Customers

2. Market Reactions of Financial Intermediaries

2.A. Main Concerns for Equity SPF
2.B. Main Concerns for Bond SPF
2.C. Main Concerns for Corporate Bonds

3. Suggested Amendments

3.A. The Equity SPF
3.B. The Bond SPF
3.C. The Corporate Bonds

5. Summary of Results

Annexes

A. Fine tuned Concept Papers
B. Call Reports - Financial Intermediaries

Executive Summary

Throughout the market sounding process there was consensus on the importance of energy conservation financing mechanisms and developing appropriate financing alternatives. Yet equity and bond financing were met with dissimilar responses. Supportive or not, the financial intermediaries were mainly concerned with the pre-operational fund coverage.

This, as highlighted in the previous report, is the number one key success factor for justifying and successfully marketing the financial products. It was for this reason, that the task of pre-identifying suitable companies was left with the more qualified international ESCO. For reasons beyond the ESCO's control, a suitable list could not be produced within the contractual time frame for this phase. Given the importance of this factor, it was agreed that both TIIA and ESCO work in tandem towards concluding the list.

Despite the skepticism in pre-identifying the companies, early market sounding results towards the concepts are favorable. Private sector banks such as MIBank, identified with the debt financing concepts due to their inherent resemblance to conventional term loans. On the other hand, the skeptical public sector banks like Banque Misr, showed no interest. This, while commercial banks with merchant banking activities and investment companies including NSGB, EDBE, CIIC & ADIC identified with all three concepts. The reason being the high degree of fit between their investor profiles and corresponding financing instruments. Under the present structure, the concepts did not confirm with the socially conscious profiles of multi-lateral agencies such as the IFC, which expressed interest in the idea itself.

One of the interesting outcomes of the report, was MIDB's suggestion of creating an energy conservation investment company (ECIC) instead of a SPF. This financial vehicle has six main benefits. First, the ECIC will not require pre-identified companies to start operations such as the SPF. Secondly, the ECIC would not be limited to one financial instrument or certain project sizes. The company could offer a wide variety of financial instruments to suite the clients needs such as equities, quasi-equities, corporate bonds with various options & features, leasing, etc. Third, the ECIC would have tax advantages as these financial instruments are tax exempt. Fourth, the ECIC would operate under Laws 159/81 and be free from the regulations of the Capital Market Authority under Law 95. Fifth, the ESCO could tape in to the clients of the ECIC shareholders which, ultimately will be banks and investment companies. Sixth, the ECIC will be more flexible with less complex structure and procedural requirements.

Under the suggested ECIC structure the international ESCO must be a shareholder where both the savings and profits from contracting along with risk would accrue to the ECIC. TIIA is confident that all the financial intermediaries interviewed in this report would be interested in this concept even Banque Misr. It is our recommendation, that unless the international ESCO could pre-identify enough companies to justify an SPF, the creation of an ECIC ought to be considered.

The fine tuned concept and structure for the SPFs, based on the responses of the intermediaries are shown in the matrix overleaf. There are two main changes to the Equity SPF. First, in the investment strategy, the SPF will invest mainly in non traded private sector companies and traded public sector companies.

Secondly, the fund could start in tranches depending on the number of pre-identified companies. The first tranche could be LE 25 to 37.5 million (or 50 to 70% of the fund size) covering the first batch of projects in the first year of operations while, the remaining percentage could be covered at the beginning of the second year.

As for the Bond SPF, there are three main amendments. First, in the eligibility criteria, the project application sizes is increased from LE 20 to 40 million and the maximum tenor will be 5 rather than 7 years. Finally, the fund size is doubled from LE 100 to 200 million to cover at least 5 projects. Accordingly, the minimum application size for the Corporate Bonds concept is increased to LE 50 million.

5

Energy Conservation
Amended Concept & Structure - Matrix

	Equity SPF	Bond SPF	Corporate Bonds
Purpose in brief	The SPF will mainly participate in the new share issues of private non traded companies and traded public sector companies. The SPF will hold and divest the shares at the prevailing stock market price.	The SPF participates in the debt financing portion of the capital structure for energy conservation projects. For this purpose, the SPF would structure and purchase the corporate bonds in the primary market, hold and divest them in the secondary market.	The bonds cater for a market with debt requirements in-excess of the maximum Bond SPF application size. The team, comprised of an ESCO, investment banker, legal advisor and brokerage firm will assist the company in closing the transaction.
Legal Structure	Closed - end with a 7 year life	Closed - end with a 7 year life	CMA
Minimum Size	LE 50 million	LE 200 million	LE 50 million (per transaction)
Fund Objective	Growth Fund	Income Fund	Not Applicable
Investment Incentive	"High" risk - "High" return	Low risk - Low return	Low risk - Low return
Characteristics of instruments	normal features of common shares	1. Bank guaranteed or un-securitized 2. Denominated in Egyptian pounds (LE) 3. Non - convertible to stock 4. Max. Bond issue size is LE 40 million 5. Redemption period is 5 years 6. Variable and/ or fixed coupon payments 7. Fixed & regular payments	1. Bank guaranteed or un-securitized 2. Denominated in Egyptian pounds (LE) 3. Non - convertible to stock 4. Minimum issue is LE 50 million 5. Redemption period is 5 years 6. Variable and/ or fixed coupon payments 7. Fixed & regular payments
Eligibility Criteria	• Unlisted Law 159 companies and traded Law 203 companies converted to 159 • Profitable and creditworthy • Significant energy cost savings project • Min. application size per company is LE 5 million. • Performance Guarantee from an international ESCO with a track record	• Listed Law 159/ 203 companies • Net worth should exceed LE 40 million • Issued capital should be fully paid • Favorable leverage position • Application between LE 30 - 50 million • Significant energy cost savings project • Performance Guarantee from an international ESCO with a track record	• Listed Law 159/ 203 companies • Net worth should exceed bond issue • Issued capital should be fully paid • Favorable leverage position • Significant energy cost savings project • Performance Guarantee contract from an international ESCO with a track record

1. The Screening Process

This section shows the approach as well as, the selection strategy and profile for each of the 8 financial intermediaries.

1.A. The Approach

Whether to identify the financiers or customers first or not was one of the leading questions in phase one of this engagement. For this purpose, TIIA suggested a parallel approach whereby, TIIA sounds out selected financial intermediaries while, the international ESCO pre-identifies the suitable customers. However, due to unforseen developments, the latter did not materialize to the date of this report.

As such the situation necessitated extending phase two beyond the contractual date, but there was no development in identifying potential customers. The process did not benefit from approaching customers.

1.B Selection Strategy for Financial Intermediaries

The research period for this engagement lasted 3 weeks. During this period TIIA concentrated it's efforts to selecting 8 financial intermediaries as a representative sample of the views in the investment community.

The guiding strategy focused on financial intermediaries with a particular investor profile. For the purpose of this report, TIIA divided the financial intermediaries for non traditional financing alternatives into two groups - primary investors and secondary investors as shown in the box below.

Primary investor	are prime banks & investment companies that are receptive to non traditional financing alternatives, open minded, and willing to take the lead. Have clients to sell concept to.
Secondary investor	overly cautious and risk aware intermediaries that are more apt to follow primary investors than lead. This includes insurance companies & high net worth individuals.

This selection strategy is based on the premise that the presence of at least one primary investor in each financial product will act as a magnet in attracting secondary investors. The latter, for all intensive purposes relies on the primary investors name which, in itself is a credibility booster and catalyst for the marketing of the products.

In making the selection strategy more effective, TIIA screened primary investors with investor profiles that suited each of the subject financial products. Although the investor profiles as shown in the table below differ, they are, to some degree present in some intermediaries with a long term investment perspective and means to diversify their investment portfolios such as commercial banks with merchant banking activities.

Equity SPF Investor Profile	investors with a long term investment time horizon, willing to accept a higher degree of risk and require superior returns to the overall stock market or mutual funds.
Bond SPF Investor Profile	investors with a long term investment time horizon, risk averse and require returns that are consistently higher than those available from time deposits and T-Bills.

After a careful screening of the market, TIIA selected 8 potential primary investors sharing the mentioned investor profiles and interviewed the management on at least one occasion. TIIA team of consultants provided those interested with copies of the initial structures of the SPFs and used the process flow diagrams in explaining the particulars of the investment operations. The questions asked during the interviews were carefully planned before hand and included open and closed ended questions. The objective of which was to determine the following for each of the Equity and Bond SPFs:-

- **Level of interest**
- **Main Concerns**
- **Suggested Amendments**

Care was taken in addressing the relevant aspects of the SPF structure to include the investment policy, fund size, eligibility criteria and the role of prospective stakeholders.

1. C. Profile of Primary Investors

Commercial International Investment Company (CIIC), the investment banking arm of Commercial International Bank (CIB) is the biggest investment bank in Egypt. The company, headed by Mr. Yasser Malawani, Managing Director, is 40 % owned by CIB and prime private sector institutions own the remaining 60%. CIIC has ownership interests in the brokerage company - Intercapital, fund management company - Alliance Capital and a portfolio management company with Barrings. The company was involved in the management sale of public and private sector companies through IPOs and anchor sales such as Kabo with CIB, North Mills and Alexandria Mills with the National Bank of Egypt. TIIA interviewed Mrs. Nevine Shafie, Executive Director in charge of private sector investments.

Al Ahly Development & Investment Company (ADIC), one of the biggest investment companies in Egypt is headed by Mr. Fouad Sultan, the previous Minister of Tourism. The company is listed on the stock exchange and is engaged in various activities to include, underwriting, portfolio management, financial advisory services and asset management. ADIC is currently, underwriting a bond issue valued at around LE 40 million and was engaged in a few management sales in the private sector. For this report, TIIA interviewed Mr. Ashraf Mahmoud, General Manager.

Banque Misr, a public sector bank is the second largest bank in Egypt. Over the past 4 years, Banque Misr has been involved in management sales of public sector companies via an IPO and has established two of the best performing mutual funds in the market, a LE 400 million income fund and LE 300 million growth fund. TIIA interviewed Mrs. Hoda Sabry, Manager - Investment Division who has been involved with energy conservation for 3 years. She was consulted on various occasions in this area and is eager to finance any energy conservation projects.

Export Development Bank of Egypt (EDBE) is the most expensive stock in the banking sector trading at a PER of 23.5x. In July 1996, the bank launched a LE 100 million income fund with Cairo Portfolio Management as fund manager. The bank is also, in the process of instating a direct investment fund.

Misr Iran Development Bank (MIDB), one of the largest joint venture banks in Egypt. The bank is looking for new investment opportunities. TIIA interviewed Mr. Kamal Mahgoub, Deputy Manager and Mr. Nagy Hindi, Head of Section - Capital Markets.

MIBank is the second most profitable joint venture bank in Egypt. In June 1997, Misr Bank decreased it's majority stake in MIBank to around 25% went it successfully sold 800 thousand shares, representing 20% of the banks capital via a GDR issue on the London Stock Exchange. At present, the bank's shares are trading at a PER of 15x, reflecting the local and international confidence in future performance. In meeting with these expectations, the bank is undergoing an expansionary program in the commercial banking operations. Mr. Ozalp, General Manager and long time veteran is highly recognized and considered one of the prominent figures in the banking community.

International Finance Corporation (IFC). TIIA interviewed Mr. Tarek Allouba, Senior Projects Officer.

National Socite General Bank (NSGB) one of the largest private sector banks in Egypt and of the first banks to be privatized in Egypt. It's international joint venture partner, Societe General Bank owns 51% of NSGB and has majority control. Recently, the company started a leasing company, is expanding it's commercial banking activities and diversifying into the investment banking sector. In June 1997, the bank issued corporate bonds valued at LE 150 million with a tenor of 5 years. NSGB is setting up an investment banking department will be headed by Mr. Philip Pudeau who is in an " investment banking mood " and receptive to new ideas. At present, the bank is trading at a PER of 15.2x and is considered one of the best performing growth stocks in the market.

2. Market Reactions - Primary Investors

This section summarizes the level of interest and main concerns for the 8 financial intermediaries in the three financial products. For presentation purposes, the intermediaries were recouped into 3 groups by level of interest as follows:-

Group 1. High level	interested in the concept, but have a few concerns that require little structural changes
Group 2. Medium level	interested in concept, but have major concerns that would require major structural changes
Group 3. Low level	have major reservations in the concept itself

2.A Main Concerns for the Equity SPF

Starting with the Equity SPF, the intermediaries were grouped as follows :-

Group 1. High level	ADIC, CIIC, EDBE and NSGB
Group 2. Medium level	IFC and MIDB
Group 3. Low level	MIBank and Bank Misr

Group 1 believed the Equity SPF to be a good idea worth pursuing. Of the four, both CIIC and ADIC showed great enthusiasm and readiness to sponsor the SPF. Nonetheless, they had the following main concerns :-

- The identity of the list of potential customers was the main concern for CIIC. This is because CIIC have an unlisted securities portion in one of their funds with Alliance Capital and are concerned about an existence of overlap between the two funds.
- The outcome of the meetings with list of pre-identified companies.
- To review the percentages given to listed Vs unlisted companies was the main concern for ADIC who maintain that, investing in unlisted companies is time consuming.
- The ROI for subscribers was the main concern for EDBE.

This, while group 2 composed the IFC and MIDB required major structural changes to the SPF. During the interview it became apparent that the IFC itself is also, in the process of establishing an environmental equity fund that would finance energy conservation projects. The prospective IFC fund is a regional environmental equity fund geared to the private sector and capitalized at US$ 50 million. According to the IFC, the investor

profile in the SPF would be institutions with a social and politically conscious. Profit maximization, although considered, would not be their main objective for investment decisions. As such, the ROI from a venture is but one variable of many in their cost - benefit analysis.

Following the shared saving contracting approach, MIDB prefers an investment company (IC) structure. Not only would the IC be free to operate away from the Capital Market Law 95, but also provide other financial alternatives such as leasing. In this structure, it is proposed that the ESCO become a shareholder in the investment company where, the proceeds of the contracting component of projects are distributed amongst the other shareholders. The main concerns for group 2 are as follows:-

- The SPF has two objectives that require different subscriber profiles .i.e. investing in unlisted companies and financing energy conservation projects
- The mechanism for project identification should be reviewed .i.e. done by the fund or the ESCO
- Detect the potential number of international ESCOs that would be interested in the Egyptian market to create a stand alone mechanism as the ESCO must bid for projects with others and, there aren't any ESCOs in Egypt
- The fund manager and SPF technical advisor must be credible specialized companies with a proven track record
- Narrow scope of work .i.e. only offering one financial instrument
- The role of the ESCO

On the other hand, Group 3 have serious reservations with the concept itself and are subsequently not interested in the SPF. First, MIBank maintained that investing in unlisted securities is one thing and financing energy conservation projects is another. Not so much opposing the concept as the market demand, Bank Misr opposed the concept on the premise that the private sector market for energy conservation is small and owners will not want to dilute their equity interests. In this respect, Bank Misr suggests a Leasing Fund as the most appropriate financing vehicle and the bank would be interested in holding a majority stake in such a fund. The Fund, from their perspective would lease certain energy conservation equipment to lessees in certain pre-identified market sectors. The latter, has the benefit of process standardization, intricate knowledge of the customer market to make qualified decisions and re-selling the equipment in case of default. In this respect, the Fund would not limit itself to certain project sizes or any one ESCO, which is the case for the subject SPFs.

The main concerns for group 3 are as follows:-

- The SPF has 2 different objectives
- Small target private sector market
- Companies will not want to dilute their equity interest

2.B Main Concerns for the Bond SPF

Using the same grouping method as the Equity SPF, the level of interest for the Bond SPF is as follows:-

Group 1. High level	ADIC, CIIC, MIBank, EDBE and NSGB
Group 2. Medium level	MIDB
Group 3. Low level	IFC and Bank Misr

Group 1 were very interested in the Bond SPF and were ready to sponsor the fund. Their main concerns however, centered on the following:-

- The potential clients must be pre-identified
- The present fund size is small
- The present project application size needs to be higher
- Subscribers expected ROI needs to be identified
- Capabilities of technical advisor must demonstrated
- Client identification method must be clarified

It is important to note, that MIBank in particular displayed high interest in the concept. Mr. Ozalp mentioned that Mibank are interested to work with us as a custodian and sponsor for this fund. However, he mentioned that the project application size should be a minimum of LE 40 million and fund size doubled from of LE 100 to 200 million.

As for Group 2, MIDB was the only candidate. Along similar lines shown in the Equity SPF, MIDB recommends an investment company where the ESCO is a partner (for details refer to MIDB in section 2A).

Group 3, comprising the IFC and Bank Misr displayed little interest in the concept. For the IFC, the same concerns shown in the Equity SPF regarding the project identification method, credibility and track record of main stakeholders, and role of ESCO still prevail. Other main concerns plus those of Bank Misr are shown in the following:-

- Small market to warrant a fund .i.e. not many huge private sector companies
- Pre-identifying clients to cover fund is time consuming and challenging for the ESCO
- The bonds will only cover the cost of equipment .i.e. max. 60% of the project costs
- Issuing bonds is costly therefore the project application size must be high
- IFC will not finance projects in the public sector

2.C. Main Concerns for the Corporate Bonds

More or less, the same groups interested in the Bond SPF are those interested in the Corporate Bonds. Two intermediaries - EDBE and MIDB are an exception. Although, both had reservations towards the Bond SPF, it was unclear during the interviews how much interest they have in the Corporate Bonds concept.

However, group 1 intermediaries shared the same main concerns as those mentioned in the Bond SPF concerning the size of the bond issue and tenor. Similarly, group 3 stated their concerns regarding the small market size of private sector companies. In this respect, Bank Misr added that not only is issuing bonds a costly affair, but the project size would have to be huge, so that the issue would cover 60% of the project's initial investment costs .i.e. the cost of equipment.

Group 1. High level	ADIC, CIIC, MIBank and NSGB
Group 2. Medium level	none
Group 3. Low level	IFC and Bank Misr
unknown	MIDB and EDBE

It is important to note, that MIBank, NSGB and CIIC in particular, showed considerable interest in financing energy conservation projects via corporate bonds. NSGB mentioned that the bank would be prepared to underwrite the issues and act as guarantor to the individual bonds. On a similar note, MIBank liked the idea very much and mentioned that this financing vehicle is the closest to the bank's commercial business activities. In this respect, the bank is willing to play whatever role needed.

3. Suggested Amendments

Based on the main concerns shown in section 2, the following illustrates the amendments to the initial structure of the concept papers (see also amended concept and structure matrix at the end of this section).

3.A. The Equity SPF

For the Equity SPF, three major changes to the concept papers will be instituted as follows:-

1. The purpose of the SPF is to invest in unlisted private sector companies and traded public sector companies. In this respect, no percentages will be allocated to either target market and the suggested approach will be on a first come first served basis.

2. In the original concept paper it was assumed that the proposed SPF size of LE 50 million is covered from the first day of operations. The proposed amendment is the coverage of 50 -75% of the SPF or LE 25 - 37.5 million in the 1st tranche and the remaining LE 25 - 12.5 million in the 2nd tranche. The 1st tranche would cover the already identified companies.

3.B. The Bond SPF

As for the Bond SPF, the following four major changes will be made:-

1. The minimum SPF size is LE 200 million instead of 50. The interviewees mentioned that the minimum bond application size should be around LE 40 million as opposed to LE 10 million in the original concept paper. Accordingly, the SPF would finance, on average, five projects.

2. From 1 above, to be eligible, the maximum project application size is LE 40 million. It is important to note, this could cover the lower bond issues such as the two issues by Hoechst valued at LE 30 million and LE 40 million.

3. In the characteristics of financial instruments, the redemption period for bonds issued by the SPF will not exceed 5 years.

4. Similar to the Equity SPF, the bond SPF could operate in tranches, 50 - 75% in the 1st stage and the remaining percentages in the 2nd.

3.C. The Corporate Bonds

Since the Bond SPF will be financing projects with a ceiling of LE 40 million and the aim of the corporate bonds is to finance debt requirements in excess of this amount, the project application size is amended to a minimum of LE 40 million. The tenor, similar to the Bond SPF will be 5 years.

4. Summary of Results

The matrix below which, shows the level of interest for each intermediary in the Equity and Bond SPFs indicates the following:-

1. 4 of the 8 interviewees, namely ADIC, CIIC, EDBE and NSGB have a high level of interest in the SPFs.
2. MIBank is interested in the Bond SPF, but not the Equity SPF.
3. MIDB is interested, but has major reservations in both SPFs.
4. The IFC has major reservations with Equity SPF and not interested in the concept of the Bond SPF.
5. Bank Misr is not interested in either concept.

Level of Interest
Equity SPF

Level of Interest Bond SPF		***High***	***Medium***	***Low***
	High	ADIC, CIIC, EDBE & NSGB		MIBank
	Medium		MIDB	
	Low		IFC	Bank Misr

As Corporate Bonds, all of MIBank, NSGB, ADIC and CIIC displayed high interest in sponsoring this financial product. On the other hand, IFC and Bank Misr showed little interest.

Energy Conservation Equity SPF
Summary of Responses - Matrix

	Level of Interest	Main Concerns	Suggested Amendments
ADIC	Interested to participate in fund management company possible	• Pre-IPO are time consuming • Has to be sold as a Bechtel ESCO Fund	• Review % given to listed & unlisted companies • Raise funds in two tranches
CIIC	Interested, but need to discuss it further with the Managing Director. A meeting will be scheduled for the end of September.	• Pre-identifying potential clients to cover fund will be time consuming	none
Bank Misr	Not interested if an Equity SPF. Would be if a Leasing Fund.	• Small target market • Companies will not want to dilute equity interest	Change concept to a Leasing Fund and they will subscribe to it.
EDBE	Could be interested.	• Subscribers ROI • Closed companies will not accept outside capital participation. • Companies will not want to dilute equity interest	none
MIDB	Not interested if a fund. Would be interested if an Investment Company (IC).	• Narrow scope of work • The role of the ESCO • Pre-identify potential clients	• Technical advisor and ESCO should be one entity • Do not agree on ESCO being a separate business • Change concept to IC • Introduce other financial instruments such as bonds and leasing in the IC .

16

	Level of Interest	Main Concerns	Suggested Amendments
MIBank	no	The Equity SPF concept has two different objectives .i.e. investing in un-listed companies and financing energy conservation projects	none
IFC	An Equity Fund is a good idea, but not under the present structure. Both concept & structure must be reviewed. Suggested corresponding with IFC in Washington who are working on a similar concept.	• The SPF has two different objectives (see MIBank, above) • Size of market • Investor profile • Getting ESCOs to be interested in Egypt • The international ESCO must bid for projects • Will not finance projects in the public sector • There aren't any ESCOs in Egypt • Technical advisor, ESCO and Fund manager must be credible with a track record • Pre-identify potential clients	• Limit SPF objectives • Identify investor profile • Review project identification mechanism • Identify the ESCOs and technical advisor • Pre-identify potential clients
NSGB	They like the concept, but have to discuss it further with the Managing Director.	Not yet	Not yet

17

Energy Conservation Bond SPF
Summary of Responses - Matrix

	Level of Interest	Main Concerns	Suggested Amendments
ADIC			
CIIC	Interested, but need to discuss it further with the Managing Director. A meeting will be scheduled for the end of September.	• Potential clients must be pre-identified • 7 year tenors are too high	• Reduce maximum tenor from 7 to 5 years
Bank Misr	Not interested if a Bond SPF. Would be if a Leasing Fund.	• Aren't many businesses to warrant a fund • Pre-identifying enough potential clients to cover SPF will be both time consuming and difficult • Doesn't solve the client's problem since the equipment account for a maximum of 60% of initial investment • Issuing bonds is costly. Thus, the application size must also be high.	Change concept to a Leasing Fund and they will subscribe to it.
EDBE		• Subscribers ROI • Client identification method • Capabilities of technical advisor	none
MIDB	Not interested if a fund. Would be interested if an Investment Company (IC).	• Narrow scope of work • The role of the ESCO • Pre-identify potential clients	• Technical advisor and ESCO should be one entity • Do not agree on ESCO being a separate business • Change concept to IC • Introduce other financial instruments such as equity financing and leasing in the IC .

18

	Level of Interest	Main Concerns	Suggested Amendments
MIBank	A good idea and could sponsor the SPF.	• Fund size is too small • Project application size is too small	• Increase fund size to LE 100 - 200 million • Increase project size to LE 40 million
IFC	Not a good idea.	• Project size will be in the order of LE 50 million • Not many huge eligible private sector companies • Mechanism of project identification • The international ESCO must bid for projects • Will not finance projects in the public sector • There aren't any ESCOs in Egypt • Technical advisor, ESCO and Fund Manager must be credible with a track record • Pre-identify potential clients	none
NSGB	They like the concept, but have to discuss it further with the Managing Director. NSGB would be prepared to underwrite and guarantee bond issues.	Not yet	Not yet

ANNEX A

Fine Tuned Concept Papers

Energy Conservation Equity Fund

Name :	*to be determined*
Legal Structure :	Closed - end revolving fund with a Life of 7 years.
Jurisdiction of incorporation :	Cairo, Egypt
Fund Size :	min. LE 50 million
Minimum Subscription :	LE 500 thousand
Fund Subscribers :	Institutional investors such as banks, insurance companies, investment companies and high net worth individuals
Fund Manager :	The International Investment Advisor - TIIA
Fund Administrator, Sponsor, & Custodian :	A Prime local Bank
Fund Advisor :	A Prime international investment bank such as the IFC
Technical Advisor :	A Prime local technical name
Fund Objective :	Growth Fund
Investment Policy :	This, special purpose fund participates in all or part of the equity financing portion of the capital required for energy conservation projects. The SPF would pool many energy conservation projects into one portfolio and provide equity finance for certain project types. The project application size is expected to be between LE 5 - 10 million. As part of the investment policy, the fund will be committed to acquire the new share issues of unlisted private sector companies and traded public sector companies. The SPF will hold the company's shares for the duration of the project and when appropriate, divest it's holdings at the prevailing stock market price. Considerable weight will be given to projects that result in a significant reduction in energy costs and that allow the energy savings to be filtered to net income, so as to be reflected in the share price.

Investment Management Policy :	The fund expects at least 50% of the capital to be fully invested within 12 months from the operational date while, the difference at the beginning of the 2nd year. Accordingly, it is paramount that the projects are pre-identified and included in the fund prospectus together with the relevant details such as energy audit, financial projections, etc.. prior to commencing with the fund.
Funding Eligibility Criteria :	1. Joint stock traded Law 203/ 159 companies or unlisted private companies operating 2. The company is profitable and creditworthy 3. Project with significant energy cost savings 4. Application size is between LE 5 - 10 million 5. Performance Guarantee contract from an international ESCO with a track record
Characteristics of the Financial Instrument :	Common shares
Reported tax treatment of the Financial Instruments:	Under the Capital Market Law both, dividends and capital appreciation are tax exempt.

Energy Conservation Bond Fund

The Proposed Structure

Name :	*to be determined*
Legal Structure :	close - ended revolving fund with a life of 7 years
Jurisdiction of incorporation :	Cairo, Egypt
Fund Size :	LE 200 million
Minimum Subscription :	LE one million
Fund Subscribers :	Institutional investors such as banks, insurance companies, investment companies and high net worth individuals
Fund Manager :	TIIA
Fund Sponsor, Sinking Fund, Trustee & Custodian :	A Prime local Bank
Fund Advisor & International Placing Agent:	A Prime international investment bank such as the IFC
Technical Advisor :	A Prime local technical name
Fund Objective :	Income Fund
Fund Main Purpose :	This, special purpose fund participates in all or part of the debt financing portion of the capital structure for energy conservation projects (provided that the project meets the funding eligibility criteria). The fund would pool many energy conservation projects into one portfolio and provide the required debt finance. The maximum project application size is LE 40 million. As part of the investment policy, the fund would structure and purchase the debt instrument that meets the client's needs while providing the fund with an acceptable return on investment. The fund would purchase the bonds in the primary market and divest them in the secondary market at the appropriate period.
Investment Management Policy :	The fund expects the capital to be fully invested in 5 to 10 companies within 12 months from the operational date, while realizing 3 month TB rate + around 2%.

Energy Conservation Bond Fund

Funding Eligibility Criteria :	1. Incorporated as a joint stock company operating under Laws' 159, 203 and 230 2. Bond issue should not exceed Net worth 3. Issued capital should be fully paid 4. Favorable leverage position 5. Max. project application size is LE 40 million 6. Have a viable project with significant cost savings 7. Possess a Performance Guarantee from a large ESCO with track record
Characteristics of Financial Instruments :	Corporate bonds (in LE) with following features :- 1. Bank guaranteed or un-securitized 2. Non - convertible to stock 3. Prepayment (Callable) 4. Ceiling of LE 40 million 5. Redemption period is 5 years 6. Variable and/ or fixed coupon payments 7. Fixed and regular payments
Reported tax treatment of the Financial Instruments:	Under the Capital Market Law capital appreciation from bonds are tax exempt while the coupons are tax exempt up to the CBE discount rate only.

Energy Conservation Corporate Bonds
proposed structure

The Concept :

The subject corporate bonds will cater for a market with debt requirements in-excess of the LE 40 million ceiling per company, to provided by the Bond SPF. In essence, the group to include; the ESCO, financial advisor, underwriter, legal advisor and brokerage firm will work together as team in issuing the bonds.

Stakeholders :

1. An international ESCO with a track record
2. TIIA as investment banking advisor
3. Legal Advisor
4. Brokerage firm
5. Underwriters (if needed)

Group Process Flow :

1. ESCO identifies eligible company
2. ESCO prepares the Energy Savings Report
3. ESCO provides Performance Guarantee
4. TIIA prepares the financial model and Debt Study
5. TIIA agrees with client on the structure of the bonds
6. TIIA fine tunes bond structure via market sounding
7. TIIA interfaces with CMA to get approval for the issue
8. TIIA prepares prospectus jointly markets it with brokerage firm
9. Underwriting may be needed in certain cases especially for public sector firms
10. Brokerage firm executes the transaction

Eligibility Criteria :

1. Listed and incorporated as a joint stock company
2. Net worth should exceed bond issue
3. Issued capital should be fully paid
4. Favorable leverage position
5. Have a large project with significant cost savings
6. Possess a Performance Guarantee from a large ESCO with track record

Bond Features for a proxy company such as Semadco:

1. Bond issue is LE 50 million
2. Nominal value is LE 1000
3. Redeemable in 5 years
4. Coupon payments is 3 month TB rate plus 1% payable on semi-annual installments
5. LE 12.5 million p.a. payable into the Sinking Fund, starting the 2nd year
6. Bank guaranteed
7. Non - convertible to stock
8. Prepayment (Callable)

Reported tax treatment of the Financial Instruments:

Under the Capital Market Law capital appreciation from bonds are tax exempt while the coupons are tax exempt up to the CBE discount rate only.

ANNEX B

Call Reports - Financial Intermediaries

Call Report

Name of Establishment :	Al Ahly Development & Investment Company
Contact Person :	Mr. Ashraf Mahmoud
Position :	General Manager
Interviewed by :	Mr. Hassan Hussein - TIIA Chief Executive
Date of Call :	19 / 08/ 1997
Time of Call :	9 : 00 a.m.

Summary :

Mr. Hassan Hissein called on Ashraf Mahmoud to discuss the three financial products i.e. equity fund, bond fund, corporate bonds. The results of the meeting are as follows :-

1- I explained to Ashraf the concept and structure of the equity fund and handed him the Concept and Structure- Matrix, the process flow, the main stakeholders and the concept structure.

2- Ashraf liked the idea very much and offered to participate with TIIA in the fund management company. He stated that they have other direct investment funds that we can work on them together.

3- Ashraf stated that the way forward is to have a meeting with all main stakeholders i.e. ESCO in particular Bechtel, TIIA, ADI, the technical advisor. The meeting would result in minutes of meeting that would be turned into shareholders agreement and responsibilities of each party.

4- Ashraf stated that the Fund has to be sold as a Bechtel ESCO fund. I mentioned that IFC would like to see various ESCOs and not only one and he said that we would need the Bechtel name either implicitly or explicitly to sell the fund.

5- He mentioned that the Pre- IPO is a good idea but could be time consuming. He suggested that the fund should be open to listed companies as well. I mentioned that it is our intention to have listed companies investment and that investors who accepts to invest in unlisted companies would have no problem taking the a more reduced risk. We may have to take a closer look at the percentage we have open for listed companies.

6- I also answered his earlier point that we have asked Bechtel to produce a list of companies that would be eligible as investment propositions for including in the prospectus. Our original idea was to include these companies in the market sounding. We are still awaiting Bechtel input.

7- Ashraf mentioned that in case Bechtel do not have enough companies that would cover the total amount TIIA should consider raising the amounts in two tranches. The first tranche would cover the already identified companies and the second tranche would cover the rest when it is ready. I said that we trust Bechtel would be able to

produce enough projects and that the amounts may be too small if divided in tranches. The idea is worth considering.

8- Ashraf suggested that we should have board representation in each company we invest in it in order to be able to influence its decisions at the highest level. The board representation would result also in auxiliary business.

Call Report

Name of Establishment :	Banque Misr
Contact Person :	Mrs. Hoda Sabry
Position :	Manager - Investments Division
Interviewed by :	Mr. R. Abou El Seoud - Manager CF
Date of Call :	05 / 08/ 1997
Time of Call :	2 : 00 p.m.

Summary :

Mrs. Sabry doesn't believe that the SPFs will find much favor from investors in Egypt. Mainly from a market perspective, the following is her reasoning :-

1. The SPFs are too sophisticated for the Egyptian market. While, the concepts are interesting, they are at the same time novel, both locally and abroad. This novelty will add to the difficulty in marketing them.

2. Unlike the US, the majority of private businesses in Egypt are small and medium sized family run businesses. While, the big companies are mostly new and equipped with modern technologies not needing energy conservation. Accordingly, the SPFs are targeting a very small segment of the energy conservation market, leaving out the bigger market. In her opinion, we should first know our market and how big it is first, then structure the SPF around the needs of this market. This should be provided by ECEP due to their direct involvement in energy conservation market and availability of data compiled.

3. There aren't many local businesses of such a size to warrant a bond funded energy conservation market. Especially, when considering that issuing bonds is a costly affair, the bond issue must be large enough to make it cost effective. This, in addition to the fact that the energy conservation equipment do not exceed 50% of the projects' initial investment costs in the best cases.

4. Businesses in Egypt are run by families who are unlikely to relinquish or dilute their equity interests to an energy conservation fund.

5. The international ESCO will find difficulty in getting enough eligible companies and projects to cover the SPFs. Since her involvement in energy conservation in 1994, she has been promised projects by both ECEP and Bechtel for the bank to finance, but so far hasn't received any. In light of her experience, she believes that the international ESCO will have a difficult time in accumulating enough projects to start the SPF. The task will be even more difficult or in her words "challenging" in a small target market.

Conclusion :

She strongly believes that both the Equity and Bond SPFs won't work. In her opinion, the most suitable fund type for our market is a Leasing Fund. The Bank would be interested to hold a stake in such a fund. The Fund would lease certain energy conservation equipment to lessees in certain pre-identified market sectors. The latter has the benefit of process standardization, intricate knowledge of the customer market to make qualified decisions and re-selling the equipment in case of default. In this respect, the Fund would not limit itself to certain project sizes which is the case for the subject funds. In her opinion, this is project finance where the fund is financing the cost of equipment and is paid from project savings.

Next Steps :

TIIA provided Mrs. Sabry with the proposed structure papers for both funds and will give us her feedback sometime next week. She will also, come back to us on the bank's hurdle rates of return for making equity participation's.

Call Report

Name of Establishment :	Commercial International Investment Company - CIIC
Contact Person :	Ms. Nevine Shafei
Position :	Executive Director
Interviewed by :	Mr. Hassan Hussein - TIIA Chief Executive
Date of Call :	25 / 08/ 1997
Time of Call :	11:30 a.m.

Summary :

Mr. Hassan Hussein called on Ms. Nevine Shafei today Monday August 25, 1997 The results are as follows :-

- CIB is one of the banks that we have been consistently meeting and discussing with them the developments of the ESCO commercial bank financing, donor financing on the first study on the financing of ESCO. Nevine Shafei was the person we used to meet in CIB; as such she is very much aware of ESCO.

- CIIC is the CIB investment banking arm in which CIB owns around 40 % and the remaining percentage is owned by prime private sector institutions. The company is headed by Yasser Malawani -Managing Director with three Executive Directors reporting to him including Amr Garhy in charge of Privatization, Nevine in charge of private sector investments. Nevine mentioned that they have a brokerage company Intercapital, a fund management company with Alliance Capital and a portfolio management company with Barings.

- I explained the concepts to Nevine and her main concern was to identify the companies that will be the investment targets for the equity fund. The reason for this concern is that they have an unlisted securities portion in one of their funds with Alliance Capital and she is concerned with the existence of overlap between the two funds i.e. the investment opportunities might be the same. I informed her that we will schedule another meeting around end of September to inform her of Bechtel's selection of investment opportunities.

- The bond fund and the Corporate Bond concept were very clear to her and she was very interested in both of them. Her main comment was that the tenor of 7 years were rather long and that 5 years would be more adequate.

- We discussed the possibility of CIIC investing in the equity, bond funds and Corporate Bond issuance. She said that she will discuss the concepts with Yasser Malawani and revert back. We also discussed the possibility of CIB acting as the Custodian and promoter of the funds.

- We agreed to meet end of September to inform her of the results of our meetings with the target companies, their names etc..for CIIC to be able to make an informed decision.

Call Report

Name of Establishment :	Misr Iran Development Bank
Contact Person :	Mr. Kamal Mahgoub - Deputy Manager
	Mr. Nagy Hindi - Head of section, Capital Markets
Interviewed by :	Mr. A. El Sharnouby - Senior Manager CF
Date of Call :	12 / 08/ 1997
Time of Call :	11 : 30 a.m.

TIIA representative called on Misr Iran Development Bank to discuss the Special Purpose Funds concept and its possible implementation within an energy conservation context. Both, Mr. Mahgoub and Mr. Hindi were very receptive of the concept and introduced challenging ideas that are based on the SPF, but in a manner that, they believe, would contribute to the better success of the efforts in this venue. The history of energy conservation work, in Egypt, through ECEP, was presented along with the current stage and desired results based on previous report findings and recommendations.

As mentioned, the SPF idea was very appealing to the bank's representatives who are of the opinion that the Bank would be willing to be not only a promoter of such a fund but also an investor. They further expressed there concern with the time factor and stressed on speeding up the process of preparation to be in a position to start the fund late this year. It was noted that the return on investment is one important issue for the investment decision making even if it yields low returns at the beginning but have potential growth. They believe that, if a package is structured properly so that it covers all steps from energy audit to extending finance, it will be highly marketable and accepted by future clients.

Discussion :

This section is based on the discussion with the bank representatives that was fine tuned to address all issues raised in the meeting.

To start with, it was recommended that the funds, not only offer financing through equity participation or bond subscription, but would be involved in a broader scope of work. The technical advisor, as defined in the concept paper, should actually carry out all the tasks of the ESCO including all studies and performance guarantee. As such, the fund(s) would operate as an ESCO, together with the fund manager, to identify viable energy conservation projects and credible companies in the market place. That, in addition to providing un-traditional financing. In a general sense, the fund would replace the existing ECEP project, and continue on a number of pilot projects, once it is terminated. As such, the ESCO, fund manager and technical advisor in the original proposal would all be one combined entity.

They do not agree to have the ESCO as a separate business entity where the return from percentage of future savings would go to this outside ESCO, who ever it would be, they added that it could be one of the activities and sources of revenue to the fund irrespective of the financing arrangements. It was agreed that this ESCO will probably have to be an international one with the required know how and past experience in the business. They would join forces with a fund manager that is familiar with the business environment in Egypt to manage the funds' sources.

Furthermore, financing through equity or bond subscription, as the only activity of the fund, is considered as an extra privilege that does not support start up in a market that is not yet developed.

Having centered the discussion around the creation of a fund, the bank representatives believe that it would be a much better idea to create an investment company, as opposed to a fund, that operates away from the Capital Market Authority jurisdiction and law 95.

It is their opinion that, one investment company should be able to provide a mix for both, equity and bond subscription by allocating a percentage of the portfolio to each. The financing products could be stretched to include leasing which is expected to grow, as a source of finance in Egypt, at an increasing rate in the near future.

The fund manager along with the technical advisor (ESCO) could, in this case, sign a management contract with this newly created investment company for a set fee structure. Under this scenario, all the contracts, agreements, payments, guarantees, revenue realization, etc. will involve the investment company directly.

An ESCO would be attracted to this set up for a number of reasons. One, the banks being investors in the fund would create an instant demand for ESCO services through their existing clients, thus, uplifting the marketing pressure. As expressed, there is a number of the bank's clients that incur high running costs, given that and the fact that companies, at large, have to reduce costs to be able to compete and export specially after the implementation of the GATT, provides a good market segment for energy conservation services. Two, all up front expenses and risk under performance guarantee will be bared by the investment company, therefore, naturally eliminating all costs and risks associated with providing the service. Three, consider offering in kind contribution to the ESCO, in the newly established investment company, for their know how where they will get a percentage of the share capital without having to invest any cash. Four, the ESCO will be receiving a fee or percentage of a certain bench mark, for providing their services under a management contract, as mentioned.

Investors in the company, on the other hand, will realize return starting from selling the idea of saving energy and reaping a percentage of these savings, to the financing of the project. This company will, hopefully, become a pioneer and market leader in the energy conservation industry which will be reflected in returns.

Prior to embarking on the implementation of the idea, several measures must be considered, background information on different ESCO companies should be obtained to select one or more candidates to negotiate with. That in addition to undertaking a brief client identification process for potential clients and present a one page write up addressing possible business.

Summary :

Based on the discussion and the presented arguments, MIDB's opinion in summary is:

- Creation of an investment Company as opposed to one or more funds
- Expand the finance available by this investment company to include equity participation, bond subscription and leasing.
- Study the possibility of providing ESCO with in kind contribution for their know how
- Fund manager would sign a management contract with the investment company
- The ESCO to be included in the fund management company and provide services through the investment company
- Pre-identify potential clients and make use of the banks client base

Call Report

Name of Establishment :	National Societe Generale Bank
Contact Person :	Mr. Philip Guidez
Position :	General Manager
Interviewed by :	Mr. Hassan Hussein - TIIA Chief Executive
Date of Call :	18 / 08/ 1997
Time of Call :	12:00 a.m.

Summary :

Mr. Hassan Hussein called on Mr. Guidez on Monday August 18, 97 and handed him the concept and structure of the three financial products. The results of the meeting is as follows:-

1- NSGB is setting up an investment banking department that is headed by Philip Pudeau who I have met in Paris during my last trip.As such they are in an " investment banking mood " and receptive to all ideas.

2- I discussed with him that NSGB invests in the equity fund, be the custodian of the bank. He liked the idea very much and asked to meet the Managing Director of the bank to discuss it further. He said he is going on vacation next week but he would leave a written report to the MD for our discussions.

3- He said in particular for the corporate bonds NSGB would be prepared to underwrite the issue and that they would be willing to act as guarantor to the individual bonds within the bond fund.

4- He said that there time frame for the approval of the investment in the fund would be around 2 months.

Call Report

Name of Establishment :	Export Development Bank of Egypt (EDBE)
Contact Person :	Mrs. Hanifa Mourad Assistant General Manager, Finance Sector
Interviewed by :	Mr. Amr El Sharnouby - Senior Manager CF
Date of Call :	12 / 08/ 1997
Time of Call :	9 : 30 a.m.

Mr. Sharnoubi called on EDBE's premises and met with Mrs. Mourad to brain storm and discuss financing made available to energy conservation projects through a Special Purpose Fund(s). The mechanism of energy conservation was presented highlighting the roles of market player, with special emphasis on the ESCO. It was perceived as a sophisticated process to be easily understood by the Egyptian market. Further more, introducing the idea of financing through special purpose funds made the whole issue even more complicated. Having said that, the outcome of this call was somehow distorted and did not address, properly, the issues related to the fund.

Never the less, the discussion continued by addressing the need for market awareness and education. However, the issue of energy conservation, at face value, according to Mrs. Mourad could be of great importance to some of the bank's clients who perceive it as services provided for a fee. This would not include the ESCO efforts in the way it was presented to her or the un-traditional financing through equity participation or bond subscription.

Concerning the target market for the fund, she believes that many closed companies in the Egyptian market would not welcome outside capital participation, on the other hand, there are some clients who would be more receptive to outside participation due to their current capital distribution which includes the bank and Arab investors as shareholders. They would represent a good target, if the fund comes up with the whole package. This would include the identification of energy savings areas, how it could be carried out, what is the initial investment cost, the financing sources, etc..

The bank, according to Mrs. Mourad, would be willing to subscribe in the funds capital if the return is appropriate compared to the opportunity cost of cap[capital, and would not participate for any other subjective reasons as the case is with other institutions such as National Bank of Egypt. As such, the fund's objective to invest in companies that have, not only a sound energy saving project, but also future growth potential is very important. Moreover, it should be noted that the investment decision is affected by the government's policy at macro level, in such a case, the government adoption to a policy as reflected in high officials statements would be highly considered.

A list of potential ESCO companies interested in the Egyptian market is of importance for the success of the whole process, in addition to client identification method that would buy into the concept and be willing to finance it through a share capital increase or bond issue.

The capabilities of the technical advisor, to the fund, should be demonstrated and proves to posses the necessary knowledge and know-how.

One point that was mentioned, but does not relate to the discussion very much, is that the European Investment Bank (EIB), or similar institutions, provides funds to financial institutions such as EDBE at a very low rate. These funds are then reinvested by the bank in projects where the total source of funds to the bank investments are shared equally between that source under the EIB's funds and other.

Call Report

Name of Establishment :	International Finance Corporation (IFC)
Contact Person :	Mr. Tarek Allouba
Position :	Senior Projects Officer
Interviewed by :	Mr. A. El Sharnouby - Senior Manager CF
	Mr. R. Abou El Seoud - Manager CF
Date of Call :	04 / 08/ 1997
Time of Call :	2 : 30 p.m.

Summary :

TIIA representatives called on Mr. Allouba of the IFC to obtain his feed back on the Special Purpose Funds concept and its possible implementation within an energy conservation context. All the findings and recommendations were presented and discussed, in summary, the Equity fund seemed appealing to Mr. Allouba.

The IFC is considering the prospects themselves as Mr. Dana Younger from the IFC Environment Division in Washington is working on a similar project. He visited Egypt on a 2 week fact finding mission and met local financial intermediaries to explore the viability of the concept. Similar to TIIA, the IFC is still in the concept stage. Instead of working in parallel towards the same goal, Mr. Allouba suggests corresponding with the IFC to exchange ideas and possibly working together in developing the concept. The prospective IFC fund is a regional environmental equity fund geared to the private sector and capitalized at US$ 50 million. Energy conservation projects are also eligible for financing under this scheme.

As Mr. Allouba put it, investing in energy conservation projects is way down an Egyptian company's investment priority list, if on it at all. To promote such investments, a reputable international ESCO with financial backing via a fund subscribed to by socially conscious institutions such as the IFC and European Investment Bank (EIB) is one of the best options.

Such institutions are inherently socially and politically conscious and profit maximization, although considered, is not their main objective for investment decisions. As such, the ROI from a venture is but one variable of many in their cost - benefit analysis. In his opinion, the fund technical advisor should be a prime ESCO with proven track record, along with a reputable fund manager responsible, collectively, for the marketing of the fund, project identification and providing finance in-exchange for an equity position in the enterprise. This is a required given for the consideration of the IFC to raise required finance. But the main problem would be to attract enough international ESCO companies to consider Egypt as one of their markets.

Regarding the Equity SPF Mr. Allouba had the following four main concerns :

1. The proposed Equity SPF has two main different objectives implying a distinct profile of investors. One objective addresses return maximization to shareholders as a Direct Investment Fund (DIF) and the other being to finance and promote energy conservation projects as asocial, political and more macro oriented fund. In his opinion, these objectives call for a different set of investors and a group would have more interest in one these objectives than the other. Moreover, it would limit the target market on the recipient side, specially by considering companies that would be willing to go public and issue shares through an IPO on the stock market.

   The subject fund, according to Mr. Allouba, marries objectives of a DIF with that of a fund having a social conscious. While, the primary concern for a DIF shareholder is the ROE, that of the subject fund should be social and economic welfare. This isn't to say that the ROE for a socially conscious institution is un-important, but the levels aren't. It is important to note, that the IFC does not have ROE hurdle rates for equity investments.

2. The fund manager and technical advisor are of paramount importance to the IFC in their investment decision making. Recognizable international names are prime candidates, for their technical background and track record together with strong capabilities and resources. For this type of fund, a technically competent engineering consultancy is an ideal candidate for fund technical advisor. Moreover, due to possible conflict of interest in the subject SPF structure, he reinforces the fact that the ESCO and fund technical advisor could not be the same company, the structural relationship between the fund manager, ESCO and fund technical advisor is important. Since the energy conservation industry is in its infancy stage in Egypt, the issue raised was weather the fund manager along with the technical advisor are responsible fo: identifying good project opportunities and implementing them through tenders to ESCO's or should it be the ESCO that plays this role and come to the fund as a source of finance. He does not believe an international ESCO will come to the local market and waste so much in terms of time and good money to identify projects for a fund. He proposes that an international ESCO be the fund advisor that would invest in the fund with socially conscious institutions such as the IFC and EIB.

3. One important inquiry addresses the potential number of international ESCOs that would build enough interest in the Egyptian energy conservation market and are willing to operate as ESCO in this market. fund is structured around one ESCO that will be responsible for marketing the fund. He believes that no investor will want to bear the market risk by financing one ESCO. To have a sustainable and self operating mechanism, there must be competition among a number of them in the market. Mr. Allouba also, reiterated that multi-lateral agencies in particular will not accept financing or in his terms "subsidizing" one company. In his opinion, the fund shareholders will agree and put forth the provisions for identifying ESCOs in the TOR for the fund management company.

Mr. Allouba does not believe that a Bond SPF is a viable concept for the following reasons:-

1. The fund would limit investments to large companies whose needs for financing are in the region of LE 50 million thereby, excluding the large market comprised of medium to small sized companies.
2. The eligible companies for financing will have to be huge in terms of size and confirm to a particular set of fundamentals such as past & future performance.

Conclusion :

The Equity SPF as a concept, is more viable than the Bond SPF. Having said that the former needs attention in the;

- limiting the objective of the fund to address return maximization or socioeconomic objectives, thus, identifying investor's profile more accurately;
- The credibility of fund manager and technical advisor is of great importance for investors confidence, technical advisor is most likely to be an existing international ESCO;
- mechanism of project identification should be reviewed, in view of current market status, should be done by the fund or the ESCO; and,
- detect the potential number of international ESCOs that would be interested in the Egyptian market to create a stand alone mechanism.
- The ESCO as technical advisor would invest in the fund with multi-lateral agencies such as IFC and EIB.
- The SPF is created.

Next Steps :

Mr. Allouba would like a copy of our report on financing energy conservation projects in Egypt and strongly recommends corresponding with Dana Younger.

Call Report

Name of Establishment :	Misr International Bank
Contact Person :	Mr. Mohamed Ozalp
Position :	Senior General Manager
Interviewed by :	Mr. Hassan Hussein - TIIA Chief Executive
Date of Call :	20 / 08/ 1997
Time of Call :	11:30 a.m.

Summary :

Mr. Hassan Hussein called on today August 20th on the above mentioned institution. The results are as follows:-

1- Mohamed Ozalp criticized the equity fund saying that the ESCO concept is one thing and that the unlisted securities is another thing. I explained to him that it is basically an unlisted securities fund that uses ESCOs as a vehicle for investing in the different companies.

2- He liked very much the idea of the Bond Fund and said that Mibank would be very interested to work with us as a custodian and sponsor for this fund. In his view the size of each bond issuance should be a minimum of LE 40 million. I explained to him that as a fund we have to have a ceiling percentage per project of 10-20% of the total size. He said that we may be should look at the possibility of increasing the size of the fund instead of LE 100 million to LE 200 million. In my view that would depend on Bechtel's identification of the investment opportunities in order to ensure the total utilization of the fund and as a result high profitability to the investors.

3- He liked very much the idea of Corporate Bonds and said that this is the closest to the bank's commercial business and that they would be willing to play whatever role we need in this respect.

4- I handed him the charts, the concept and structure for the three products.